Opportunities

Group Annual Report 2013

talanx.

Insurance. Investments.

THE TALANX GROUP AT A GLANCE

	UNIT	2013	2012	2011
Gross written premium	IN EUR MILLION	**28,151**	26,659	23,682
by regions				
Germany	IN %	33	35	38
UK	IN %	10	11	11
Central and Eastern Europe including Turkey (CEE)	IN %	9	6	3
Rest of Europe	IN %	15	15	16
USA	IN %	13	13	12
Rest of North America	IN %	2	2	2
Latin America	IN %	7	7	7
Asia and Australia	IN %	9	9	9
Africa	IN %	2	2	2
Net premium earned	IN EUR MILLION	**23,113**	21,999	19,456
Underwriting result	IN EUR MILLION	**–1,601**	–1,447[4]	–1,690
Net investment income	IN EUR MILLION	**3,792**	3,795	3,262
Net return on investment[1]	IN %	**4.0**	4.3	4.0
Operating profit (EBIT)	IN EUR MILLION	**1,784**	1,748[4]	1,238
Net income (after financing costs and taxes)	IN EUR MILLION	**1,282**	1,144[4]	892
of which attributable to shareholders of Talanx AG	IN EUR MILLION	762	626[4]	515
Return on equity[2]	IN %	**10.6**	10.0	10.0
Earnings per share				
Basic earnings per share	IN EUR	3.02	2.86[4]	2.48
Diluted earnings per share	IN EUR	3.02	2.86[4]	2.48
Combined ratio in property/casualty primary insurance and non-life reinsurance[3]	IN %	**96.9**	96.4	101.0
Combined ratio of property/casualty primary insurers	IN %	99.3	97.1	96.6
Combined ratio for non-life Reinsurance	IN %	94.9	95.8	104.2
Policyholders' surplus	IN EUR MILLION	**14,318**	14,416[4]	11,306
Equity attributable to shareholders of Talanx AG	IN EUR MILLION	7,214	7,153[4]	5,407
Non-controlling interests	IN EUR MILLION	3,997	4,156[4]	3,284
Hybrid capital	IN EUR MILLION	3,107	3,107	2,615
Assets under own management	IN EUR MILLION	**86,310**	84,052	75,750
Total investments	IN EUR MILLION	**100,962**	98,948	87,467
Total assets	IN EUR MILLION	**132,863**	130,350[4]	115,277
Carrying amount per share	IN EUR	**28.54**	28.31[4]	25.99
Share price at year end	IN EUR	**24.65**	21.48	—
Market capitalisation of Talanx AG at year end	IN EUR MILLION	**6,231**	5,426	—
Staff	FULL-TIME EQUIVALENTS	**20,004**	20,887	17,061

1) Net investment income excluding interest income on funds withheld and contract deposits and profit on investment contracts relative to average assets under own management
2) Net income excluding non-controlling interests relative to average shareholders' equity excluding non-controlling interests
3) Combined ratio adjusted for interest income on funds withheld and contract deposits, before elimination of intra-Group cross-segment transactions
4) Adjusted on the basis of IAS 8, cf. "Accounting policies" section in the Notes, subsection "Changes in accounting policies and accounting errors"

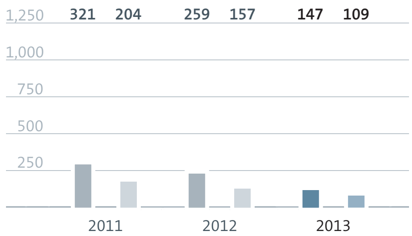
GROUP SEGMENTS AT A GLANCE

OPERATING RESULT (EBIT)/GROUP NET INCOME
FIGURES IN EUR MILLION
EBIT · GROUP NET INCOME

7 INDUSTRIAL LINES

CF. MANAGEMENT REPORT PAGE 57

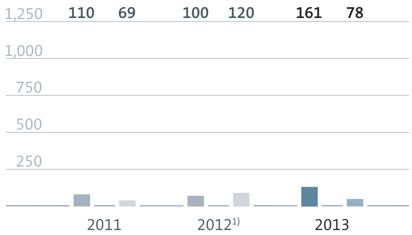
- Premium growth continues
- Result adversely affected by major losses, in particular from natural disasters
- Net investment income only slightly lower than in the previous year, despite continuing low interest rates



8 RETAIL GERMANY

CF. MANAGEMENT REPORT PAGE 59

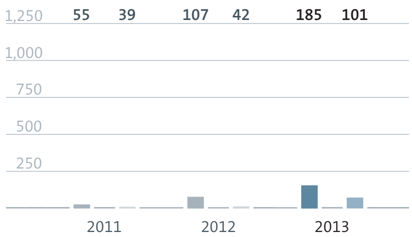
- Premium income from life insurance business up 2%
- Exceptionally high burdens from major losses and natural disasters have negative impact on combined ratio
- Increase in net investment income despite low interest rates



9 RETAIL INTERNATIONAL

CF. MANAGEMENT REPORT PAGE 61

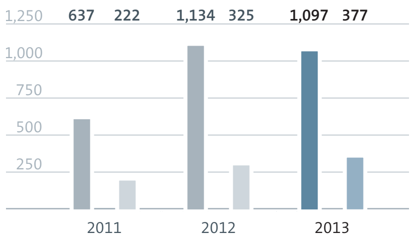
- Expansion abroad improves results
- Poland is largest foreign market
- Stable net investment income despite persistent low interest rates and rising euro rates



10 NON-LIFE REINSURANCE

CF. MANAGEMENT REPORT PAGE 65

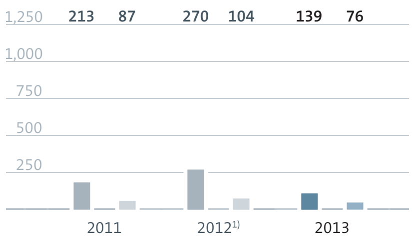
- Premium growth as adjusted for exchange rate effects on target at +3.5%
- Catastrophe losses slightly less than expected
- Combined ratio of 94.9 (95.8)%



11 LIFE/HEALTH REINSURANCE

CF. MANAGEMENT REPORT PAGE 66

- Challenging market conditions for life and health reinsurance
- Targeted gross premium growth as adjusted for exchange rate effects achieved at 5.1%
- Operating profit less than expected



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

FINANCIAL HIGHLIGHTS OF 2013

GROSS WRITTEN PREMIUM

EUR 28.1 BILLION

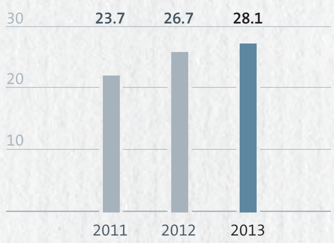
GROWTH IN GROSS PREMIUM

+6%

Impetus for growth from abroad: through acquisitions and by focusing on selected target regions, we are continuously increasing the share of international business in our total premium income.

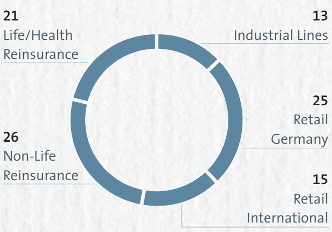
1 GROSS WRITTEN PREMIUM

IN EUR BILLION



2 SEGMENTAL BREAKDOWN OF GROSS PREMIUM

IN %



PROPOSED DIVIDEND PER SHARE

EUR 1.20

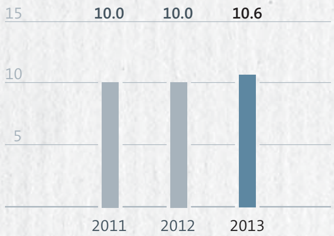
OPERATING PROFIT (EBIT)

EUR 1.8 BILLION

The retail divisions in particular contributed to the slight increase in our operating profit. The Reinsurance Division accounts for the largest share of profit in absolute terms.

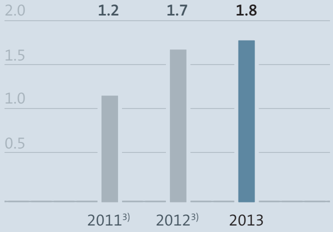
3 RETURN ON EQUITY[1]

IN %



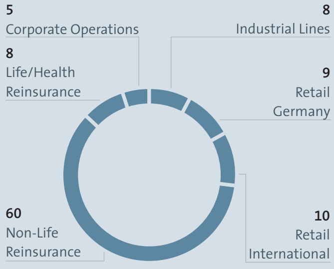
4 OPERATING PROFIT (EBIT)

IN EUR BILLION



5 EBIT BY SEGMENT[2]

IN %



GROUP NET INCOME

+22%

1) Net income for the year excluding non-controlling interests relative to average shareholders' equity excluding non-controlling interests
2) Before inter-company consolidation
3) Adjusted on the basis of IAS 8, cf. "Accounting policies" section in the Notes

TALANX – OPPORTUNITIES SQUARED

A very special success story is behind the name Talanx. Our forward-looking business model and disciplined implementation of our strategy have allowed us to grow steadily in recent years, making us one of Europe's leading insurance groups today.

The interplay of primary insurance and reinsurance and a portfolio of strong brands give Talanx considerable flexibility and an attractive opportunity/risk profile. We now want to continue this success story with clearly defined goals. Talanx is a group full of opportunities, a group full of potential.

TO WATCH TALANX'S SUCCESS STORY AS A VIDEO USE QR CODE OR THE FOLLOWING LINK:
http://annualreport2013.talanx.com

Opportunities lie in...

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Opportunities

Integration

... FIND OUT WHAT WE MEAN BY THIS ON PAGE 20

Growth

... WHERE WE LOOK FOR IT ON PAGE 14

Stability

... HOW WE GUARANTEE IT ON PAGE 12

Efficiency

... HOW IT'S PART OF OUR LIFE ON PAGE 26

Profitability

... FIND OUT HOW WE MEASURE IT ON PAGE 32

OUR SOURCES OF OPPORTUNITY

Strong brands offer a wealth of opportunities. Talanx knows how to make use of its various brands on different markets around the world and for different customer groups.

The Talanx brand represents the Group as a whole. It is led by Talanx AG, which performs the functions of a management and financial holding company within the Group but does not itself conduct any insurance business. Talanx Deutschland AG and Talanx International AG also include the Talanx brand in their name; they bring together companies operating under various brands in Germany and abroad. Talanx Reinsurance Broker is responsible for in-house reinsurance, and a range of in-house service companies also include "Talanx" in their name.

www.talanx.com

ampega.

One of the major non-bank asset managers in Germany, Ampega covers the complete value-added chain in asset management, from funds business to asset management for private and institutional investors.

www.ampega.de

HDI

The HDI insurers operate under this brand in Germany, offering property/casualty and life insurance products. Companies that conduct retail business outside Germany also trade under the HDI brand. HDI can thus offer tailor-made comprehensive insurance cover worldwide.

www.hdi.de

hannover re / e+s rück

As one of the largest reinsurers in the world, the Hannover Re Group transacts all lines of non-life and life/health reinsurance and is represented on all continents, following a flexible, undogmatic strategy. Its subsidiary E+S Rück is a specialist reinsurer serving the German market.

www.hannover-re.com

www.es-rueck.de

HDI GERLING

HDI-Gerling stands for industrial insurance business in Germany and worldwide. Under this brand we offer a complete range of products to protect against entrepreneurial risks, including property, liability and accident insurance and motor insurance.

www.hdi-gerling.de

TARGO • VERSICHERUNG

The TARGO insurers operate in the bancassurance distribution channel exclusively for their partner TARGOBANK, offering its clients a service for quick and convenient handling of all banking, financial and insurance transactions.

www.targoversicherung.de

PB Versicherungen

Partner der Postbank

The PB insurers operate in the bancassurance distribution channel in exclusive cooperation with their partner Postbank. They are embedded in Postbank's market profile and geared to the needs of its clients, offering attractive insurance products, including private pension insurance and risk provisioning, at reasonable prices.

www.pb-versicherung.de

neue leben Versicherungen

neue leben insurers operate in the bancassurance distribution channel as provision specialists for the Sparkasse savings institutions. They offer their clients and sales partners innovative insurance products at attractive terms.

www.neueleben.de

CiV Life

The Russian company OOO Strakhovaya Kompaniya "CiV Life", which cooperates with Citibank in bancassurance, trades under the CiV brand. CiV Life is one of the most dynamically performing companies on the Russian life insurance market.

www.civ-life.com

Posta Biztosító

Posta Biztosító is the high-growth cooperation partner of the Hungarian postal service for bancassurance. Its readily comprehensible and transparent range of products offering outstanding value for money spans the life and property/casualty lines.

www.mpb.hu

warta.

As the country's second-largest insurance group, the WARTA Group offers property, liability and life/health insurance in Poland. A combination of products and services from several companies allows WARTA to offer its customers a particularly broad, customised range of services.

www.warta.pl

Europa

The TU Europa Group is the market leader for bancassurance in Poland. Its product range includes credit insurance, unit-linked life insurance and investment products.

www.tueuropa.pl

HERBERT K. HAAS Chairman

"The last year has shown us that it was the right decision to pursue the internationalisation of Talanx Group."

Dear shareholders,
Ladies and Gentlemen,

Our first full year as a listed company has gone very well for all of us. Talanx's performance was outstanding, and we are also pleased with the increase in our share price. We have achieved this result despite the sovereign debt crisis in parts of Europe and the devastating weather events in Central Europe. Group net income rose to EUR 762 million, while gross written premium also reached a record level of EUR 28.1 billion. Results like these do not get generated automatically, but are achieved through the hard work of every one of our employees; I would like to thank them sincerely for their performance and commitment.

2013 was dominated by an exceptional accumulation of natural disasters in Central Europe. Floods in Germany, Austria and Poland caused around EUR 16 billion in economic losses. This led to a net burden of EUR 176 million at Talanx, of which EUR 83 million was in the primary insurance segments. Hailstorm "Andreas", which swept over large parts of Germany in July, also caused a substantial net burden of around EUR 156 million. Other major losses also occurred, placing a total burden of EUR 838 million on our result.

Like all major investors, we naturally face a particularly large challenge from continuing low interest rates. The sovereign debt crisis in Europe is not yet completely over. However, we have seen progress in some southern European countries. Although yields on government bonds have risen slightly outside Europe, achieving adequate returns on investment remains very difficult. We are responding to the capital market environment by adding alternative long-term investments such as infrastructure projects, but without reaching our risk limit. We will nevertheless, like other major investors, have to deal with falling returns on investment in the near future. Once again, we face the challenge of compensating for a decline in investment income with an improvement in the underwriting result. We managed this very well in 2013, and our divisions have geared their plans towards this again for the next year.

The last year has also shown us that it was the right decision to pursue the internationalisation of Talanx Group. The Group's international focus helped us to handle the accumulation of weather events in Germany last year. Regions outside Central Europe were largely spared storms and other freak weather events, enabling us to increase our profit with the contribution from these countries.

However, internationalisation has not just helped us with the diversification of the technical account. Latin America and Central and Eastern Europe have made a significant contribution to Talanx's growth in retail business, while the Industrial Lines Division has increasingly expanded abroad. Development in Germany was stable, enabling us to grow substantially and achieve our targets for 2013.

On the whole, the impetus for growth will continue to come from abroad in future. The growing economies of emerging countries are playing an increasingly important part in retail business. Growth in the Industrial Lines Division is coming from countries outside Europe, where our Reinsurance Division also forsees good opportunities.

The focus in Germany remains on growth in income. The Retail Germany Division has improved its profitability and slightly increased its premium volume. As well as the expansion of business with third party liability, accident and other types of non-life insurance, long-term growth opportunities here inevitably lie in pensions, owing to demographic changes. Whether it's private or company pensions, the age pyramid in Germany and the reduction in statutory pension benefits make additional private cover essential. This is why we believe there is a future in life insurance business, including financial protection against occupational disability and other biometric risks.

2013 was a year of consolidation. Talanx successfully integrated its acquisitions in Mexico and Poland into the Group. The integration of the two Polish companies WARTA and TU Europa was completed exceptionally quickly. The branches that the Industrial Lines Division opened in Canada, Singapore and Bahrain in 2012 expanded their activities. In this respect, we met all of our integration targets.

In economic terms, we improved important key figures at Group level in the financial year. Operating profit (EBIT) grew by 2% year-on-year to EUR 1.8 billion, while Group net income after taxes and minority interests rose significantly to EUR 762 million, partly owing to one-off effects. This represented an increase of 22%. Income from the sale of shares in Swiss Life contributed to this, as did one-off tax effects. The return on equity for 2013 was 10.6%, exceeding our minimum target of 9.8%.

Our majority shareholder, HDI V.a.G., increased Talanx's free float by 3.3 percentage points to 14.5% (including the issuing of employee shares) through an equity placement last year, thereby strengthening the position of Talanx shares on Germany's MDAX stock exchange index. HDI V.a.G. now holds 79.0% of shares in Talanx.

We want our shareholders to share in our good performance. The Board of Management and Supervisory Board will propose to the General Meeting that a dividend of EUR 1.20 per share be paid. This represents an increase of EUR 0.15 per share in the dividend and a dividend yield of 4.9% based on the year-end price. We want to continue paying an attractive dividend based on the company's performance in future.

Talanx AG is now in its third year on the stock market. We will have to prove ourselves on the capital market once again in 2014, but we are happy to rise to this challenge. I would like to extend heartfelt thanks to you for the confidence you have shown in Talanx. My colleagues on the Board of Management and I, together with our employees, will do everything we can to continue the Talanx Group's success in the long term and to justify your confidence in us. We look forward to meeting many of you in person at our Annual General Meeting on 8 May 2014. We also hope you will remain favourably disposed towards us.

Yours sincerely,

Herbert Haas

Herbert K. Haas

YOU CAN LISTEN TO THE SPOKEN FOREWORD
in our online report:
http://annualreport2013.talanx.com

BOARD OF MANAGEMENT

DR. HEINZ-PETER ROSS

TORSTEN LEUE

DR. CHRISTIAN HINSCH
DEPUTY CHAIRMAN

HERBERT K. HAAS
CHAIRMAN

DR. IMMO QUERNER

ULRICH WALLIN

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:
- Corporate Development
- Data Protection
- Executive Staff Functions/Compliance
- Group Communications
- Information Services
  (since 1 January 2014)
- Internal Auditing
- Investor Relations
- Legal Affairs
- 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 Management Board
HDI-Gerling Industrie Versicherung AG,
Hannover

Responsible on the Talanx
Board of Management for:
- Industrial Lines Division
- Human Resources
- Facility Management
- Procurement
- Reinsurance Purchasing

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

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

Dr. Thomas Noth
Hannover
Chairman of the Management Board
Talanx Systeme AG, Hannover

Responsible on the Talanx
Board of Management for:
- Information Services
  (until 31 December 2013)

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

Dr. Heinz-Peter Roß
Gräfelfing
Chairman of the Management Board
Talanx Deutschland AG, Hannover

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

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

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

SUPERVISORY BOARD

COMPOSITION AS AT 31 DECEMBER 2013

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

Ralf Rieger*
Deputy Chairman
Raesfeld
Employee
HDI Vertriebs AG

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

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

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

Jutta Hammer*
Bergisch Gladbach
Employee
HDI Kundenservice AG

Gerald Herrmann*
Norderstedt
Trade union secretary

Dr. Hermann Jung
Heidenheim
Member of the Board
of Management of Voith GmbH
(since 6 May 2013)

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

Dirk Lohmann
Forch, Switzerland
President of the Administrative Boad and
Chairman of the Board of Management
of Secquaero Advisors AG
(since 6 May 2013)

Jutta Mück*
Oberhausen
Employee
HDI-Gerling Industrie Versicherung AG

Otto Müller*
Hannover
Employee
Hannover Rück SE

Dr. Hans-Dieter Petram
Inning
Former Member of the Board
of Management of Deutsche Post AG
(until 6 May 2013)

Dr. Michael Rogowski
Heidenheim
Chairman of the Foundation Council
of Hanns-Voith-Stiftung
(until 6 May 2013)

Katja Sachtleben-Reimann*
Hannover
Employee
Talanx Service AG

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

Norbert Steiner
Baunatal
Chairman of the Board
of Management of K+S AG
(since 6 May 2013)

Prof. Dr. Ulrike Wendeling-Schröder*
Berlin
Professor at Leibniz University Hannover

Werner Wenning
Leverkusen
Chairman of the Supervisory Board
of Bayer AG
(until 6 May 2013)

* Staff representative

Details of memberships of legally required supervisory boards and comparable control boards at other domestic and foreign business enterprises are contained in the individual report of Talanx AG.

SUPERVISORY BOARD COMMITTEES

COMPOSITION AS AT 31 DECEMBER 2013

The Supervisory Board has formed four committees from among its ranks. They support the full Supervisory Board in the performance of its tasks.

Finance and Audit Committee

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

Personnel Committee

- Wolf-Dieter Baumgartl, *Chairman*
- Prof. Dr. Eckhard Rohkamm
- Norbert Steiner
- Prof. Dr. Ulrike Wendeling-Schröder

Standing Committee

- Wolf-Dieter Baumgartl, *Chairman*
- Ralf Rieger
- Prof. Dr. Eckhard Rohkamm
- Katja Sachtleben-Reimann

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 participations 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 responsibility

Standing Committee

- Proposal for the appointment of a Board member if the necessary two-thirds majority is not achieved in the first ballot (§ 31 Para. 3 Co-Determination Act)

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 duties in accordance with statutory requirements, the Articles of Association and the Rules of Procedure without restriction in the 2013 financial year. We considered at length the economic situation, risk position and strategic development of Talanx AG and its major subsidiaries. We advised the Board of Management on the company's direction, monitored the management of business and were directly involved in decisions of fundamental importance.

In the year under review we assembled for four ordinary meetings of the Supervisory Board, held on 20 March, 14 May, 13 August and 13 November 2013, and for one constitutive Supervisory Board meeting on 6 May 2013. As in the previous year, the Federal Financial Supervisory Authority (BaFin) exercised its legal powers to send two representatives to attend one of these meetings. The Finance and Audit Committee of the Supervisory Board held four ordinary meetings and one constitutive meeting, the Personnel Committee three meetings and the Nomination Committee one meeting. The Standing Committee formed in accordance with the requirements of the German Co-Determination Act (MitbestG) had no reason to meet in 2013. 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, based on the quarterly financial statements, on business operations and the position of the company and Group. At no point in the year under review did we consider it necessary to conduct audit measures pursuant to § 111 Para. 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. The Chairmen of the Supervisory Board and Board of Management regularly exchanged views on all material developments and transactions within the company and the Talanx Group. Overall, within the scope of our statutory responsibilities and those prescribed by the Articles of Association, we assured ourselves of the lawfulness, expediency, regularity and efficiency of the actions of the Board of Management.

The Board of Management provided us with regular, timely and comprehensive information regarding the business and financial situation, including the risk situation and risk management, major capital expenditure projects and fundamental issues of corporate policy, and transactions that – although not subject to the approval of the Supervisory Board – nevertheless need to be reported in accordance with the requirements of the Rules of Procedure, as well as the impact of natural disasters, the status of major lawsuits and other material developments at the company and the Group and in Europe (sovereign debt crisis, status of implementation of Solvency II). At our meetings we considered at length the reports provided by the Board of Management and put forward suggestions and proposed improvements. All Supervisory Board meetings were attended by every member, with the exception of the meetings in May, at which one member participated in the adoption of resolutions only through a written vote.

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: business development of the company and individual Group segments, the situation in German life insurance and specifically the future position of HDI Lebensversicherung AG, the pooling and optimisation of IT services within the in-house company Talanx Systeme AG, the Group's strategic position in Latin America, the future structure of business units in other European countries in the Industrial Lines Division and planning for 2014. We were informed of the reasons why business development for the preceding financial year had diverged from relevant plans and targets, and were able to satisfy ourselves accordingly with the explanations provided.

Risk management within the Group was again a further focus of our deliberations. Risk reporting by the Board of Management was discussed at each meeting of the Supervisory Board. In addition, we considered a number of refinancing measures and issues relating to the expansion and reduction of shareholdings, and gave our agreement prior to the issuing of employee shares to a capital increase utilising the authorised capital. The Supervisory Board also discussed the structure and composition of the company's Board of Management.

In view of § 87 Para. 1 of the German Stock Corporation Act, the full Supervisory Board dealt with the revision of the divisional bonus, the setting of divisional targets for 2014 and the fixing of bonuses for members of the Board of Management, and consulted external sources in its assessment of the appropriateness and structure of remuneration for the Board of Management. In addition, at its meeting on 13 November 2013, the Supervisory Board was informed about the structure of remuneration systems within the Group as required by § 3 Para. 5 of the German Regulation on Remuneration in the Insurance Sector (Versicherungs-Vergütungsverordnung). The fixed remuneration of five members of the Board of Management was also reviewed as at 1 January 2014, whereby horizontal and vertical aspects of remuneration and remuneration concepts were used for comparison and guidance purposes. The issue of the appropriateness of the remuneration system for Group managers was discussed at Supervisory Board meetings on 20 March 2013 and 14 May 2013.

Transactions and measures requiring approval in accordance with legal requirements, the company's Articles of Association and its Rules of Procedure were agreed with the Board of Management following examination and discussion.

WORK OF THE COMMITTEES

The Supervisory Board has set up various committees to enable it to perform its duties efficiently: the Finance and Audit Committee, which has five members, the Personnel Committee and the Standing Committee, each of which has four members, and the Nomination Committee with three members. The possibility of adding an extra member to the Finance and Audit Committee and to the Personnel Committee was discussed but ultimately rejected. The committees prepare for discussions and the adoption of resolutions by the full Supervisory Board. They also have the authority to pass their own resolutions. Minutes of meetings of the Finance and Audit Committee and the Personnel Committee 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 8 of the Annual Report.

Along with preparations for discussion and adoption of resolutions by the full Supervisory Board, the Finance and Audit Committee also carried out in-depth reviews of the quarterly financial statements of the company and the Group. Furthermore, the Finance and Audit Committee received a report from the Board of Management on a possible second listing for the company on the Warsaw Stock Exchange, discussed the findings of an actuarial audit of the net claims reserves for non-life insurance business within the Talanx Group, together with profitability trends at individual Group companies as at 31 December 2012, and considered the internal control system, risk reports and annual reports by Internal Auditing and the Chief Compliance Officer. We also received reports from KPMG on the situation with regard to succession planning in audit management and on trends in the insurance sector as part of a client service review, and discussed KPMG's findings from a status analysis commissioned by the committee regarding risk management and the internal control system in accordance with the Minimum Requirements for Risk Management in Insurance Undertakings (MaRisk VA) at the Talanx Group.

The Personnel Committee – along with preparations for discussion and adoption of resolutions by the full Supervisory Board – set targets for individual members of the Board of Management for the 2014 financial year and gave its permission for a company in which a member of the Supervisory Board holds a stake of 27.9% to provide advisory services to companies in the Talanx Group. Recommendations were also made to the full Supervisory Board with regard to setting bonuses and reviewing fixed remuneration for members of the Board of Management.

The Nomination Committee met on 15 January 2013 and made recommendations regarding nominations for re-election of the shareholder representatives on the Supervisory Board at the Annual General Meeting on 6 May 2013; the recommendations aim to ensure that the composition of the Supervisory Board is both balanced and diverse.

CORPORATE GOVERNANCE AND DECLARATION OF CONFORMITY

The Supervisory Board again devoted special attention to the issue of Corporate Governance. At its meeting on 13 November 2013, the Supervisory Board dealt with various amendments to the German Corporate Governance Code (DCGK) as reflected in the version of 13 May 2013 and decided on the limits for the vertical adjustment of remuneration required in accordance with Item 4.2.2 of the Code. The Supervisory Board also received information from the Board of Management about the focal points of human resources work at the Group and the setting up and expansion of diversity management. Intensive discussions took place regarding the findings of an audit investigating the efficiency of the Supervisory Board's activities, which was conducted in April 2013.

Furthermore, almost all members of the Supervisory Board made use of an internal information session offered by the company, which looked at the status and development of risk management within the Group. Although the Supervisory Board attaches great importance to high standards of responsible enterprise management as formulated in the German Corporate Governance Code, it has decided against complying with the recommendations of Item 4.2.3 Para. 4 of the Code relating to a severance payment cap in Board of Management employment contracts, Item 5.2 Para. 2 regarding the chairmanship of the Audit Committee and Item 4.2.3 Para. 2 regarding the potential need for maximum limits on the payment of Talanx share awards. The reasons for this are stated in the declaration of conformity in accordance with § 161 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 accessed on Talanx AG's website.

AUDIT OF THE ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

KPMG AG, Wirtschaftsprüfungsgesellschaft, Hannover, audited Talanx AG's annual financial statements submitted by the Board of Management, the Talanx Group's financial statements drawn up in accordance with International Financial Reporting Standards (IFRS), together with corresponding Management Reports and accounting records. The auditors were appointed by the General Meeting. The Finance and Audit Committee awarded the specific audit mandate and determined that in addition to the usual audit tasks special attention should be given to reviewing the risk report and the remuneration report, with an additional focus in the annual financial statements on provisions for taxes and in the consolidated financial statements on the calculation of minority interests and the determination of contingent liabilities in accordance with IAS 37. The audit focus points of the German Financial Reporting Enforcement Panel (DPR) also formed the basis for various year-end procedures carried out by the auditors. An audit by the DPR in autumn 2013 did not give rise to any complaints.

The audits conducted by the auditors provided no grounds for objection. The audit reports issued were unqualified and state that the accounting records, annual financial statements and consolidated financial statements give a true and fair view of the assets, financial position and net income, and that the Management Reports suitably reflect the annual and consolidated financial statements.

The financial statements and the KPMG audit reports were distributed to all members of the Supervisory Board in good time. They were examined in detail at a Finance and Audit Committee meeting on 18 March 2014 and at a Supervisory Board meeting on 19 March 2014. The auditor took part in the Finance and Audit Committee's deliberations and those of the full Supervisory Board regarding the annual and consolidated financial statements, reported on the conduct of the audits, and was available to provide the Supervisory Board with additional information. In accordance with the final outcome of our own examination of the annual financial statements, the consolidated financial statements, corresponding Management Reports and the audit reports, we concurred with the opinion of the auditors and approved the annual and consolidated financial statements drawn up by the Board of Management.

The annual financial statements are thereby adopted. We approve the statements made in the Management Reports regarding further corporate development. After examination of all relevant considerations we agree with the Board of Management's proposal for the appropriation of disposable profit.

The report on the company's relations with affiliated companies drawn up by the Board of Management in accordance with § 312 of the German Stock Corporation Act has likewise been examined by KPMG Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Hannover, and given the following unqualified audit certificate:

"Having audited the report in accordance with our professional duties, we confirm that
1. Its factual details are correct,
2. In the case of the transactions detailed in the report, the company's expenditure was not unreasonably high."

We have examined the report on relations 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 term in office of the shareholder representatives on the Supervisory Board expired at the end of the Annual General Meeting on 6 May 2013. Shareholder representatives therefore needed to be re-elected to the Supervisory Board at the General Meeting in 2013. The meeting confirmed Ms. Aschendorf, Mr. Baumgartl, Dr. Lindner, Prof. Dr. Rohkamm and Dr. Schipporeit in their office. The General Meeting elected Dr. Jung, Mr. Lohmann and Mr. Steiner as new members of the Supervisory Board, while the contracts of Dr. Petram, Dr. Rogowski and Mr. Wenning expired at the end of the Annual General Meeting on 6 May 2013. The Supervisory Board thanked Dr. Petram, Dr. Rogowski and Mr. Wenning and expressed appreciation for their many years of valued and faithful cooperation.

The newly elected Supervisory Board re-elected Mr. Baumgartl as Chairman of the Supervisory Board. Prof. Dr. Rohkamm was elected as an additional Deputy Chairman of the Supervisory Board, alongside Mr. Rieger as an employee representative.

Furthermore, the Supervisory Board resolved to renew Mr. Wallin's membership of the Board of Management, which expires in 2014. It also resolved to allow Dr. Noth's membership of the company's Board of Management to expire when his term in office ends on 31 May 2014. The Supervisory Board thanked Dr. Noth.

AN EXPRESSION OF THANKS TO THE BOARD OF MANAGEMENT AND STAFF

The positive results of the company and the Group, together with the development of our strategic position, are due to the exceptional performance of the Board of Management and staff. The Supervisory Board would like to give special thanks to the Board of Management and employees for this.

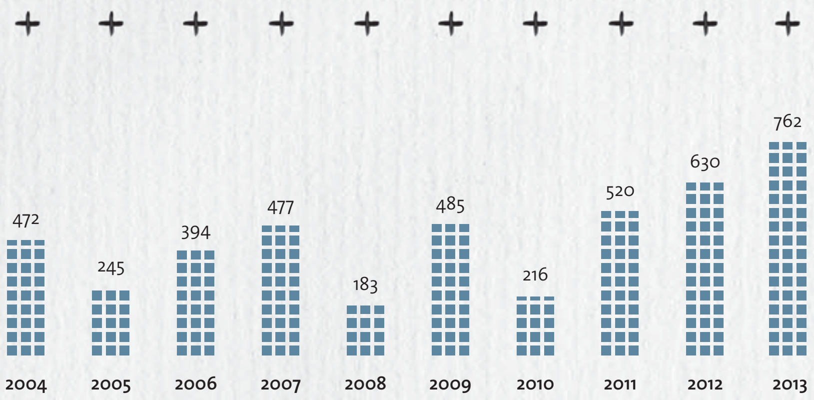
Hannover, 19 March 2014

For the Supervisory Board

Wolf-Dieter Baumgartl
(Chairman)

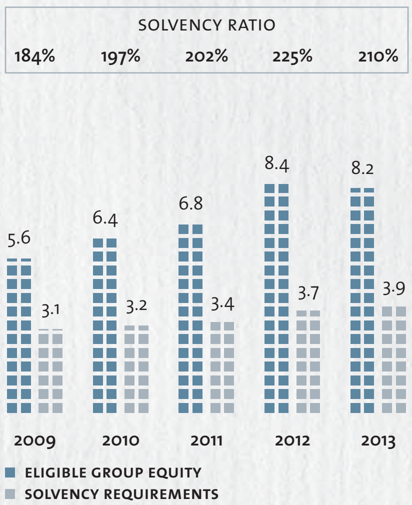
PROFITS EVEN IN YEARS BURDENED BY CATASTROPHES

GROUP NET INCOME IN EUR MILLION



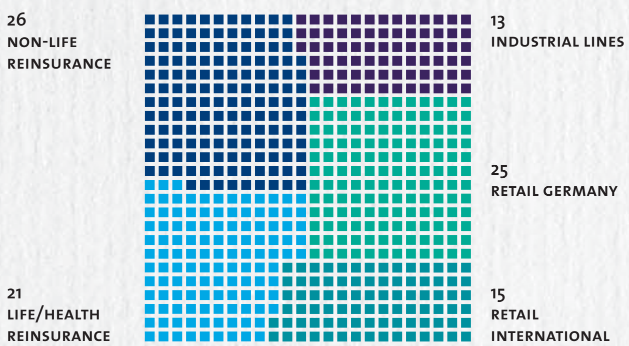
STRONG SOLVENCY POSITION

SOLVENCY I CAPITAL BASE IN EUR BILLION



DIVERSIFIED BUSINESS PORTFOLIO

GROSS WRITTEN PREMIUM BY DIVISION IN %



ONE OF THE LARGEST INSURANCE GROUPS IN GERMANY AND EUROPE

BASED ON GROSS PREMIUM FOR 2012 IN EUR BILLION

TOP 10 EUROPEAN INSURERS

RANK 1		99.2
RANK 2		84.6
RANK 3		69.6
RANK 4		52.0
RANK 5		39.9
RANK 6		36.9
RANK 7		28.0
RANK 8	talanx.	26.7
RANK 9		26.4
RANK 10		24.7

TOP 5 GERMAN INSURERS

RANK 1		99.2
RANK 2		52.0
RANK 3	talanx.	26.7
RANK 4		11.9
RANK 5		9.3

bility

We are proud to be regarded as a stable group, and consciously cultivate this image with an investment policy that seeks peace of mind rather than an adrenalin rush and with risk managers who take “conservative” as a compliment. If nothing else, a look at our Group net income will show you that if you’re confusing stability with boredom, you haven’t understood Talanx’s success story.

A BALANCED AND LOW-RISK INVESTMENT PORTFOLIO

FIXED-INCOME SECURITIES BY RATING CLASS IN %

29	AAA
31	AA
21	A
19	BBB OR LESS

STABLE RATING

STANDARD &POOR’S

A+

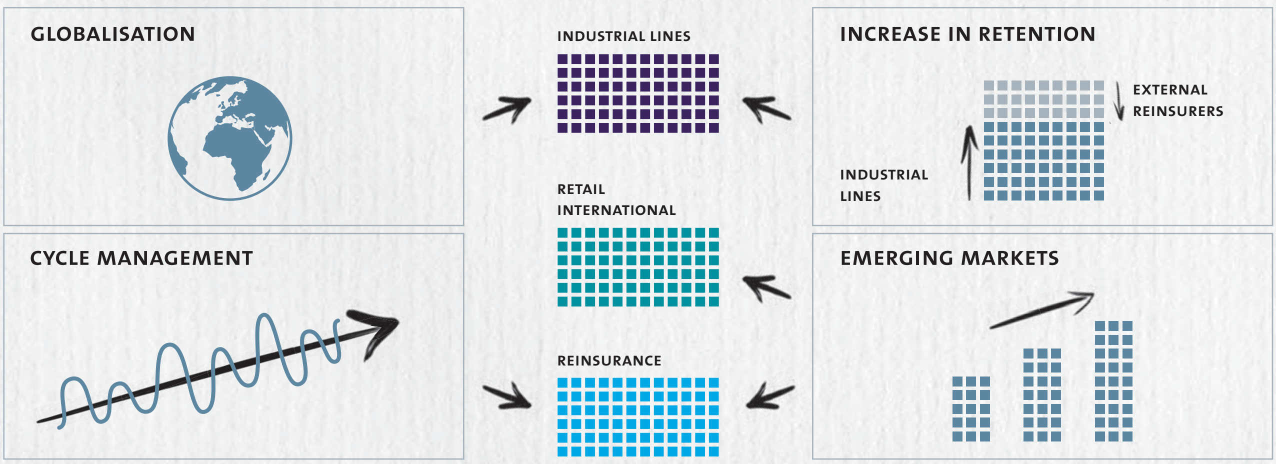
PRIMARY INSURANCE

AA-

REINSURANCE

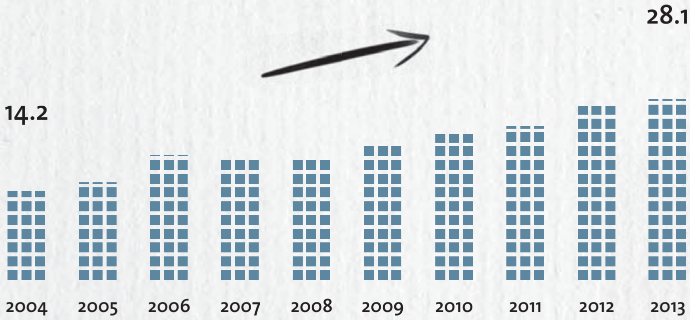
THE TALANX GROUP SIGNIFICANTLY EXPANDS ITS GLOBAL PRESENCE

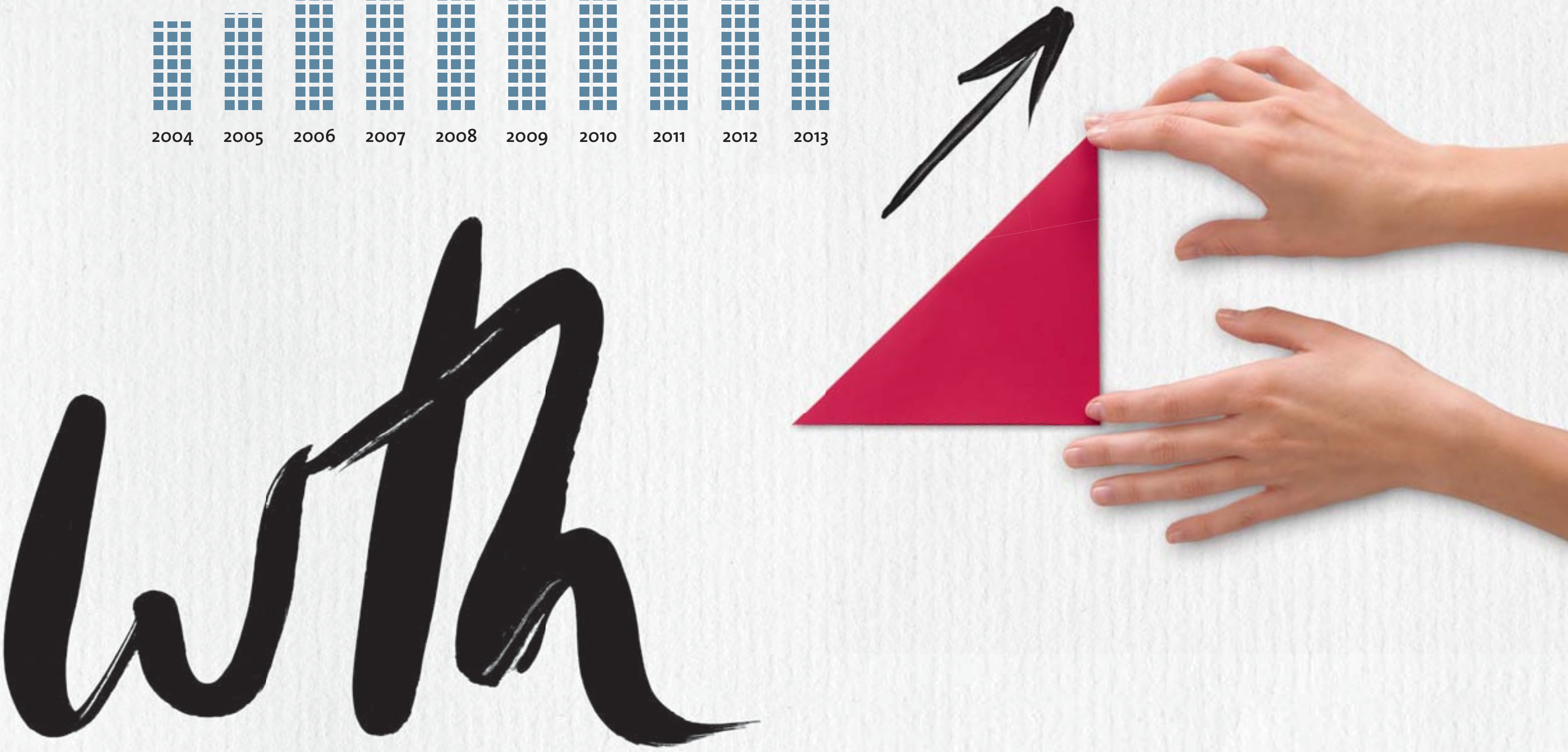
DRIVERS OF GROWTH



LONG-TERM GROWTH IN GROSS PREMIUM

IN EUR BILLION





There are unlikely to be many capital market-oriented companies that do not want to grow. The really interesting question when it comes to growth is therefore not "if" but "how". Our response is: with ambition, but not without sense. Flexibly, but by no means at random. Even today, it goes without saying that successful, focused growth will in future be inextricably linked to the name Talanx.

HIGH-GROWTH LINES IN OUR DIVISIONS

THIRD-PARTY LIABILITY

OCCUPATIONAL DISABILITY

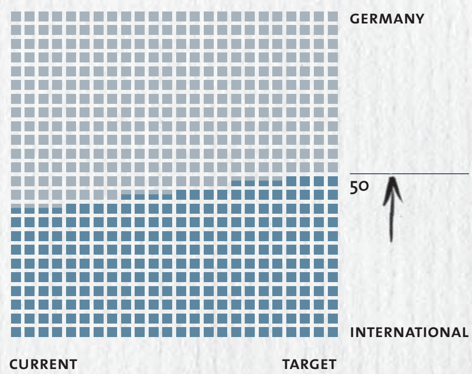
MARINE INSURANCE

MOTOR INSURANCE

AVIATION INSURANCE

INCREASING INTERNATIONALISATION OF THE PRIMARY INSURANCE BUSINESS

REGIONAL DISTRIBUTION OF GROSS PREMIUM IN %

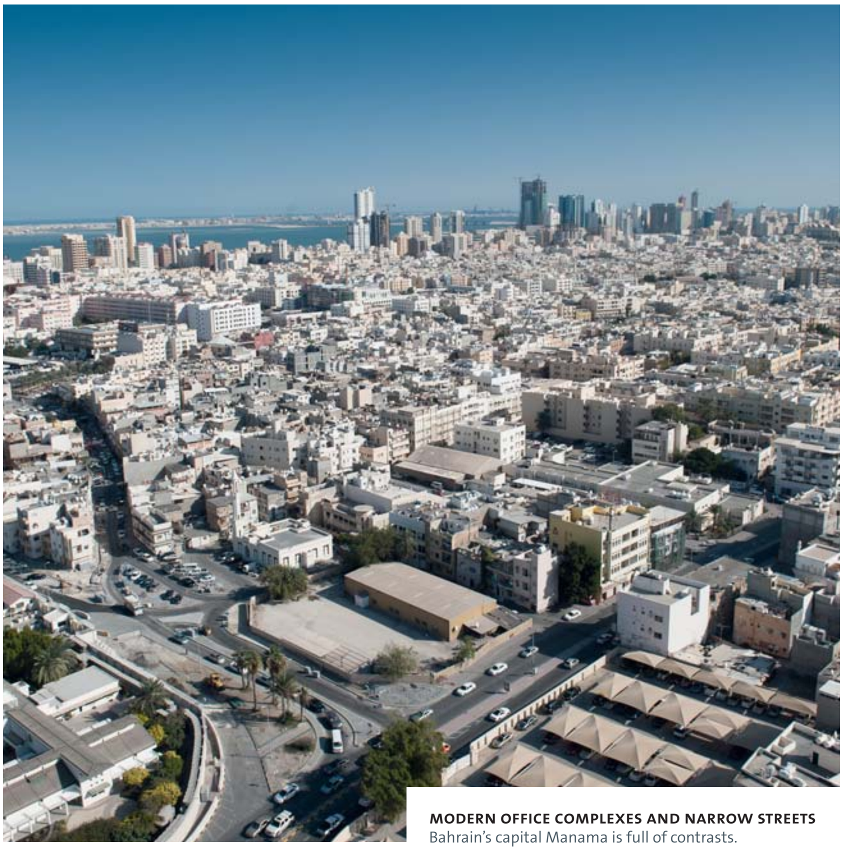


WITH VIEWS OF THE WORLD TRADE CENTER IN MANAMA
Viswaprasad talking to an employee in his office.

MANAMA/BAHRAIN
FLYING HIGH IN THE PERSIAN GULF

SKYSCRAPERS IN THE GULF REGION ARE CONTINUALLY BREAKING NEW RECORDS. SO IS ECONOMIC GROWTH. TALANX STRENGTHENED ITS POSITION ON THE LOCAL MARKET IN 2013 – BECAUSE THERE IS REAL DEMAND FOR EXPERIENCE, QUALITY AND PROXIMITY TO CUSTOMERS.

It's a quarter to five in Manama, the capital of Bahrain – time for a short break. Chittadath Viswaprasad stands at the window of his office on the 16th floor of Al Zamil Tower, sipping a cup of green tea and letting his gaze wander. The Persian Gulf sparkles in the background as the sun sets. Fishing boats are leaving the harbour, as they have done since time immemorial. In the foreground a new chapter in the small kingdom's history has long begun. The 240-metre towers of the Bahrain World Trade Center soar into the sky above the capital like two gigantic sails. An artificial peninsula stretches into the sea behind them, where work on the next generation of skyscrapers is busily underway. Bahrain's economy is growing, and with it the island itself.

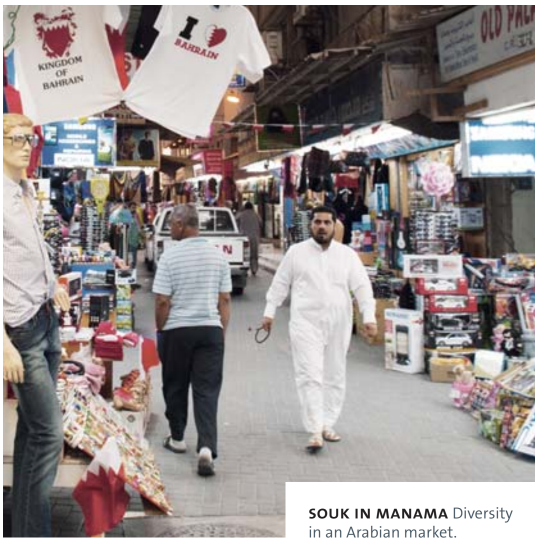


MODERN OFFICE COMPLEXES AND NARROW STREETS Bahrain's capital Manama is full of contrasts.

Viswaprasad is Managing Director of HDI-Gerling Industrie Versicherung AG in Bahrain. The 53-year-old, whose colleagues simply call him "Prasad", loves Manama Bay for its mixture of tradition and progress. Yet when he allows his gaze to roam over the view from the window, his thoughts are often far beyond the horizon.

In Saudi Arabia, for example, where the company supports one of the largest dairy farms in the region with 15% of the sum insured and in Jeddah, where the first spadeful of earth was recently turned for construction of the largest skyscraper in the world. The "Kingdom Tower" is expected to be completed in 2018 – height: 1,007 metres, cost: USD 1.2 billion. HDI-Gerling industrial insurance and Hannover Re together cover 12.6% of the sum insured. Or in Kuwait, where a petrochemical plant is under construction, cost: EUR 8 billion, 3% of which is reinsured by HDI-Gerling industrial insurance. These mega projects illustrate this Talanx Group company's successful start on the Arabian Peninsula. The Bahrain branch began operating in December 2012. A year later, its premium volume already stands at EUR 8.2 million.

Part of Talanx's strategy is to take its divisions, such as Industrial Lines in this case, into new regions and cooperate with Group companies that already have a local presence in order to benefit from synergies. One of the reasons for HDI-Gerling industrial insurance's quick launch in the Gulf region can be found a few floors below the offices shared by Prasad and his team of seven in the Al Zamil Tower. Hannover Retakaful, which has been active in the region since 2006, has its head office there. "We didn't even have a bank account when we moved into our offices," Prasad says. "Our colleagues supported us with help and advice on many issues during the hectic initial phase." What began as neighbourly help has now blossomed into fruitful cooperation between two equal partners. There is very little competition between the two sister companies – at least in the Gulf region – as there is rarely any overlap between their areas of business. Hannover Re generates a large proportion of its business through classic reinsurance, known as treaty business – including in the area of life insurance. In contrast, HDI-Gerling focuses on industrial insurance on a larger scale and underwrites risks through facultative reinsurance.



SOUK IN MANAMA Diversity in an Arabian market.

VEGETABLES AND GOLD JEWELLERY

- In the shadow of Manama's modern business district lies the souk, the market district
- In the sprawling labyrinth of streets and alleys, you can buy everything from dried fruit to television sets
- Chai and coca cola, kaftans and jeans, shishas and sunglasses: at the souk, Oriental and Western culture can be found side by side

ON SITE Prasad and Ravi visit a chemical factory.

FACULTATIVE REINSURANCE – UNDERWRITING INDIVIDUAL RISKS

Whether it's the 632-metre "Shanghai Tower", the 828-metre "Burj Khalifa" in Dubai or the "Kingdom Tower" currently under construction in Jeddah in Saudi Arabia and the first to pass the kilometre mark, some construction projects are not only beyond the capacity of an insurance policy, but also exceed the volume of risk that an individual reinsurer is prepared to bear.

This is where facultative reinsurance comes in. Unlike obligatory reinsurance, where a reinsurer takes on large portfolios from a primary insurer without being able to examine them in detail, facultative reinsurance allows individual risks to be negotiated. The reinsurer decides whether to cover a risk and under what conditions. Close and trusting collaboration between the policyholder, primary insurer and reinsurer is vital to prevent protracted negotiations from delaying an agreement.

A recent example of cooperation: the "Kingdom Tower" project in Saudi Arabia where HDI-Gerling and Hannover Re are both involved. "We were able to make use of synergies," says Prasad. He says they want to make their cooperation even more effective in future, "so that one plus one makes three."

The decision to open an HDI-Gerling branch in Bahrain was significant, as the country has been regarded for many years as the Gulf region's most important financial centre. Job security and – unlike in Dubai – moderate living costs are attracting workers from all over the world. Furthermore, different religions and cultures exist amicably side by side. The Al-Fatih mosque, one of the world's largest Muslim places of prayer, offers space for 7,000 worshippers. However, secular life is just as present in the streets as religious life.

The proportion of residents not originally from the country is nearly 50%. "There's an atmosphere of tolerance," says Prasad, who was born in India and has lived in Bahrain since 2003. Liberal market laws, consistent regulatory law, a lack of complicated bureaucracy and an education system that produces large numbers of highly qualified local workers: there are many reasons why Bahrain is a suitable location for companies wanting to become active in the region.

The markets are growing. It is estimated that the six states of the Gulf Cooperation Council (GCC), Bahrain, Saudi Arabia, Kuwait, Qatar, the United Arab Emirates and Oman, achieved gross domestic product of around USD 1.5 trillion in 2013. Assuming that current growth rates continue, this could rise to over USD 2 trillion in ten years. This is more or less the current gross domestic product of Brazil – with a population less than a quarter of the size. At the same time, the boom is an indicator of a fundamental change.

The oil that is the basis of the region's wealth will not keep flowing forever. Considerable sums have therefore been poured for some time into a radical reorganisation of the economy, away from oil and gas towards manufacturing, financial services and tourism. The transition has been supported by massive investment in infrastructure. In the Emirate of Abu Dhabi, for example, an eco-city is being created that will be supplied entirely with renewable energy. A rail track of 2,200 kilometres will connect all six GCC countries from 2018. Roads, underground railways, universities, hospitals, electricity and water supplies – the journal "Middle East Economic Digest" anticipates construction projects worth a total of USD 2 trillion in the GCC states.

"Where growth is accelerating at this rate, it needs to be looked at by experienced insurers," says Prasad. "Whether it's fire, marine, machinery damage or delays with construction projects, we'll calculate each risk down to the last detail." This strategy is particularly important in the GCC countries, where the majority of all construction insurance policies are reinsured. This is because very few local primary insurers have the expertise required for a reliable assessment of the complex risks involved in such mega projects. The local direct insurers approach insurers like HDI Gerling for proper evaluation of risk, setting up of terms and for providing continuous risk management services during the life cycle of the construction phase. This helps to reduce the possibility of fortuitous incidents and to mitigate the extent of loss if an unfortunate accident does take place and thus minimise the economic loss.

»Where growth is accelerating at this rate, it needs to be looked at by experienced insurers.« SAYS PRASAD

HDI-Gerling industrial insurance is ideally placed to fulfil the role of lead underwriter to ensure discipline in the GCC countries' insurance market, as the company has the power of a global corporation that is not seeking business at any price. "We discuss risks with customers," Prasad explains. The aim is to detect and close any gaps in security that could be lurking to avoid untoward accidents. This is possible in Bahrain because HDI-Gerling industrial insurance can offer local expertise backed by experts. For example, there's Kuppuswamy Ravi, the 64-year-old risk engineer who has worked in insurance for 40 years in India and south-western Asia and has a broad and diverse network in all six GCC states.

Ravi's observations on various risk exposures are translated into figures – which risk at what price? – by his colleague Shanmugasundaram Selvaraj in the Bahrain office. Selvaraj, a 58-year-old underwriter, has three decades of experience in industrial insurance. "When the two of them are with me, we have over 100 years' professional experience in my office," grins Prasad. He knows that even that is sometimes not enough. "In those cases, we seek advice from colleagues all over the world." Over 150 risk specialists work for HDI-Gerling industrial insurance worldwide.

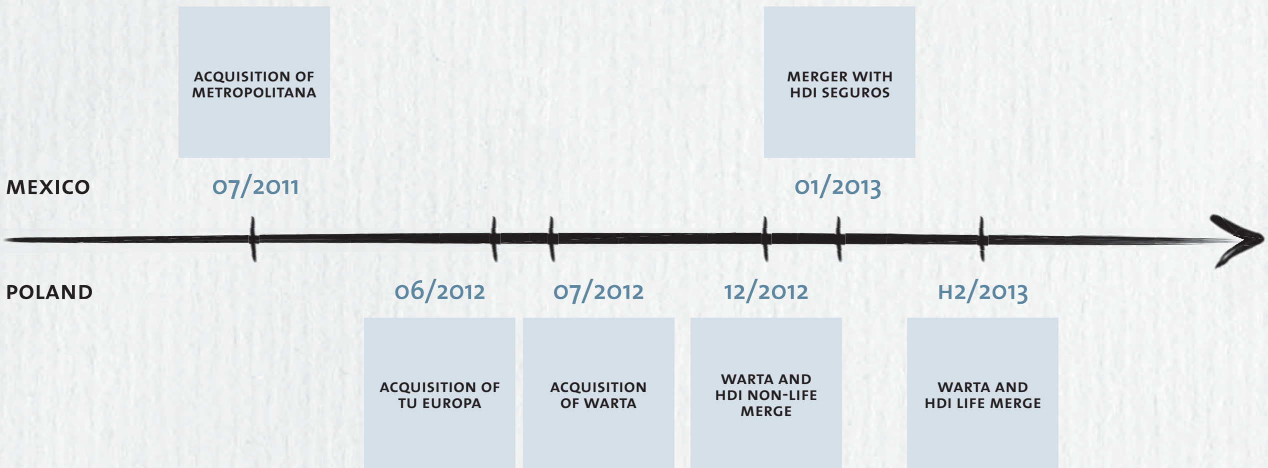
»We discuss risks with customers.« SAYS PRASAD

It is now dark. Prasad shuts down his computer. The construction sites in Bahrain Bay are already still. Tomorrow morning they will resume their work, and Prasad and his team will be needed again. And beyond the horizon, the construction of the "Kingdom Tower" in Saudi Arabia is once again breaking all records. The foundations have been dug up to 110 metres deep. When it is completed, the tower will encompass 530,000 square metres of space on 167 floors. 59 lifts, including five "double deckers" that serve two floors at a time, will accelerate to ten metres per second. The time taken to go from the first floor to the top floor will be one minute and 40 seconds. This is new territory for both engineers and insurers. Prasad sees it with experienced eyes: "One lot build a tower a kilometre high. The others assess the risk of a tool falling from the 167th floor," he says. "Both are just a question of correct calculation." ■

THE MANHATTAN OF THE EAST
The Al Zamil Tower won the Aga Khan Award for Architecture in 2007 for its blend of traditional and modern design.

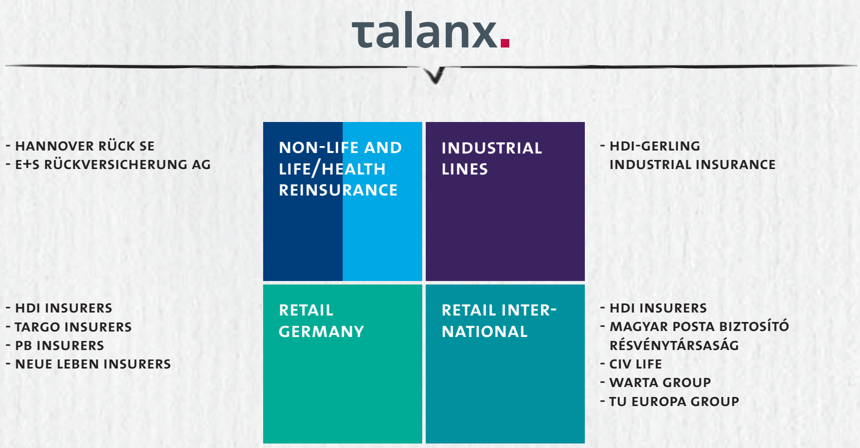
AL ZAMIL TOWER The head office of HDI-Gerling and Hannover Re.

SUCCESSFUL INTEGRATION



Integr

A PLATFORM FOR STRONG BRANDS



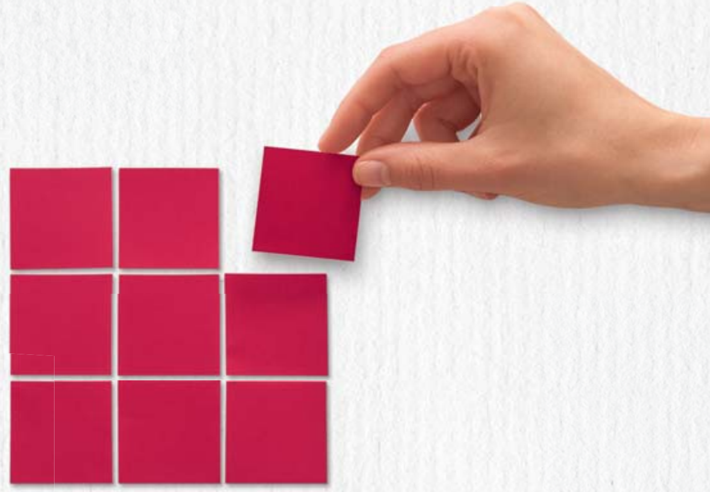
DISTRIBUTION CHANNELS WITH A WIDE COVERAGE

BANCASSURANCE

- SAVINGS BANKS
- BANKS
- POSTAL SERVICE COMPANIES

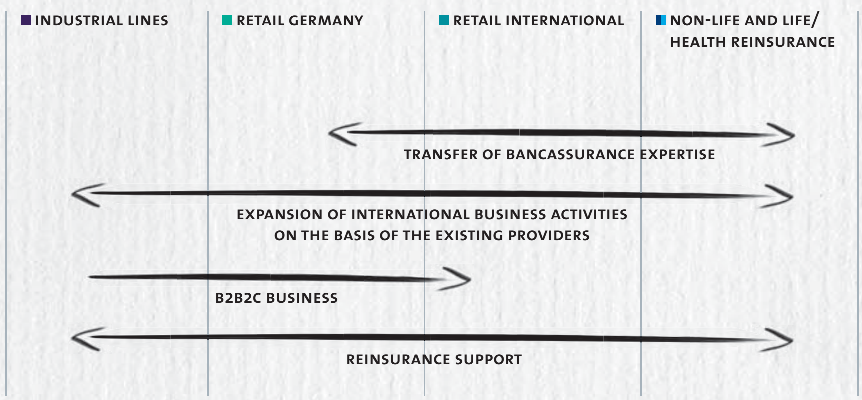
BROKERS

- RETAIL CUSTOMERS
- INDUSTRIAL CUSTOMERS

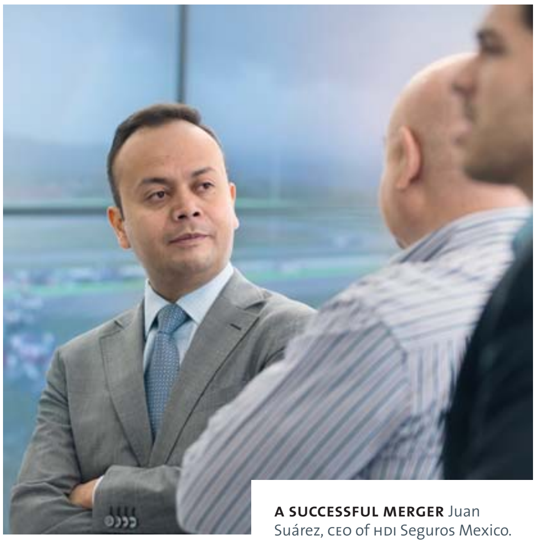


One for all and all for one – and everyone under one roof. Our business model lives off reciprocal growth impulses and the transfer of knowledge and synergies between divisions. Moreover, “everyone” is a very dynamic quantity at Talanx, as a look at our successful M&A record for the last few years will show. And there’s still plenty of space under our roof.

HIGH LEVEL OF INTEGRATION OF ALL TALANX DIVISIONS



ON A MISSION Aldo Ramírez, an accident investigator at HDI Seguros Mexico, gets called out to assess damage to cars' bodywork.



A SUCCESSFUL MERGER Juan Suárez, CEO of HDI Seguros Mexico.

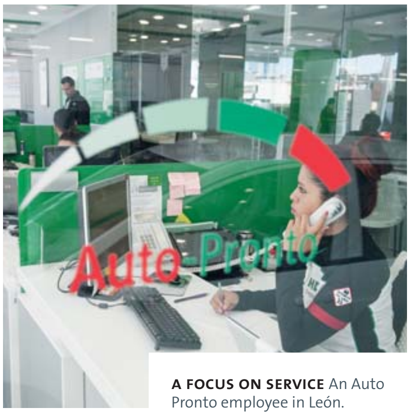
GUADALAJARA/MEXICO IN THE FAST LANE

THE MOTOR INSURANCE COMPANY METROPOLITANA HAS BEEN PART OF THE TALANX GROUP SINCE 2011. THIS FORMER COMPETITOR IS NOW WELL INTEGRATED INTO HDI SEGUROS IN MEXICO. THE TWO ENTITIES HAVE TOGETHER BECOME A POWERFUL COMPANY.

It's Monday morning in Guadalajara. Rush hour has just begun in this metropolis with a population of 1.5 million inhabitants when Aldo Ramírez's smartphone shows a new message: "Collision on Avenida Vallarta. No one injured." The 40-year-old accident investigator at HDI Seguros Mexico abandons his coffee and jumps into his car. 20 minutes later he reaches the scene of the accident, and first of all makes sure that there are definitely no casualties. Then he begins documenting the collision in detail. What happened? What damage has been caused? And most importantly, who is to blame? Aldo Ramírez talks to those involved and inspects and photographs the damaged vehicles. He is unruffled by the commuter traffic pushing past him on the six-lane Avenida Vallarta thoroughfare with horns blaring.

14 experts are on the road for HDI Seguros in Guadalajara alone, five of them with motorbikes. Often this is the only way the experts can squeeze through the dense traffic and reach the scene of a crash "within 30 minutes". A promise that HDI Seguros can keep, with over 300 surveyors in Mexico's 35 largest cities. In rural areas, the car insurer can make use of independent accident investigators, who can reach the scene of an accident within 90 minutes. It's an important network. Unlike what we are used to in Germany, the police in Mexico do not always attend the scene of a crash to establish who is to blame. If there is any damage to cars, this falls to the insurance companies' inspectors. Only if it cannot be established with certainty who is to blame will police officers come out. Furthermore, only 28% of the approximately 35 million cars in the country are insured, so many drivers prefer to overlook minor dents. Their tendency to also ignore more serious damage that they have caused makes the use of accident investigators vital. These are difficult conditions for motor insurers to operate in.

AN IDEAL LOCATION HDI Seguros Mexico's head office in León.



A FOCUS ON SERVICE An Auto Pronto employee in León.

"Under these circumstances, it was important for us to grow as a company," says Juan Carlos Suárez. The CEO of HDI Seguros, based in León, Mexico, two and a half hours east of Guadalajara, looks back proudly on a successful coup: in 2011, Talanx International AG acquired "Metropolitana" and merged it with its subsidiary HDI Seguros. The two companies together became the country's tenth-largest car insurance provider. Having previously insured 200,000 vehicles, HDI Seguros now insures 480,000, while the number of employees has doubled to around 900 nationwide. "But growth isn't an end in itself," says Suárez. He explains that the acquisition was necessary to improve service and thus strengthen the company's position in the market.

This morning in Guadalajara, it becomes clear what Juan Carlos Suárez means. The driver responsible for the accident on Avenida Vallarta is a customer of HDI Seguros. He stopped paying attention for a moment and, in the dense commuter traffic, crashed into the back of the car in front. At first glance only the cars' bumpers appear to be dented, but Aldo Ramírez, a trained car mechanic, soon notices that the crash has also damaged the air conditioning system. He has the car towed to the nearest "Auto Pronto", a car repair shop that works exclusively for HDI Seguros. The group already has ten of these authorised repair shops in Mexico, and a further ten are to be added by the end of 2014.

»We held long discussions about corporate culture and financial targets before the takeover. It was important that we were compatible.« SAYS SUÁREZ

"Three-quarters of all repairs will then be carried out in an Auto Pronto", says CEO Suárez. He highlights that this service is important, as not every repair shop in Mexico does a good job. HDI Seguros also expects its partnership with the repair shops to cut repair costs by 20%. The service has become possible because HDI Seguros has been able to supply a growing number of "Auto Prontos" with repair orders since the merger. The

A TEST OF PATIENCE A traffic jam in Guadalajara.

insurer is working on building up a network of independent repair shops in rural areas, so that it can also guarantee the quality and speed of repairs in these regions. "Service is our top priority," Suárez says.

Increasing market share to improve service: this sounds simple, but a lot of thought is going into the plan's implementation. "We didn't just purchase a company at random," Juan Carlos Suárez explains. "We held long discussions about corporate culture and financial targets before the takeover. It was important that we were compatible." This is not something that can be taken for granted. After all, a family business from Mexico City had to be merged with a Talanx subsidiary based in León. "With two companies as different as these, you can't just buy new door plates," Juan Carlos Suárez says. His strategy is to talk to each other, listen to each other and respond quickly if any confusion arises. "Many employees were afraid that the merger would lead to redundancies," says Suárez. "But we were able to allay these fears." In addition, many former Metropolitana employees who had to relocate to León, 400 kilometres to the north-west, were not keen at first. Very few people voluntarily leave the vibrant megacity. "But if you live in León, you'll quickly start to see the advantages," says Suárez. In contrast to Mexico City, León has only 1.6 million inhabitants, which means shorter distances, more relaxed traffic, a lot of green; in short, an environment worth living. Suárez admits that the capital has more to offer, but points out that it is difficult to enjoy much of it, as the distances are so great.

»Our people are proud to be part of the HDI family.« SAYS SUÁREZ

The most important thing, he explains, was that the companies were in agreement on the key points from the beginning. "We both want to be a fair employer." The company helped employees who had to relocate to León with their search for accommodation, schools, nursery schools and with moving house. All new employees received training to prepare them for changes in working procedures.

HDI SEGUROS MEXICO – MORE THAN MOTOR INSURANCE

Talanx has expanded its business in Latin America in recent years through a series of acquisitions. Besides Mexico, the Group now has subsidiaries representing it in Brazil, Chile, Argentina and Uruguay, drawing on the experience of established local companies in each case. It entered the Mexican market in 2009 by acquiring "Genworth Seguros" (previously "Seguros del Centro"), – later HDI Seguros, an insurance company founded in 1943.

Following the latest merger it might seem that HDI Seguros Mexico is all about motor insurance, but the León-based company also offers a range of other types of insurance, including accident insurance. The "Seguro Casa-Habitación" protects families against all main risks, whether fire or flooding. The "Seguros Empresariales" offers companies individually tailored solutions covering all damage that can adversely affect business. "Seguro de Accidentes Escolares" covers all accidents that can occur on the way to school, at school or at school events. This insurance includes protection for pupils, teachers and administrative staff.

A look at the company's head office in León shows that HDI Seguros has succeeded in securing the loyalty of its employees. Newer and more junior employees sit alongside many experienced colleagues who have been with the company for more than ten years; one of whom will soon be celebrating his 35th anniversary. For HDI Seguros, success goes hand in hand with involvement in the community. For example, the company finances courses in "road safety" at schools and universities. And, on Epiphany, all employees collect toys for an orphanage. "Our people are proud to be part of the HDI family," according to Juan Carlos Suárez.

A RELIABLE PARTNER
Ten Auto Pronto authorised repair shops work exclusively for HDI Seguros Mexico, and a further ten will be added by the end of 2014. The cooperation offers many advantages, such as quick delivery of spare parts, professional work and lower repair costs: The advantages of cooperation are manifold.

QUALITY WORK Repairs at an Auto Pronto workshop in Guadalajara.

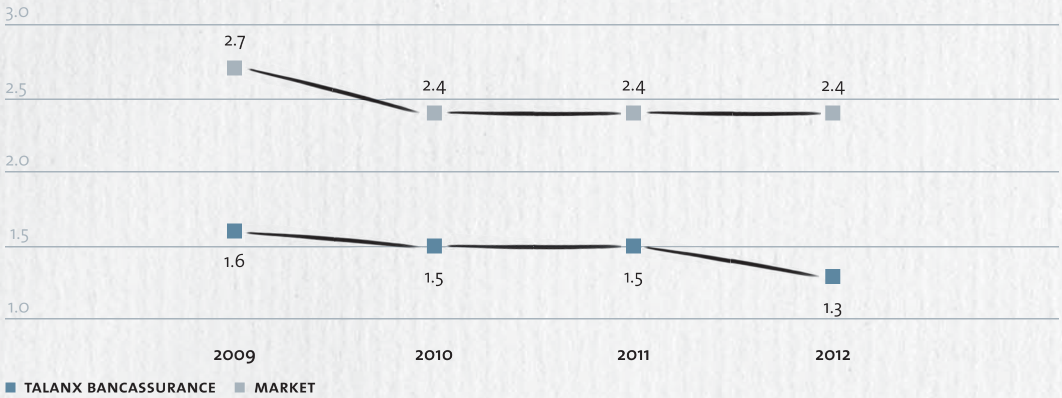
The car that was involved in the accident on Avenida Vallarta has now arrived at the Guadalajara branch of Auto Pronto. The mechanics estimate that it will take no more than five days to repair the air conditioning system. In Mexico, where there is a chronic shortage of spare parts, this could be a new record. "Our repair shops get parts delivered relatively quickly," says accident investigator Aldo Ramírez. About half of around 120,000 insurance claims processed by HDI Seguros each year result in repairs at the repair shop. These figures help tighten relationships with suppliers, which has a positive effect on delivery speeds.

"But that's in no way the only advantage of the merger," says Juan Carlos Suárez. HDI Seguros expects a better and faster service. In particular, the company has been able to strengthen its position through synergies. The acquisition of Metropolitana has opened up new areas of business to HDI Seguros, such as a partnership with around 40 authorised dealers in Mexico City and the provision of insurance for VW's entire leasing fleet. The move promises new opportunities on a market that is only beginning to recover from the crisis. The number of new cars sold each year has remained constant for years at one million.

It's evening when Aldo Ramírez returns to his office. He has visited the scenes of five accidents and processed five cases. The crash on Avenida Vallarta was followed by four more accidents, each of which involved up to three vehicles. Aldo Ramírez opens the door to his office. His full coffee cup from that morning is still where he left it. It's just a normal day in Guadalajara. ■

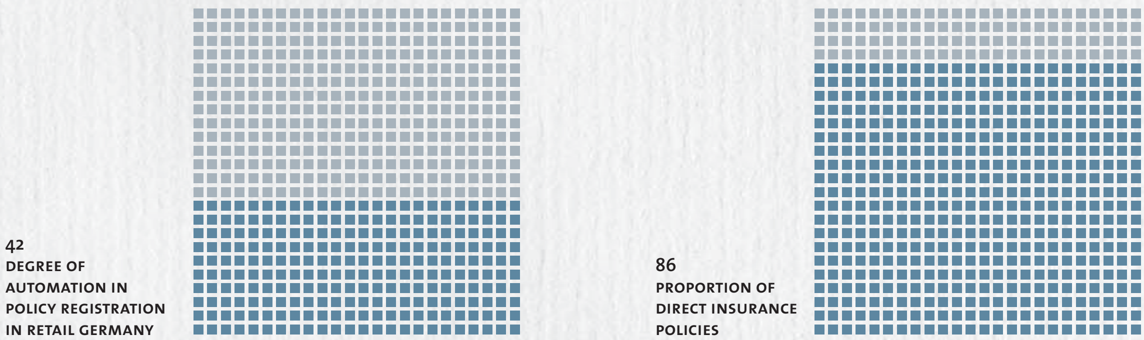
ADMINISTRATIVE EXPENSES IN BANCASSURANCE LOWER THAN IN THE SECTOR

IN %



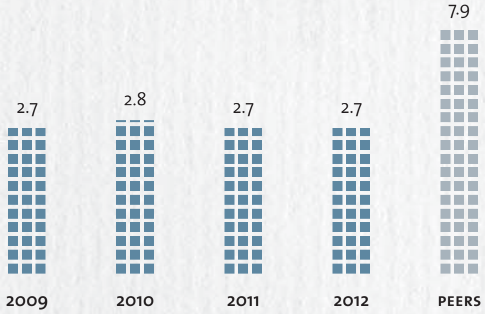
HIGH DEGREE OF AUTOMATION IN BANCASSURANCE

2012, IN %



COST LEADERSHIP IN REINSURANCE

EXPENSES FOR INSURANCE BUSINESS IN %



The key to efficiency is above all the ability to know when to let go. We live in a culture where trust has replaced control and responsibility has been decentralised as far as possible. We also supplement our own strengths in a targeted way with professional partners. Our administrative expense ratios clearly show that trust pays off in the long term.

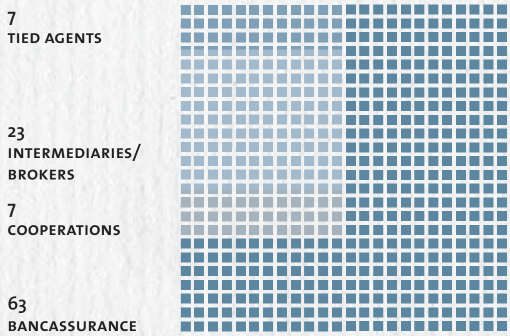
MARKET LEADER IN EMPLOYEE AFFINITY BUSINESS

28 OUT OF 30 DAX-LISTED COMPANIES

1.3 MILLION CONTRACTS

A VARIETY OF DISTRIBUTION CHANNELS

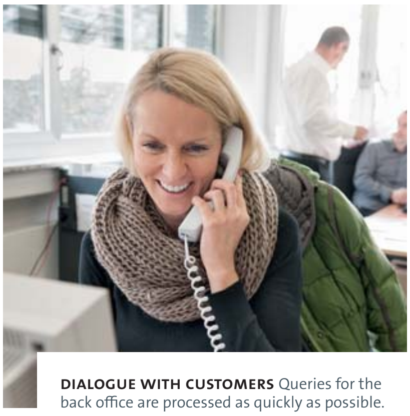
2012, IN %



AN OPEN ATMOSPHERE Employees in the foyer of the Hilden office.

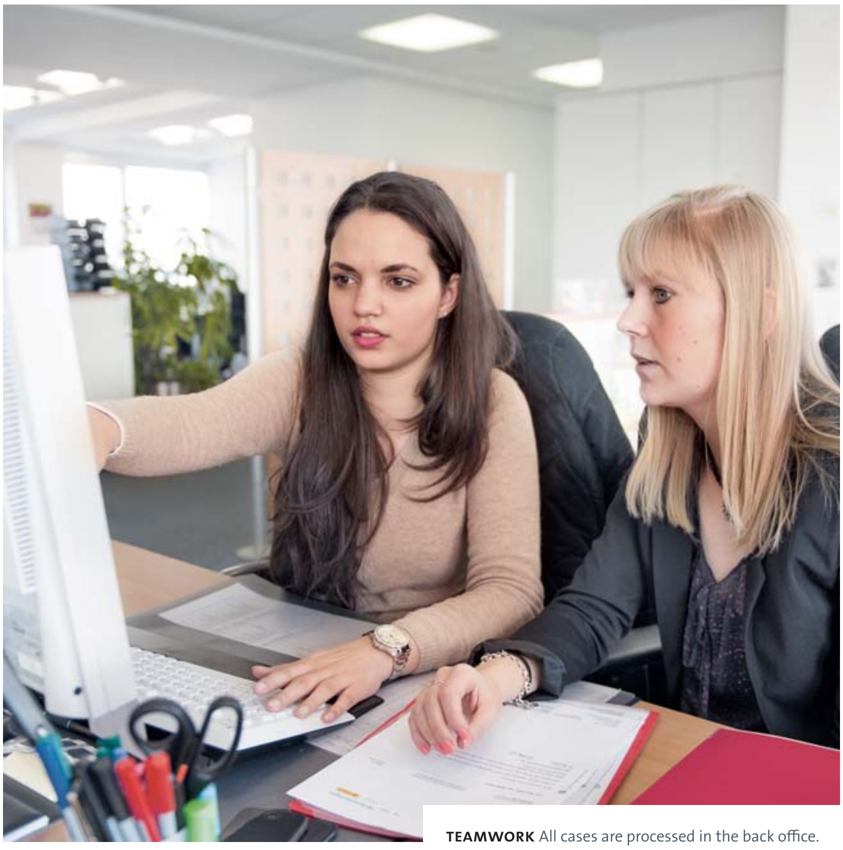
HILDEN/GERMANY
BUILDING BRIDGES TO CUSTOMERS

THE TALANX GROUP HAS ESTABLISHED ONE OF THE LARGEST BANCASSURANCE NETWORKS IN GERMANY. THE STRANDS OF ITS HIGHLY EFFICIENT ALLIANCE WITH TWO BANKING PARTNERS CONVERGE IN HILDEN IN NORTH RHINE-WESTPHALIA.



DIALOGUE WITH CUSTOMERS Queries for the back office are processed as quickly as possible.

A SYSTEM FOR SUCCESS Around 4,000 letters are digitised every day



TEAMWORK All cases are processed in the back office.

Hilden has always been somewhat overshadowed by famous cities nearby such as Düsseldorf or Cologne, but that is of little consequence to its inhabitants, who have long been aware of the advantages the location offers. It is precisely because other towns are standing in the spotlight that Hilden enjoys optimal road and local rail connections in all directions.

If networking is regarded as a major strength, then this town on the river Itter is just the right place for Talanx's bancassurance business, which is headquartered here. Together with its partners TARGOBANK, Postbank and Sparkasse savings institutions, it represents one of Germany's largest and most successful bank insurance networks. While 7,500 branches and numerous other agencies sell insurance from Talanx companies that blends perfectly with their brand family, in the background, the different strands converge at the insurers, at both neue leben in Hamburg (see box on page 30), and in Hamelin and Hilden. The two bancassurance sections in Hilden, with around 490 employees, are joined together by a glass passageway. It is as if the structure emphasises what is most important, namely, building bridges between insurers, cooperation partners and their customers. In 2013, TARGO, PB insurers and neue leben generated around EUR 3.1 billion in premium income.

Björn Kniffi, Head of Marketing and Sales Support at TARGO Lebensversicherung AG, believes that bancassurance is the perfect mix of proximity to the customer and efficient management. He has worked in insurance for 18 years, and says that of all the areas he has been involved in during this period, it is bancassurance that fascinates him most, "because of the ideal division of labour". On the one hand, the insurer can concentrate completely on its own competencies, while on the other hand, the bank offers an optimal distribution structure. He explains that customers know that, at their local bank, their money is well looked after, and so it is entirely natural that security and pension issues should also be discussed there. A good bank advisor will be familiar with the financial situation of the customer, and with their plans and wishes. "That makes the advisor the ideal point of contact for insurance matters." Although there are German bancassurance alliances where the insurers' employees work in the branches,, Talanx companies use their banking partners' own employees. "In return, we provide the training for the branch employees," explains Kniffki.

»Bancassurance is the perfect mix of proximity to the customer and efficient management.« SAYS BJÖRN KNIFFKI

The fact is that, with both insurance partners in Hilden located under one roof, they can capture synergies while retaining their independence as far as possible. A joint back office takes care of administrative matters, whilst product development and sales and marketing are organised independently – tailored to the individual customer structure of each bank. "As we process the customer requests of both sales divisions in one back office, we can be highly efficient in developing processes and procedures, as each process only needs to be designed and created once," explains Achim Cramer, head of Hilden's back office. Last

CLOSE COLLABORATION Björn Kniffki talking to Achim Cramer (right).

year, for example, TARGO life insurance introduced the "lifestyle protector". This new product aims to secure the livelihood of the insured in the event of incapacity – not as comprehensively as an occupational disability insurance, but with the advantage of lower premiums. "Many people are either unable or unwilling to take out occupational disability insurance," explains Kniffki, "So we've developed a product that meets their requirements." No matter whether a product is designed to protect or provide, when it comes to deciding whether it is still appropriate or in need of updating, the insurance company and bank work together as equals. "In this way we benefit mutually from our expertise and experience," explains Björn Kniffki. He does not see firm ties with a bank's customer base as a restriction. "If you know your target group, then you can create tailor-made products, and being close to the customer becomes an advantage."

»By processing the customer requests of both sales divisions in one back office, we can be highly efficient.« SAYS ACHIM CRAMER

In Germany, the potential in bancassurance is far from being exhausted. In Italy, Spain and France, up to three quarters of all retirement provision policies are sold by banks, but in Germany, only one in three or four policies are bought over the bank counter. The proportion of life insurance treaties concluded in banks has levelled off at around 30%. Björn Kniffki remains confident, explaining that Germany has a long tradition of selling products through brokers and that a new form of competition has emerged recently with the introduction of direct selling. Bancassurance has chosen a different route by using existing sales networks and developing reasonably priced products tailored to the target group, while coordinating everything under one roof. The success of this strategy is evidenced by the fact that Talanx bancassurance new business and administration expenses are below the market average.

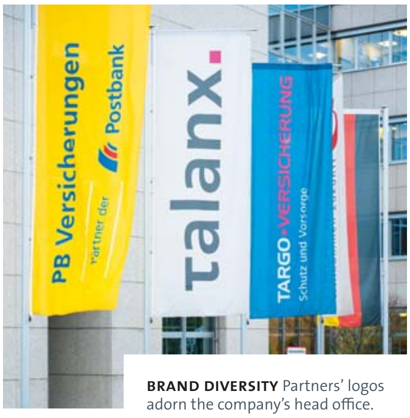
NEUE LEBEN: A STRONG PARTNER FOR SAVINGS BANKS

Talanx's bancassurance division not only has offices in Hilden and Hamlin, but also in Hamburg. The neue leben insurers have their head office in the Hanseatic city. This provision specialist for Sparkasse savings banks was founded in 1965 as a subsidiary of today's Hamburger Sparkasse. Talanx AG acquired a majority stake in the company in 2004.

neue leben now cooperates with over 100 savings banks nationwide, including 12 out of Germany's 15 largest. "Savings banks are strongly rooted in their region and know exactly what their customers' needs are," explains Hans-Jürgen Löckener, Chairman of the Board of Management of neue leben Lebensversicherung AG. "The individual institutions have different needs, depending on their size and region." neue leben therefore carries out regular surveys among savings banks to ensure they are satisfied. "This enables us to maintain a close relationship with our partners, and the results show us that we're on the right track," says Hans-Jürgen Löckener.

Furthermore, independent rating agencies regularly confirm that the products and companies are of high quality. With solid investments, low administrative expenses and a surplus participation that is above average for the sector, neue leben continues to be a reliable and efficient partner for customers and savings banks.

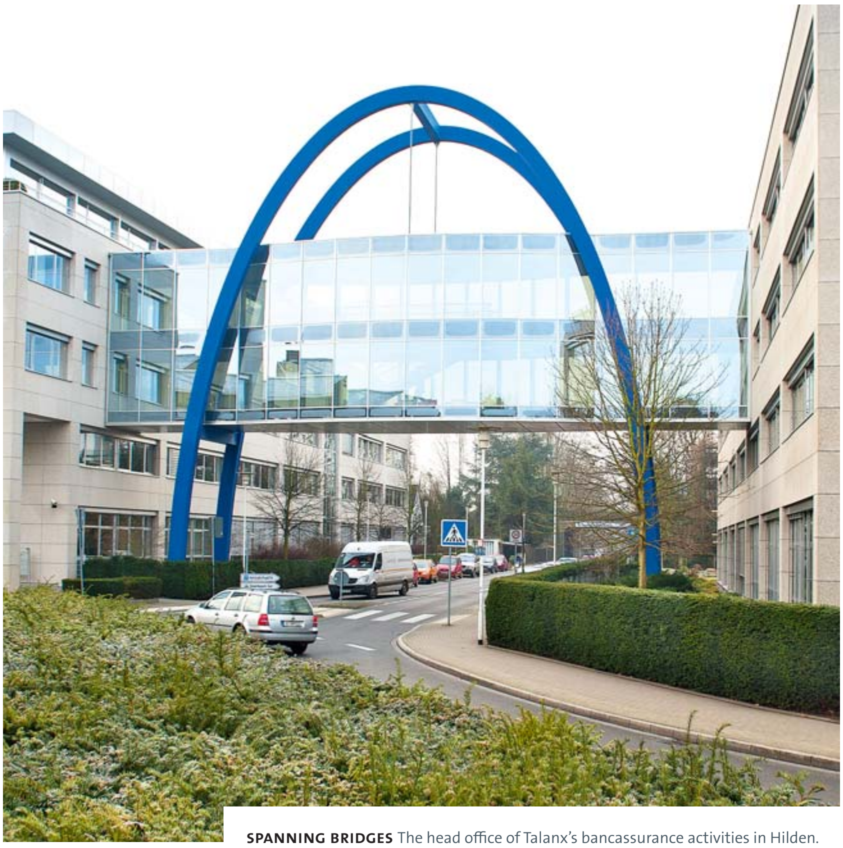
A look at the highly automated back office in Hilden, where TARGO and PB insurers' portfolios are managed, reveals just how efficiently the system functions. Most



BRAND DIVERSITY Partners' logos adorn the company's head office.

A LOOK AT THE HISTORY OF TALANX'S BANCASSURANCE BUSINESS

- 1995: Talanx acquires the precursor of TARGO Versicherung AG
- 1998: It founds PB insurers together with Postbank
- 2002: The Magyar Posta insurance company is founded with the Hungarian post office
- 2004: Talanx AG acquires a majority stake in neue leben Holding AG
- 2007: It acquires the former BHW Leben and BHW Pensionskasse



SPANNING BRIDGES The head office of Talanx's bancassurance activities in Hilden.

transactions from bank branches are sent to staff electronically – the direct policy issuance ratio is 86%. At the same time, the mailroom handles around 4,000 items of customer correspondence every day, they are scanned by three members of staff into the IT system. "It makes no difference whether a TARGO or PB insurer transaction is involved," Achim Cramer explains, "each sales partner and customer gets the same level of service."

Around 40% of transactions are processed automatically, including items as diverse as cancellations or changes of bank details. Then, when technology reaches its limit, staff take over. There are around 120 employees in the Hilden back office, and a further 65 in Hamelin. However, not every member of staff can deal with any issue. Staff are prepared for imminent surges in enquiries through targeted training courses. "Before introducing a new product such as the 'lifestyle protector', we aim to foresee issues that may crop up and the skills we will need to deal with them," explains Achim Cramer. When planning training it is important to be able to forecast upcoming work as accurately as possible; by using sophisticated statistical evaluation this can be done up to 16 months in advance. "When the work then materialises we can be sure, firstly, that enough staff have the necessary skills and, secondly, that staff are only given tasks for which they have been trained." The aim is to provide top quality service that is fast and trouble-free. Indeed, maintaining this ambitious level of service is a key aspect of back office organisation.

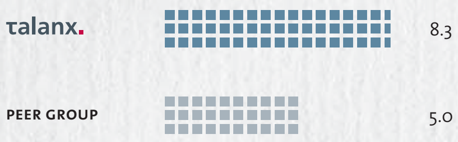
»If you know your target group, you can create tailor made products.« EXPLAINS BJÖRN KNIFFKI

Achim Cramer explains that in the event of a claim, the customer generally receives the money within seven days, and that policies are issued against applications within 24 hours. To motivate staff to meet the set targets, variable remuneration has been introduced that takes into account both quantitative and qualitative elements. Staff receive a financial bonus at the end of the year, provided that agreed service levels and quality targets have been met. This incentive is bearing fruit. The testing organisation TÜV Rheinland has accredited Talanx bancassurance's customer service, quality management and sales support under ISO 9001. Björn Kniffki and Achim Cramer maintain that it is good cooperation between back office and marketing that has led to this great success.

At joint meetings, delegates from TARGO and PB insurers and neue leben come together in a spirit of trust and partnership. "Blue, yellow and red parties set out their views", says Björn Kniffki, referring to the colours of the company logos. The Talanx Group's bancassurance business makes it abundantly clear how interconnection leads to efficiency. And so does Hilden on the Itter; no city like Cologne or Düsseldorf. More one like both. ■

HIGH PROFITABILITY COMPARED WITH OTHER COMPANIES IN THE SECTOR

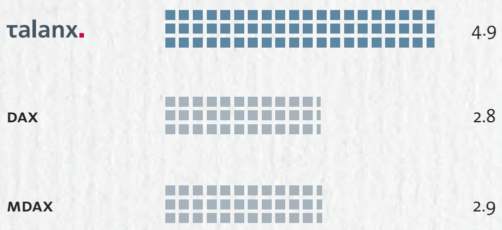
AVERAGE RETURN ON EQUITY FROM 2008 TO 2012 IN %



PEER GROUP: THE 20 LARGEST EUROPEAN INSURANCE GROUPS IN TERMS OF GROSS WRITTEN PREMIUM.

ABOVE-AVERAGE DIVIDEND YIELD

IN % FOR 2012

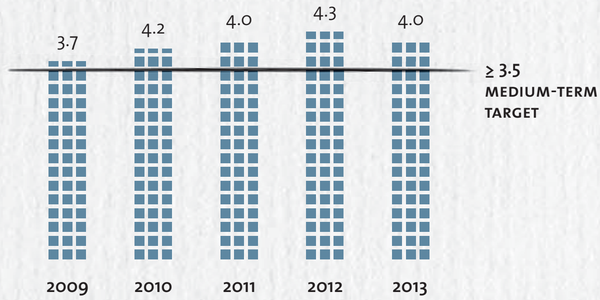


CLEAR TARGETS FOR COMBINED RATIOS

	2013		MEDIUM-TERM TARGET
INDUSTRIAL LINES	101.3%	↘	≤ 96%
RETAIL GERMANY	102.4%	↘	≤ 97%
RETAIL INTERNATIONAL	95.8%	→	≤ 96%
NON-LIFE REINSURANCE	94.9%	→	≤ 96%

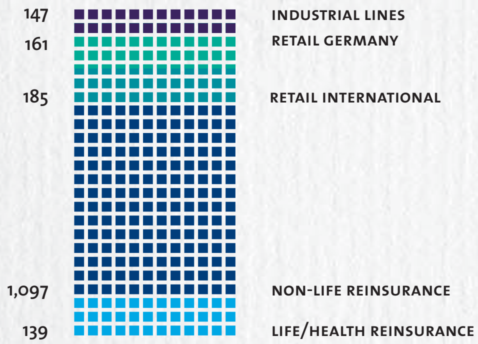
ATTRACTIVE NET RETURN ON INVESTMENT

IN %



POSITIVE CONTRIBUTION TO EARNINGS FROM ALL DIVISIONS

OPERATING PROFIT (EBIT) IN EUR MILLION



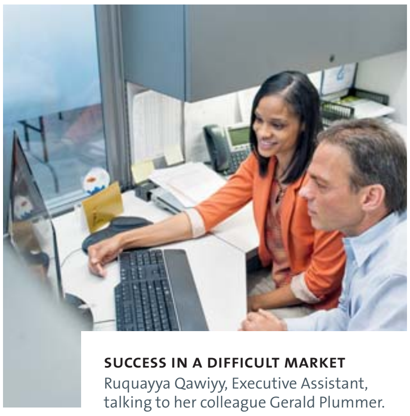
If business studies were reduced to a single maxim, it would probably be: you should get something back at the end. In the specific case of Talanx, ideally this is more than the average for the 20 largest European insurance companies. Our strategy is to invest cleverly and spend with discipline – ensuring we remain in the black even after years with a high volume of losses.

AMBITIOUS TARGETS FOR RETURNS

ORLANDO/USA
TAKING THE LEAD WITH VISION

WITHIN THE SPACE OF JUST A FEW DECADES, HLR AMERICA HAS BECOME ONE OF THE USA'S MOST PROFITABLE LIFE AND HEALTH REINSURERS. AS WELL AS COVERING LIFE AND HEALTH INSURANCE, THE COMPANY FOCUSES ON FINANCIAL SOLUTIONS – WITH CONSIDERABLE SUCCESS.

A LOOK AT THE FIGURES Curt Hagelman, Senior Vice President and Chief Marketing Officer of HLR America.



SUCCESS IN A DIFFICULT MARKET Ruquayya Qawiyy, Executive Assistant, talking to her colleague Gerald Plummer.

Orlando in the US state of Florida is not exactly the kind of place where you would expect to find one of the largest life and health reinsurers in the USA. The city is more closely associated with tourism than with big business. "Walt Disney World", "Sea World", "Universal Studios": around 20 theme parks draw many millions of tourists to Orlando every year. The permanent beach weather also plays a part, ensuring there is no month in which Florida's beaches are left deserted.

Even the centre of Orlando does not resemble a typical US business district. Universities and the burgeoning IT sector attract students and career starters. Bars and restaurants in the central "Church District" are full of young people in the evenings. Over their heads towers the "Suntrust Center", Orlando's highest building at 134 metres. Hannover Life Reassurance Company of America (HLR America), one of the USA's largest life and health reinsurers, has been based on the 18th and 19th floors of this building for about a year. 125 employees of the Hannover Re subsidiary work here, with over 140 more based in Denver/Colorado, Charlotte/North Carolina – and also in New York, the dream location of every global corporation – or is it? Curt Hagelman chuckles. The Senior Vice President and Chief Marketing Officer, like all his colleagues at HLR America, regards Orlando as New York's equal when it comes to big business: "Reliability is a core value in our industry," Hagelman emphasises.

»Reliability is a core value in our industry.« SAYS CURT HAGELMAN

And the company already had its head office in Orlando before it was acquired by Hannover Re in 1990. "The skyscrapers of Manhattan might offer a better panorama than the Suntrust Center. But it's not the view from the window that matters in our business – it's the insight we get from studies and statistics," says Curt Hagelman, who has worked in insurance since 1978. He gained experience as an underwriting and actuarial manager for many years before taking over

WORKING IN THE "SUNSHINE STATE" Downtown Orlando is about an hour's drive from the beach.

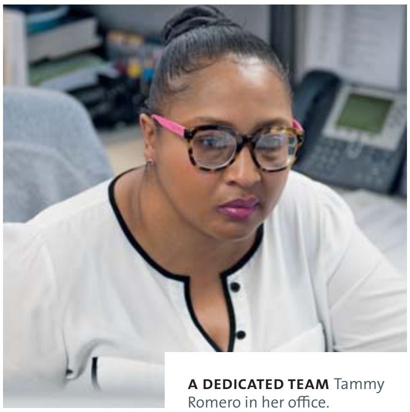
responsibility for HLR America's marketing department.

»The successful company will be the one with a better forecast.«

SAYS CURT HAGELMAN

The reinsurance business functions according to the law of big numbers. Reinsurers cover insurance portfolios for primary insurers, often with tens of thousands of policyholders. The reinsurer is confident that it will earn more in the coming decades from the portfolio it has taken over than it will have to pay out. If everything goes as predicted, the plans will work out. If an unexpectedly high number of medical claims, cancellations or deaths occur, it will have to pay up. "The successful company will be the one with a better forecast," says Hagelman. "Which means the one with better data available and better people to calculate risks".

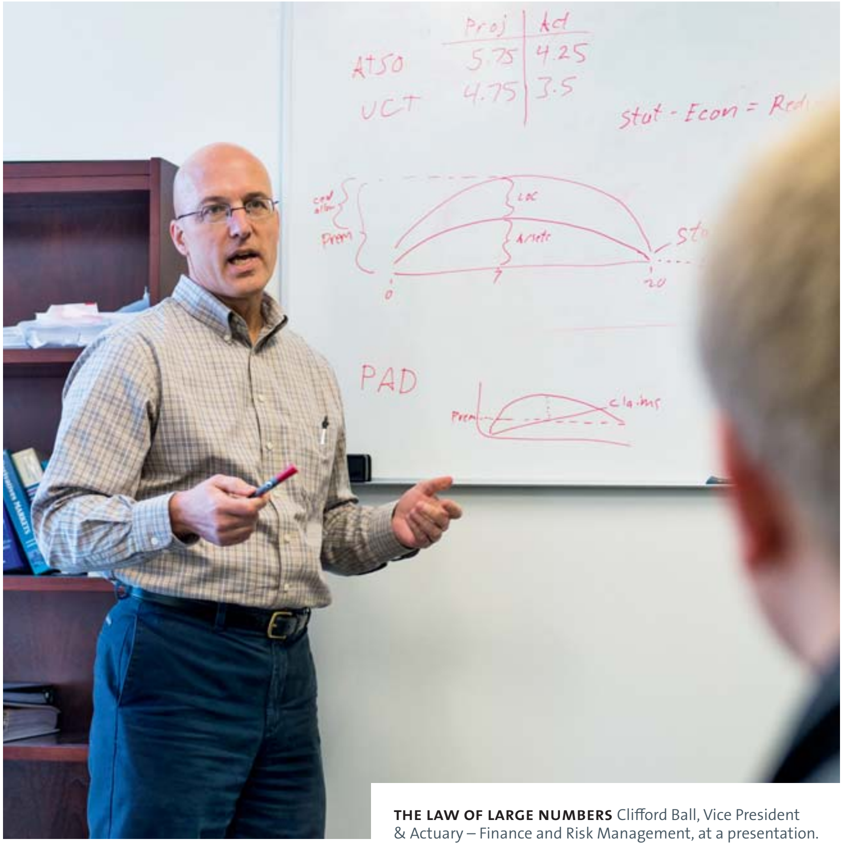
It's a complex business, in which HLR America has worked its way up from being a challenger to joining the ranks of the major players. After entering the US market in 1990, the Hannover Re subsidiary, which at that time still operated under the name Reassurance Company of Hannover (RCH), was mainly involved in reinsuring substandard risks and in-



A DEDICATED TEAM Tammy Romero in her office.

SOCIAL RESPONSIBILITY

- In 2013, HLR America supported the American Cancer Society (ACS), which is involved in cancer research and care for cancer patients, along with other social initiatives.
- USD 38,000 alone was collected from the "Jeans-to-Work" scheme, where employees are invited to wear their jeans to the office each day in exchange for a donation of USD 20 from their monthly salary.



THE LAW OF LARGE NUMBERS Clifford Ball, Vice President & Actuary – Finance and Risk Management, at a presentation.

dividual risks in international life business. With a customer base of 20 companies and a licence only for the south-eastern US states, it was a relatively small company.

Only after the company began to underwrite life insurance in the senior market as a niche business in 1994 did the figures tentatively start to rise. Business really took off after the turn of the millennium, when HLR America began focusing on financial solutions as well as life and health reinsurance. Between 2005 and 2013, gross premium rose from USD 645 million to USD 2.5 billion. Client awareness in the market has also grown. In 2013, the market research institute "Flaspöhler" awarded the company the title #3 "best reinsurer in the US" (up from eigth place in 2009).

One of the company's most important steps in reaching its current size was the acquisition of the Scottish Re Group's individual life insurance business in early 2009, instantly more than doubling HLR America's premium volume and number of staff. "But size alone isn't a guarantee of success," Hagelman emphasises. To ensure that a portfolio does not become a drain on the company's funds years later, it is important to assess accurately the risk of illness, cancellations and early deaths in the portfolio. "As part of a globally operating reinsurer, Hannover Re, we have access to excellent data, which helps us to make accurate forecasts", Hagelman says. Although records from one country cannot simply be used to calculate risks in another country, discussions among experts regarding the numerous data sources promote understanding of the complex material. "This allows us to minimise risk effectively and optimise earnings."

»As part of a globally operating reinsurer, Hannover Re, we have access to excellent data.« SAYS CURT HAGELMAN

The company now distinguishes between two major areas of business, "Risk Solutions", i. e. life and health risk reinsurance, and "Financial Solutions", involving reinsurance solutions that focus on the impact a reinsurance contract has on the balance sheet, as well as the issue of risk transfer. In this growing segment, HLR America is now seen as a market leader in providing customised solutions to its clients. "International reinsurers have been highly specialised financial service providers for a long time," Hagelman says. "Compared with solutions from other financial service providers, however, there is always a transfer of risk involved, which means there is a connection with the future performance of the covered portfolio. This is an advantage for the primary insurer, as benefits and repayment are in line with financing requirements and future profits."

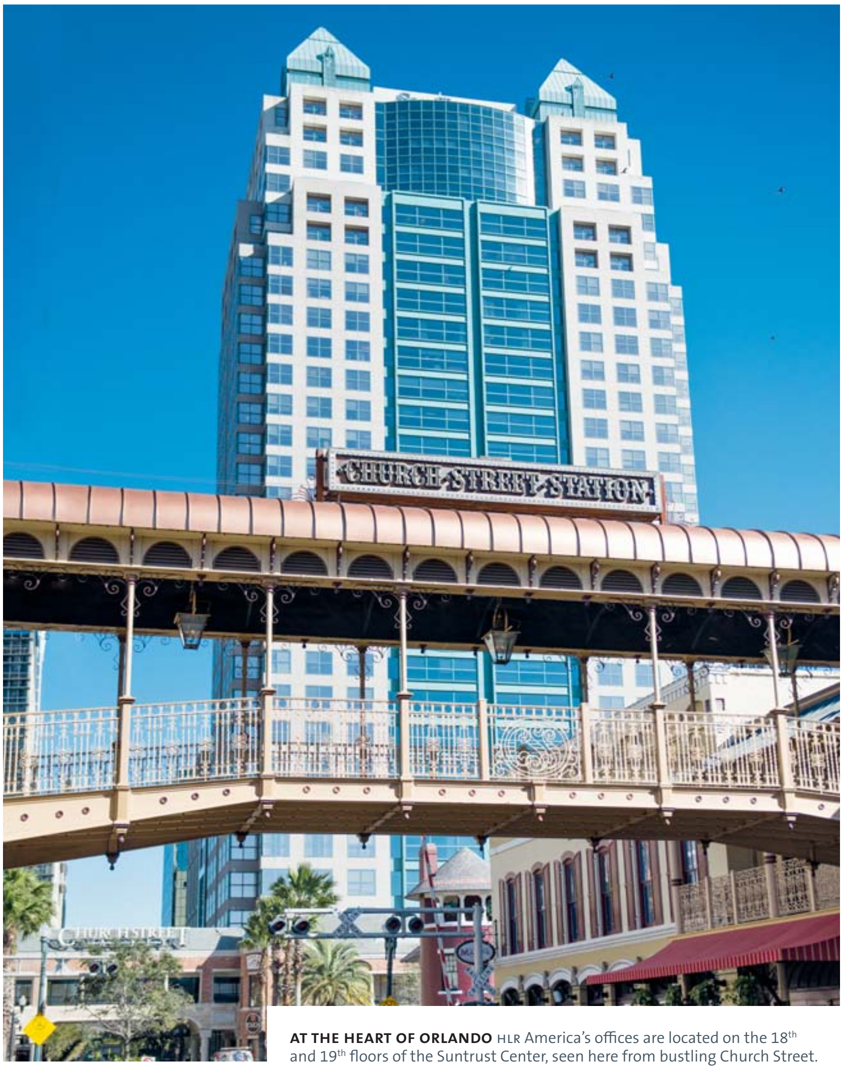
Risk business remains difficult in the USA. Individuals working for small and medium-sized enterprises in particular are chronically underinsured. Around 45% of people with an annual income of between USD 25,000 and USD 60,000 have no life insurance at all. "We're talking about many millions of people here," says Curt Hagelman. This trend has intensified in recent years. One reason is declining policy yields as a result of generally low interest rates. Another is delays in family planning: US citizens too are marrying later and later and are rarely interested in life insurance while they are single. At the same time they are growing older, which actually makes insurance more important. The average age of US citizens was around 33 years in 1990; it has already risen to 37.3 years and, according to estimates, will increase to 40 years by 2030.

"The problem is that many people don't think about life insurance until it's quite expensive to get it," Hagelman says. As a life and health reinsurer, HLR America does not sell insurance to consumers. However, its business depends on how primary insurers perform in acquiring new customers. "People recognise the benefits of having insurance," Hagelman says. "But providing efficient access with appropriate products becomes key."

»The problem is that many people don't think about life insurance until it's quite expensive to get it.« SAYS CURT HAGELMAN

Two tools that HLR America has developed to support primary insurers in gaining customers can provide help. "MERICA" is a system that allows policies to be approved realtime at the policyholder's premises, avoiding the need for tedious correspondence and additional costs. It is used when the applicant has no major medical conditions. Another system, "ASCENT", is used by primary insurers' risk assessors to carry out extensive medical assessments. In addition to MERICA and ASCENT, HLR America wants to expand its marketing and use of additional analytical tools and develop services for primary insurers. Studies have shown that the insurance market will in future also be accessed online. "If we want to continue to be successful, insurers will need to approach young people in a more targeted way," highlights Hagelman.

The centre of Orlando turns out to be the ideal company head office location for this plan. If marketing strategist Curt Hagelman wants to study his young target group, he only has to go outside the "Suntrust Center", and he will find it in the "Church District". ■



AT THE HEART OF ORLANDO HLR America's offices are located on the 18th and 19th floors of the Suntrust Center, seen here from bustling Church Street.

TERM LIFE INSURANCE IN GERMANY AND THE USA

Not all insurance is the same, something that international insurers know only too well. The differences between countries can be vast.

One example of this is term life insurance in Germany and the USA. While in Germany, a single set of rules applies to this form of insurance, the situation in the USA is unclear, with regulations varying from one state to the next and overseen by separate supervisory bodies in each case.

There are also differences with regard to risk assessment. Insurers in the USA have access to numerous databases to enable them to assess the risk associated with a customer. These access options are limited in Germany.

While premiums in the USA are comparatively low and profit-sharing is not possible, the sums insured are generally high – USD 1 million is not unusual. The average sum insured in Germany is just EUR 90,000, while premiums and profit-sharing are comparatively high.

HIGHLIGHTS OF 2013

Talanx's focus in 2013 was on integrating and consolidating the companies it had acquired in the previous year. Its aim was to reinforce what it had achieved and create a sustainable basis that would equip it for future challenges.

2013 Decorations at the Annual General Meeting.

FEBRUARY 2013

TALANX PLACES SENIOR BENCHMARK BOND

Talanx places a first-rate unsecured bond with a volume of EUR 750 million. The bond is issued primarily for institutional investors in Germany and abroad. The cash inflow will be used principally to replace existing financing arrangements.

MARCH 2013

NEW LEGAL FORM FOR HANNOVER RE

Hannover Re completes its conversion into a European public limited-liability company or Societas Europaea (SE) and now operates under the name Hannover Rück SE. The new legal form is a visible expression of the company's conception of itself as a European group with global activities.

APRIL 2013

MEXICAN COMPANIES MERGE

Metropolitana Compañía de Seguros S.A. merged with Mexican company HDI Seguros S.A. de C.V. with retroactive effect from 1 January 2013. Talanx acquired 100% of shares in Metropolitana Compañía de Seguros in January 2012, while HDI Seguros Mexico had belonged to the Group since 2009.

JUNE/JULY 2013

FLOODS AND HAIL IN EUROPE

Floods and hailstorms cause record damage in the summer. The net burden on the Group from flood damage in Germany and neighbouring countries and hailstorm "Andreas" amounts to around EUR 330 million.

JULY 2013

TALANX'S INVESTMENT COMPANY CHANGES NAME

AmpegaGerling has become Ampega. The Talanx Group's investment company has now also changed its name, following the asset management and real estate management activities.

AUGUST 2013

A NEW LOOK FOR HDI OFFICES

The HDI insurers have turned their branches into an advertisement that is visible throughout Germany with a new branch concept. The aim is to establish a closer connection with customers and provide better all-round advice in branches as well as at customers' premises.

NEW LOOK
Branch in Hannover.

OCTOBER 2013

HDI HEAD OFFICE RECEIVES AWARD FOR FIRE PROTECTION

The Sprinkler Protected Award from bvfa – Bundesverband Technischer Brandschutz e. V. (Federal Association for Fire Protection Technology) – has gone to HDI-Gerling industrial insurance for the building at HDI-Platz 1 for outstanding fire protection. The sprinkler system installed at the company's head office in Hannover goes beyond legal guidelines and fulfils the requirements of class 1 systems.

OCTOBER 2013

DIVERSITY AT THE GROUP

Talanx signs up to the Diversity Charter, an initiative to promote diversity in businesses. By doing this, the Group is publicly committing itself to the recognition, inclusion and appreciation of diversity in its corporate culture. Talanx does not merely want to create a working atmosphere that ensures openness and integration, but also to actively and consciously exploit diversity to improve the company's performance and competitiveness.

OCTOBER 2013

PB AND TARGO LIFE INSURERS OBTAIN RATINGS FROM ASSEKURATA

Contrary to the market trend, PB life insurance maintained its gross income at the previous year's level – an important factor in the decision to confirm the previous year's good "A" rating. ASSEKURATA awarded TARGO Lebensversicherung AG the best rating for security; profit-sharing has also been above the level of the market for years.

PHOTOVOLTAIC installation on the Hannover Re building.

NOVEMBER 2013

HANNOVER RE HAS OWN POWER SUPPLY

Work is beginning on construction of a photovoltaic system on the roof of the office building. All of the electricity produced will feed into the company's own power supply and will be used by Hannover Re itself. The company wants to set an example in the achievement of climate protection targets and reduction of CO_2. It will also benefit financially, as it will not need to pay any charges, taxes or levies on the electricity generated.

DECEMBER 2013

POLISH LIFE INSURERS MERGE

The life insurers WARTA and HDI-Gerling Życie merge at the end of the year, but will continue to sell life insurance under the HDI brand.

THE TALANX SHARE

CAPITAL MARKET ENVIRONMENT

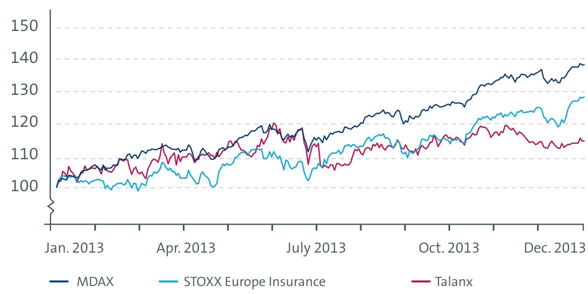
Capital market trends in 2013 were generally positive, with the DAX gaining around 25% in the year under review. This development was supported by the expansionary monetary policy of leading central banks, by lower risk premiums on bonds issued by private companies and southern European countries, by the continued recovery of key early indicators, and by strong economic performance in Germany. On the stock markets this was of particular benefit to many export-driven industrials. For example, the MDAX gained around 39%. Share price growth in the insurance sector was also above-average in 2013, as in the previous year. The Stoxx Europe 600 Insurance Index, for instance, gained around 29%.

TALANX SHARE PRICE PERFORMANCE

Talanx's share price also continued to rise strongly in the year under review. The shares rose significantly compared to the 2 October 2012 issue price of EUR 18.30 and the 2012 year-end price of EUR 21.48. In May 2013, based on daily closing prices, they reached their highest level for the year at EUR 25.88. For the first half of 2013, Talanx shares performed considerably better at times than benchmark indices; however, they were unable to maintain this edge in the second half of the year, and at the end of 2013 closed at EUR 24.65. Not taking into account the dividend paid of EUR 1.05 per share, this means that the share price was around 15% higher than at the end of 2012. For shareholders who acquired their Talanx shares at the October 2012 issue price, this equates to a price increase of around 35%.

12 **TALANX SHARE PERFORMANCE IN INDEX COMPARISONS**

2.10.2012 = 100



INDEX INCLUSION, NEW PLACEMENT OF SHARES AND EMPLOYEE SHARE SCHEME

Talanx shares are listed on the prime standard of the Frankfurt Stock Exchange and on the Hannover Stock Exchange. Since 12 December 2012 they have been included in the MDAX, Germany's second-most relevant benchmark index. This makes them interesting to index-oriented investors, and leads to a significantly greater presence in the media and thus in the public eye generally.

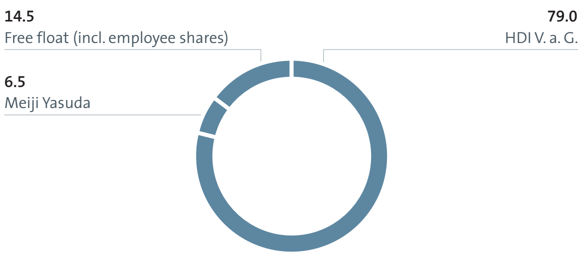
On 2 July 2013, Haftpflichtverband der Deutschen Industrie Versicherungsverein auf Gegenseitigkeit (HDI V. a. G.) placed 8.2 million Talanx shares on the market at a price of EUR 23.25 per share. As a result, the free float increased by 3.2 percentage points or, in absolute terms, by around EUR 200 million. HDI V. a. G. stated that by selling the shares they wished to increase Talanx AG's free float without diluting the holdings of other shareholders. The increased free float is intended in particular to safeguard the position of Talanx shares in the MDAX. Background: Deutsche Börse (German Stock Exchange) uses a company's position as regards market capitalisation (in the free float) and trading volume to determine which index a company should form part of. Calculations by Deutsche Börse showed that in December 2013 Talanx shares were clearly in the top 50 in the MDAX rankings. The shares ranked 46th for market capitalisation and 39th for trading volume.

In November 2013, Talanx AG increased its capital by using authorised capital to create 171,952 new shares for its first employee share scheme. As a result, the total number of shares increased by just under 0.1% to 252,797,634.

Following the two transactions described above, HDI V. a. G., Talanx AG's majority shareholder, holds 79.0% of the shares, and Meiji Yasuda, the anchor shareholder, 6.5%. Including employee shares, the free float totals 14.5%.

13 **SHAREHOLDING STRUCTURE AS AT 31.12.2013**

IN %



CAPITAL MARKET COMMUNICATIONS

For the first twelve months following the IPO, the aim of our investor relations (IR) work was to further increase awareness of Talanx AG and its "equity story" in the capital market. As part of this, we also sought to encourage ever greater numbers of investors to engage in our shares. Shareholders, potential investors and others with an interest in Talanx shares received regular reports on our corporate development.

In 2013, the Talanx AG Board of Management participated in more than ten investor conferences in international financial centres such as New York, London, Frankfurt, Brussels and Munich. They also attended roadshows targeting investors in London, Paris, Frankfurt, Munich, Edinburgh, Dublin, Zurich and Copenhagen. In addition, Talanx AG's IR managers took part in numerous other investor conferences and roadshows in Germany and around the world. In total, we had meetings with over 250 institutional investors in 2013. In addition, we took part in specific events for private shareholders in Berlin and Hannover.

In April 2013, Talanx issued an invitation to its first Capital Markets Day, held in Hannover. The Board of Management introduced Talanx's business model and its divisions. It was also as a result of this occasion that, for the first time, Talanx published a matrix of medium-term objectives. The event was attended by 35 analysts and investors, was shown live and subsequently as a recording on our IR Internet site. In June, Talanx held a risk management workshop for analysts in London in which it presented material aspects of its risk reports and explained the methodological approach and status of its risk management.

Talanx has announced that a second Capital Markets Day will take place in Warsaw in June 2014 with the key theme "Retail International".

We are always available to answer enquiries from private investors, either by telephone, email or post. We have also set up an informative IR section on our website at www.talanx.com, which we are constantly extending and updating.

Research reports issued by banks and broker houses constitute a valuable source of information for investors and increase transparency. We therefore pay great attention to financial analysts, and are delighted that the number recommending investment in Talanx has grown since the end of 2012 from 12 to 19. At the start of 2014 a further bank began regular reporting on Talanx.

DIVIDEND POLICY

As set out in the matrix of medium-term objectives first published in April 2013, Talanx AG aims to achieve the payout rate announced in its IPO of 35% to 45% of Group net income, as defined by International Financial Reporting Standards (IFRS), after taxes and minority interests. The dividend paid by Talanx for 2012 was EUR 1.05; this equates to a payout rate of 42.1%.

The Board of Management and Supervisory Board will propose a dividend of EUR 1.20 per share to Talanx AG's General Meeting. Based on the year-end price of EUR 24.65, this gives a return of 4.9%. The payout rate, based on IFRS earnings per share, is around 40%.

The Annual General Meeting is to be held on Thursday, 8 May 2014 in the Kuppelsaal of the Hannover Congress Centre (HCC).

14 **GENERAL INFORMATION ON THE TALANX SHARE**

German securities identification number (WKN)	TLX100
ISIN	DE000TLX1005
Trading symbol	TLX
Class of shares	Ordinary registered shares with no par value (Stückaktien)
Number of shares	252,797,634
Year-end price	EUR 24.65
Annual high	EUR 25.88
Annual low	EUR 21.82
Stock exchanges	Xetra, Frankfurt, Hannover
Trading segment	Prime standard of the Frankfurt Stock Exchange
Index	MDAX

Share prices: Xetra

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. We employed 21,529 staff worldwide at the end of 2013. The Group is headed by the Hannover-based financial and management holding company Talanx AG, which has been listed since 2 October 2012. HDI V. a. G., a mutual insurance company that can look back on more than a 100 years of history, is still the majority shareholder in Talanx AG, with a stake of 79.0%. The largest minority shareholder is its strategic partner from Japan, Meiji Yasuda Life Insurance Company, with a holding of 6.5%. The free float accounts for the remaining 14.5% of shares (including employee shares, which account for 0.1%).

The Group companies operate the insurance lines and classes specified in the Ordinance Concerning the Reporting by Insurance Undertakings (BerVersV) to the Federal Supervisory Office (BaFin), in some cases in direct written insurance business and in some cases in reinsurance business, focusing on various areas: life insurance, accident insurance, liability insurance, motor insurance, aviation insurance (including space insurance), legal protection insurance, fire insurance, burglary insurance, water damage insurance, plate glass insurance, windstorm insurance, comprehensive householders insurance, comprehensive homeowners 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. Our retail business focuses on Germany, while our principal international markets are the growth regions of Central and Eastern Europe (including Turkey) and Latin America. The Group has business relations 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. Core processes in the retail segments include product development, the setting of rates and sales, as well as product management and marketing. Sales, product development and underwriting are also of prime importance 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

The global insurance business is subject to regulatory rules and requirements that are both numerous and detailed. The supervisory authorities of the countries in which our Group operates enjoy far-reaching competencies and powers of intervention. Observing these regulations and requirements, and continually adjusting business and products to conform to new ones, entails a considerable financial outlay on the part of the Group.

A global trend is still discernible towards tightening of the regulatory requirements of insurance companies, which in some cases are very unclear. There is a particular focus on insurance groups of systemic importance ("too big to fail"), which will in future face much more stringent regulatory requirements, especially with regard to their capitalisation. The Talanx Group has so far not been classed as relevant to the global system.

The introduction of Solvency II, which was provisionally scheduled for 1 January 2014, has been postponed by a further two years. Planned adjustments through the Omnibus II Directive were implemented only after delays in the year under review. Trilogue negotiations on this subject resumed in the second half of the year, and chief negotiators on behalf of the European Commission, the European Parliament and the Council of Ministers did not reach an agreement until 13 November 2013. The planned launch date for Solvency II is now 1 January 2016. Companies will be able to apply for approval for an in-house model from April 2015 onwards, so that this approval can be granted as at 1 January 2016. The Talanx Group is currently developing an internal Group model and is in the preliminary application phase for this. Talanx has developed this in-house risk model on a proprietary basis and intends to use it instead of the alternative "standard formula" in the Solvency II Directive in order to calculate solvency capital requirements for the Talanx Group with greater precision and to reflect economic and legal realities as accurately as possible. We have outlined the effects and risks of Solvency II in the risk report and in the forecast and opportunities report on pages 116 et seqq. and 138 of this report, as well as in the Notes in section "Nature of risks associated with insurance contracts and financial instruments", subsection "Concentration risk".

The Frankfurt/Main-based European Insurance and Occupational Pensions Authority (EIOPA) has published a large number of guidelines and explanatory texts addressed to the respective national insurance regulators in preparation for Solvency II. The Federal Financial Supervisory Authority (BaFin) wants to apply all guidelines issued by EIOPA for the preparatory phase and has provided EIOPA with the comments "Yes, do comply" or "Yes, intend to comply" for all guidelines. To structure the preparation process and support affected companies, it has also grouped the guidelines into 15 subject areas. Even in the current preparatory phase, EIOPA's activities have resulted in a barely manageable proliferation of supervisory rules and regulations across the whole sector. The implementation of Solvency II will also lead to the amendment of the German Insurance Supervision Act (VAG) in the medium term. At present, however, only a preliminary draft from the last federal government is available.

After the initial failure of plans to introduce a financial transaction tax throughout Europe or in the Eurozone countries only, the EU Economic and Financial Affairs Council agreed on 22 January 2013 to the introduction of a financial transaction tax in eleven countries (Belgium, Germany, Estonia, France, Greece, Italy, Austria, Portugal, Slovakia, Slovenia and Spain); talks about the implementation of the Directive have begun. In view of the stipulations in the CDU/CSU-SPD coalition agreement, it is therefore highly likely that this will be introduced in Germany, either as part of a European solution or as a national solution.

GROUP STRUCTURE

Our Group structure with its six segments essentially remained unchanged in the year under review.

In primary insurance, we operate with three Group segments that each span the various lines of business: Industrial Lines, Retail Germany and Retail International. One member of the Talanx Board of Management takes responsibility for each of these divisions. Industrial Lines operates worldwide. It is largely independent of third parties and has the resources to lead international consortia. The Retail Germany segment interlinks German companies conducting retail business, across the traditional boundaries between lines of business and distribution channels in life and property insurance. The Retail International segment operates mainly in our strategic target markets of Latin America and Central and Eastern Europe, including Turkey and Russia. We further streamlined our structure in this segment. The merger of Metropolitana S.A. with HDI Seguros S.A. de C.V. in Mexico in the year under review means that our Group is now represented by only one private insurance company nationwide in Mexico. This step will further strengthen the HDI brand in Latin America. The remaining HDI-Gerling company in Poland was merged with WARTA, while retaining the HDI brand.

The two reinsurance segments, Non-Life Reinsurance and Life/Health Reinsurance, are led by Hannover Rück SE. Germany and North America are the target markets for Non-Life Reinsurance, which also operates various lines of business in "Global Reinsurance" and "Specialty Lines". Life/Health Reinsurance is divided into the areas of financial solutions and risk solutions, which includes longevity, mortality and morbidity.

The Corporate Operations segment includes Talanx AG, which performs primarily 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 sector, which is primarily concerned with managing the Group's investments.

M1 GROUP STRUCTURE

Talanx AG

Geschäftsbereich Industrieversicherung
Industrial Lines Division

- HDI-Gerling Industrie Versicherung AG
- HDI Versicherung AG (Austria)
- HDI-Gerling Assurances (Belgique) S.A.
- HDI-Gerling Welt Service AG
- HDI-Gerling de México Seguros S.A.
- HDI-Gerling Verzekeringen N.V. (Netherlands)
- HDI-Gerling Insurance of South Africa Ltd.
- HDI Seguros S.A. (Spain)
- HDI-Gerling America Insurance Company

Geschäftsbereich Privat- und Firmenversicherung Deutschland
Retail Germany Division

- Talanx Deutschland AG
- HDI Versicherung AG
- HDI Lebensversicherung AG
- Talanx Pensionsmanagement AG
- HDI Pensionskasse AG
- neue leben Lebensversicherung AG
- neue leben Unfallversicherung AG
- PB Lebensversicherung AG
- PB Versicherung AG
- PB Pensionsfonds AG
- TARGO Lebensversicherung AG
- TARGO Versicherung AG

Geschäftsbereich Privat- und Firmenversicherung International
Retail International Division

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

Geschäftsbereich Rückversicherung
Reinsurance Division

Schaden-Rückversicherung *Non-Life Reinsurance* | Personen-Rückversicherung *Life and Health Reinsurance*

- Hannover Rück SE
- Hannover ReTakaful B.S.C. (c) (Bahrain)
- Hannover Re (Bermuda) Ltd.
- E+S Rückversicherung AG
- Hannover Re (Ireland) Plc
- Hannover Reinsurance Africa Limited
- International Insurance Company of Hannover Ltd. (UK)
- Hannover Life Re of Australasia Ltd
- Hannover Life Reassurance Bermuda Ltd.
- Hannover Life Reassurance Africa Limited
- Hannover Life Reassurance Company of America

Konzernfunktionen
Corporate Operations

- Talanx Asset Management GmbH
- Ampega Investment GmbH
- Talanx Immobilien Management GmbH
- Talanx Service AG
- Talanx Systeme AG
- Talanx Reinsurance Broker GmbH
- Talanx Reinsurance (Ireland) Ltd.

Nur die wesentlichen Beteiligungen
Main participations only

Stand / *As at*: 31.12.2013

STRATEGY

The Talanx Group is internationally active in primary insurance and reinsurance and in both property/casualty and life business. In the more than 100 years of our history we have evolved from a single-line liability insurer for industry into a global insurance group with a focus on industrial and retail lines and reinsurance business. We attach particular importance to successful cooperation with professional partners. In the Talanx Group, we optimise the interplay of 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, even in difficult market phases, Talanx has sufficient independent risk capacities at its disposal to support its clients reliably and over the long term and to tap into promising markets. Through this approach we safeguard our independence and can sustainably enhance the performance of the Group to the benefit of our investors, clients, staff and other stakeholders.

The Group is headed by Talanx AG as a financial and management holding company. Its remit is to make sure that we achieve our primary objective: sustainable, profitable growth. This is also the guiding principle for all divisional strategies deriving from the Group strategy. The Talanx Group's organisation is geared towards centralising Group management and service functions while delegating responsibility for profit to the divisions. This organisational structure, which provides individual divisions a high level of entrepreneurial freedom and responsibility, is key to the Talanx Group's performance, as it enables the various divisions to take maximum advantage of their growth and profit opportunities.

While the Talanx brand is oriented primarily towards the capital market, the sound 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. Moreover, it facilitates the efficient integration of new companies and/or business sectors into the Group. This structure also promotes highly developed cooperation skills, which can be harmonised with a diverse 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 Group strategy.

STRATEGIC OBJECTIVES OF TALANX

The Group's policies and primary strategic objectives are focused 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 corporate goals. An essential prerequisite for achieving these aims is a soundly capitalised Talanx Group which provides its clients with effective cover for their risks. By giving that assurance we serve the interests of our shareholders, clients, staff and other stakeholders and create the greatest possible benefit for all concerned.

Our strategy for human resources management is described at length in the "Other factors in success" subsection on pages 89 et seqq., while our risk management approach is described in the "Risk report" on pages 117 et seqq. These two aspects are therefore not discussed further at this point.

PROFIT TARGET

The Talanx Group strives for above-average profitability in the long term, measured in terms of our return on equity under IFRS and in a comparison with Europe's 20 largest insurance groups. Our minimum target for Group net profit after tax and minority interests is an IFRS return on equity 750 basis points in excess of 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.

From this profit target we derive the benchmarks we use to manage the operating divisions. 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 IFRS.

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 optimise our capital structure by using appropriate equity substitutes and financing instruments; secondly, we align our equity resources such that they meet or exceed the requirements of Standard & Poor's capital model for an "AA" rating. Equity 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, as a general principle, allocated to those areas that promise the highest risk-adjusted profit after tax over the medium term. In this context we pay attention to maintaining the desired portfolio diversification and the required risk capital and take the general regulatory framework into account. Allocation is based on the expected intrinsic value creation (IVC), arrived at from coordinated business plans.

GROWTH TARGET

Within the Talanx Group, we strive for sustainable, profitable growth while keeping a close eye on our opportunity/risk profile and maintaining a diversified portfolio. We achieve this organically, by way of strategic and complementary acquisitions, and through cooperation arrangements.

We are aiming for above-average growth, especially in Industrial Lines and Retail International. In the longer term, our intention is for gross premium income from primary insurance (industrial and retail) generated outside Germany to account for half of the total gross premium volume in primary insurance.

We are already recognised as a leading industrial insurer in Europe, and are expanding our global presence. We have particularly focused our efforts to build up activities in international retail insurance on markets in Central and Eastern Europe, including Turkey, and Latin America. In Retail Germany we aim to improve our profitability and achieve focused growth. As a long-term majority shareholder in Hannover Rück SE, we are pursuing the goal of consolidating and selectively expanding the company's standing as a global player.

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

ENTERPRISE MANAGEMENT

Within the Talanx Group we have set ourselves a number of core tasks, which we want to achieve on a sustained basis: providing reliable support for our clients, maintaining sufficient independent capacities in all market phases, cultivating new markets, and safeguarding and increasing the intrinsic value of the Group for shareholders in the long term. At the same time, ever more demanding requirements are being made of insurance groups by the regulatory environment and by capital markets and rating agencies. We have responded to the underlying situation determined by these internal and external influences by defining the following goals:

- increase profitability and create value
- make optimal 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

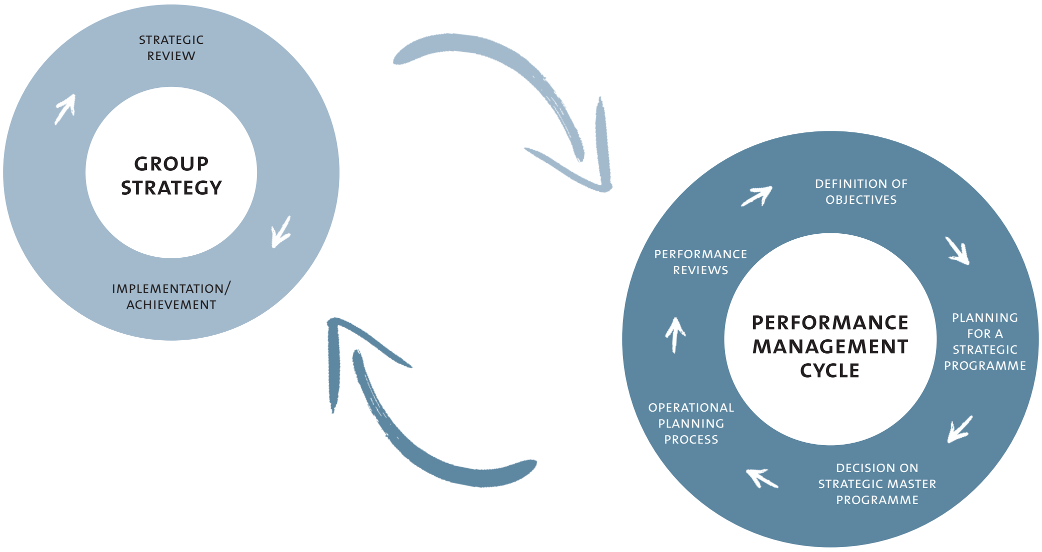
We pursue these goals with the aid of our holistic, integrated management system, in which we devote special attention to the four fundamental management processes that govern the interplay between the holding company Talanx AG and the various divisions: capital management, performance management, risk management and mergers & acquisitions.

PERFORMANCE MANAGEMENT

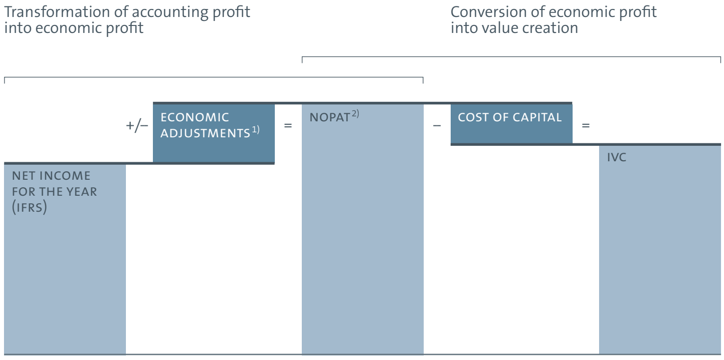
Performance management is the centrepiece of our array of management tools. In our systematic approach, a clear strategy geared to ensuring the Group's long-term viability and consistent roll-out of that strategy are fundamental to efficient enterprise and group management. Since instances of mismanagement are very often due to inadequate implementation of the defined strategy, we devote particularly close attention to the process steps that serve to ensure that our entrepreneurial actions are in line with our strategic objectives.

In the year under review, our performance management cycle, which is closely linked with our Group strategy, was as follows:

M2 PERFORMANCE MANAGEMENT CYCLE



M3 RECONCILING NET INCOME FOR THE YEAR UNDER IFRS WITH IVC



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

The Board of Management of Talanx AG (the holding company) defines strategic objectives as a framework for planning and aligning business activities. The focus is on the Group's strategic core management metrics and on Group-wide strategic initiatives. The following strategic core management metrics are used at the Talanx Group:

- return on equity (RoE) and sustainable economic value creation (IVC)
- risk budget and capital adequacy ratio
- dividend

These objectives formulated by the holding company thus define the Group's aspirations in terms of profitability, level of security, growth initiatives and ability to pay dividends.

We measure sustainable and strategic economic value creation in the Group using IVC (= intrinsic value creation), which we look at over a period of several years to ensure that strategic 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 (cf. figure M3 for calculation). In addition to net income for the year under IFRS, economic net income takes into account

M4 OVERVIEW OF MANAGEMENT METRICS IN THE GROUP SEGMENTS AND THE GROUP

Group segment Industrial Lines	Group segment Retail Germany	Group segment Retail International	Group segment Non-Life Reinsurance	Group segment Life/Health Reinsurance	Group
Gross premium growth (with adjustments for exchange rate effects)	Gross premium growth (with adjustments for exchange rate effects)	Gross premium growth (with adjustments for exchange rate effects)	Gross premium growth (with adjustments for exchange rate effects)	Gross premium growth (with adjustments for exchange rate effects)	Gross premium growth (with adjustments for exchange rate effects)
Retention	New business margin (life)	Growth in value of new business (life)	—	Value of new business/ growth in 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 for financial solutions/ longevity ■ EBIT margin for mortality/morbidity	Payout rate
Return on equity	Return on equity	Return on equity	Return on equity in Non-Life and Life/Health Reinsurance		Net return on investment

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

Retention
Net written premium/gross written premium

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

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 allowance for interest income on funds withheld and contract deposits/ net premium earned (property/casualty primary insurance and non-life reinsurance)

EBIT margin
Operating profit (EBIT)/net premium earned

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

other market value adjustments both in investments and in technical provisions (e.g. loss reserve discount in non-life insurance and change in non-capitalised value of in-force business in life insurance). Cost of capital in non-life insurance includes costs associated with the allocated risk-based capital 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 risk-based capital, an additional margin of risk of 4%. The cost rates apply on the basis of a value at risk of 99.5%, which corresponds to the regulatory confidence level. In life insurance business, we regard the roll forward as cost of capital when calculating MCEV; it reflects expected changes in the value of in-force business.

A key stage in implementing the strategy within the Talanx Group is drawing up a strategic programme planning, i.e. breaking down the strategic objectives into specific subgoals that are underpinned by concrete measures. The holding company and the Group's divisions use a consistent performance metric to manage their businesses. This performance metric encompasses not only strategic core management metrics but also the relevant operational management metrics from four different perspectives: the financial perspective, the market/client perspective, the process perspective and the staff perspective. The performance metric enables us to link up our strategic and operational planning by setting out our strategy in measurable terms within structured overviews and monitoring its execution.

As part of our overriding task of managing and developing the Group in a sustainable and goal-oriented way based on its strategic objectives, one major challenge involves translating strategic objectives and performance indicators into operationalised value drivers that are consistent with the strategy. This takes place within the divisions based on the operational target values shown in table M4.

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

RESEARCH AND DEVELOPMENT

As a holding company, Talanx AG does not conduct any product-related research and development of its own. However, we continuously work to refine the methods and processes that are necessary in order to fulfil our business purpose, especially in the area of risk management. We continue to develop an internal risk model in accordance with Solvency II and with due regard to regulatory debate, please also see pages 117 et seqq. of the risk report. Our divisions analyse developments in such areas as demographic trends, climate change and technical innovation, e.g. nanotechnology, and develop products tailored to relevant markets and clients.

REPORT ON ECONOMIC POSITION

MARKETS AND BUSINESS CLIMATE

OVERALL ECONOMIC DEVELOPMENT

The first half of 2013 in Europe was marked by political setbacks and the ongoing euro debt crisis. The threat of political stalemate in Italy, together with the prospect of national bankruptcy in Cyprus – that was only averted at the last minute after much argument – triggered enormous uncertainty among market participants, particularly at the beginning of the year. As a result, gross domestic product (GDP) in the Eurozone fell in the first quarter of 2013 by 0.2%. In the second quarter, the Eurozone's economy grew again for the first time since the end of 2011, increasing by 0.3% over the previous quarter. This was due in part to strong growth in Germany (+0.7%) and France (+0.6%). In the third quarter, the Eurozone only achieved moderate economic growth of 0.1%. The recession seemed to be over, yet for 2013 as a whole Eurozone GDP contracted by 0.4%.

Germany's GDP stagnated in the first quarter of 2013, after decreasing by 0.5% in the fourth quarter of 2012. The Ifo business climate index, one of the Eurozone's most respected economic indicators, rose to 109.5 points in December 2013, its highest level since April 2012.

M5 **CHANGE IN REAL GROSS DOMESTIC PRODUCT**

% CHANGE RELATIVE TO PREVIOUS YEAR

	2013[1]	2012
USA	+1.9	+2.8
Eurozone	–0.4	–0.7
Germany	+0.4	+0.7
United Kingdom	+1.4	+0.1
Japan	+1.7	+1.5

[1] Bloomberg consensus forecasts as at 16 January 2014; 2013: provisional figures

Growth in GDP in the UK in the first quarter of 2013 was an unexpected 0.5%. In the second and third quarters the economy recovered further, with each quarter growing by 0.8% over the previous quarter.

The US economy was generally robust in 2013. Economic performance was relatively strong, particularly in the second half of the year. In the third quarter it recorded growth of 4.1%, the biggest increase since the first quarter of 2012. At the same time, unemployment fell over the year from 7.9% to a five-year low of 6.7%.

The major central banks continued to pursue expansionary monetary policies. In Europe, the European Central Bank (ECB) lowered its prime rate in the second quarter of 2013 by 25 basis points to 0.5%. In a move that few expected, it once again cut prime rates in November – to a record low of 0.25%. At the same time, the ECB extended its policy of providing unlimited liquidity to the banking sector, and plans to continue making this available until mid-2015. The Bank of England linked its prime rate to the unemployment rate, and the US Federal Reserve (Fed) announced in December that from January 2014 onwards it would reduce monthly bond purchases by USD 10 billion. It reaffirmed at the same time that it would continue to leave prime rates at nil, even if the US unemployment rate were to fall below 6.5%.

Expansionary monetary policy is supported by moderate inflation rates. In the Eurozone, the inflation rate fluctuated in the first quarter of 2013 between 1.7% and 2.0%, and in December fell to a low of 0.8%. In the UK, inflation hovered around 2.7% throughout the year, but dropped back to 2.0% at the end of the year. Inflation rates also fell in the US during the year – from 2.0% in February to 1.2% in November.

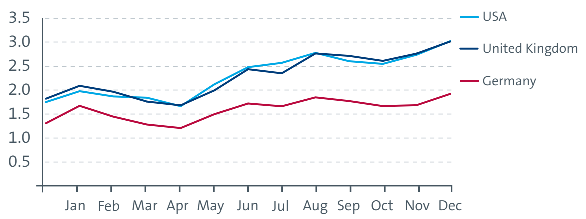
CAPITAL MARKETS

Developments on the bond markets were influenced by the weak economy, political uncertainty and ongoing expansionary monetary policy. In the first quarter of 2013, restructuring of the Dutch banking group SNS – and the accompanying expropriation of subordinated creditors – led to prolonged uncertainty among investors. The reorganisation of the Cypriot banking system also unsettled market players. Changes in interest rates in the second quarter were again dominated by initiatives and statements from the central banks. Against this backdrop there were strong currency fluctuations in the US dollar and Japanese yen, and significant movements in interest rates gave rise to a considerable increase in yields. In the third quarter, attention of capital market participants was focused on US budget planning, the government crisis in Italy, and the parliamentary election in Germany. As a result, interest rates were volatile.

Economic and political turmoil marked the start of the fourth quarter. The apparent rapprochement of political parties in the US budget dispute over raising the debt ceiling led to a temporary stabilisation in interest rates. Rates began to move again at the beginning of December as a result of increasingly positive news. Stable macro data from the US and very positive US labour market statistics were responsible for a significant interest rate hike. Parties in the US budget dispute also arrived at a sustainable compromise that is expected to take care of the budget deficit for the next two years.

M6 YIELDS ON 10-YEAR GOVERNMENT BONDS 2013

IN %



Yields in Germany increased significantly when compared to the previous year. Two-year German government bonds increased by around 17 basis points to 0.189%, five-year government bonds by over 67 basis points to 0.959%, and ten-year bonds likewise by over 67 basis points to 1.959%.

There was a great deal of activity at the beginning of the year in new issues on the primary market – where securities are first issued – particularly for corporate bonds, senior financials with short terms, and high-yield securities. Unlike the previous year, issuers of German covered bonds (Pfandbriefe) were very restrained throughout the first quarter. Bond activity was particularly lively from March to May, with a similar level of activity on the primary market not recurring until September via the corporate bond market.

The trend of the first nine months then continued, with demand for investments in high-risk bonds still strong at the end of the fourth quarter. High-yield investments, subordinated bank bonds and covered bonds (particularly from the peripheral countries of Spain, Ireland, Portugal and, to a lesser extent, Italy) performed best over the year, despite some intermittent uncertainty. For further comment on developments in the equity markets please refer to the "Assets and Financial Position" section on page 73, and the "Talanx Share" section on page 41 et seq.

INTERNATIONAL INSURANCE MARKETS

These remarks are based on information that is publicly available from the German Insurance Association (GDV) and on other sources.

Despite some major natural disasters, we expect an average burden for the international insurance markets in 2013. The ongoing Eurozone debt crisis and subdued development of the global economy continue to represent a challenging environment for insurance companies. Meanwhile, economic momentum has also slowed in emerging countries, although the pace of growth there is still significantly faster than in the developed countries.

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. In this subsection we will therefore focus primarily on developments in these regions, and will discuss the German insurance sector in the following subsection.

PROPERTY AND CASUALTY INSURANCE

Premium growth in international property and casualty insurance in 2013 was steady. In the developed insurance markets real growth remained at its previous year's level. In contrast, although growth in emerging countries remained significantly stronger, it declined in comparison to the previous year.

Despite a succession of natural disasters, loss expenditure remained minimal for insurers due to the low level of market penetration in emerging countries. Ongoing low interest rates had a far stronger effect on insurers' net income. With regard to the result, profitability in international property and casualty insurance was slightly improved when compared to the previous year, but nevertheless remained low.

Central and Eastern Europe: In the year under review, premium income remained flat in property and casualty insurance in Poland, the region's largest market. This was due to a slowdown in growth and extremely intense competition in the motor insurance segment.

Latin America continued to register strong premium growth, despite declining economic momentum in emerging countries. A significant contribution to this growth was made by Brazil, where the country's largest energy company, Petrobras, renewed its insurance cover, and where rates in the motor insurance segment also increased. In Argentina, performance in motor insurance and workers' compensation insurance was to a large part responsible for premium growth. However, despite Latin America's general trend towards growth, Chile is expected to experience slower premium growth due to its overall weaker economic pace.

In reinsurance, continuing low interest rates likewise necessitated strict discipline to be exercised in technical pricing to compensate for falling investment income. Typhoon "Haiyan" in the Philippines not only brought a comparatively calm hurricane season in the North Atlantic to an end, but also triggered a humanitarian disaster. Nonetheless, as a result of low insurance density, the overall claims burden for the insurance sector is minimal.

LIFE INSURANCE

There was a small increase in premiums in international life insurance markets over the previous year. While real premium growth in developed insurance markets was at the previous year's level, we expect emerging countries to record considerably stronger growth in real terms than in 2012.

Life insurance profitability tended to continue to fall in 2013 in all regions. This was due to ongoing very low interest rates. The gap between earned interest and guaranteed returns narrowed still further.

In Central and Eastern Europe premiums were down in comparison to the previous year. The main reason for this was a drop in sales of single-premium savings products in Poland, the largest market in this region.

Latin America remained top for premium growth amongst emerging countries, standing way ahead of the Asian markets and Central and Eastern Europe. Nevertheless, the absolute rate of growth was lower in 2013 than in 2012, mainly due to declining sales of pension plans in Brazil, that in 2013 were again at a sustainable level. Whereas double-digit growth rates were recorded in Mexico and Colombia, premium growth in Argentina and Chile stagnated.

Premiums in traditional life and health reinsurance remained at their previous year's level in 2013. They increased slightly for block transactions, reinsurance of longevity risks, for enhanced annuities with immediate payment, and for accident and health insurance business. In developed markets premium growth slowed, but emerging countries continued to show strong growth at levels that remained more or less unchanged.

GERMAN INSURANCE INDUSTRY

PROPERTY AND CASUALTY INSURANCE

After its strong premium growth in 2012, the German insurance industry grew again in 2013, albeit at a somewhat lower level. Growth in motor insurance contributed particularly strongly to the increase in premiums.

In the year under review a series of natural disasters led to losses of around EUR 7 billion. Roughly EUR 5.5 billion of this was attributable to property/casualty insurance and EUR 1.5 billion to motor insurance. The last time there were comparable levels of losses from natural disasters was in 1990 and 2002, when the "Wiebke" and "Vivian" storms, together with flooding of the river Elbe and winter storms, gave rise to a high level of claims. The classes of insurance that are most affected by natural perils – property/casualty insurance and motor insurance – have a higher net combined ratio for 2013 than 2012.

LIFE INSURANCE

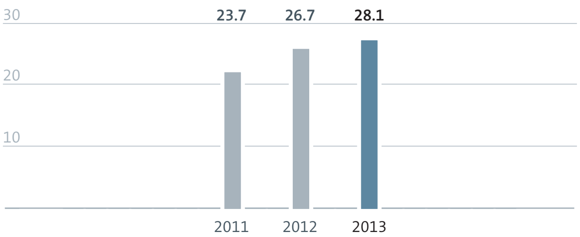
Real premium growth in life insurance started to recover in 2013, following a two-year period in which rates of real premium growth had fallen. In comparison to other developed markets, Germany recorded above-average growth, even though the fourth quarter was weak across all markets. Despite interest rates being low for some time, the German insurance industry succeeded again in 2013 in achieving an overall return that exceeded guaranteed returns.

BUSINESS DEVELOPMENT

In the year under review The Talanx Group improved further on the previous year's good results. Gross premium, Group net income and EBIT all grew again, with Group net income reaching its highest ever level at the Talanx Group thanks to extraordinary income from the sale of shares and positive tax effects.

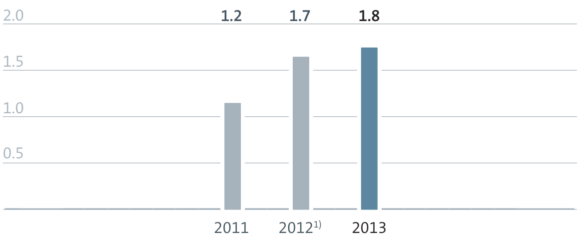
M7 GROSS WRITTEN PREMIUM

FIGURES IN EUR BILLION



M8 OPERATING PROFIT (EBIT)

FIGURES IN EUR BILLION



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

TALANX AG CONSOLIDATES ITS POSITION IN THE MDAX

HDI V. a. G. placed a further block of shares in Talanx AG on the stock market. This raised the free float by 3.3 percentage points to 14.5% (including employee shares), without diluting the stakes of other shareholders. HDI V. a. G. remains the main shareholder with a stake of 79.0%, while Meiji Yasuda is still an important anchor shareholder with 6.5%.

BUSINESS IN GERMANY BECOMES MORE PROFITABLE

We made good progress with restructuring in the Retail Germany Division. Our earnings power has already increased on the road to improved competitiveness. We specifically targeted measures relating to new business at improving profitability, and are pleased with the growth already achieved in single-premium business.

SIGNIFICANT EXPANSION OF INTERNATIONAL BUSINESS

Gross premium in our international retail business rose considerably in the year under review. The Polish companies TU Europa and WARTA that we acquired with Meiji Yasuda pushed up gross premium volume in Eastern Europe significantly. Poland is now Talanx's largest foreign market following the takeovers.

PERFORMANCE OF THE GROUP

- Highest ever Group net income achieved
- Net investment income at the same level as in the previous year, despite ongoing difficulties on the market
- Only slight rise in combined ratio despite high catastrophe losses

M9 GROUP KEY FIGURES

FIGURES IN EUR MILLION

	2013	2012[1]	2011[1]
Gross written premium	28,151	26,659	23,682
Net premium earned	23,113	21,999	19,456
Underwriting result	–1,601	–1,447	–1,690
Net investment income	3,792	3,795	3,262
Operating profit (EBIT)	1,784	1,748	1,238
Combined ratio (net, property/casualty only) in %	96.9	96.4	101.0

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

M10 MANAGEMENT METRICS

IN %

	2013	2012 [1]	2011
Gross premium growth (with adjustments for exchange rate effects)	7.8	10.4	4.4
Group net income in EUR million	762	626	515
Return on equity	10.6	10.0	10.0
Payout rate	39.8 [2]	42.4	—
Net return on investment	4.0	4.3	4.0

[1] Adjusted on the basis of IAS 8, cf. "Accounting policies" section in the Notes
[2] In relation to the proposal for the appropriation of disposable profit, cf. page 88

PREMIUM VOLUME

The Group's gross written premium grew to EUR 28.1 billion, compared with EUR 26.7 billion in the previous year. Although growth was lower than the previous year's level (12.6%), it was still significant at 5.6% (7.8% with adjustments for exchange rate effects). Premium growth in the Retail International Division was particularly strong at over 29%, largely owing to the previous year's acquisitions. The retention ratio fell slightly to 86.9 (87.2)%, while net premium earned rose by 5% to EUR 23.1 (22.0) billion.

UNDERWRITING RESULT

The underwriting result declined, partly owing to a very high level of major losses (EUR 838 million). It fell by 11% to –EUR 1.6 (–1.4) billion, with the increase in the underwriting result for Non-Life Reinsurance unable to compensate for the results of other divisions. The Group's combined ratio rose only slightly to 96.9 (96.4)% in the year under review, despite exceptionally high expenses for major losses.

NET INVESTMENT INCOME

Net investment income amounted to EUR 3,792 million in the year under review, the same level as in the previous year (EUR 3,795 million). An improvement in extraordinary investment income particularly contributed to this. We were satisfied with the net return on investment of 4.0% in the year under review, although it was lower than the previous year's figure of 4.3%.

OPERATING PROFIT AND GROUP NET INCOME

Operating profit (EBIT) rose slightly year-on-year to EUR 1,784 (1,748) million owing to an increase in other income from foreign exchange gains in the Non-Life Reinsurance and Corporate Operations segments. Group net income was up 21.7% on the previous year's figure at EUR 762 (626) million. This was partly due to a positive effect from the accounting treatment of deferred taxes. The return on equity was 10.6%, exceeding the previous year's level of 10.0%; shareholders' equity fell slightly by 1%. The payout rate in the year under review for the previous year was 42.4% of Group net income.

COMPARISON OF ACTUAL BUSINESS DEVELOPMENT WITH FORECAST FOR 2013

M11 MANAGEMENT METRICS IN THE GROUP

IN %

	Actual figures for 2013	Forecast for 2013	
Gross premium growth (with adjustments for exchange rate effects)	7.8	min. 4	✓
Group net income in EUR million	762	> 650	✓
Return on equity	10.6	> 9	✓
Payout rate [1]	39.8	35 – 45	✓
Net return on investment	4.0	approx. 3.5	✓

[1] In relation to the proposal for the appropriation of disposable profit, cf. page 88

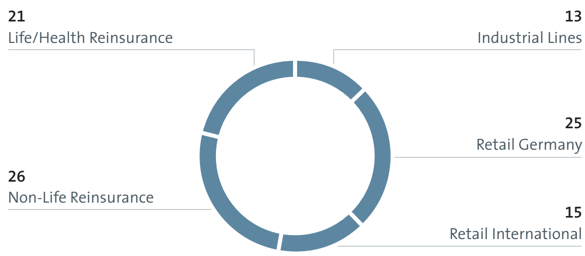
The Group achieved gross premium growth of 5.6% (7.8% with adjustments for exchange rate effects) in the year under review, surpassing the minimum target of 4% set for 2013. This is primarily attributable to the contribution to results made by the companies acquired in Poland. The Group significantly exceeded its target of Group net income of over EUR 650 million; the results of the Non-Life Reinsurance segment accounted for a large proportion of this. We fulfilled our forecast of a return on equity of more than 9%, achieving an actual return on equity of 10.6%. This is in line with our strategy of ensuring that the sum of the profit targets of the individual divisions is at least equal to the Group's defined target for return on equity. Payment of a dividend of EUR 1.20 per share will be proposed at the General Meeting. The dividend payout rate will therefore once again be within the target range in the second full year after the IPO, at 39.8%. Our net return on investment was expected to be around 3.5% in accordance with the forecast; we also met this target, posting a return of 4.0%.

DEVELOPMENT OF THE DIVISIONS WITHIN THE GROUP

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

M12 SEGMENTAL BREAKDOWN OF GROSS PREMIUM

IN %



INDUSTRIAL LINES

- Premium growth continues
- Result adversely affected by major losses, in particular from natural disasters
- Net investment income only slightly lower than in the previous year, despite continuing low interest rates

M13 ESSENTIAL KEY FIGURES IN THE INDUSTRIAL LINES SEGMENT

FIGURES IN EUR MILLION

	2013	2012	2011
Gross written premium	3,835	3,572	3,138
Net premium earned	1,744	1,608	1,375
Underwriting result	–24	79	155
Net investment income	240	247	204
Operating profit (EBIT)	147	259	321

M14 MANAGEMENT METRICS

IN %

	2013	2012	2011
Gross premium growth (with adjustments for exchange rate effects)	8.6	12.7	1.6
Retention	44.5	45.6	44.1
Combined ratio (net)[1]	101.3	95.1	88.6
EBIT margin[2]	8.4	16.0	23.4
Return on equity	5.7	8.8	12.4

[1] Including net interest income on funds withheld and contract deposits
[2] Operating profit (EBIT)/net premium earned

MARKET DEVELOPMENT

Insurance markets again recorded premium growth in 2013 in our core market of Germany, albeit not as strongly as in 2012. Growth in motor insurance contributed particularly strongly to the increase in premiums. HDI-Gerling industrial insurance was also able to benefit from this, achieving significant premium growth in this line of over 10%. In addition, property insurance lines in Germany were able to generate growth by increasing prices.

In the year under review a series of natural disasters led to market losses of around EUR 7 billion. Roughly EUR 5.5 billion of these were attributable to property insurance and EUR 1.5 billion to motor insurance. HDI-Gerling industrial insurance was hit badly, both by floods in southern and eastern Germany in June 2013, and by several hailstorms. This led to its motor insurance and property insurance lines recording high claims levels as a result of natural hazards. The last time there were comparable levels of losses from natural disasters in Germany was in 1990 and 2002, when the "Wiebke" and "Vivian" storms, together with flooding of the river Elbe and winter storms, gave rise to enormous losses. The classes of insurance that are most affected by natural hazards – property and motor insurance – had a higher combined ratio for 2013 than for 2012.

As market penetration in Germany is already high, growth was primarily generated in our overseas branches and subsidiaries. HDI-Gerling Industrie Versicherung AG achieved strong premium growth, particularly in its branches in France, Italy and the UK, and in its Dutch company. Nevertheless, the continuing Eurozone debt crisis and subdued development of the global economy continue to present a challenging environment for insurance companies. Meanwhile, economic momentum is also slowing in emerging countries, although the pace of growth there is still significantly faster than in developed countries.

PREMIUM VOLUME

The segment's gross written premium amounted to EUR 3.8 (3.6) billion as at 31 December 2013, an increase of around 7.4%. (8.6% when adjusted for exchange rate effects). HDI-Gerling Industrie Versicherung AG made a particularly large contribution to this increase, growing by 7% to EUR 3.3 (3.1) billion through its branches in Germany and overseas. Growth slowed down slightly in comparison to the previous year, but nevertheless remained very positive.

HDI-Gerling industrial insurance's continuing upward trend in premium was driven by the fire, liability and motor insurance lines. The increase in premium was largely due to growth at foreign branches and premium hikes in Germany. Premium growth in fire was mainly due to price increases and expansion of international programmes, while in motor insurance the market continued to harden throughout 2013.

Overall, premium development at foreign companies in the segment was positive. Gross written premium at the Dutch company HDI-Gerling Verzekeringen N.V. increased to EUR 391 (363) million. Marine insurance business in particular was expanded significantly. In the previous year premium growth here was affected by the acquisition of Nassau Verzekering Maatschappij N.V. Gross premium at the Spanish company totalled EUR 130 (126) million as a result of new business in Latin America and local participation business, notwithstanding the difficult overall economic situation.

The segment's retention ratio fell slightly year-on-year from 45.6% to 44.5%, despite increases in premium retained at HDI-Gerling industrial insurance. The main reason for this is a change in accounting for reinsurance settlement at HDI-Gerling industrial insurance that impacts negatively on net written premium. Net premium earned in the segment rose by 9% to EUR 1.7 (1.6) billion, driven by growth in gross premium. Based on earned premium, the retention ratio rose to 46.8 (46.1)%.

UNDERWRITING RESULT

The segment's net underwriting result was –EUR 24 (79) million. This was considerably lower than in the previous year due to significant catastrophe losses suffered by HDI-Gerling industrial insurance. The net expense ratio was slightly higher year-on-year at 20.6 (19.9)%, while the net loss ratio rose to 80.8 (75.2)%. The combined ratio of the Industrial Lines segment was 101.3 (95.1)%.

HDI-Gerling industrial insurance's net underwriting result was –EUR 31 (37) million, with the decrease being mainly attributable to major losses incurred as a result of natural hazards. Floods in southern and eastern Germany in June 2013, several hailstorms in Germany and overseas in the second and third quarters, and storms in the autumn and winter seasons all led to a significant decline in the result. The burden from other major losses also rose year-on-year.

Our Dutch subsidiary recorded a significant decline to –EUR 8 (15) million, largely due to additional provisions and higher major loss expenditure in the first quarter of 2013 of EUR 12 million.

NET INVESTMENT INCOME

Despite continuing low interest rates, net investment income only fell slightly by –3% to EUR 240 (247) million. The capital market-induced decline in fixed-interest securities at HDI-Gerling industrial insurance was offset to a certain extent by higher income from real estate. In the first quarter of 2013, the Dutch subsidiary also completely wrote off a bond in the amount of EUR 3 million from the nationalised bank SNS Reaal Bank.

OPERATING PROFIT AND GROUP NET INCOME

The segment's operating profit fell to EUR 147 (259) million, due to the above developments and in particular to the lower underwriting result. The decline was chiefly the result of the impact of major losses in the net underwriting result of HDI-Gerling industrial insurance and developments at the Dutch company as described. Group net income – i.e. income attributable to shareholders of Talanx AG – fell to EUR 109 (157) million. The segment's EBIT margin and return on equity also declined to 8.4 (16.0)% and 5.7 (8.8)% respectively, as a result of the fall in operating profit.

COMPARISON OF ACTUAL BUSINESS DEVELOPMENT WITH FORECAST FOR 2013

M15 MANAGEMENT METRICS IN THE INDUSTRIAL LINES SEGMENT

IN %

	Actual figures for 2013	Forecast for 2013	
Gross premium growth (with adjustments for exchange rate effects)	8.6	4–6	✓
Retention	44.5	~47	× [3]
Combined ratio (net) [1]	101.3	≤96	×
EBIT margin [2]	8.4	≥10	×
Return on equity	5.7	~10	×

[1] Including interest income on funds withheld and contract deposits
[2] Operating profit (EBIT)/net premium earned
[3] On the basis of earned premium the retention ratio increases to 46.8%

Mainly as a result of HDI-Gerling industrial insurance's positive business development, gross premium growth slightly exceeded expectations for 2013 at 7.4% (8.6% when adjusted for exchange rate effects). The retention remained lower than forecast at 44.5%; this was essentially due to the change in accounting for reinsurance settlement at HDI-Gerling industrial insurance as described in the previous subsection.

The combined ratio was considerably higher than forecast for 2013 as a result of unexpectedly high catastrophe losses, notably from natural hazards. High loss expenditure is likewise the reason for the lower EBIT margin and return on equity in the year under review: both these failed to meet expectations.

RETAIL GERMANY

- Premium income from life insurance business up 2%
- Exceptionally high burdens from major losses and natural disasters have negative impact on combined ratio
- Increase in net investment income despite low interest rates

M16 ESSENTIAL KEY FIGURES IN THE RETAIL GERMANY SEGMENT

FIGURES IN EUR MILLION

	2013	2012[1]	2011
Gross written premium	6,954	6,829	6,710
Net premium earned	5,605	5,501	5,461
Underwriting result	−1,515	−1,425	−1,258
Net investment income	1,786	1,621	1,530
Operating profit (EBIT)	161	100	110

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

M17 MANAGEMENT METRICS

IN %

	2013	2012[1]	2011
Gross premium growth	1.8	1.8	−1.6
New business margin (life)	2.6[2]	1.8	1.7
Combined ratio (net, property/casualty only)[3]	102.4	100.6	101.6
EBIT margin[4]	2.9	1.8	2.0
Return on equity	3.0	4.8	2.7

[1] Adjusted on the basis of IAS 8, cf. "Accounting policies" section in the Notes
[2] 2013: estimated figure, the final figure will be published in the 2014 annual financial statements
[3] Including net interest income on funds withheld and contract deposits
[4] Operating profit (EBIT)/net premium earned

MARKET DEVELOPMENT

Low interest rates shaped the market environment in life insurance, causing customers to be cautious with regard to long-term saving processes. In property/casualty insurance, premium income rose in the motor insurance and private property insurance lines.

RESTRUCTURING OF THE DIVISION

Restructuring of the division continued during the reporting period. The aim of this restructuring is to modernise the organisation of structures and processes and improve competitiveness significantly by cutting costs and increasing efficiency.

While extensive changes and reorganisation measures were implemented in operations in property insurance business, partly as a result of the centralisation of sites, the focus at HDI Lebensversicherung AG was on improving services and processes. Products have been made less complex and a modular product structure has been introduced, which will allow customers to put together their own individual insurance cover. A key change in sales was the introduction of a sales management system spanning all three distribution channels of tied agents, sales through brokers and cooperation agreements. The roll-out of the reorganised branch concept also began in 2013 and will gradually be expanded further.

PREMIUM VOLUME AND NEW BUSINESS

Gross written premium of the Retail Germany segment – including savings elements under unit-linked life insurance – rose to EUR 7.0 (6.8) billion in the year under review.

Premium income of property/casualty insurers remained unchanged at EUR 1.5 billion. In direct written insurance business, premium income remained at almost the same level as in the previous year despite ongoing measures to improve profitability, as the decline in the number of contracts was offset by an increase in the average premium per contract. The overall share of property/casualty insurers in the entire segment remained stable at 22%.

Gross written premium for our life insurers – including savings elements under unit-linked life insurance – rose by 2% to EUR 5.4 (5.3) billion, owing to higher single premiums. The new business margin increased to 2.6 (1.8)% owing to a change in the product mix and an improvement in the capital market environment, with a reduction in credit risk in particular.

The division's retention ratio fell slightly to 94.2 (94.5)% owing to an increase in reinsurance cessions in life insurance business. Allowing for higher savings elements under our unit-linked products and the change in unearned premiums, the segment's net premium earned thus rose by 2% to EUR 5.6 (5.5) billion.

New business in life insurance products – measured by the international standard of the Annual Premium Equivalent (APE) – was down year-on-year at EUR 464 (500) million, as expected.

UNDERWRITING RESULT

The underwriting result amounted to –EUR 1.5 (–1.4) billion. This is usually dominated by life insurance companies, partly owing to the compounding of technical provisions and participation of our policyholders in net investment income. These expenses are offset by net investment income, which is recognised in the non-underwriting result.

The underwriting result of our property insurance segment was significantly reduced by an increase in major loss events and natural disasters affecting HDI Versicherung AG, particularly in the third quarter, which led to a net increase of 1.8 percentage points in the combined ratio to 102.4%. With adjustments for these effects, continuation of our measures to improve profitability led to a significant increase in the underwriting result.

NET INVESTMENT INCOME

The division's net investment income rose by 10% to EUR 1.8 (1.6) billion. The life insurance companies account for 94% of this figure. 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. This explains the increase in extraordinary investment income.

OPERATING PROFIT AND GROUP NET INCOME

The financial year was influenced by extraordinary burdens from major losses and natural disasters and persistently low interest rates on the capital market. EBIT increased to EUR 161 (100) million despite the burden from higher losses, thanks to improvements in operating business. The previous year's results included one-off effects with a negative impact on EBIT, such as the sale of a company within the segment. The EBIT margin improved by 1.1 percentage points as a result. After taking into account taxes on income and financing costs, Group net income attributable to shareholders of Talanx AG decreased to EUR 78 (120) million, reducing the return on equity by 1.8% to 3.0%. The previous year's result included an additional one-off effect in the form of deferred taxes in the amount of EUR 84 million.

COMPARISON OF ACTUAL BUSINESS DEVELOPMENT WITH FORECAST FOR 2013

M18 MANAGEMENT METRICS IN THE RETAIL GERMANY SEGMENT

IN %

	Actual figures for 2013	Forecast for 2013	
Gross premium growth	1.8	+/–0	✓
New business margin (life)	2.6[1]	min. 1.8	✓
Combined ratio (net, property/casualty only)[2]	102.4	~ 101.0	×
EBIT margin[3]	2.9	2.8	✓
Return on equity	3.0	≥ 3.0	✓

1) 2013: estimated figure, the final figure will be published in the 2014 annual report
2) Including net interest income on funds withheld and contract deposits
2) Operating profit (EBIT)/net premium earned

Gross premium income in the Retail Germany segment grew by 1.8% in 2013, contrary to our forecast. The new business margin in our life insurance business also exceeded our expectations at an estimated 2.6%. With adjustments for extraordinary burdens from natural disasters and major losses, the combined ratio was even lower than the target, thanks to improvements in underlying business. The EBIT margin and return on equity were in line with forecasts.

FURTHER KEY FIGURES

M19 THE RETAIL GERMANY SEGMENT AT A GLANCE

FIGURES IN EUR MILLION

	2013	2012[1]	2011
Gross written premium	**6,954**	**6,829**	**6,710**
Property/casualty	1,529	1,530	1,515
Life	5,425	5,299	5,195
Net premium earned	**5,605**	**5,501**	**5,461**
Property/casualty	1,431	1,437	1,409
Life	4,174	4,064	4,052
Underwriting result	**–1,515**	**–1,425**	**–1,258**
Property/casualty	–34	–6	–22
Life	–1,481	–1,419	–1,239
Other	—	—	3
Net investment income	**1,786**	**1,621**	**1,530**
Property/casualty	112	102	108
Life	1,675	1,525	1,422
Other	–1	–6	—
New business measured in annual premium equivalent (life)	**464**	**500**	**528**
Single premiums	1,491	1,391	1,278
Regular premiums	315	361	400
New business by product in annual premium equivalent (life)	**464**	**500**	**528**
Unit-linked life and annuity insurance	149	173	178
Traditional life and annuity insurance	231	242	270
Term life products	81	80	72
Other life products	4	5	8

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

RETAIL INTERNATIONAL

- Expansion abroad improves results
- Poland is largest foreign market
- Stable net investment income despite persistent low interest rates and rising euro rates

M20 ESSENTIAL KEY FIGURES IN THE RETAIL INTERNATIONAL SEGMENT

FIGURES IN EUR MILLION

	2013	2012	2011
Gross written premium	4,220	3,261	2,482
Net premium earned	3,513	2,621	1,862
Underwriting result	32	3	–42
Net investment income	284	281	159
Operating profit (EBIT)	185	107	55

M21 MANAGEMENT METRICS

IN %

	2013	2012	2011
Gross premium growth (with adjustments for exchange rate effects)	35.4	35.0	12.2
Growth in value of new business (life)[1]	approx. 7	n. a.	n. a.
Combined ratio (net, property/casualty only)[2]	95.8	96.2	99.3
EBIT margin[3]	5.3	4.1	2.9
Return on equity	5.9	3.5	6.5

1) Excluding non-controlling interests; 2013: estimated figure, the final figure will be published in the 2014 annual report
2) Including net interest income on funds withheld and contract deposits
3) Operating profit (EBIT)/net premium earned

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

The main development in the year under review was the integration of companies we acquired in the 2012 financial year in our target regions in Central and Eastern Europe and Latin America. The Mexican insurer Metropolitana Compañía de Seguros S. A. merged with

HDI Seguros S. A. de C. V. with effect from 1 January 2013. The absorbing company is continuing to be run under the name HDI Seguros S. A. de C. V. The Talanx Group became the second-largest operator on the Polish insurance market in terms of premium income in the 2012 financial year, following the takeover of the WARTA Group and the TU Europa Group. Both acquisitions were carried out with our strategic partner Meiji Yasuda, which owned just under 25% of shares in WARTA and a significant minority holding of 33.46% in the TU Europa Group at the end of the fourth quarter of 2013. Following the merger of the property insurance companies HDI Asekuracja S. A. und TUiR WARTA S. A., which took place at the end of the previous financial year, the Polish life insurer TUnŻ WARTA S. A. merged with HDI-Gerling Życie with effect from 30 December 2013. The absorbing company is trading under the name TUnŻ WARTA S. A. Integration was thus completed much more quickly than originally anticipated.

Comparability of the reporting periods is very limited. The WARTA and TU Europa companies are included in the figures for the full 2013 financial year, while the WARTA companies were included for six months and the TU Europa companies for seven months in the 2012 financial year.

MARKET DEVELOPMENT

Both the property insurance and the life insurance market performed differently in the division's two target regions in 2013. Premium growth on the property insurance market in 2013 is expected to have amounted to 7.3% in Latin America and 1% in Central and Eastern Europe. In contrast, the life insurance market is expected to have recorded premium growth of 11% in Latin America in 2013, while a decline of 1% is anticipated for Central and Eastern Europe. Development of premium income in both target regions was influenced by the widespread economic slowdown compared with the previous year. Growth in gross domestic product is expected to have dropped year-on-year to around 2% in real terms in both regions in 2013.

Growth in premium income from property insurance in Latin America was driven mainly by positive developments in Brazil, where an increase in public spending in connection with the presidential elections and the 2014 Soccer World Cup coincided with an industry-wide rise in rates for motor insurance. Motor insurance business in Mexico also performed well in the period up to 30 September 2013, despite a year-on-year decline in economic growth, owing to an increase in the number of active insurance policies.

In Central and Eastern Europe, however, the development of premium income was influenced by a decline in domestic demand and in investment as a result of the global financial crisis. The robust economic growth of previous years did not continue in Poland, where competition over price also intensified in motor insurance and sales of single-premium savings products declined, partly as a result of falling interest rates and planned changes to tax legislation. Property insurance premiums on the Polish market were up 2% year-on-year as at 30 September 2013, while life insurance premiums had fallen by 15%. This contrasts with growth on the Turkish insurance market, where property insurance premiums were up 23% as at 30 November 2013, with life insurance premiums even increasing by 26%. In particular, year-on-year growth of 41% was achieved on the difficult motor third party liability market, mainly through higher average premiums.

PREMIUM VOLUME

The division's gross written premium (including premiums from unit-linked life and annuity insurance) rose by around 29.4% year-on-year (35.4% with adjustments for exchange rate effects) to EUR 4.2 (3.3) billion. Most of this premium growth was attributable to acquisitions in Poland. With adjustments for this effect, the segment grew by 14.2%.

Gross written premium growth was influenced by positive developments in property business, where premium rose by 22% to EUR 2.8 billion, including a significant contribution from the new Polish companies. Life insurance business also grew by 49% to EUR 1.4 billion, primarily owing to the inclusion of the new Polish life insurers for the full twelve months. Growth in the value of new business (life) is a provisional figure and has come from life insurance business at the Italian company HDI Assicurazioni.

Around three quarters of our total premium income in Latin America comes from the Brazilian company HDI Seguros S. A., which operates mainly in motor insurance. The company's written premium increased by 5% year-on-year to EUR 865 million, taking into account exchange rate effects. With adjustments for exchange rate effects, premium income rose by 19%, partly owing to higher premiums in motor insurance business. At the same time, the company's motor policy portfolio grew year-on-year by 13% to a total of 1.4 million policies, largely owing to the conclusion of a large number of new contracts. The Mexican company HDI Seguros increased its gross written premium to EUR 178 million, mainly owing to growth in new business, which was partly due to a new cooperation agreement in motor insurance business. The combined gross written premium of HDI Seguros and Metropolitana in the previous year was EUR 140 million.

The Polish companies accounted for 39% of the division's total written premium, compared with 29% in the previous year. Following the merger with HDI Asekuracja S. A., TUiR WARTA S. A. recorded premium volume in property insurance of EUR 800 million. The gross written premium of the life insurer TUnŻ WARTA S. A. amounted to EUR 332 million following the merger with HDI-Gerling Życie. Premium income for the TU Europa Group from life and property insurance combined amounted to EUR 525 million. The Talanx Group's position on the Polish insurance market has improved significantly as a result of the takeover of the TUiR WARTA Group and the TU Europa Group.

The Turkish property insurer HDI Sigorta began to benefit from the effects of restructuring. This was initiated in response to ongoing difficulties on the market and to stabilise the company in the long term. The aim is to bring the product portfolio into line with the market and to achieve a profitable sales structure, efficient cost and claims management, appropriate pricing and improved risk selection. The company increased its gross written premium by 9% year-on-year to EUR 187 million; with adjustments for exchange rate effects, premiums rose by 20%. Written premium in other property insurance increased by 44% in EUR, in line with the company's targets. Premium income in motor insurance fell by 7%; average premiums were up 39%, while the number of contracts declined by 33%. Motor insurance accounted for 59% of the company's overall portfolio, compared with 69% at the same point in the previous year. In particular, the share of motor third party liability insurance fell by 9 percentage points to 25%. HDI Sigorta is thus well on the way to achieving a more diversified and more profitable product portfolio.

The Italian company HDI Assicurazioni held its ground well in a property insurance market that faced the prospect of an overall decline. Gross written premium remained stable in property/casualty insurance. In contrast, life insurance premiums rose by 70% year-on-year, largely owing to higher premium income from sales through banks.

UNDERWRITING RESULT

The combined ratio in international property insurance improved by 0.4 percentage points year-on-year to 95.8 (96.2)%. The newly acquired Polish companies with their comparatively low combined ratios contributed to this, as did the decline in the effects of major loss events, particularly in Poland, and the improvement in loss ratios in motor insurance as a result of increases in premiums and improved portfolios, particularly in the core markets of Brazil and Turkey. TUiR WARTA S. A. was affected by a major loss event in the agricultural sector (frost damage) in the corresponding period of the previous year. The underwriting result of Italian company HDI Assicurazioni fell slightly, owing to an increase in expenses. The exceptionally low level of losses in motor insurance throughout the sector in the previous year in Mexico did not continue in the current financial year, although losses have remained at a low level.

The division's underwriting result amounted to EUR 32 (3) million. This increase was largely due to the Polish companies. In life insurance business, amortisation of intangible assets (EUR 12 million) at the new Polish life insurers had a negative impact on the underwriting result.

NET INVESTMENT INCOME

Net investment income in the division amounted to EUR 284 million as at the end of the 2013 financial year, a year-on-year rise of 1%. The average return on assets under own management declined by 1.4 percentage points compared with the 2012 financial year to 4.7%, as a result of the prevailing low interest rate policy combined with the conservative investment strategy pursued consistently by subsidiaries. The division's ordinary investment income rose by 11% compared with the previous year, with the inclusion of new companies and larger investment portfolios more than offsetting the negative effects of lower average interest rates for the year in almost all countries. However, extraordinary investment income fell by 48% despite the higher gains realised at Italian company HDI Assicurazioni, mainly owing to increased volatility on international capital markets. The Polish companies contributed EUR 87 million or 31% to total net investment income, compared with EUR 75 million or 27% in the same period of the previous year. Net investment income includes profit on investment contracts in the amount of EUR 13 (8) million. Investment contracts are policies from the Polish companies that, in accordance with IFRS, provide too little risk cover to be classified as insurance contracts.

OPERATING PROFIT AND GROUP NET INCOME

The Retail International Division reported an increase in its underwriting result with stable net investment income, mainly as a result of the inclusion of the acquisitions in Poland. This led to a year-on-year increase of 73% in the operating profit (EBIT) to EUR 185 million. As a result, the EBIT margin rose by 1.2 percentage points to 5.3%. Divisional net income after minority interests more than doubled to EUR 101 (42) million. With the division's equity remaining almost stable, the return on equity rose from 3.5% to 5.9%.

COMPARISON OF ACTUAL BUSINESS DEVELOPMENT WITH FORECAST FOR 2013

M22 MANAGEMENT METRICS IN THE RETAIL INTERNATIONAL SEGMENT

IN %

	Actual figures for 2013	Forecast for 2013	
Gross premium growth (with adjustments for exchange rate effects)	35.4	17–20	✓
Growth in value of new business (life)[1]	approx. 7	n. a.	—
Combined ratio (net, property/casualty only)[2]	95.8	≤ 96	✓
EBIT margin[3]	5.3	≥ 5	✓
Return on equity	5.9	5–6	✓

[1] Excluding non-controlling interests; 2013: estimated figure, the final figure will be published in the 2014 annual report
[1] Including net interest income on funds withheld and contract deposits
[1] Operating profit (EBIT)/net premium earned

The Retail International Division achieved gross premium growth of 29.4% (35.4% with adjustments for exchange rate effects) in the 2013 financial year, significantly exceeding the range of 17% to 20% published in the previous year's forecast. This was largely due to the fact that gross premium in life insurance in Poland and Italy was higher than expected, following the expansion of sales through banks. The combined ratio of international property insurance companies developed in line with the forecast, despite higher than expected claims expenses in Poland owing to the weather. The EBIT margin was 0.2 percentage points above the medium-term forecast at 5.3% as a result of positive performance. As Group net income was also higher than forecast, the return on equity was at the upper end of the predicted range.

FURTHER KEY FIGURES

M23 THE RETAIL INTERNATIONAL SEGMENT AT A GLANCE

FIGURES IN EUR MILLION

	2013	2012	2011
Gross written premium	**4,220**	**3,261**	**2,482**
Property/casualty	2,804	2,308	1,775
Life	1,416	953	707
Net premium earned	**3,513**	**2,621**	**1,862**
Property/casualty	2,332	1,967	1,476
Life	1,181	654	386
Underwriting result	**32**	**3**	**–42**
Property/casualty	97	76	25
Life	–65	–73	–67
Other	—	—	—
Net investment income	**284**	**281**	**159**
Property/casualty	161	151	101
Life	122	130	57
Other	1	—	1
New business measured in annual premium equivalent (life)	**192**	**115**	**82**
Single premiums	1,152	624	406
Regular premiums	77	53	41
New business by product in annual premium equivalent (life)	**192**	**115**	**82**
Unit-linked life and annuity insurance	26	23	27
Traditional life and annuity insurance	52	30	18
Term life products	77	40	16
Other life products	37	22	21

NON-LIFE REINSURANCE

- Premium growth as adjusted for exchange rate effects on target at +3.5%
- Catastrophe losses slightly less than expected
- Combined ratio of 94.9 (95.8)%

M24 ESSENTIAL KEY FIGURES IN THE NON-LIFE REINSURANCE SEGMENT

FIGURES IN EUR MILLION

	2013	2012	2011
Gross written premium	7,818	7,717	6,826
Net premium earned	6,866	6,854	5,961
Underwriting result	332	273	–264
Net investment income	811	982	880
Operating profit (EBIT)	1,097	1,134	637

M25 MANAGEMENT METRICS

IN %

	2013	2012	2011
Gross premium growth (adjusted for exchange rate effects)	3.5	9.3	9.4
Combined ratio (net) [1]	94.9	95.8	104.2
EBIT margin [2]	16.0	16.5	10.7
Return on equity for Non-Life and Life/Health Reinsurance [3]	15.9	16.5	14.1

[1] Including interest income on funds withheld and contract deposits
[2] Operating profit (EBIT)/net premium earned
[3] Reported for the Reinsurance Division overall

BUSINESS DEVELOPMENT

Market performance in the year under review in Non-Life Reinsurance was largely satisfactory, although competition was considerably more intense than in 2012. The primary reason here was the availability of sufficient capacity in the market overall, meaning that supply in reinsurance cover was higher than demand. A further contributory factor was that cedants retained more business for themselves.

Treaty renewals in Non-Life Reinsurance business on 1 January 2013 – when almost two thirds of our treaties in traditional reinsurance were renegotiated – were very promising to start with. The high claims burden experienced by the (re)insurance industry as a result of hurricane "Sandy" had stabilised rates. Over the year, however, rates softened more than had been initially expected. This was particularly true in the case of natural catastrophe business in the USA, where additional capacity from alternative markets (CAT bonds, collateralised reinsurance) also contributed to significant price erosion. We were only affected by this to a limited extent however, as we are under-represented in US natural catastrophe business in comparison to our market share there.

In regions and business lines with significant losses in 2012, such as marine reinsurance, some major price increases have nevertheless been achieved. As a result of historically high catastrophe losses from the wreck and salvage of the "Costa Concordia" cruise ship and from hurricane "Sandy", rates here have risen significantly, – for programmes affected by claims the increase was around 25% to 40%. We again achieved appreciable increases in motor premiums for non-proportional third-party liability cover in the UK. Although rates decreased in markets or lines that had recorded good underwriting results in the comparable period due to low loss levels – such as aviation business – business was still adequately priced. We were also satisfied with the development of the rest of our property and liability portfolio in North America. As expected, we recorded substantial growth in the Asian and Middle Eastern markets.

Thanks to our selective underwriting approach, the Non-Life Reinsurance segment was able to achieve prices that were at least equivalent to the very pleasing levels achieved in 2012. In light of this, we have slightly extended our portfolio.

PREMIUM DEVELOPMENT

Gross premium volume for our Non-Life Reinsurance segment rose by 1.3% in the year under review to EUR 7.8 (7.7) billion. At constant exchange rates, especially against the US dollar, growth would have been 3.5%. Gross premium growth, when adjusted for exchange rate effects, therefore falls within the expected range of 3% to 5%. As a result of increased charges for fronting business, the retention decreased slightly to 89.9% (90.2%). Net premium earned was EUR 6.9 billion and thus remained more or less unchanged from the previous year (EUR 6.9 billion).

DEVELOPMENT OF RESULTS

After a very uneventful first quarter, we were faced with numerous major losses throughout the rest of 2013. Germany and Canada suffered particularly badly from claims arising from natural catastrophes. In contrast, the hurricane season in North America and the Caribbean was again unremarkable. It was the first time since 1968 that all storms were classified as being no more severe than category one – the weakest of the five categories.

The largest single losses in the year under review in the Non-Life Reinsurance segment were the hailstorm "Andreas" in Germany with a net burden of EUR 99 million, and the floods in Germany and other European countries with a net burden of EUR 93 million. Together with other major losses, these led overall to a net burden for 2013 of EUR 578 (478) million. Even though this exceeded the figure for the comparable period, catastrophe losses were still lower than the expected figure of EUR 625 million. Our combined ratio of 94.9 (95.8)% resulted once again in an improvement over the previous year and remained below the targeted maximum of 96%. Underutilisation of our major loss budget contributed 92.4% towards this pleasing development, and run-off profits contributed 6.2 (4.7) percentage points. The underwriting result increased significantly again to EUR 332 (273) million.

OPERATING PROFIT AND NET INVESTMENT INCOME

Net investment income in the Non-Life Reinsurance Division fell by 17% in the year under review to EUR 811 (982) million. Key drivers here were lower realised gains and the absence of positive impact from inflation swaps entered into by Hannover Re to hedge some of the risks associated with its loss reserve. These effects were offset to a large extent by the very good underwriting result. However, operating profit (EBIT) of EUR 1,097 million remained below the previous year's figure of EUR 1,134 million. Group net income for the Non-Life Reinsurance Division rose significantly by 16% to EUR 377 (325) million. Return on equity in both reinsurance segments was 15.9% (previous year 16.5%).

COMPARISON OF ACTUAL BUSINESS DEVELOPMENT WITH FORECAST FOR 2013

M26 MANAGEMENT METRICS IN THE NON-LIFE REINSURANCE SEGMENT

IN %

	Actual figures for 2013	Forecast for 2013	
Gross premium growth (adjusted for exchange rate effects)	3.5	3–5	✓
Combined ratio (net)[1]	94.9	≤ 96	✓
EBIT margin[2]	16.0	≥ 10	✓
Return on equity for Non-Life and Life/Health Reinsurance[3]	15.9	~ 15	✓

[1] Including interest income on funds withheld and contract deposits
[2] Operating profit (EBIT)/net premium earned
[3] Reported for the Reinsurance Division overall

LIFE AND HEALTH REINSURANCE

- Challenging market conditions for life and health reinsurance
- Targeted gross premium growth as adjusted for exchange rate effects achieved at 5.1%
- Operating profit less than expected

M27 ESSENTIAL KEY FIGURES IN THE LIFE AND HEALTH REINSURANCE SEGMENT

FIGURES IN EUR MILLION

	2013	2012[1]	2011
Gross written premium	6,145	6,058	5,270
Net premium earned	5,359	5,426	4,789
Underwriting result	–422	–377	–281
Net investment income	611	684	512
Operating profit (EBIT)	139	270	213

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

M28 MANAGEMENT METRICS

IN %

	2013	2012[1]	2011
Gross premium growth (adjusted for exchange rate effects)	5.1	9.8	5.2
Growth in value of new business[2]	–1.6	32.4	64.4
EBIT margin[3, 5] financial solutions/longevity	5.2	5.0	5.5
EBIT margin[3, 5] mortality/morbidity	1.2	5.2	3.9
Return on equity for Non-Life and Life/Health Reinsurance[4]	15.9	16.5	14.1

[1] Adjusted on the basis of IAS 8, cf. the "Accounting policies" section in the Notes
[2] Excluding non-controlling interests; 2013: estimated value, the definitive value will be published in the 2014 annual report
[3] Operating profit (EBIT)/net premium earned
[4] Reported for the Reinsurance Division overall
[5] Reclassification of treaties

BUSINESS DEVELOPMENT

Business in life and health reinsurance developed moderately in the year under review, despite difficult conditions prevailing in life (re)insurance markets in general. Gross premium rose by 1% to EUR 6.1 (6.1) billion. Growth was 5.1% after adjusting for exchange rate effects, thereby achieving the 2013 forecast target of 5% to 7%.

Net investment income in Life and Health Reinsurance in the reporting period was EUR 611 (684) million. EUR 268 (342) million of this related to assets under own management and EUR 343 (342) million to funds withheld by ceding companies. The decrease of 11% in net investment income reflects ongoing low interest rates and difficult investment conditions on the capital markets. In addition, the very positive result achieved by modified coinsurance (ModCo) derivatives in the previous year has returned to normal.

Our financial solutions and longevity business developed exceptionally well; we achieved an EBIT margin of 5.2% and thus clearly exceeded our target of 2%. In mortality and morbidity business the EBIT margin of 1.2% remained significantly under our target of 6%. This was influenced by unfavourable development in morbidity business. If mortality business were to be assessed separately, the target would have been exceeded. The unsatisfactory development of the EBIT margin was due to a higher claims experience market-wide in Australian disability business and the worsening claims settlement situation that resulted. The Australian market has since initiated intensive efforts to positively counteract this development.

PREMIUM DEVELOPMENT

In the year under review market conditions were challenging for life and health reinsurance around the world, and as a result our premium volume in 2013 grew less vigorously than in the previous year. Gross premium rose by 1.4% to EUR 6.1 (6.1) million. Adjusted for exchange rate fluctuations, the increase would have been 5.1%. Our target for gross premium growth of 5% to 7% in the year under review was thus achieved. Retention decreased to 87.7 (89.3)%. Net premium earned fell slightly by 1% to EUR 5.4 (5.4) million. With adjustments for exchange rates, net premium increased by 2%.

DEVELOPMENT OF RESULTS

Owing to a number of different influencing factors, operating profit (EBIT) of EUR 139 (270) million fell significantly below last year's figure, but nevertheless remained solid. Determining factors for the decline were the absence of one-off effects that had positively influenced 2012 and the burdens from Australian disability business. Group net income totalled EUR 76 (104) million; return on equity is reported jointly for Non-Life Reinsurance and Life/Health Reinsurance together.

COMPARISON OF ACTUAL BUSINESS DEVELOPMENT WITH FORECAST FOR 2013

M29 MANAGEMENT METRICS IN THE LIFE AND HEALTH REINSURANCE SEGMENT

IN %

	Actual figures for 2013	Forecast for 2013	
Gross premium growth (adjusted for exchange rate effects)	5.1	5–7	✓
Growth in value of new business[1]	–1.6	≥ 10	×
EBIT margin[2] financial solutions/longevity	5.2	≥ 2	✓
EBIT margin[2] mortality/morbidity	1.2	≥ 6	×
Return on equity for Non-Life and Life/Health Reinsurance[3]	15.9	~ 15	✓

[1] Excluding non-controlling interests; 2013: estimated value, the definitive value will be published in the 2014 financial statements
[2] Operating profit (EBIT)/net premium earned
[3] Reported for the Reinsurance Division overall

CORPORATE OPERATIONS

- Underwriting business reported in the segment for the first time in 2013
- Operating profit of EUR 83 million owing to one-off effects

Talanx AG sold shares in Swiss Life Holding AG via the market in small tranches in 2013. This reduced its stake in the company from 9.26% at the beginning of the year to just over 5%. This sale was a result of our conservative investment strategy, derived from our holistic risk management system, which aims to limit accumulation risks. We still regard our remaining investment in Swiss Life as a long-term investment for Talanx AG.

REINSURANCE SPECIALISTS AT THE GROUP

Underwriting business written through our subsidiary Talanx Reinsurance (Ireland) Ltd. has been reported in the Corporate Operations segment for the first time in 2013. The aim of this in-house reinsurance is to increase retention and optimise capital utilisation. In-house business written by Talanx Re (Ireland) will be partly reallocated to the ceding segments, to enable the respective segments to exploit the benefits of diversification. Furthermore, any business that includes additional cross-segment diversification benefits will be reported in the Corporate Operations segment. Gross written premium in this business amounted to EUR 40 million in the year under review. It resulted from reinsurance cessions in the

Industrial Lines, Retail Germany and Retail International segments. Talanx Re (Ireland) posted an operating result of –EUR 1 (2) million for this business in the Corporate Operations segment in 2013, owing to start-up losses.

Talanx Reinsurance Broker GmbH is wholly owned by Talanx AG and handles the complete spectrum of the reinsurance business process for Group cedants. In 2013, it once again managed to obtain the reinsurance capacity required for all of the Group cedants that it manages on the global market. The company's operating profit for the 2013 financial year was EUR 16 (16) million, of which a significant portion will be reallocated to the business ceding segments. EUR 2 (2) million of this company's earnings remained in the Corporate Operations segment.

INVESTMENT SPECIALISTS AT THE GROUP

Talanx Asset Management GmbH – in cooperation with its subsidiary Ampega Investment GmbH (until 1 July 2013 AmpegaGerling Investment GmbH) – is chiefly responsible for handling the management and administration of the Group companies' investments and provides related services such as investment accounting and reporting. The total contribution of the two companies and of Talanx Immobilien Management GmbH to the segment's operating profit amounted to EUR 36 (39) million in the 2013 financial year.

As an investment company, Ampega Investment GmbH administers public and special funds and performs financial portfolio management tasks for institutional clients. It focuses on portfolio management and the administration of investments for clients outside the Group. The fund sector recorded a gradual increase in the interest shown by private investors in public funds in 2013. Continuing low interest rates and subsiding fears about the effects of the financial market crisis and Europe's future led to a cautious change of direction among investors, who in previous years had shown a marked preference for savings and time deposit investments over investment funds. However, a tendency towards a decline in the popularity of savings in Germany had a braking effect on the public's willingness to invest money in products such as investment funds in the longer term. The total volume of assets managed by Ampega rose by 10% to EUR 15.5 (14.0) billion year-on-year. Over half of this sum, EUR 8.3 (7.9) billion, was administered on behalf of Group companies through special funds and direct investment mandates. Of the remaining portion, EUR 3.5 (2.8) billion was attributable to institutional third-party clients and EUR 3.8 (3.3) billion to retail business. The latter is offered both through the Group's own distribution channels and products such as unit-linked life insurance as well as through external asset managers and banks.

OPERATING PROFIT

The operating result of the Corporate Operations segment improved to EUR 83 (–36) million in the 2013 financial year, largely owing to the sale of shares in Swiss Life Holding AG by Talanx AG. This transaction resulted in a pre-tax profit of EUR 110 million.

Group net income for this segment attributable to shareholders of Talanx AG amounted to EUR 12 (–103) million in the 2013 financial year.

ASSETS AND FINANCIAL POSITION

ASSETS

The balance sheet structure of the Talanx Group is shaped by its character as a diversified financial services group and its activities as a large globally operating insurance group. The predominant asset item is investments, accounting for 76% of total assets. Without taking into account funds withheld by ceding companies and investments under investment contracts, investments amounted to EUR 86.3 billion or 65% of total assets. These investments serve first and foremost as cover for insurance business provisions (69% of balance sheet total), which – excluding respective life insurance provisions insofar as the investment risk is borne by policyholders – totalled EUR 91.7 billion. The most important sources of funding are shareholders' equity (8% of balance sheet total) and issued subordinated debt (2% of balance sheet total).

AMOUNT AND COMPOSITION OF ASSETS

The increase of EUR 2.5 billion in our total assets to EUR 132.9 billion is principally attributable to growth of +EUR 2.9 billion in our investment portfolio, including investments for the account and risk of holders of life insurance policies. The growth in investments was largely the result of an increase in the portfolio of "Financial assets available for sale" (+EUR 3.6 billion). In contrast, decreases were recorded for holdings in the "Financial assets held to maturity" category (–EUR 0.9 billion), and in "Financial assets classified at fair value through profit or loss" (–EUR 0.6 billion). Further information can be found in the next section "Movements in investments". The increase of EUR 0.9 billion in investments for the account and risk of holders of life insurance policies came mainly from the Retail Germany segment (+EUR 1.3 billion). In contrast, investments in the Retail International segment declined (–EUR 0.4 billion).

Intangible assets reported on the balance sheet of EUR 2.6 (2.8) billion include EUR 1.2 (1.3) billion of insurance-related intangible assets (PVFP) arising out of the acquisition of past insurance portfolios. They also include capitalised goodwill of EUR 1.1 (1.2) billion. Further information on intangible assets can be found in the Notes under "Notes on the consolidated balance sheet". Amortisation to be taken on acquired insurance portfolios results in a charge to net income before tax, to the extent that it is attributable to the shareholders' portion, of EUR 106 (144) million. Recognised insurance-related assets – relating to the policyholders' share – are matched with corresponding provisions for premium refunds.

The balance sheet item "Technical provisions for life insurance insofar as the investment risk is borne by policyholders" increased by EUR 0.9 billion in line with the increase in "Investments for the account and risk of holders of life insurance policies", which is comprised of investments relating to unit-linked insurance products. In the case of these life insurance products, where policyholders themselves bear the investment risk, technical liabilities reflect the market values of the corresponding assets.

The item "Non-current assets and assets of disposal groups classified as held for sale" comprises individual properties and planned sales of life insurance portfolios in Retail International. Further details of individual transactions can be found in the Notes under "Non-current assets held for sale and disposal groups".

M30 ASSET STRUCTURE OVER A MULTI-YEAR PERIOD

FIGURES IN EUR MILLION

	2013		2012 [1]		2011	
Intangible Assets	2,551	2%	2,793	2%	2,210	2%
Investments	100,962	76%	98,948	76%	87,467	76%
Investments for the account and risk of holders of life insurance policies	8,325	6%	7,451	6%	6,067	5%
Reinsurance recoverables on technical provisions	6,596	5%	6,989	5%	6,467	6%
Accounts receivable on insurance business	5,071	4%	5,081	4%	4,729	4%
Deferred acquisition costs	4,513	3%	4,378	3%	4,012	3%
Cash	1,864	1%	2,119	2%	1,570	1%
Deferred tax assets	532	< 1%	529	< 1%	325	< 1%
Other assets	2,201	2%	2,006	2%	1,865	2%
Non-current assets and assets of disposal groups classified as held for sale	248	< 1%	56	< 1%	565	1%
Total assets	**132,863**	**100%**	**130,350**	**100%**	**115,277**	**100%**

[1] Adjusted on the basis of IAS 8, see the "Accounting policies" section in the Notes

ASSET MANAGEMENT AND OBJECTIVES

The financial year just ended continued to be shaped by low interest rates. The intermittent short periods when rates rose (May 2013) were used to invest liquid assets in long-term securities. Portfolio management for the life insurance companies in the last financial year focused principally on generating income to strengthen the additional interest reserve required by German commercial law, and on optimising returns in new investment with due regard to duration matching. The investment policy pursued continued to be conservative in nature. Risk measurement and risk controlling of investments are both extremely important. A solid and highly efficient interface between these core functions and portfolio management allows regular monitoring of portfolios to be an integral part of our asset management activities and thereby leads to efficient risk management. Various risk measurement instruments already in place were adapted to suit current market conditions.

Agencies adopted a very cautious approach when awarding ratings, and the negative ratings trend affecting the markets therefore continued, particularly in the first half of the year. Despite this, 80% of instruments in the fixed-income securities asset category are rated "A" or better. A broad-based system designed to limit accumulation risks resulted in a balanced mix of assets, whose risk-reducing qualities have also proven their worth in the Eurozone crisis.

The scope of our investment activities is defined by the Group's internal risk model and the risk budgets of individual companies. We continued to optimise portfolios whilst paying due attention to asset/liability management guidelines and the risk-bearing capacity of each company.

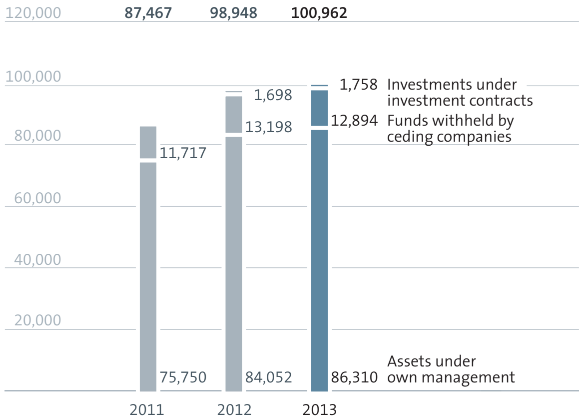
A further element that we take into consideration is the investment guidelines at Group, segment and company level, which are subject to annual review and, if necessary, amendment with regard to their appropriateness in relation to regulatory and market-induced restrictions.

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

MOVEMENTS IN INVESTMENTS

M31 **BREAKDOWN OF THE INVESTMENT PORTFOLIO**

FIGURES IN EUR MILLION



The total investment portfolio increased by 2.0% over the financial year to EUR 101.0 billion. The slight fall in funds withheld by ceding companies of EUR 0.3 billion was more than offset by a rise in assets under own management of EUR 2.3 billion. The expansion of the portfolio of assets under own management was largely due to cash inflows from underwriting business which were reinvested in accordance with respective corporate guidelines. Investments under investment contracts at the year end totalled EUR 1.8 billion.

Interest rates on the markets were volatile in 2013. After falling in the first quarter, rates were relatively high at the end of the second quarter. They then moved sideways in the third quarter and at the beginning of the fourth, before increasing slightly towards the end of the year. Interest rates rose in 2013 across all maturities and this was reflected in a corresponding decrease in the fair values of fixed-income investments. Year on year yields in Germany increased significantly: two-year government bonds rose by around 17 basis points to 0.19%, five-year bonds by over 67 basis points to 0.96%, and ten-year bonds likewise climbed over 67 basis points to reach 1.96%.

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 2012 the USD stood at 1.32 to the euro. After falling to 1.28 in the first quarter, rates rose again until the end of the year and the US dollar depreciated against the euro. At the end of the year the USD stood at 1.38 to the euro. Exchange rate fluctuations alone resulted in a fall in value of almost 5% in our USD holdings after translation into the Group reporting currency (euros). At the end of the year, the USD investment portfolio amounted to EUR 12.9 billion and accounted for 15% of total assets under own management.

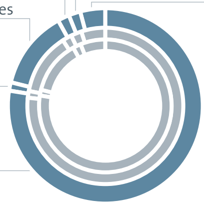
Fixed-income investments were again the most significant asset class in 2013. Most reinvestments occurred in this class, with due consideration being given to existing investment structure. Fixed-income securities accounted for 78% of the total investment portfolio, and the contribution to earnings of this asset class amounted to EUR 3.1 billion. As far as possible this was reinvested in the year under review.

Equity exposure remained fairly low over the 2013 financial year. The equity allocation after taking account of derivatives (equity ratio) was 1.1% at the end of the year.

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

M32 **BREAKDOWN OF THE INVESTMENT PORTFOLIO**

IN %



M33 **BREAKDOWN OF ASSETS UNDER OWN MANAGEMENT BY ASSET CLASS**

FIGURES IN EUR MILLION

	2013		2012		2011	
Investment property	1,623	2%	1,297	2%	1,100	2%
Investments in affiliated companies and participations	92	< 1%	80	< 1%	78	< 1%
Investments in associated companies and joint ventures	247	< 1%	237	< 1%	209	< 1%
Loans and receivables						
Loans incl. mortgage loans	1,041	1%	1,182	1%	1,291	2%
Loans and receivables due from governmental or quasi-governmental entities, together with fixed-income securities	31,190	36%	30,919	37%	31,670	42%
Financial assets held to maturity	2,984	3%	3,857	5%	4,294	6%
Financial assets available for sale						
Fixed-income securities	43,531	50%	40,080	48%	31,009	41%
Variable-yield securities	1,391	2%	1,257	1%	1,132	2%
Financial assets at fair value through profit or loss						
Financial assets classified at fair value through profit or loss						
Fixed-income securities	797	1%	1,346	1%	856	1%
Variable-yield securities	87	< 1%	83	< 1%	16	< 1%
Financial assets held for trading						
Fixed-income securities	4	< 1%	16	< 1%	5	< 1%
Variable-yield securities	120	< 1%	123	< 1%	70	< 1%
Derivatives [1]	82	< 1%	74	< 1%	53	< 1%
Other invested assets	3,121	4%	3,501	4%	3,967	4%
Total investments under own management	**86,310**	**100%**	**84,052**	**100%**	**75,750**	**100%**

[1] Derivatives only with positive fair values

FIXED-INCOME SECURITIES

Interest rates remained low in 2013. At the start of the year, bond markets were focused on the weak economy and political uncertainty. Central banks provided significant funds and thus alleviated lack of confidence with regard to refinancing and liquidity; this led in turn to lower spreads for financials and corporate bonds. Fixed-income investments chiefly comprised the traditional asset classes of government bonds, corporate securities and German covered bonds (Pfandbriefe). The Retail Germany segment sold bonds with a short residual term to realise gains, which were then used to strengthen the additional interest reserve. The funds that were released were used to increase investment in long-term bonds (single callables). When implementing this strategy, we made a point of selecting secured bonds with a good rating that allowed the average yield and duration of the portfolio to be increased. In the third quarter, to reduce future reinvestment risk, we made long-term forward purchases of Belgian government bonds that met our target yield. To increase yields further, the Retail Germany and Industrial Lines segments invested selectively in subordinated bonds from financial institutions and insurers with good credit ratings.

The portfolio of fixed-income investments (excluding mortgage and policy loans) rose by EUR 2.3 billion in 2013, totalling EUR 78.5 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 in terms of volume. Fixed-income investments were primarily divided into the investment categories of "Loans and receivables" and "Financial assets available for sale".

"Fixed-income securities available for sale", whose volatility impacts on shareholders' equity, increased significantly (+EUR 3.5 billion) to reach EUR 43.5 billion, or 55% of total investments in the fixed income portfolio. German covered bonds (Pfandbriefe) and corporate securities accounted for the majority of these investments. Valuation reserves – i. e. the balance of unrealised gains and losses – have fallen from EUR 2.6 billion to EUR 1.3 billion since the end of 2012, owing to the slight rise in interest rates.

Alongside the "Financial assets available for sale" category, the Group is adhering strictly to its strategy of making new investments in the "Loans and receivables" category in order to reduce balance sheet volatility. Holdings remained relatively steady during the year, standing at EUR 32.2 (32.1) billion at the end of the year (41% of total holdings in this asset class). Investment in government bonds was fairly limited due to further rating downgrades or extremely low yields. Our portfolio of government securities or securities with a similar level of security in this holdings category amounted to EUR 9.7 billion. German covered bonds (Pfandbriefe) still represent the major item in the portfolio. Off-balance sheet valuation reserves declined significantly from EUR 4.5 billion to EUR 2.7 billion.

By the end of the year, notably through our Italian subsidiary, the Group had only moderate exposure to government bonds from the so-called GIIPS countries. In the light of risk considerations, we sold Greek government bonds in our portfolio as early as 2011, with the exception of a small residual holding. As a result, accumulated write-downs in the current year under review only amounted to EUR 14 thousand for the whole Group.

At the end of the year, the market value of investment exposure to these countries was EUR 1.5 billion, corresponding to 1.8% of total assets under own management. Our exposure to Italian government bonds (market value EUR 1,144 million) is due to the Group's presence in this country. Our Group company HDI Assicurazioni S. p. A. accounts for EUR 549 million of this.

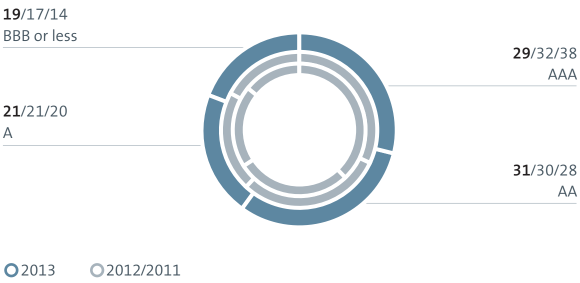
In the last quarter of the year under review it was decided that exposure to government bonds in Italy and Spain should be cautiously increased. In this context please see our remarks in the risk report and in the Notes under "Nature of risks associated with insurance contracts and financial instruments".

Group holdings in the "Financial assets held to maturity" category in 2013 totalled EUR 3.0 billion. Having increased our holdings in this category in 2011 through restructuring, particularly in the reinsurance segment, we undertook no further expansion in the financial year just ended. The option and intention of holding these investments to maturity enables the companies to reduce the volatility in their balance sheets that is caused by movements in interest rates.

We continue to focus on government bonds with good ratings or securities from similarly sound issuers when investing in fixed-income securities, although there has been minimal reinvestment in 2013 in this area. In the previous year, rating downgrades led to a reduction in AAA-rated holdings, and this trend has continued in the current financial year. As at the balance sheet date holdings of AAA-rated bonds stood at EUR 23.1 billion. This represents 29% of the total portfolio of fixed-income securities and loans.

M34 **RATING OF FIXED-INCOME SECURITIES**

IN %



The Group continues to pursue a conservative investment policy. For further information on the credit quality of our investments please refer to the Notes under "Nature of risks associated with insurance contracts and financial instruments".

Funds withheld by ceding companies in respect of collateral provided for cedants' technical provisions in the Reinsurance Division decreased over the course of the year under review from EUR 13.2 billion to EUR 12.9 billion. Allowing for increased investment portfolios, this corresponds to a slightly lower ratio of around 13%.

EQUITIES AND EQUITY FUNDS

European stock markets performed well in 2013. The EURO STOXX 50 closed the reporting period at 3,109 points, up 18% compared with the beginning of the year. The DAX rose by as much as 25.5%, closing at 9,552 points. During the period under review, the Group sold a portion of its shares in Swiss Life Holding AG via the stock market. The effects of this are described in the "Net investment income" section below.

The net balance of unrealised gains and losses on holdings within the Group (excluding "Other Investments") rose by EUR 83 million and now totals EUR 320 (237) million.

REAL ESTATE INCLUDING SHARES IN REAL ESTATE FUNDS

Investment property totalled EUR 1.6 billion as at the balance sheet date. An additional EUR 503 million is held in real estate funds, which are recognised under "Financial assets available for sale". The real estate portfolio grew by EUR 448 million compared to the previous year, principally as a result of increased investing activities in the Non-Life Reinsurance segment. Depreciation of EUR 27 million was taken on investment property in the reporting period, along with impairments of EUR 12 million. These write-downs are offset in the period by write-ups of almost EUR 6 million.

The real estate allocation (investment portfolios under own management), including investments in real estate funds, rose to 3 (2)%.

ALTERNATIVE INVESTMENTS (INVESTMENT PORTFOLIOS UNDER OWN MANAGEMENT)

Holdings of alternative investments are still at a low level and serve to diversify the portfolio. The Talanx Group invested a total of EUR 55 million in a gas cavern fund through its subsidiaries in the first quarter. The Group's investment represented around 20% of the total investment volume of EUR 278 million.

NET INVESTMENT INCOME

M35 **DEVELOPMENT OF NET INVESTMENT INCOME**

FIGURES IN EUR MILLION

	2013	2012	2011
Ordinary investment income	3,147	3,165	2,938
thereof current income from interest	2,875	2,927	2,734
thereof profit/loss from shares in associated companies	13	7	—
Realised net gains on investments	605	372	309
Write-ups/write-downs on investments	–91	–75	–112
Unrealised net gains/losses on investments	–22	182	–30
Other investment expenses	194	180	149
Income from investments under own management	3,445	3,464	2,956
Interest income on funds withheld and contract deposits	334	323	306
Income from investment contracts	13	8	—
Total	**3,792**	**3,795**	**3,262**

Net investment income for the year under review was around EUR 3.8 billion, the same level as in the previous year. Current interest income fell slightly, but at EUR 2.9 billion still formed the major part of investment income received. Gains realised on investments were offset by slightly higher write-downs and significantly lower unrealised gains of –EUR 22 (182) million.

Ordinary investment income at year end totalled EUR 3,147 (3,165) million. Falling interest rates on the capital markets led to an average coupon in the fixed-income securities portfolio of 3.8%, which is slightly less than the previous year's average of 3.9%. However, it was possible to cushion the impact of downward trends in interest rates by increased reinvestment in products selected in accordance with our high-quality investment procedures that have a correspondingly higher yield. Derivative financial instruments (including forward purchases) were used to hedge risks associated with future reinvestments, notably in the case of life insurers operating in our Retail Germany segment. Further information on the associated financial implications can be found in the Notes under "Notes on the consolidated balance sheet", item 13, "Derivative financial instruments and hedge accounting".

Overall, total realised net gains on investments in the financial year were well above the previous year's level, amounting to EUR 605 (372) million. These chiefly comprise net gains realised by the Retail Germany segment. There was increased investment in callable bonds (single callables) with a good rating and a minimum term of ten years in order to optimise returns and extend durations. To implement this strategy, securities in the portfolio, mostly with a short residual term, were sold. The realised net gains were used to augment the additional interest reserve required by the German Commercial Code (HGB). The gains also include EUR 81 million from the partial sale of shareholdings in Swiss Life Holding AG. As a result of the sale, additional foreign exchange gains on the CHF-denominated equities arose which are reported under "Other income/expenses".

On a net basis, write-downs required in the past year were higher than in 2012, standing at EUR 91 million overall after taking account of write-ups. Across the Group as a whole, write-downs on other investments increased (EUR 44 million), including in particular write-downs on real estate funds managed by third parties (EUR 27 million). In contrast, impairments of only EUR 7 (25) million were required in respect of fixed-income securities, including EUR 3 million for Germany's "Landesbanken" (regional banks) and EUR 3 million for the Dutch SNS Reaal Bank.

Across all asset categories as a whole, write-downs of EUR 102 (94) million were offset by write-ups of EUR 11 (19) million.

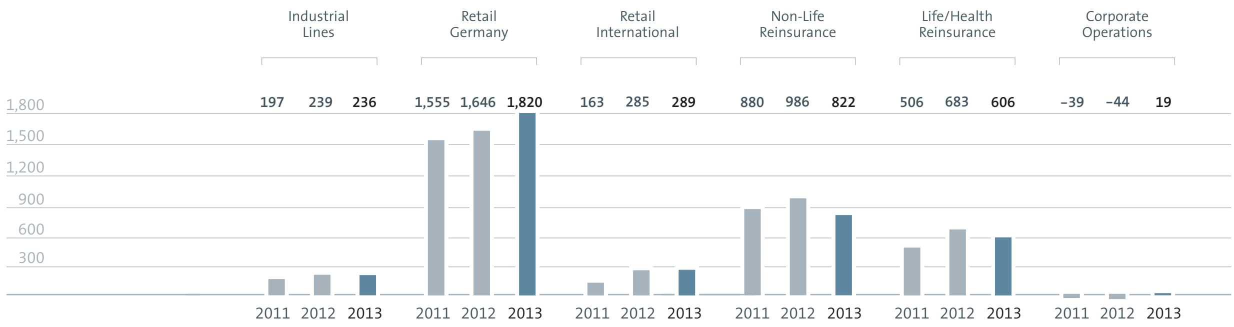
The net unrealised result deteriorated significantly from EUR 182 million to –EUR 22 million. As part of this, the unrealised result in the Retail Germany segment fell from EUR 64 million to EUR 2 million, due to both changes in interest rates and performance of derivatives (swaptions used to hedge interest rates). The net unrealised result in the two reinsurance segments fell from EUR 89 million to –EUR 27 million. This was largely due to the market value of the ModCo derivative falling to EUR 7 (52) million, and inflation swaps taken out by Hannover Rück SE declining to –EUR 41 (+28) million.

The net result from interest income and expenses on funds withheld and contract deposits totalled EUR 334 (323) million.

The breakdown of net investment income in 2013 by Group segment is shown below. The increase in contributions to earnings from the Retail Germany and Corporate Operations segments was offset by falling contributions, notably from the reinsurance segments. Further information can be found in the Notes under "Notes on the consolidated balance sheet", item 30 "Net investment income".

M36 BREAKDOWN OF NET INVESTMENT INCOME BY GROUP SEGMENT [1)]

FIGURES IN EUR MILLION



1) After elimination of intra-Group cross-segment transactions

Investment income reported by the Corporate Operations segment consists principally of costs for managing all assets, and gains/losses realised on selling strategic shareholdings.

OFF-BALANCE SHEET FINANCING INSTRUMENTS

The Talanx Group has entered into various commitments. Of material significance to the assessment of its assets are letters of credit and trust accounts put up as security for technical liabilities (EUR 6,281 million), blocked custody accounts and other trust accounts (EUR 2,538 million), guarantee payments under issued subordinated bonds (EUR 2,862 million), outstanding commitments under existing capital participations (EUR 1,558 million), commitments arising out of rental/lease agreements (EUR 464 million), and obligations under §§ 124 et seqq. of the Insurance Supervision Act (VAG) as a member of the Security Fund for Life Insurers (EUR 447 million). In addition, there were other liabilities of EUR 770 million as at 31 December 2013.

Furthermore, the Talanx Group is subject to contingent liabilities due to involvement in court proceedings and arbitration procedures. Further information can be found in the Notes under "Other information – Contingent liabilities and other financial commitments" and "Other information – Rents and leasing".

FINANCIAL POSITION

The Group's capital structure and the composition of its liabilities are shaped by its primary insurance and reinsurance business. Technical provisions, which, in accordance with the requirements of regulators, must be covered by assets, account for the largest share. In addition, the Group finances itself above all through shareholders' equity and through subordinated debt and liabilities, which also represent our most important sources of funds.

ANALYSIS OF CAPITAL STRUCTURE

M37 **CAPITAL STRUCTURE OVER A MULTI-YEAR PERIOD**

FIGURES IN EUR MILLION

	2013		2012[1]		2011	
Shareholders' equity	11,211	8%	11,309	9%	8,691	8%
Subordinated liabilities	3,107	2%	3,107	2%	2,615	2%
Technical provisions	91,697	69%	89,484	69%	83,118	72%
Technical provisions for life insurance insofar as the investment risk is borne by policyholders	8,325	6%	7,451	6%	6,067	5%
Other provisions	3,095	2%	3,264	2%	2,589	2%
Liabilities	13,446	11%	13,731	10%	10,212	9%
Provisions for deferred taxes	1,749	1%	1,984	2%	1,494	1%
Liabilities of disposal groups classified as held for sale	233	< 1%	20	< 1%	491	1%
Total liabilities	**132,863**	**100%**	**130,350**	**100%**	**115,277**	**100%**

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

CURRENCY EFFECTS

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

In principle, however, insurers who operate internationally receive payments and pay claims in their respective 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 remarks in the risk report. For the purposes of the consolidated financial statements, respective national currencies are presented as explained in the Notes under "Summary of major accounting policies – Currency translation".

DEVELOPMENT OF MAJOR ITEMS

The proportion of net provisions relating to insurance business relative to total assets as at the balance sheet date – including funds withheld by ceding companies but excluding investments under investment contracts – stood at 86 (85)%. Provisions thus include surplus coverage in the amount of EUR 13.9 (14.6) billion.

M38 **COMPOSITION OF INSURANCE BUSINESS GROSS PROVISIONS (AFTER CONSOLIDATION)**

FIGURES IN EUR BILLION

	2013	2012[1]	2011
Unearned premium reserve	5.7	5.5	4.7
Benefit reserve	49.8	48.2	45.7
Loss and loss adjustment expense reserve	33.7	33.2	31.4
Provision for premium refunds	2.2	2.3	1.0
Other technical provisions	0.3	0.3	0.3
Total	**91.7**	**89.5**	**83.1**

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

After allowance for reinsurers' shares, the breakdown is as follows:

M39 **COMPOSITION OF INSURANCE BUSINESS NET PROVISIONS (AFTER CONSOLIDATION)**

FIGURES IN EUR BILLION

	2013	2012[1]	2011
Unearned premium reserve	5.0	4.9	4.3
Benefit reserve	48.9	47.2	44.7
Loss and loss adjustment expense reserve	28.9	28.0	26.5
Provision for premium refunds	2.2	2.3	1.0
Other technical provisions	0.3	0.3	0.3
Total	**85.3**	**82.7**	**76.8**

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

Provisions remain at the Group's disposal for the respective remaining periods to maturity. Further information can be found in the Notes under "Notes on the consolidated balance sheet", item 20, "Benefit reserve" and item 21 "Loss and loss adjustment expense reserve".

Gross technical liabilities after consolidation are dominated largely by the benefit reserve and the loss and loss adjustment expense reserve. As at the balance sheet date, 54 (54)% of total technical provisions were attributable to the benefit reserves.

PROVISIONS

M40 **GROSS PROVISIONS BY SEGMENT (AFTER CONSOLIDATION)**

FIGURES IN EUR MILLION

	Benefit reserve			Loss and loss adjustment expense reserve		
	2013	2012	2011	2013	2012	2011
Industrial Lines	1	1	1	8,392	8,149	7,883
Retail Germany	36,765	35,548	34,099	2,701	2,573	2,579
Retail International	2,554	2,073	1,811	2,142	2,040	1,303
Non-Life Reinsurance	—	—	—	17,748	17,511	16,979
Life/Health Reinsurance	10,447	10,626	9,828	2,772	2,970	2,694
Corporate Operations	—	—	—	—	—	—
Total	**49,767**	**48,248**	**45,739**	**33,755**	**33,243**	**31,438**

The benefit reserve is a mathematically calculated value for future liabilities (present value of future liabilities less present value of future incoming premium), and is particularly relevant for life insurance.

Overall, gross technical provisions rose by 2% or EUR 2.2 billion relative to the previous year. EUR 0.2 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 an increase in benefit reserves (+3% or EUR 1.5 billion) and in the loss and loss adjustment expense reserve (+2% or EUR 0.5 billion).

The increase in gross benefit reserves (EUR 1.5 billion) was driven principally by life insurance business in the Retail Germany (+EUR 1,217 million) and Retail International (+EUR 481 million) segments. In contrast, gross benefit reserves in the Life/Health Reinsurance segment declined (–EUR 179 million). The performance of the Retail Germany segment was largely due to neue leben Lebensversicherung AG (+EUR 490 million), PB Lebensversicherung AG (+EUR 407 million) and TARGO Lebensversicherung AG (+EUR 233 million).

The increase of EUR 0.5 billion (gross) in the loss and loss adjustment expense reserve related mainly to the Non-Life Reinsurance segment (EUR 237 million) and to the Industrial Lines segment (EUR 243 million). The increase in the Industrial Lines segment was chiefly attributable to HDI-Gerling Industrie Versicherung AG (+EUR 222 million), and is due in particular to the high level of catastrophe losses in the year under review.

Of the decrease in the reserve for premium refunds, that basically represents policyholders' participation in net investment income, EUR 0.1 billion was attributable to the Retail Germany segment.

OTHER PROVISIONS

Other provisions fell in the financial year from EUR 3,264 million to EUR 3,095 million. The previous year's increase was due above all to adjustments to provisions for pensions resulting from the revised version of IAS 19. Provisions for pensions decreased in 2013 due to higher interest (–EUR 177 million); further information can be found in the Notes under item 23 "Provisions for pensions and other post-employment benefits". In contrast, provisions for taxes rose by EUR 79 million.

LIABILITIES

Talanx AG issued a first-rate unsecured bond with a volume of EUR 750 million on 13 February 2013, of which EUR 185 million is held by Group companies. The issue price amounted to 99.958%. The features are described under item 26 of the Notes, "Notes payable and loans".

The Group has two syndicated variable-interest credit lines with a nominal value of EUR 1.2 billion and a term of five years, which are intended to provide short- to medium-term financing. As at 31 December 2013, draw-downs amounted to EUR 150 million. Both credit lines can be terminated by the lenders if there is a change of control, i.e. if a person or persons acting jointly, other than HDI Haftpflichtverband der Deutschen Industrie V.a.G., gains direct or indirect control over more than 50% of the voting rights or share capital of Talanx AG.

With respect to further loan agreements and letters of credit, please refer to information given on off-balance sheet financial instruments and explanatory remarks in the Notes under "Nature of risks associated with insurance contracts and financial instruments" and "Other Information".

Liabilities include funds withheld under reinsurance treaties of EUR 5.5 (6.0) billion. These mainly comprise balances on the liabilities side arising from non-traditional life reinsurance contracts. The decrease of EUR 0.5 billion was mainly due to exchange rate effects.

OFF-BALANCE-SHEET TRANSACTIONS

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

ASSET/LIABILITY MANAGEMENT

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

To this end we mirror the major characteristics of our liabilities such as maturity and currency structure – and also susceptibility to inflation – by aiming to purchase investments that respond in a similar manner. In this context please see our remarks in the risk report from page 116 onwards.

The so-called Macaulay duration of the total fixed-income securities investment portfolio of the Group stood at 7.2 (6.8) across all segments in the year under review, and has therefore increased compared to the previous year. Duration management within individual segments is guided by the requirements of the respective underwriting business, as described above. For example, the modified asset duration of 9.6 years in the Retail Germany Division is relatively long compared to that of the Industrial Lines Division (3.7 years), reflecting the length of the capital commitment period, especially as regards life insurance products. Assets-side duration and liabilities-side requirements are reconciled between insurance providers and Talanx Asset Management GmbH at regular intervals.

As far as matching currency cover is concerned, US dollar-denominated investments continue to account for the largest share (15%) of the foreign currency portfolio within the Talanx Group. Sizeable positions are also held in British pounds and Australian dollars, although in total they do not account for more than 5% of all assets.

We also use derivative financial instruments to make our asset management as effective as possible. Further information can be found in the Notes under "Notes on the consolidated balance sheet", item 13, "Derivative financial instruments and hedge accounting".

CAPITAL MANAGEMENT

M41 CAPITAL MANAGEMENT PROCESS

BRINGING TRANSPARENCY TO THE ACTUAL CAPITALISATION → DETERMINING THE REQUIRED CAPITAL → OPTIMISING THE REQUIRED CAPITAL → OPTIMISING THE CAPITAL STRUCTURE → IMPLEMENTING CAPITAL MEASURES

Capital management is based on a process geared to optimising the steering and use of capital within the Group that is structured according to clear guidelines and workflows.

Effective and efficient capital management is a vital component of the Group's integrated set of management tools. We differentiate between three fundamental capital concepts: "company's capital", "risk-based capital" and "excess capital".

We define the company's capital as the economic capital available in a business unit that is attributable to the shareholder. It is composed of the IFRS shareholders' equity and what is known as "soft capital." We include unrealised gains and losses on assets or liabilities after taxes in soft capital, and also, for example, the loss reserve discount, an amount of loss reserve in property/casualty insurance that goes beyond best-estimate reserves, the non-capitalised value of in-force business in life and health insurance, and unrealised gains and losses in the loans and receivables asset category.

Risk-based capital is the amount of capital required to operate the insurance business that ensures that the probability of capital erosion is less than 0.03% (see also the risk report). This confidence level corresponds to a 99.97% value at risk. The capital required for this purpose is calculated for the primary insurance companies on the basis of the Talanx risk capital model.

Excess capital is the remainder of the company's capital minus the risk-based capital; it thus consists of capital that is not at risk. Since it is not required for covering business risks and insofar as it also cannot be used to take on additional risk, it can be withdrawn without overstretching risk-bearing capacity. The ratio of company's capital to risk-based capital also indicates capital adequacy. Given that excess capital is a component of company's capital, it does not contain any borrowed funds whatsoever but is instead directly attributable to the shareholder. However, there are restrictions on the repatriation of excess capital associated with both regulatory/legal considerations and rating requirements.

The general goal of capital management within the Talanx Group – an optimised risk-appropriate capital structure for the Group – is explicitly anchored in our strategy (pages 47 et seqq.). In addition to satisfying legal requirements and rating agencies' capital requirements, therefore, a collateral condition for capital allocation within the Group is a systematic orientation towards risk/return aspects and achieving Talanx's desired 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 therefore lies in identifying capital that exceeds or, alternatively, falls short of required risk-based capital at the defined confidence level. The SCR, being the difference between value at risk – defined as the estimated maximum loss that with a specified probability will not be exceeded within a specified holding period – 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 may be geared to systematically reducing 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 considering the effects of diversification. 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 requirement while, at the same time, the Group's own reinsurance arm can optimise its capital utilisation through diversification.

A further major objective is to substitute equity surrogates such as hybrid capital for shareholders' equity, which impacts positively on the Group's capital structure and Talanx AG's ability to make own funds available to operational units.

By optimising the Group's capital structure, our capital management safeguards the adequacy of our capital resources, both from a rating 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 the Talanx strategy. Our capital structure must continue to make it possible to respond to organic and inorganic growth opportunities at both Group and company level, and it must provide certainty that volatility on capital markets and in insurance business can be absorbed without falling below the desired confidence level. The fact that Talanx handles its capital resources effectively is a crucial 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
- specify the amount of risk-based capital required and coordinate its calculation
- optimise capital structure, implement financing measures, and support all structural changes that have implications for capital required

The Group currently allocates capital across the segments on the basis of its in-house risk model.

EQUITY

SHAREHOLDERS' EQUITY RATIO AND RETURN ON EQUITY

The equity ratio, defined as the total of all equity components relative to total assets, has performed as follows:

M42 EQUITY RATIO

FIGURES IN EUR MILLION

	2013	2012[1]	2011
Total equity	11,211	11,309	8,691
thereof non-controlling interests in shareholders' equity	3,997	4,156	3,284
Total assets	132,863	130,350	115,277
Equity ratio	8.4%	8.7%	7.5%

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

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

M43 OTHER EQUITY COMPONENTS AND MODIFIED EQUITY RATIO

FIGURES IN EUR MILLION

	2013	2012 [1]	2011
Other equity components	1,332	1,289	1,508
Modified equity ratio	9.4%	9.7%	8.8%

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

M44 RETURN ON EQUITY

FIGURES IN EUR MILLION

	2013	2012 [2]	2011
Group net income [1]	762	626	515
Return on equity	10.6%	10.0%	10.0%

[1] Net income after non-controlling interests
[2] Adjusted on the basis of IAS 8, cf. the "Accounting policies" section in the Notes

Information on developments in the current financial year can be found in the section of the Management Report entitled "Economic report".

CHANGES IN SHAREHOLDERS' EQUITY

Shareholders' equity was just slightly less than at 31 December 2012, down by EUR 98 million to EUR 11,211 (11,309) million.

The major changes in shareholders' equity were driven by the following factors:

Group net income attributable to our shareholders increased by 2.2% to EUR 762 (626) million and was allocated in full to retained earnings.

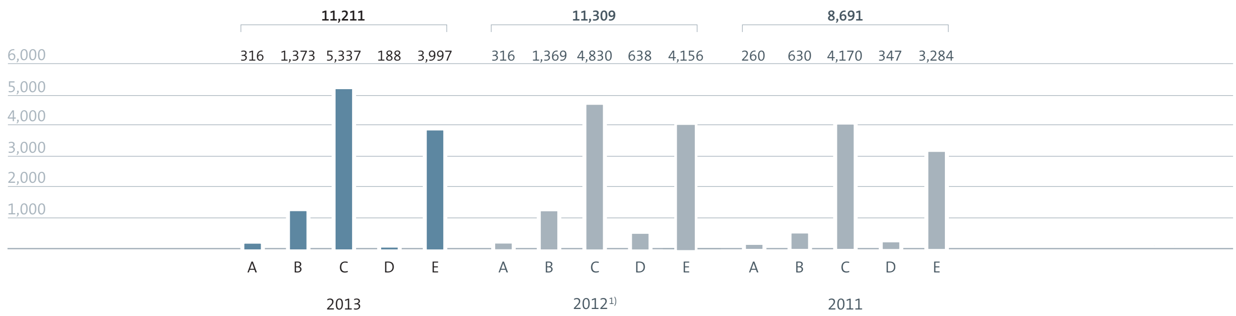
"Cumulative other comprehensive income and other reserves" contracted by –EUR 450 million year-on-year to EUR 188 million. This change was mainly due to a decline in unrealised gains/losses on investments. These declined by EUR 680 million in the financial year, from EUR 1,949 million to EUR 1,269 million, as a result of higher interest rates, mainly on government bonds with good ratings, and the euro strengthening. Gains/losses from currency translation also declined by EUR 257 million. This was mainly due to depreciation of the Australian dollar, the South African rand, the US dollar and the Polish zloty against the euro. The decline was offset by other changes to shareholders' equity, which rose from –EUR 1,446 million to –EUR 906 million. The overall increase of EUR 540 million included EUR 438 million attributable to policyholder participations/shadow accounting. The cash flow hedge reserve contracted to EUR 34 (87) million.

Accounting standard IAS 19, "Employee Benefits", which has to be applied from 1 January 2013, also had a significant impact on changes in Group shareholders' equity. It led to a retroactive reduction of EUR 46 million in shareholders' equity as at 1 January 2012 and to a reduction of EUR 334 million as at 31 December 2012. Higher interest rates in the year under review was the main reason for the rise of EUR 106 million in actuarial gains and losses; this is recognised under other comprehensive income in other reserves and has the effect of increasing shareholders' equity. For further details, please see the "Accounting policies" section, subsection "Changes in accounting policies and errors" in the Notes. Payment of a dividend to Talanx AG shareholders in May of the period under review led to a decrease of EUR 265 million in shareholders' equity.

Non-controlling interests in shareholders' equity fell by EUR 159 million – or 4% – to EUR 4.0 billion. The non-controlling interest share in net income for the financial year was EUR 520 (518) million. The dividend payment to non-Group shareholders totalling EUR 258 (202) million stemmed mainly from the Hannover Re Group.

M45 **CHANGES IN SHAREHOLDERS' EQUITY**

FIGURES IN EUR MILLION



A) Common shares
B) Additional paid-in capital
C) Retained earnings
D) Cumulative other comprehensive income and other reserves
E) Non-controlling interests in shareholders' equity

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

M46 **SHAREHOLDERS' EQUITY BY SEGMENT[1] INCLUDING NON-CONTROLLING INTERESTS**

FIGURES IN EUR MILLION

	2013	2012[2]	2011
Segment			
Industrial Lines	1,898	1,906	1,680
thereof non-controlling interests	—	—	—
Retail Germany	2,596	2,675	2,417
thereof non-controlling interests	61	63	23
Retail International	1,948	1,998	698
thereof non-controlling interests	237	285	7
Reinsurance	6,519	6,707	5,591
thereof non-controlling interests	3,717	3,849	3,294
Corporate Operations	–1,739	–1,950	–1,699
thereof non-controlling interests	—	—	—
Consolidation	–11	–27	4
thereof non-controlling interests	–18	–41	–40
Total shareholders' equity	**11,211**	**11,309**	**8,691**
Group shareholders' equity	7,214	7,153	5,407
Non-controlling interest in shareholders' equity	3,997	4,156	3,284

[1] Shareholders' equity per segment is defined as the difference between the assets and liabilities of each segment.
[2] Adjusted on the basis of IAS 8, cf. "Accounting policies" section in the Notes

Note: In the interests of simplicity the non-controlling interests in equity for the reinsurance business sector are derived from Group non-controlling interests in Hannover Re; for this purpose, the two reinsurance segments are combined.

The Corporate Operations segment posted a negative value that reflects Talanx AG's debt leverage. As the Group's holding company, Talanx AG performs a financing function for the Group in the primary insurance sector and for the companies in Corporate Operations. The liabilities concerned are mainly retirement pension provisions amounting to EUR 939 (1,046) million, liabilities from the utilisation of credit lines of EUR 150 (500) million, notes payable of EUR 565 (9) million, and provisions for taxes totalling EUR 145 (129) million. These liabilities are offset on Talanx AG's balance sheet by liquid assets and, above all, by the value of its participations in subsidiaries, which are consolidated against the pro rata equity of the subsidiaries in the consolidated financial statements.

VALUATION RESERVES NOT RECOGNISED IN THE BALANCE SHEET

The unrecognised valuation reserves shown in the following table do not take technical liabilities into account. Valuation reserves are attributable principally – in an amount of EUR 2,779 (4,481) million – to loans and receivables. Further information can be found in the Notes in the section "Notes on the consolidated balance sheet" under "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".

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M47 SHAREHOLDERS' EQUITY AND VALUATION RESERVES NOT RECOGNISED IN THE BALANCE SHEET

FIGURES IN EUR BILLION

	2013	2012[1)]	2011
Group shareholders' equity	11.2	11.3	8.7
Valuation reserves before taxes not recognised in the balance sheet, including shares of policyholders and non-controlling interests	2.9	4.5	2.7

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

LIQUIDITY AND FINANCING

We generate liquidity primarily from our operational primary insurance and reinsurance business, from current income on our investments and from financing measures. Regular liquidity planning and an investment strategy aligned with liquidity requirements ensure that the Group is able to meet its payment obligations at all times. Accordingly, no liquidity shortages have occurred.

ANALYSIS OF THE CONSOLIDATED CASH FLOW STATEMENT

The consolidated cash flow statement has minimal informational value for the Group. Its cash flow is primarily governed by the business model typical of primary insurance and reinsurance, i. e. we normally receive premiums up front 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.

M48 SUMMARY OF CASH FLOWS

FIGURES IN EUR MILLION

	2013	2012[1)]	2011
Cash flow from ongoing operating activities	5,897	5,669	3,835
Cash flow from investment activities	–5,633	–5,980	–2,976
Cash flows from financing activities	–433	808	–510
Change in cash and cash equivalents	–169	497	349

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

Cash inflows from operating activities, which also include inflows from investment income, rose slightly year-on-year from EUR 5,669 million to EUR 5,897 million. The calculation adjusts net income of EUR 1,282 (1,144) million to take account of the increase 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 0.8 billion.

Cash outflows from investing activities were determined by payments made for investment purchases. As in the previous year, outflows associated with the purchase of investments exceeded inflows from sales and maturities by EUR 4,302 (4,489) million. In real estate, cash inflows from sales are more than offset by cash outflows for new investments. Net cash outflow from property sales and new investments (including property companies) was –EUR 393 (–72) million. Cash outflows from investing activities totalled –EUR 5,633 (–5,980) million in the reporting period, lower than the previous year which included cash outflows from company acquisitions (–EUR 801 million).

Cash flow from financing activities in the period under review was determined by dividend payments. These rose by EUR 321 million to –EUR 523 (–202) million; EUR 265 million related to Talanx AG, EUR 180 million to Hannover Rück SE and EUR 47 million to E+S Rückversicherung AG. The previous year included a cash inflow from the increase in capital associated with Talanx AG's IPO; after taking issue costs into account, this amounted to EUR 498 million. "Change in other financing activities" of EUR 86 (518) million was chiefly the result of Talanx AG issuing subordinated loans and partially repurchasing individual subordinated bonds on the capital market in the previous year. Cash inflow in the year under review was affected to a large extent by Talanx AG issuing a first-rate unsecured bond in the amount of EUR 565 million (after taking intra-Group purchases into account), and HR GLL Central Holding Inc., Orlando, USA issuing mortgage loans totalling EUR 77 million. This was offset by cash outflows due to the Talanx AG's credit line being reduced by EUR 350 million. Further information can be found in the Notes under "Notes on the consolidated balance sheet", item 26 "Notes payable and loans". This item also includes interest payments in the amount of EUR 188 (185) million. The net cash flow from financing activities declined by EUR 1,241 million year-on-year to –EUR 433 (808) million.

Compared with the previous year, cash and cash equivalents decreased by EUR 255 million in total to EUR 1.9 billion. EUR 2 (–52) million was deducted from (added to) cash through reclassification in the reporting period for disposal groups pursuant to IFRS 5.

Further information on our liquidity management can be found in the risk report under "Liquidity risk".

FINANCING

In addition to the funds from changes in shareholders' equity as described above and assets covering provisions and liabilities, the Group also has lines of credit at its disposal that can be drawn upon as required. Please see the subsection entitled "Financial position – Development of major items" in this section.

Various financial institutions have given us guarantees in the form of letters of credit as surety for our technical liabilities. Further information can be found in the Notes under "Other information – Contingent liabilities and other financial commitments".

ANALYSIS OF DEBT

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

In the year under review bank loans decreased to EUR 150 (500) million. The Group also has long-term loans, principally mortgage loans, amounting to EUR 227 (168) million.

Talanx AG issued a first-rate unsecured bond with a volume of EUR 750 million on 13 February 2013, of which EUR 185 million is held by Group companies. The issue price was 99.958%. A description of the bond is given under item 26 of the Notes, "Notes payable and loans".

M49 **CHANGES IN STRATEGIC DEBT**

FIGURES IN EUR MILLION

	2013	2012	2011
Subordinated bonds of Hannover Finance (Luxembourg) S.A.	2,237	2,233	1,732
Subordinated bonds of HDI-Gerling Industrie Versicherung AG	144	149	261
Subordinated bonds of HDI Lebensversicherung AG	112	113	113
Subordinated bonds of Talanx Finanz (Luxemburg) S.A.	612	612	209
Subordinated bonds of Talanx AG	—	—	300
Bank borrowings of Talanx AG	150	500	550
Mortgage loans of Hannover Re Real Estate Holdings, Inc., Orlando	150	168	203
Mortgage loans of HR GLL Central Europe GmbH & Co. KG, Munich	77	—	—
Notes payable of Talanx AG	565	9	9
Other	2	—	—
Total	**4,049**	**3,784**	**3,377**

Further information can be found in the Notes under "Notes on the consolidated balance sheet", item 17, "Shareholders' equity", item 18, "Subordinated liabilities", item 26, "Notes payable and loans", item 27, "Other liabilities", and under "Other information – Contingent liabilities and other financial commitments".

GROUP SOLVENCY

As an insurance holding company, Talanx AG is subject to regulatory provisions pursuant to §1b Insurance Supervision Act (VAG). Supervision relating to the Talanx Group is carried out 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.

Solvency refers to the ability of an insurer to meet obligations assumed under its contracts on an ongoing basis. 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 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.

M50 ADJUSTED SOLVENCY[1)]

FIGURES IN EUR MILLION

	2013	2012	2011
Eligible Group capital	8,167	8,358	6,843
Solvency ratio	210.2%	225.1%	201.8%

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

The contraction in the adjusted solvency ratio from 225.1% to 210.2% in 2013 is partly due to the decrease of EUR 191 million in eligible capital, and partly to an increase in the solvency margin of EUR 173 million. The decrease in Group capital is partly attributable to a reduction in on- and off-balance sheet unrealised gains on investments as a result of market conditions, and partly the result of a reduction of EUR 334 million on 1 January 2013 following application of IAS 19 (new). The corrected solvency ratio consequently fell on 1 January 2013 to 216%.

RATING OF THE GROUP AND ITS MAJOR SUBSIDIARIES

In the year under review the Talanx Group and its companies again received very good ratings from the international rating agencies Standard & Poor's (S&P) and A.M. Best. Two different ratings are given, namely, the insurer financial strength rating, which primarily assesses 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.

M51 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 group[2)]	A+	Stable		
Hannover Re subgroup[3)]	AA–	Stable	A+	Stable

1) Designation per 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 outlook as stable. The financial strength rating of A+ for the primary insurance group was also confirmed under S&P's new rating methodology, 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 breakdown of results, business risk profile was noted as particularly outstanding. It is extremely pleasing that risk management was assessed as "strong" for primary insurance and "very strong" for Hannover Re.

A.M. Best awards the primary insurance companies in the Talanx Group a financial strength rating of A (excellent) with a stable outlook and assesses Hannover Re's financial stability as A+ (superior), likewise with a stable outlook. It justifies the continuing high ratings for the subgroups on the grounds of their healthy earnings situations and excellent capitalisation.

FINANCIAL STRENGTH RATINGS IN PRIMARY INSURANCE

M52 TALANX PRIMARY GROUP COMPANIES

	Standard & Poor's		A. M. Best	
	Rating	Outlook	Rating	Outlook
HDI Versicherung AG, Germany	A+	Stable	—	—
HDI-Gerling America Insurance Company, USA	A+	Stable	A	Stable
HDI-Gerling Industrie Versicherung AG, Germany	A+	Stable	A	Stable
HDI-Gerling Welt Service AG, Germany	A+	Stable	A	Stable
HDI Lebensversicherung AG, Germany	A+	Stable	A	Stable
neue leben Lebensversicherung AG, Germany	A+	Stable	—	—
TARGO Lebensversicherung AG, Germany	A+	Stable	—	—
HDI-Gerling Verzekeringen N.V. (Nederland), Netherlands	A	Stable	—	—
HDI Versicherung AG, Austria	A	Stable	—	—
PB Lebensversicherung AG, Germany	A	Stable	—	—
TUiR WARTA S.A., Poland	A	Stable	—	—
Talanx Reinsurance (Ireland) Ltd., Irland	—	—	A	Stable

The financial strength ratings of all five companies assessed by A.M. Best were confirmed in the year under review. S&P defines the first seven companies in the table as "core companies" of the Talanx primary group, and thus awards them the same rating of A+ as the Talanx primary insurance group. The remaining four companies are classified by S&P as strategically significant participations and they are therefore rated one notch (an increment within a single rating category) lower. The Belgian company HDI-Gerling Assurances S.A. previously held an S&P rating of A with stable outlook; this was withdrawn at the start of 2014 as the company converted to a branch and, for technical reasons, only independent companies are permitted to hold financial strength ratings.

Ratings of individual Hannover Re subsidiaries are available on its website (www.hannover-re.com). There were no significant changes in the year under review.

ISSUER CREDIT RATINGS

M53 ISSUER CREDIT RATINGS

	Standard & Poor's		A.M. Best	
	Rating	Outlook	Rating	Outlook
Talanx AG	A–	Stable	bbb+	Positive
Hannover Rück SE	AA–	Stable	aa–	Stable

S&P rates Talanx AG's ability to pay as A– (strong with stable outlook), corresponding to the third-best rating category on the issuer credit rating scale. A.M. Best assesses Talanx AG's ability to pay as bbb+ (good), and has changed the outlook from stable to positive. It has also raised the issuer credit rating outlook to positive for HDI V.a.G. and several operating companies, thereby acknowledging the Group's improved financial flexibility resulting from Talanx AG's successful IPO.

In comparison to the financial strength ratings awarded to the subsidiaries, Talanx AG's performance is somewhat inferior; 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 would receive.

Various ratings also exist for the subordinated liabilities issued by Group companies (issue ratings). These are set out in the explanatory notes to the consolidated balance sheet under item 18 "Subordinated liabilities".

TALANX AG (CONDENSED VERSION)

This subsection gives some information on Talanx AG to supplement our report on the Talanx Group. Talanx AG is the parent company of the Talanx Group. The company serves as financial and management holding company of the Group, which is active worldwide with its own companies, branches and cooperative ventures. The companies belonging to the Talanx Group operate chiefly in the areas of primary insurance and reinsurance, but are also engaged – principally in Germany – in the financial services sector.

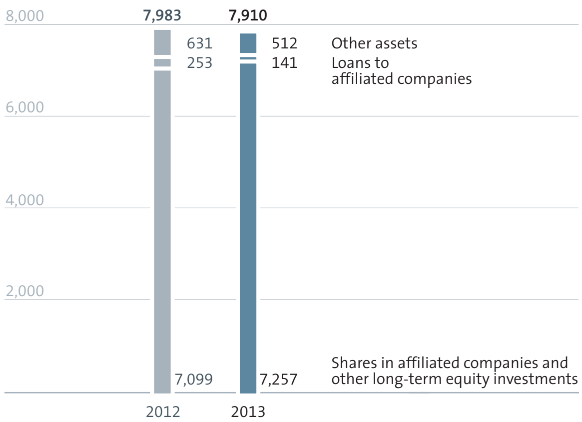
Unlike the consolidated financial statements, which are prepared in accordance with International Financial Reporting Standards (IFRS) in the form adopted for use in the European Union as at 31 December 2013, Talanx AG's annual financial statements are prepared on the basis of the German Commercial Code (HGB).

Talanx AG is a listed company and pays dividends to its shareholders out of its result as calculated under German commercial law. The significant operating control parameter for Talanx AG is therefore net income for the year as calculated in accordance with the HGB.

NET ASSETS

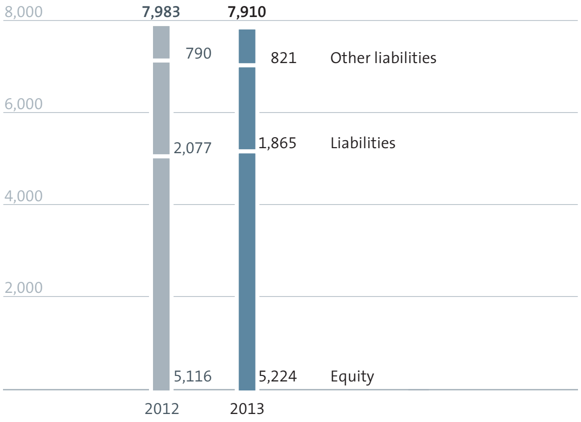
M54 BALANCE SHEET — ASSETS

FIGURES IN EUR MILLION



M55 BALANCE SHEET — LIABILITIES

FIGURES IN EUR MILLION



As in past years, Talanx AG's balance sheet continues to be shaped by its function as a holding company, and affected significantly on the assets side by the euro-dominated interests held in its subsidiaries. Total assets fell slightly by 1% to EUR 7.9 (8.0) billion. Whilst the carrying amount of shares in affiliated companies increased by 2% to EUR 7.2 (7.1) billion, loans to affiliated companies declined by 44% to EUR 141 (253) million and bank balances decreased by 22% to EUR 162 (207) million. In addition, long-term securities with a book value of EUR 62 million were sold. The proportion of total assets attributable to shares in affiliated companies remained consistently high at 91 (89)%.

Receivables from subsidiaries under profit transfer agreements were higher than in the previous year at EUR 223 (170) million. However, other receivables in the form of income from long-term equity investments fell to EUR 13 (62) million.

As at the balance sheet date, Talanx AG had concluded firm agreements with two banking groups, each providing for a floating-rate euro-denominated syndicated line of credit available to be drawn as necessary. As at 31 December 2013 a tranche of EUR 150 million was in use. The nominal amounts of the credit lines available at that date were EUR 500 million and EUR 700 million, meaning that a total of EUR 1,050 million was unused. The agreed terms are for five years, with both lines of credit maturing in 2016. The floating rate is linked to the Euribor plus a premium.

The capital structure and composition of the liabilities of Talanx AG are shaped by the fact that it is a holding company. Equity has increased by EUR 107 million over the previous year, and now totals EUR 5.2 billion (66% of total equity and liabilities). Of this increase, EUR 104 million is due to higher disposable profits, and EUR 3 million to the issue of employee shares. An additional 171,952 shares have been issued by Talanx AG through its employee share scheme.

Liabilities totalled EUR 1.9 billion (24% of total equity and liabilities), and are made up of liabilities to affiliated companies (61%), and bonds and liabilities to banks (39%). Other liabilities amounted to EUR 821 million (10% of total equity and liabilities).

Liabilities to affiliated companies fell by 28% to EUR 1,133 (1,563) million. The main reason for this was that on 13 February 2013 Talanx AG placed senior on unsecured bond with a volume of EUR 750 million. The cash inflow was used principally to replace existing financing arrangements within the Group. Liabilities from loans increased as a result to EUR 565 (9) million.

The increase in other liabilities to EUR 821 (790) million was mainly due to provisions for corporation and trade tax being raised to EUR 145 (128) million, and to interest on provisions for taxes increasing to EUR 37 (27) million.

The shareholders' equity ratio increased slightly to 66 (64)%.

FINANCIAL POSITION

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. By means of regular liquidity planning and an investment strategy geared inter alia to liquidity requirements, we ensure that Talanx AG is able to meet its payment obligations at all times.

Inflows of funds to Talanx AG derive principally from profit transfer agreements with affiliated companies, income from long-term equity investments and interest income on loans. As part of liquidity planning, anticipated cash flows from profit transfers are regularly reconciled with Group Controlling within the scope of constantly updated budget accounting. The company primarily has to fund interest and repayments of principal on its liabilities, and dividend payments. On account of its status as a holding company, activities connected with the acquisition or disposal of undertakings may give rise to short-term cash flows in the form of outflows or inflows.

With regard to selecting creditors, the company pays close attention, as it always has done, to long-term reliability and capital strength. Some banks are also finding themselves under pressure as a result of the current debt crisis facing several member states of the Eurozone. Constant monitoring of creditors' capital strength – a task performed centrally by Talanx Asset Management GmbH – is therefore increasingly relevant.

RESULTS OF OPERATIONS

M56 **STATEMENT OF INCOME (HGB)**

FIGURES IN EUR MILLION

	2013	2012
Net income from participations	594	365
Other operating income	21	21
Total operating income	**615**	**386**
Depreciation, amortisation and write-downs	3	3
Other operating expenses	75	98
Total operating expenses	**78**	**101**
Operating result	**537**	**285**
Net interest income	–131	–146
Result from ordinary activities	**406**	**139**
Extraordinary result	–14	–14
Taxes on income (— = income)	23	–6
Net income for the financial year	**369**	**131**

Talanx AG's profitability improved significantly over the previous year with net income for the year of EUR 369 (131) million. Business result performance is illustrated in a summary presentation that reflects our company's role as a holding company. The company's annual financial statements are drawn up in euro. As the results reported by subsidiaries also include income from long-term equity investments in foreign currencies, the company's result is indirectly affected by exchange rate fluctuations. A weaker euro tends to lead to higher net income from participations. A change in interest rates can also affect Talanx AG's result. Because lines of credit usually have floating interest rates, rising interest rates tend to result in higher interest expenses.

Net income from participations, which consists of income from long-term equity investments as well as income and expenditure from profit and loss transfers from the subsidiaries, totalled EUR 594 (365) million in the financial year. One of the main reasons for the increase was the inclusion of the gain on disposal from selling part of the shareholding in Swiss Life Holding AG. In addition, there was increased dividend income from Hannover Rück SE, and an improved result from Talanx International AG, due in particular to dividend income from the Polish companies acquired in 2012.

Net interest income was up on the previous year at –EUR 131 (–146) million. Income from other long-term securities and loans fell slightly to EUR 12 (13) million. This was due to lower dividend income as a result of the sale of Swiss Life shares. Other interest and similar income fell by EUR 5 million to EUR 4 million. The principal reason for this was falling interest rates in the year under review for fixed deposits and overnight money, and the absence of variable interest income from a swap transaction that ceased in 2012.

Interest and similar expenses declined to EUR 146 (168) million. This was due principally to converting the hybrid loan from Meiji Yasuda into shares as part of the IPO of 2 October 2012. Interest expenses also fell due to a swap transaction coming to an end in 2012. In contrast, interest expenses rose as a result of a loan, drawn as a subordinated bond issued by Talanx Finanz (Luxemburg) S. A. on 4 April 2012, being recognised for an entire financial year for the first time. In addition, interest expenses rose due to Talanx AG issuing a senior bond with an issue volume of EUR 750 million on 13 February 2013; this was used, however, to repay a bond placed within the Group and to partially repay drawn credit lines. Interest expenses on tax liabilities also increased in comparison to the previous year.

Other operating income remained unchanged year-on-year at EUR 21 (21) million. This amount includes income from settlement of intra-Group services. In addition, income from the sale of HDI-Gerling Industrie Versicherung AG's subordinated bond created a one-off effect in the year under review, as did income from the sale of Talanx Finanz (Luxemburg) S. A.'s subordinated debt in the previous year.

The total amount of all other expenditure in the financial year (personnel expense, other operating expenses, depreciation, amortisation and write-downs) was EUR 78 (101) million; expenditure in the previous year included costs of the initial public offering.

Profit from ordinary activities therefore increased significantly to EUR 406 (139) million.

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

In the year under review taxes on income amounted to EUR 23 (–6) million. These relate partly to the result of the current financial year, and partly to additions to the provision for tax risks. Tax income in the previous year resulted principally from the final tax assessment for 2009.

Net income for the financial year increased by 182% over the previous year to EUR 369 (131) million. After addition of retained profits brought forward from the previous year of EUR 242 million, disposable profit totalled EUR 611 (508) million.

APPROPRIATION OF THE DISPOSABLE PROFIT

The Board of Management and Supervisory Board intend to propose to the General Meeting that Talanx AG's disposable profit of EUR 611,472,147.15, as reported at 31 December 2013, should be appropriated as follows:

- Distribution of a dividend of EUR 1.20 on each eligible share: EUR 303,357,160.80
- Retained profits brought forward: EUR 308,114,986.35

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 sums shown in that remuneration report reflect remuneration awarded to 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 sums described include remuneration components awarded in respect of activities on behalf of its consolidated companies.

RISK REPORT

As holding company of an insurance and financial services group, whose companies are predominantly active in the insurance sector, Talanx AG's business development is essentially subject to the same risks as that of the Talanx Group. Talanx AG's result is to a large part determined by long-term equity investments and profit transfers of the individual companies. In principle, Talanx AG shares the risks of participating interests and subsidiaries in proportion to the stake held in the respective participating interest. Risks of subsidiaries and Talanx AG itself are described in the Group risk report.

FORECAST AND OPPORTUNITIES REPORT

As Talanx AG is closely linked with Group companies and occupies an important position in the Group due to its role as holding company, statements made in the Group's forecast and opportunities report also reflect expectations for the parent company, Talanx AG. We expect that net income for Talanx AG in the 2014 financial year will be significantly less than the result for 2013. This is mainly due to the sizeable gain on disposal in the year under review resulting from the partial sale of shares in Swiss Life Holding AG.

OVERALL ASSESSMENT OF THE ECONOMIC SITUATION

Bearing in mind the overall economic environment and specific conditions prevailing in the industry, the Management of Talanx AG assesses business performance in the year under review as satisfactory. There was a particularly strong increase in Group net income while gross premium and EBIT also grew again. Our divisions contributed to the result in different ways.

Industrial Lines and Retail International contributed significantly to gross premium growth, while Retail Germany and Retail International recorded exceptionally sharp increases in operating profit. The expense ratio remained within the expected range despite substantial major losses. Group return on equity was higher than targeted, with individual divisions varying in how well the target was met.

Structurally, the result remained well balanced. The Group is financially robust, and its solvency ratio continues to be significantly higher than is legally required. As at the date of drawing up the Management Report, the Board of Management rates the Group's economic situation as sound.

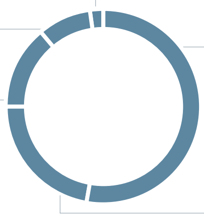
OTHER FACTORS IN SUCCESS

STAFF

The Talanx Group employed 21,529 (22,180) staff at year-end, equivalent to 20,004 (20,887) full-time positions. The number of employees outside Germany fell as expected to 10,227 (10,989) as a result of restructuring measures in the Retail International Division in connection with the integration of the Polish company WARTA. The headcount within Germany rose slightly to 11,302 (11,191). While there was a further decline in the Retail Germany Division owing to restructuring measures, the number of employees in the other segments increased in Germany. Our Group has employees in 40 countries on five continents around the world. Roughly three-quarters of staff in Germany are employed in the federal states of North Rhine-Westphalia and Lower Saxony.

M57 HEADCOUNT BY REGION

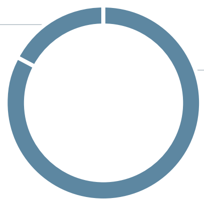
IN %



In Germany, the proportion of female staff was 48%, while 17% of employees were part-time. Both these figures were thus on a par with previous years. Of employees in Germany not subject to collective bargaining agreements, 31 (28)% were women. At senior executive level, women accounted for 19% of positions.

M58 HEADCOUNT BY PART-TIME/FULL-TIME STATUS IN GERMANY

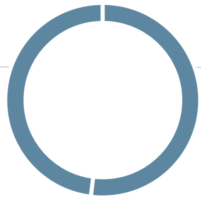
IN %



It is a fundamental principle at Talanx that employee development takes place without regard to ethnic origin, gender or religion. The participation of women in most of our development programmes for management trainees and newly appointed managers has averaged almost 30% in recent years. This means that we are able to increase further the proportion of women in management positions. Working-time models geared to the various phases of life and support for families searching for suitable day-care facilities also help to advance and retain women with management potential.

M59 HEADCOUNT BY GENDER IN GERMANY

IN %



Our human resources management aims to ensure Talanx's success in times of constant social, economic and cultural change. We can achieve this by having the right staff in the right place and by assigning them the right tasks. Our employees are distinguished by their high levels of professionalism, loyalty, entrepreneurial mindset and action, flexibility, motivation and mobility. Targeted employee support and development is of crucial importance to the Group's successful development and the achievement of our strategic objectives. We provide continuous and personal support for employees through training and a transparent management style. Human resources marketing, professional training and staff development are fundamental components of our Group-wide human resources work.

Basic professional training is particularly important for securing new talent. As at 31 December 2013, there were 410 (404) trainees at the Talanx Group in Germany. Courses that lead to commercial qualifications in insurance and finance are particularly respected at the Talanx Group. Practical orientation and self-reliant working as part of a team are a very important part of this training, which spans all companies. Trainees thus have a wide range of career options after completing their courses. As well as the number of trainees, the number of employees taken on permanently after completing their courses has remained consistently high for years. Talanx's training courses have won German insurance industry training awards four times since 2005. Talanx is also the only company to have submitted at least one entry every year since this training award was introduced; these have often concerned projects that involved supporting social welfare organisations. Our training focuses not only on professional and methodological expertise, but also to a large extent on social skills.

We also value highly the dual-track Bachelor of Arts (business studies, insurance, sales) and Bachelor of Science (business computing) programmes. To this end, we extended our cooperation agreements with the colleges that run these courses. To support the Group's internationalisation, study courses in 2013 increasingly incorporated periods of practical work experience for students at foreign subsidiaries or branches. As experience has been positive so far, we plan to continue with this concept.

In addition to human resources marketing, where we once again stepped up our activities at careers fairs and university events, strategic staff development continued successfully at the Group. Employees and managers are systematically prepared for current and future challenging tasks through various training courses and staff development programmes. As part of our fostering of young staff, we offer a programme that allows top performers and employees with high potential to develop their potential, and in 2013 we introduced a development programme for specific divisions. Established managers with the potential to take on additional duties can participate in the management development programme. This programme was launched for the first time at the end of 2013 in English, with participants from foreign subsidiaries and branches. Managers are also offered training on an individual basis and coaching if required. We give preference to our own employees when filling management positions, assuming that candidates are equally well qualified. Further training for employees for current or future tasks is essential to ensure that staff remain employable in times of change. We are constantly adapting our entire range of training courses to current and future requirements, and also organise a variety of insurance and specialist seminars, training sessions in practices and conduct, management training and IT and language courses.

The Talanx Corporate Academy has been successfully established as a key instrument in strategy implementation and the development of corporate culture within the Group. It provides information on strategically relevant topics in the form of a programme for the most senior level of management in all divisions throughout the Group, which offers high-quality content with a practical focus. As a catalyst for change and a platform for exchanging knowledge and experience, the Talanx Corporate Academy, with the involvement of a large number of participants, played an important part in the reporting period in promoting cooperation between the divisions and Corporate Operations. The Talanx Corporate Academy has developed the Talanx values in discussions with senior management around the world. These form the basis for cooperation within the Group and are a crucial factor in success.

As a public declaration of its commitment to the recognition, inclusion and appreciation of diversity in its corporate culture, Talanx signed up to the Diversity Charter in October 2013. We do not merely want to create a working atmosphere that ensures openness and integration, but also to actively and consciously exploit diversity to improve the company's performance and competitiveness. The Group considers the issue of diversity to be very important in view of demographic change, the decline in the working population and the growing proportion of female staff and of people from immigrant backgrounds.

Faced with an impending shortage of skilled workers, the Group plans to promote the transfer of practical knowledge from older staff to the next generation from the beginning of 2014. Among other measures, teams and project groups including a mix of ages will be strengthened, a cross-generational reverse mentoring programme will be set up and a series of talks will begin, enabling career starters and experienced employees to learn from each other.

To increase the number of women in management positions, at least 25% of vacant management positions in Germany will in future be filled with female employees. 26% of Talanx's managers worldwide and 19% in Germany were female at the end of 2013. The network Frauen@Talanx will be a tool that will actively work this year to create a corporate culture that supports and challenges women in management positions in their professional and personal development. A Group-wide mentoring programme supports female Talanx employees with potential in progressing to more senior management positions.

Talanx offers training courses to raise awareness and intercultural workshops to ensure an open corporate culture in which there is mutual understanding of different cultural backgrounds. We are also planning a programme that will allow employees from foreign Group companies to sit in on lectures, as well as an international management development programme, to strengthen the integration of the Talanx Group.

The pilot project on "occupational health management" aims to maintain and promote the health and employability of employees in a time of rapid change in the working environment. We are developing measures for preventive and sustainable health promotion together with our social partner. These include preventive measures, early detection measures, health information and services relating to stress management and exercise.

Our Industrial Lines Division continued the trainee programmes set up for account managers and underwriters in the various industrial lines as part of systematic fostering of young talent. These courses, which usually last one year, convey a solid grasp of the various fields of work involved in industrial insurance. We hope that this will ensure that our Industrial Lines Division continues its success in future, despite the departure of experienced specialists due to age.

We continued our "management workshop" as a support tool for all managers as part of the realignment of the Retail Germany Division. This series of events discusses strategic issues in a yearly cycle and draws up concrete measures for implementation based on these discussions. With the "management workshop", The Retail Germany Division set itself the goal of firmly establishing continuous and systematic support within the process of change and a collective understanding of managerial conduct in such a process of change. This scheme for managers focused once again in 2013 on continuation of understanding between companies and on reflection on managers' own roles. The management workshop II was used extensively and met with widespread approval. Based on the positive feedback we have received, we will continue this support tool this year.

Human resources activities in the Reinsurance Division focused closely on the most recent employee survey in 2013. The human resources department supported the Board of Management in its analysis of the main results by providing a detailed evaluation. At the same time, concrete measures were implemented based on areas where potential for improvement had been identified, such as complexity training specifically designed for experienced senior managers and a seminar providing information on relevant health-related issues. We also continued successfully establishing the numerous initiatives launched in recent years in this line, such as training based on the "blended learning" format, revision of our management principles and adjusted management feedback.

ACKNOWLEDGEMENTS TO STAFF AND REPRESENTATIVE BODIES

The Board of Management would like to express its appreciation to all of the Group's staff for their continued high level of personal dedication and their valuable contribution to the Group's good business results. It thanks the Group Employee Council and all the other employee council bodies for their continued faithful and constructive cooperation.

CORPORATE SOCIAL RESPONSIBILITY

Within the terms of our responsible enterprise management geared towards sustainable value creation, we attach particular importance to the prudent use of all resources and to our commitment to societal and social projects.

Talanx will draw up a Group-wide CSR strategy this year to provide a better structure for the diverse activities of the Group companies and to make them measurable.

SUSTAINABILITY

In pursuing our aim of keeping our environmental footprint as small as possible, at the Talanx Group we essentially concentrate on three courses of action: sustainable business operations, developing products that preserve the environment, save energy and encourage social responsibility, and an investment policy that takes sustainability into account in making investment decisions.

We aim to minimise consumption of energy and resources in our own construction projects. Between 2012 and 2013, for example, we extensively refurbished our original head office in Hannover, which was built in the 1970s, and also modernised the energy supply. The renovation work, which covers a surface area of 20,000 m^2 over nine floors, includes a new air conditioning and ventilation concept that will lead to operational energy savings of around 35%.

In all its current fund policies, the Retail Germany Division offers an actively managed portfolio dedicated to the theme of sustainability. The investment strategy of the "ISP product family" contains sustainable and ecological investments that do not simply focus on generating the highest possible yield, but also take into account ethical, social and ecological factors when selecting securities. The basic principle is that sustainable development can be achieved only if environmental, economic and social objectives are accorded equal importance and implemented simultaneously. The classification is specified by the independent research agencies Feri EuroRating Service AG, Morningstar Deutschland GmbH and oekom research AG.

Ampega Investment, our investment company for third-party clients, offers public funds for which sustainability is also an important investment criterion. It offers several sustainable investments, including not only the Ampega Responsibility Fund but also the terrAssisi Renten I AMI and terrAssisi Aktien I AMI special investment funds. These funds invest in entities and issuers that incorporate not only economic but also environmental and social criteria into their long-term company strategy and that are considered trailblazers in assuming responsibility for a sustainable future.

SOCIAL RESPONSIBILITY

Our commitment to society, also known as "good corporate citizenship," is multi-faceted. Some divisions sponsor their own projects, while individual employees are also involved in numerous voluntary activities. We have mainly devoted our efforts at Group level to the area of "education and training." As a central step, the Talanx Foundation, set up in 2009, awards up to 15 scholarships per semester to talented students in insurance-related disciplines. In addition, our Germany scholarships are once again providing support for students at the Leibniz University of Hannover. As well as financial support, we organise regular events and workshops at our company for scholarship students. Topics covered range from technical lectures to training courses in key skills.

Talanx has also been supporting the international student network Enactus (formerly SIFE Germany e. V.) in various ways since 2011. Enactus is a non-profit organisation that has activities at over 1,800 universities in more than 40 countries worldwide. In practical projects of their own choosing, students help disadvantaged people and organisations to improve their situation and to stabilise themselves sustainably by their own efforts. The students prepare their social, ecological, charitable and cultural projects themselves and carry them out entirely on their own. Target orientation, budget planning and measuring success are integral components of all Enactus projects. Enactus named Talanx AG as its "Partner of the Year" in the year under review. As well as financial assistance, Talanx offers students professional support with their work. Employees get involved in projects as "business advisors" and enhance the quality of the work through their expert knowledge, experience and networks.

MARKETING AND ADVERTISING, SALES

The multi-brand principle pursued within the Talanx Group is reflected in the diverse forms of communication with which the subsidiaries with their different brand names seek to address their specific customer segments through tailored marketing and advertising. The Group's primary insurers, such as the HDI insurers, engage directly with the general public by means of e.g. TV commercials, publicity campaigns and sponsorship activities. Our Reinsurance Division (Hannover Re brand) and asset management operations (Ampega brand) focus on their particular target groups. Talanx AG's communication activities, in turn, are addressed first and foremost to the broader financial community and the financial press.

The distribution channels employed by the Group's companies are extremely diverse, ranging from our own tied agents' organisations and local representation by branch offices and sales outlets through the use of brokers and independent agents to highly specialised bancassurance cooperations, cf. the sections on the various Group segments for further information. HDI companies signed up to the code of conduct of the German Insurance Association (GDV) for sales again in February this year; the re-drafted code creates transparent and binding rules for dealing with customers.

OTHER REPORTS AND DECLARATIONS

CORPORATE GOVERNANCE

DECLARATION ON CORPORATE GOVERNANCE AND CORPORATE GOVERNANCE REPORT

DECLARATION ON CORPORATE GOVERNANCE PURSUANT TO § 289A OF THE GERMAN COMMERCIAL CODE (HGB)

DECLARATION OF CONFORMITY PURSUANT TO § 161 OF THE GERMAN STOCK CORPORATION ACT (AKTG)

The Board of Management and Supervisory Board submitted the following declaration of conformity with the German Corporate Governance Code for Talanx AG prior to approval of the annual financial statements:

The German Corporate Governance Code ("DCGK") sets out major statutory requirements governing the management and supervision of German listed companies and contains both internationally and nationally recognised standards for good and responsible enterprise management. The purpose of the Code is to foster the trust of investors, customers, employees and the general public in German enterprise management. Under § 161 AktG it is incumbent on the boards of management and supervisory boards of German listed companies to provide an annual declaration of conformity with the recommendations of the "German Corporate Governance Code Government Commission" published by the Federal Ministry of Justice, or to explain which recommendations of the Code were/are not being applied and for which reasons ("comply or explain").

I. German Corporate Governance Code 2013

The Board of Management and Supervisory Board declare pursuant to § 161 AktG that Talanx AG, in its implementation of the German Corporate Governance Code (DCGK), has diverged in three respects from the recommendations contained in the version of the Code dated 13 May 2013:

1. Item 4.2.3 Para. 4 DCGK (caps on severance payments in Management Board contracts)

Premature termination of a Management Board contract without serious cause may only take the form of cancellation by mutual consent. Even if the Supervisory Board insists upon setting a severance cap when concluding or renewing a Board of Management contract, this does not preclude the possibility of negotiations also extending to the severance cap in the event of a member leaving the Board of Management. The scope for negotiation over a member leaving the Board of Management would also be restricted if a severance cap were agreed, which could be particularly disadvantageous in cases where there is ambiguity surrounding the existence of serious cause for termination. In the opinion of Talanx AG, it is therefore in the interest of the company to diverge from the recommendation contained in Item 4.2.3 Para. 4 DCGK.

2. Item 5.2 Para. 2 DCGK (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 also have special knowledge and experience of the application of accounting principles and internal control procedures, the current Chairman of the Committee is the only member to have spent his whole career in the insurance sector. He can look back on 29 years on the boards of management of insurance companies and insurance holding companies, of which 20 years were spent as Chairman of the Board of Management, sharing direct responsibility for the income situation of the company concerned and the presentation of this income on the balance sheet. In his double role as Chairman of the Finance and Audit Committee and of the full Supervisory Board, he coordinates the work of both committees single-handedly and can thus 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 has only one vote on each committee, like the other members. The company therefore 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 thus in the company's interest to deviate from the recommendation in Item 5.2 Para. 2 DCGK.

3. Item 4.2.3 Para. 2 DCGK (Maximum limits on variable components of remuneration in Management Board contracts)

Part of the variable remuneration for members of the Board of Management is granted in the form of Talanx share awards. The maximum number of share awards granted depends on the total amount of variable remuneration, the amount of which is limited (cap), i.e. the allocation of share awards is subject to the maximum limit. A vesting period of four years applies to share awards. This means that members of the Board of Management will share in both positive and negative developments at the company during this period, as reflected in the share price. The equivalent value of the share awards is paid out to members of the Board of Management after expiry of the vesting period. The amount paid out is determined based on the price of Talanx shares on the disbursement date, plus an amount equal to all dividends per share paid out during the vesting period. The share awards thus track the performance of Talanx shares.

The amount of variable remuneration resulting from the granting of share awards is therefore limited at the time of allocation of the share awards, but not again at the time of payment. The company does not believe that it makes sense to impose a further limit on the amount of variable remuneration resulting from the granting of share awards on the disbursement date, given that the share awards are intended to balance the interests of 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 lock-up period.

Talanx AG therefore formally declares, purely as a precaution, that it has diverged from Item 4.2.3 Para. 2 DCGK.

II. German Corporate Governance Code 2012

The Board of Management and Supervisory Board furthermore declare, pursuant to § 161 AktG, that Talanx AG has diverged from the following recommendations of the DCGK as amended on 15 May 2012 since its last declaration of conformity on 20 March 2013:

1. Item 4.2.3 Para. 4 DCGK
(Caps on severance payments in Management Board contracts)
For the reasons for the deviation from Item 4.2.3 Para. 4 DCGK, cf. I.1 above.

2. Item 5.2 Para. 2 DCGK (Chairmanship of the Audit Committee)
For the reasons for the deviation from Item 5.2 Para. 2 DCGK, see I.2 above.

Apart from the above exceptions, the company will continue to comply with the recommendations of the DCGK.

Hannover, 25 February 2014

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

The declaration of conformity and other information on corporate governance at Talanx is also available on the website at http://www.talanx.com/investor-relations/corporate-governance.

CORPORATE GOVERNANCE REPORT PURSUANT TO ITEM 3.10 OF THE GERMAN CORPORATE GOVERNANCE CODE (DCGK)

OUR UNDERSTANDING OF CORPORATE GOVERNANCE

The Board of Management and Supervisory Board take good corporate governance to mean responsible enterprise management and supervision geared to sustainable value creation. In particular, we strive to further foster the trust placed in us by investors, our business partners and employees, and the public at large. We also attach great importance to the efficient conduct of their work by the Board of Management and Supervisory Board, good cooperation between these bodies and with the company's staff, and to open and transparent corporate communications. Our understanding of good corporate governance is summarised in Talanx AG's Corporate Governance Principles, which were agreed by the Board of Management and Supervisory Board in August 2012 (http://www.talanx.com/investor-relations/corporate-governance).

CORPORATE CONSTITUTION

Good corporate governance is indispensable if Talanx AG is to achieve its goal of sustainably enhancing the value of the company. The Board of Management, Supervisory Board and employees identify with the resolved Corporate Governance Principles, which are based on the German Corporate Governance Code. This is not contradicted by the fact that the company once again chose not to comply with certain recommendations of the DCGK in the year under review; a well-founded deviation from the recommendations of the Code can, as in this case, be in the interests of good enterprise management (cf. Preamble to the DCGK). Talanx AG continues to fulfil a large proportion of the recommendations and suggestions of the DCGK and still occupies a very good position among companies represented in the DAX and MDAX.

Talanx AG is a stock corporation under German stock corporation law. It has three corporate bodies, the Board of Management, the Supervisory Board and the General Meeting. The tasks 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 leads the company on its own responsibility and defines goals and corporate strategy. In accordance with § 8 Para. 1 of the Articles of Association, the Board of Management is comprised of at least two persons. Beyond that, the Supervisory Board determines the number of members. The Supervisory Board's Rules of Procedure state that it should appoint only persons who are not yet 65 years old to the Board of Management. The term of their appointment should be chosen to end not later than in the month in which the Board member turns 65.

The current composition of the Board of Management and the areas of responsibility of individual members are set out on page 6 of this Annual Report.

The working practice of the Board of Management is 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 overall responsibilities, all members of the Board head up the area(s) assigned to them on their own responsibility within the scope of the resolutions of the full Board of Management. However, all members of the Board of Management have a duty in accordance with the Rules of Procedure to inform the other members of the Board of Management of important plans, transactions and developments in their division.

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 decides in all cases where adoption of a resolution by the full Board of Management is stipulated 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 the development of business, the company's financial position and results of operations, planning and goal accomplishment and current opportunities and risks. The Supervisory Board has stipulated the Board of Management's information and reporting obligations in more detail. Documents on which a decision must be made, particularly the individual financial statements, consolidated financial statements and auditors' reports, are forwarded to members of the Supervisory Board immediately. The Board of Management may carry out certain transactions that are of special importance or strategic significance only with the approval of the Supervisory Board. Some of these reservations of approval are prescribed by law, while others are governed by 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 plan for the company and the Group
- the termination of industrial insurance business
- conclusion, amendment and termination of affiliation agreements
- acquisition and disposal of parts of undertakings in excess of a certain size

By signing up to the "Charter of Diversity" in October 2013, the Board of Management has set a clear example for the promotion of diversity in the company and the Group.

Members of the Board of Management may take on other activities, in particular posts on supervisory boards outside the Group, only with the consent of the Chairman of the Supervisory Board.

SUPERVISORY BOARD

The Supervisory Board advises and monitors the Board of Management in its activities. It is also responsible, in particular, for the appointment and the contracts of members of the Board of Management and for examining and approving the individual company 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 development and important transactions. The Supervisory Board has introduced Rules of Procedure for its work, which 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 chosen by the shareholders and the other half are elected by the company's staff. The composition of the Supervisory Board and its committees is set out on page 7 et seq. of this Annual Report.

The Supervisory Board holds ordinary meetings regularly, at least twice per calendar year. Extraordinary meetings are convened as required. The Finance and Audit Committee and the Personnel Committee also hold regular meetings.

A quorum exists when all members of the Supervisory Board have been invited or asked to vote and at least half of the full number of members on the Supervisory Board are involved in adopting the resolution. All decisions shall be passed with a simple majority, unless another majority is prescribed by law. If voting results in a tie, a further vote shall be held on the same subject; if this also results in a tie, the Chairman shall have two votes.

The Supervisory Board carried out a review of the effectiveness of its work in 2013. A comprehensive questionnaire dealt with subjects such as the organisation of the Supervisory Board and procedures during meetings, interaction between the Board of Management and Supervisory Board and the supply of information to the Supervisory Board. The results were presented to the Supervisory Board and discussed. An ad hoc working group was then set up and met in August 2013, presenting its results to the full Supervisory Board in November 2013. In future, it will be possible to retrieve documents relating to meetings in digital form and print them out, among other options.

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 committees of the Supervisory Board prepare the decisions of the Supervisory Board that lie within their remit and decide in lieu of the Supervisory Board on the matters assigned to the remit of the committee by the Rules of Procedure. The chairman of each committee reports to the Supervisory Board regularly on the work of the respective committee.

The Finance and Audit Committee (FAC) monitors the financial reporting process, including the effectiveness of the internal control system and of the risk management and internal audit systems. It discusses quarterly reports and deals with issues relating to compliance and reporting to the Supervisory Board. Moreover, it prepares for the Supervisory Board's review of the annual financial statements, the Management Report, the Board of Management's proposal for the appropriation of disposable profit, and the consolidated financial statements and Group Management Report. In this context, the FAC informs itself in detail of the auditor's opinion as to the assets, financial position and net income and has the effects of any changes in accounting and recognition methods on the assets, financial position and net income, and possible alternatives, explained to it. It deals with issues concerning the requisite independence of the auditor, the awarding of the audit mandate, focal points to be addressed in the audit and the auditor's fees. Not only the Board of Management, but also the Head of Internal Auditing, the Chief Risk Officer and the Chief Compliance Officer report directly to the FAC.

The Personnel Committee prepares decisions of the Supervisory Board relating to members of the Board of Management and decides in lieu of the Supervisory Board on the content and conclusion of, amendments to 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 §§ 89 Para. 1, 115 AktG and persons assigned similar status in § 89 Para. 3 AktG, and for approving contracts with Supervisory Board members pursuant to § 114 AktG. It exercises the powers deriving from § 112 AktG on behalf of the Supervisory Board and attends to long-term Board membership planning together with the Board of Management.

The Nomination Committee advises the Supervisory Board on suitable candidates to be proposed to the General Meeting for election to the Supervisory Board.

To ensure that candidates fulfil the relevant selection criteria, the Nomination Committee has drawn up a statement 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 areas of business at the Group. The Supervisory Board's Rules of Procedure state that it may not include more than two former members of the company's Board of Management, to guarantee the independence of Supervisory Board members. Furthermore, members of the Supervisory Board may not hold positions on bodies of, or provide individual advisory services to, any significant competitors of the company, of a Group company or of the Talanx Group.

Further details on the activities of the Supervisory Board committees are given in the Supervisory Board's report beginning from page 9 of this Annual Report.

It is ensured that candidates who are chosen to be proposed to the General Meeting for election to the Supervisory Board have the necessary knowledge, skills and professional experience. The principle of diversity is also taken into account in the selection. The Supervisory Board currently includes five women, which means that the company is meeting its target of at least four women in accordance with the Supervisory Board's Rules of Procedure. Supervisory Board members ensure that they have sufficient time available for their activities and avoid potential conflicts of interest. The Supervisory Board's Rules of Procedure state that Supervisory Board members should be under 72 years of age at the time they are elected. With regard to the number of independent Supervisory Board members that the Supervisory Board considers appropriate, the Board has decided that it should include two independent members as defined by Item 5.4.1 DCGK. The Supervisory Board currently meets this target. This does not take into account employee representatives on the Supervisory Board. One company in which a shareholder representative on the Supervisory Board holds a stake of 27.9% has business relations with Talanx AG and Hannover Rück SE (cf. page 114 of the Annual Report).

REMUNERATION OF THE BOARD OF MANAGEMENT AND SUPERVISORY BOARD

The remuneration report beginning on page 100 contains a detailed description of the structure of remuneration for the Board of Management and Supervisory Board, as well as for directors and managers, and of the payment of part of the variable remuneration as Talanx share awards.

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 financial instruments relating to these if the value of transactions in one calendar year reaches or exceeds EUR 5,000.00. Talanx AG not only ensures that it complies with the publications and announcements required pursuant to § 15a Para. 4 of the Securities Trading Act (WpHG) in connection with this, but also publishes directors' dealings on its website.

SHAREHOLDINGS OF THE BOARD OF MANAGEMENT AND SUPERVISORY BOARD

The total holdings of shares in Talanx AG or related financial instruments of all members of the Board of Management and Supervisory Board came to under 1% of all shares issued by the company as at 31 December 2013.

COMPLIANCE

Compliance with the law and internal company guidelines and ensuring that Group companies observe these is an essential part of management and monitoring at Talanx. We have had a separate compliance department since the beginning of 2011, which is structuring and expanding the existing Group-wide compliance organisation as part of a compliance project due to run until mid-2014. In terms of staff, Talanx's compliance organisation consists of the Chief Compliance Officer and other compliance officers who are responsible for individual divisions (with the exception of the Hannover Re subgroup, which has its own compliance organisation that communicates closely with Talanx's compliance department). The number of staff involved in compliance is to be increased in connection with the above-mentioned compliance project, to ensure that future compliance requirements in accordance with Solvency II are fulfilled.

The code of conduct governs internal Group compliance regulations. This contains the main principles and rules for ensuring that the conduct of all employees at the Talanx Group is legal and responsible. It also sets out the high ethical and legal standards on which the Group's worldwide operations are based. The code of conduct is available on the website. Each employee at the Group must ensure that he acts in accordance with this code and the laws, guidelines and instructions governing his area of work. A compliance guideline provides more specific details in connection with the code and gives employees in Germany and abroad guidance on correct and appropriate conduct in 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, which employees and third parties can use to report significant breaches of the law and the rules of conduct. This can be done anonymously if they wish. This enables Compliance to take action, limit the damage and avoid further harm.

The Board of Management submitted the compliance report for the 2013 calendar year, which sets out Talanx's structure and its various activities in connection with this, to the Finance and Audit Committee before the annual financial statements were approved.

RISK MONITORING AND MANAGEMENT

The Group-wide risk management system of Talanx AG is based on our risk strategy, which in turn is derived from our corporate strategy. A 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 on page 116 of this Annual Report.

INFORMATION AND EXPLANATIONS REGARDING ACQUISITIONS

BREAKDOWN OF COMMON SHARES

The breakdown of common shares is explained in the Notes under “Notes to the consolidated balance sheet”, Item 17 “Shareholders’ equity”.

RESTRICTIONS ON VOTING RIGHTS AND TRANSFER

HDI V.a.G. has promised the consortium banks in the takeover agreement that it will not, without the prior approval of the joint global coordinators, within 24 months of the date on which shares in the company are admitted to trading on the stock exchange:

(a) either directly or indirectly offer, pledge, assign, issue, sell or commit itself to selling any shares in its capital stock or securities that can be converted into or exchanged for shares in its capital stock or that entitle the holder to purchase the latter, or sell a corresponding call option or purchase agreement, purchase a corresponding call option or contract aimed at sale, or grant or otherwise transfer or sell any call option, right of purchase or promise to buy,

(b) conclude any swap or other agreement that transfers the economic risk associated with ownership of a share in the capital stock in whole or in part to another party, irrespective of whether a transaction referred to in (a) or (b) is to be fulfilled through the provision of shares in the company or other such securities, in cash or otherwise,

(c) demand the registration of shares in the company or securities that can be converted into or exchanged for shares in the company or that entitle the holder to purchase the latter, in accordance with the securities legislation of the USA, or exercise any right relating to this.

The above restrictions on sale (lock-up) do not apply to transfers of shares between HDI V.a.G. and one of its subsidiaries, provided that the subsidiary concerned assumes the obligations towards the joint global coordinators for the remaining portion of the lock-up period, or to transactions and participations of HDI V.a.G. in relation to or in connection with the issuing of convertible bonds, warrant bonds, participating bonds and profit-sharing rights in accordance with the authorisation granted by the company’s General Meeting and their conversion into newly issued shares in the company in accordance with the corresponding contingent capital II or III, provided that this transaction or participation takes place after a period of six months from the date on which the new shares are admitted to trading on the stock exchange.

In an agreement with the joint global coordinators, Meiji Yasuda Life has promised the joint global coordinators that it will not, without the prior written approval of the joint global coordinators (which is not to be unreasonably refused or delayed), within 24 months of the date on which shares in the company are admitted to trading on the stock exchange:

(a) either directly or indirectly offer, pledge, assign, issue, sell or commit itself to selling any shares in its capital stock or securities that can be converted into or exchanged for shares in its capital stock or that entitle the holder to purchase the latter, or sell a corresponding call option or purchase agreement, purchase a corresponding call option or contract aimed at sale, or grant or otherwise transfer or sell any call option, right of purchase or promise to buy,

(b) conclude any swap or other agreement that transfers the economic risk associated with ownership of a share in the capital stock in whole or in part to another party, irrespective of whether a transaction referred to in (a) or (b) is to be fulfilled through the provision of shares in the company or other such securities, in cash or otherwise,

(c) demand the registration of shares in the company or securities that can be converted into or exchanged for shares in the company or that entitle the holder to purchase the latter, in accordance with the securities legislation of the USA, or exercise any right relating to this.

The above restrictions on sale (lock-up) do not apply to transfers of shares between Meiji Yasuda Life and an affiliate of Meiji Yasuda Life, provided that the purchaser concerned assumes the obligations towards the joint global coordinators for the remaining portion of the lock-up period, or to the sale of shares in connection with a public takeover bid or if and to the extent that the existing shareholder is released from its lock-up obligations by the joint global coordinators.

DIRECT AND INDIRECT PARTICIPATING INTERESTS IN CAPITAL THAT EXCEED 10% OF THE VOTING RIGHTS

HDI V.a.G., Riethorst 2, 30659 Hannover, holds 79.0% of voting rights in the company.

SHARES WITH SPECIAL RIGHTS THAT GRANT AUTHORITY TO CONTROL

There are no shares with special rights that grant authority to control.

TYPE OF VOTING CONTROL IN THE EVENT OF EMPLOYEE PARTICIPATION IN CAPITAL

No employees hold participations in capital as defined by § 315 Para. 4 No. 5 of the German Commercial Code (HGB).

LEGAL REGULATIONS AND STATUTORY PROVISIONS REGARDING THE APPOINTMENT AND REMOVAL OF MEMBERS OF THE BOARD OF MANAGEMENT AND AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The appointment and removal of members of the Board of Management of Talanx AG are regulated in §§ 84 and 85 AktG, § 31 German Co-Determination Act (MitbestG) and § 5 of the Supervisory Board's Rules of Procedure. Pursuant to § 8 of the Articles of Association of Talanx AG, the Board of Management must consist of at least two persons; the Supervisory Board shall otherwise determine the number of members on the Board of Management.

The Supervisory Board appoints members of the Board of Management for a period of up to five years. Reappointments for a maximum period of five years in each case are permitted. As Talanx AG falls within the scope of the German Co-Determination Act, members of the Board of Management must be appointed with a majority of two thirds of members' votes in an initial vote. If such a majority cannot be obtained, appointments can be made in a second vote with a simple majority of members' votes, in accordance with § 31 Para. 3 MitbestG. If the necessary majority is still not obtained, a third vote will be held, in which a simple majority of votes is once again required, but in which the Chairman of the Supervisory Board will have two votes, pursuant to § 31 Para. 4 MitbestG.

In accordance with German regulatory law, members of the Board of Management must be trustworthy and professionally qualified to run an insurance holding company (§ 13e Insurance Supervision Act [VAG]). Anyone who is already a director at two insurance companies, pension funds, insurance holding companies or special purpose entities for insurance cannot be appointed as a member of the Board of Management. However, the supervisory authorities can permit more posts to be held if companies belonging to the same insurance group or group of companies are involved (§ 7a VAG). The Federal Financial Supervisory Authority must be notified of plans to appoint a member of the Board of Management (§ 13e VAG).

The General Meeting resolves on amendments to the Articles of Association (§ 179 AktG). Unless otherwise stipulated by binding legal regulations, resolutions of the General Meeting shall be passed with a simple majority of votes cast and, if a majority of the capital is required, the majority of the capital stock represented at the meeting at which the resolution is passed (§ 16 Para. 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 (§ 202 Para. 2 AktG). Pursuant to § 179 Para. 1 Sentence 2 AktG in conjunction with § 11 of the Articles of Association of Talanx AG, the Supervisory Board can amend the wording of the Articles of Association.

AUTHORITY OF THE BOARD OF MANAGEMENT TO ISSUE OR BUY BACK SHARES

The authority of the Board of Management to issue and buy back shares is regulated by the company's Articles of Association and in §§ 71 et seq. AktG. On 29 September 2012 the General Meeting of the company authorised the Board of Management in connection with this, pursuant to § 71 Para. 1 No. 8 AktG, to acquire treasury shares under certain conditions for a period of five years, i.e. up to 28 September 2017.

MATERIAL AGREEMENTS OF TALANX AG WITH CHANGE-OF-CONTROL CLAUSES

In accordance with Talanx AG's contracts relating to syndicated credit facilities, lenders may terminate the credit line if there is a change of control, i.e. if a person or 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 each contain a clause that, in the event of the direct or indirect acquisition of control of one of the parties to the contract by a third company not affiliated with the parties, grants the other contractual party an extraordinary right of termination.

The cooperation agreement for Russia concluded on the basis of the general agreement with Citibank dated December 2006 contains a clause that, in the event that the controlling majority of 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 contractual party 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 of the Board of Management and the criteria for its calculation. The description covers payments made to the Board of Management in the 2013 financial year in respect of activities of 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 for remuneration of directors and managers below the level of the Group Board of Management.

The remuneration report follows the recommendations of the German Corporate Governance Code and contains information that is required pursuant to IAS 24 "Related Party Disclosures" as part of the Notes on the 2013 consolidated financial statements. Pursuant to German commercial law, the information also contains mandatory items of the Notes (§ 314 HGB) and the Management Report (§ 315 HGB), all of which are discussed in this remuneration report and are also summarised in the Notes in accordance with the applicable statutory provisions.

The remuneration scheme complies with the provisions of the German Act on the Appropriateness of Executive Remuneration (VorstAG) and of the Insurance Supervision Act (VAG) in conjunction with the regulation on the supervisory law requirements for remuneration schemes in the insurance sector (VersVergV). We have also taken the more specific rules of German Accounting Standard DRS 17 (as amended in 2010) "Reporting on the Remuneration of Members of Governing Bodies" into account in this report.

REMUNERATION OF THE BOARD OF MANAGEMENT

The Supervisory Board decides on the structure and amount of remuneration for the Board of Management and reviews and discusses the remuneration structure and the appropriateness of remuneration at regular intervals.

The Supervisory Board has fundamentally realigned the remuneration system for the Board of Management on the basis of current statutory and regulatory provisions for executive remuneration with effect from the 2011 financial year.

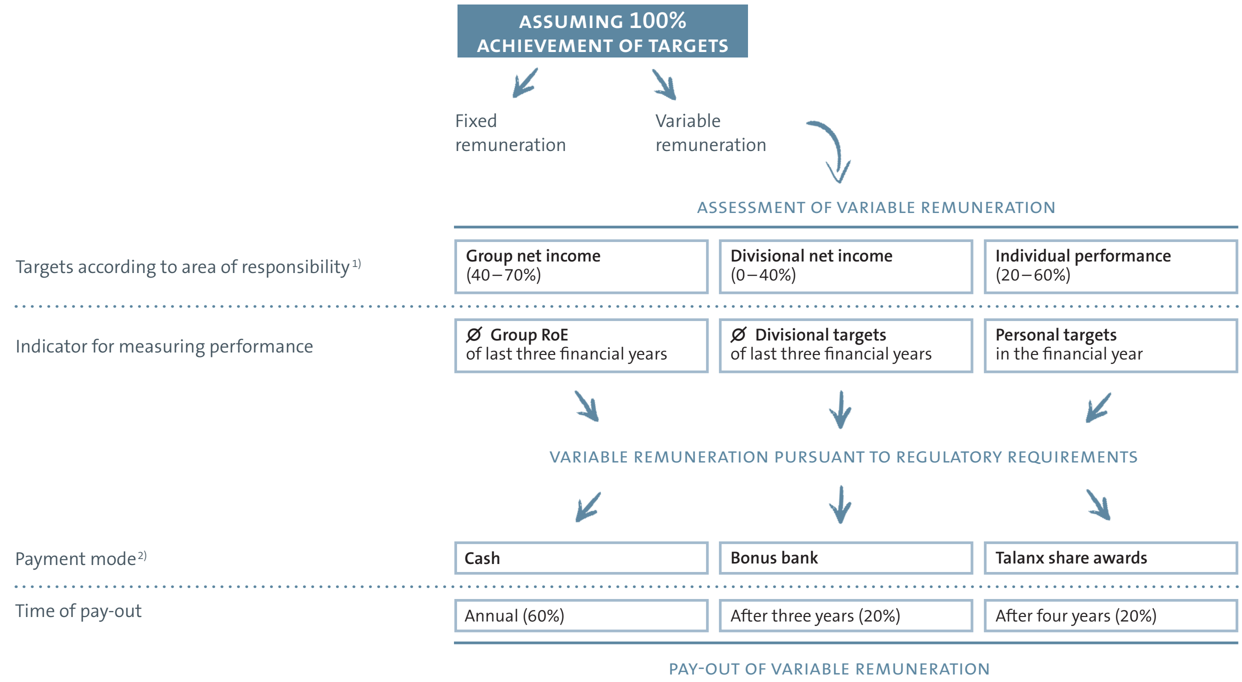
STRUCTURE OF REMUNERATION FOR THE BOARD OF MANAGEMENT

The aim of the remuneration system for the Board of Management is to pay Board members a reasonable fee. The remuneration of the Board of Management takes into account the size and activity of the company, its economic and financial situation, its performance and future outlook, and the comparability of remuneration in the light of the peer environment (horizontal) and remuneration levels for the rest of the company's staff (vertical). It also takes into consideration the tasks and duties of individual members of the Board of Management, their personal performance and the performance of the Board of Management as a whole.

Overall, remuneration is such that it makes allowance for both positive and negative developments, is in line with the market and competitive, and promotes sustainable, long-term corporate 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 40% to 70% for 100% achievement of the Board of Management's targets.

M60 **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)
Chief Information Officer:	40% Group net income, 60% individual performance (personal targets)

2) Split dictated by statutory minimum requirement

Fixed remuneration

Fixed remuneration is paid out in cash in twelve equal monthly instalments. It is especially tailored to the range of duties and functions and the professional experience of the individual Board member. The Supervisory Board reviews the amount of fixed remuneration regularly, generally at intervals of two years.

Non-cash/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 membership of the Board. The individual Board member is responsible for paying tax on the monetary value of the private use of the company car. Non-cash and fringe benefits are reported at cost value in the financial statements. The company also grants its Board members insurance cover on a reasonable scale (liability, accident and luggage insurance) within group contracts.

Variable remuneration

The amount of variable remuneration depends on certain defined results and on the achievement of certain targets, which vary according to the function of the Board member concerned. Variable remuneration consists of a Group bonus, a personal bonus and – in the case of Board members responsible for a particular division – a divisional bonus. The weighting of the various components within the variable remuneration is determined individually for each member of the Board of Management in the light of the function that he or she performs.

Group bonus

The Group bonus is paid as an individually determined amount that is stipulated in the employment contract 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. If the average return on equity is below the risk-free interest rate or turns negative, this results in a corresponding penalty amount for each 0.1 percentage point of undershoot. The basis of calculation for a Group bonus of 100% is an average return on equity of 12.8%. The maximum amount of the Group bonus is twice the amount granted if the basis of calculation is achieved, and the maximum penalty is –100%. The arrangements governing the Group bonus may be adjusted if the risk-free interest rate changes to such an extent that an (absolute) deviation of at least 1 percentage point arises. The risk-free interest rate is the average market rate for ten-year German government bonds over the last five years, the average being calculated annually at year-end on the basis of the interest rate prevailing in that year.

Divisional bonus

From the 2013 financial year onwards, the divisional bonus for the Industrial Lines, Retail Germany and Retail International Divisions will be calculated on the basis of the following criteria in relation to target values for the respective divisions: gross written premium, change in net combined ratio in property/casualty insurance and change in the value of new business in life insurance, EBIT margin, return on equity and profit transfer/dividend to Talanx AG. The Supervisory Board will determine the divisional bonus at its prudent discretion based on the extent to which these criteria have been fulfilled. Only the 2013 financial year will be used as the assessment period for the achievement of targets for 2013. For 2014, the average achievement of targets in 2013 and 2014 will be used, and from 2015 onwards the bonus will be based on average achievement of targets for the last three financial years. The individually defined amount for 100% achievement of targets is payable if the targets are met in full. Additions or deductions will be made if the defined targets are exceeded or not met. The maximum divisional bonus is twice the bonus payable if the targets are met in full, while the minimum bonus is a penalty corresponding to –100% achievement of targets.

Individual bonus

In addition, individual qualitative and, as appropriate, quantitative personal targets are defined annually for each Board member to meet in the next 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 entrepreneurial abilities, and other quantitative or qualitative personal targets, making special allowance for the particular features associated with their area of responsibility within the Board. The degree to which targets have been attained is determined by the Supervisory Board at its prudent discretion. The amount payable for 100% target attainment is established on a personal basis. Additions or deductions will be made if targets are exceeded or not met. The minimum individual bonus amounts to EUR 0, while the maximum is double the bonus payable on complete attainment of the defined targets.

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, variable remuneration amounts to zero (in other words, there can be no negative variable remuneration). However, negative amounts are taken into account in the calculation of the bonus bank (cf. next subsection on "Payment of variable remuneration").

The amount of variable remuneration is set at the Supervisory Board meeting at which the consolidated financial statements for the relevant financial year are approved. The Supervisory Board decides regularly, and in exceptional circumstances at its prudent discretion, whether variable remuneration needs to be adapted or pay-outs restricted.

M61 **ASSESSMENT BASIS/PRECONDITIONS FOR PAYMENT OF VARIABLE REMUNERATION**

Remuneration component	Assessment basis/parameters	Preconditions for payment
Group bonus		
Percentage of variable remuneration Chairman of the Board of Management and Chief Financial Officer: 70% Deputy Chairman: 50% Chief Information Officer: 40% Division Managers: 40–70%	■ 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) of the last three financial years (FY) exceeds the risk-free interest rate ■ Basis of calculation: RoE of 12.8% (=100%) ■ Cap max.: 200% ■ Cap min.: –100% (penalty) ■ Calculation of the bonus will be amended if the risk-free interest rate changes by one percentage point or more ■ Calculation of RoE: Group net income for the year calculated according to IFRS (excluding non-controlling interests) ./. arithmetic mean of the Group equity according to IFRS (excluding non-controlling interests) at the start and end of the financial year	■ Average RoE over three years > risk-free interest rate
Divisional bonus		
Percentage of variable remuneration Chairman of the Board of Management, Chief Financial Officer and Chief Information Officer: 0% Deputy Chairman: 30% Division Managers: 0–40%	■ Gross written premium, net combined ratio in property/casualty insurance and value of new business in life insurance, EBIT margin, return on equity, profit transfer/dividend as criteria; each compared against target (for 2013, only FY 2013 as assessment period; for 2014, average for FY 2013 and 2014; from 2015, three-year average) ■ 100% = targets achieved in full ■ Cap max.: 200% ■ Cap min.: –100% (penalty)	■ Achievement of three-year targets (gradual build-up from 2013 onwards) ■ Supervisory Board determines the degree of target achievement at its prudent discretion
Individual bonus		
Percentage of variable remuneration Chairman of the Board of Management and Chief Financial Officer: 30% Chief Information Officer: 60% Deputy Chairman and Division Managers: 20–30%	■ Individual qualitative and quantitative targets; personal contribution to overall result, leadership skills, innovation, entrepreneurial skills, specific remit factors ■ 100% = targets achieved in full ■ Cap max.: 200% ■ Cap min.: EUR 0	■ Achievement of targets for the year ■ Supervisory Board determines the degree of target achievement at its prudent discretion

M62 **BREAKDOWN OF PAY-OUT OF VARIABLE REMUNERATION**

Short-term	Medium-term	Long-term
■ 60% of variable remuneration with the next monthly salary payment following the resolution by the Supervisory Board	■ 20% of variable remuneration allocated to the bonus bank ■ Pay-out of the positive amount allocated three years prior to the pay-out, provided that this does not exceed the balance in the bonus bank after all credits/debits up to and including those for the most recent financial year ■ Any amounts due for disbursement that are not covered by the balance in the bonus bank are forfeited ■ Claims on the bonus bank forfeited in special cases: termination of office without material grounds; extension of contract at same terms rejected ■ No interest payable on positive balance	■ Automatic allocation of virtual Talanx share awards to a value equivalent to 20% of variable remuneration ■ On expiry of the four-year retention period, pay-out of the current value at the time of pay-out ■ Valuation of shares for allocation/pay-out: unweighted arithmetic mean of Xetra closing prices over a period of five trading days before to five trading days after the meeting of the Supervisory Board that approves the consolidated financial statements ■ Pay-out of the total amount of all dividends accumulated during the retention period ■ Changes in the value of share awards by an aggregate 10% or more due to structural measures trigger adjustment

Negative total of variable bonuses = pay-out of EUR 0 of variable remuneration.
A negative value for the total variable bonuses in any financial year is transferred in full to the bonus bank (cf. “medium-term” column).

Payment of variable remuneration

An amount equal to 60% of the total variable remuneration 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. Of the withheld portion, half (i. e. 20% of the total variable remuneration) is allocated to a bonus bank, while the other half is granted in the form of share awards to take account of the longer-term development of the value of the company in accordance with the procedure described below.

Bonus bank

Each year, 20% of the defined variable remuneration is allocated to the bonus bank, where it is held 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 allocated to the bonus bank, reducing the balance in the bonus bank accordingly. A positive balance in the bonus bank after deduction of any amounts paid out is carried forward to the next year, but a negative balance is not carried forward. The amount allocated to the bonus bank in each year is paid out after three years, provided and to the extent that it is covered by the balance present at that time after all credits/debits up to and including those for the most recent financial year. Any portion of variable remuneration due for disbursement that is not covered by the balance in the bonus bank is forfeited.

Share awards

The other 20% of the total defined variable remuneration is granted as a share-based entitlement in the form of virtual share awards. The total number of share awards allocated depends upon the value per share of Talanx AG at the time of allocation. The value per Talanx AG share is established as the unweighted arithmetic mean of the Xetra closing prices of Talanx shares over a period of 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 to be allocated is arrived at by dividing the amount to be credited by the value per share, rounded up to the nearest whole share (cap). For each share award, the value of one Talanx share calculated on the disbursement date (using the same procedure as for allocation), plus an amount equal to the dividend if dividends are paid out to shareholders, is paid out after expiry of a vesting period of four years. The Board member is not entitled to receive actual shares.

One member of the Board of Management is also allocated virtual share awards of which the total number depends on the value per share of Hannover Re at the time of allocation. The value per share of Hannover Re is established as the unweighted arithmetic mean of the Xetra closing prices of Hannover Re shares over a period of 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 (using the same procedure as for allocation) on the disbursement date, plus an amount equal to the dividend 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 conditions are explained in the section of the Notes to this Group Annual Report entitled “Share-based remuneration”.

Protection against dilution

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 in 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, to offset the change in value of the share awards caused by structural measures.

Payment in the event of incapacitation

If any member of the Board of Management is temporarily unable to attend to his or her duties, the fixed portion of the annual salary will continue to be paid unchanged for the duration of the incapacitation, but not beyond termination of their contract.

If the Board member becomes permanently incapacitated during the term of their contract, the contract will be terminated at the end of the sixth month after permanent incapacitation was ascertained, but no later than upon expiry of the contract term. A Board member shall be deemed to be permanently incapacitated if he or she is expected to be unable to attend to his or her duties without restriction within the foreseeable future.

Early termination of membership of the Board of Management

If a member of the Board of Management terminates their membership of their own accord, if their contract is terminated/revoked by the company on material grounds 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 served two terms of office on the Board of Management), all rights to payment from holdings in the bonus bank and share awards are forfeited. If the member's contract ends normally before expiry of the vesting period for the bonus bank or share awards without the member being offered a contract extension, the member of the Board of Management retains his or her entitlement to payment from the bonus bank and to any share awards already allocated.

In principle, a member of the Board of Management has no entitlement to payment of amounts into the bonus bank or to allocation of share awards after he or she has left the company, except if the member of the Board of Management's departure from the company is a result of his/her not being reappointed, retirement or death, and then only in respect of entitlements to variable remuneration earned by the member of the Board of Management in the last year – or part thereof – of their activity on behalf of the company.

The contracts of members of the Board of Management contain no provisions in respect of benefits in the event of early termination of their membership of the Board of Management as a result of change of control of the company. The provisions contained in their contracts regarding early termination or non-renewal of the contracts allow for entitlement to payment of a "transitional allowance" under certain circumstances, which is calculated based on the percentage of fixed remuneration achieved for the pension. There is generally a waiting period of eight years. Any other income from employment or self-employment shall count towards the transitional allowance in the amount of 50% up to the age of 65.

The contracts of members of the company's Board of Management do not include caps on severance payments as recommended by Item 4.2.3 Para. 4 of the German Corporate Governance Code. Please see our remarks in the declaration of conformity in the section "Corporate Governance" on page 93 et seq. of this Group Annual Report regarding this and the maximum limits on remuneration and variable components of remuneration as recommended by Item 4.2.3 Para. 2 of the German Corporate Governance Code.

Other 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 commence any additional work. This ensures that neither the payment provided for this nor the time required leads to conflict with their duties as a member of the Board of Management. If additional work involves posts on supervisory boards or on similar bodies, these are listed in Talanx AG's Annual Report. Remuneration for posts at Group companies and other offices linked to the company is counted towards variable remuneration.

Amount of remuneration for the Board of Management

The total remuneration of all active members of the Board of Management in respect of their activities on behalf of Talanx AG and its affiliated companies was EUR 10,439 (12,425) thousand. The following table shows a breakdown into the components according to DRS 17.

M63 TOTAL REMUNERATION RECEIVED BY ACTIVE MEMBERS OF THE BOARD OF MANAGEMENT PURSUANT TO DRS 17 (AMENDED IN 2010)

FIGURES IN EUR THOUSAND

		Non-performance-based remuneration		Performance-based remuneration[1]		
				Short-term		Medium-term
		I	II	III	IV	V
Name		Fixed remuneration	Non-cash compensation/ fringe benefits	Variable remuneration payable[2]	Thereof remuneration from seats on Group bodies[3]	Allocation to bonus bank[4]
Herbert K. Haas	2013	714	21	765	280	255
	2012	714	21	811	273	231
Dr. Christian Hinsch	2013	504	15	494	8	165
	2012	504	15	575	4	168
Torsten Leue[10]	2013	560	113	511	—	170
	2012	560	113	533	—	158
Dr. Thomas Noth	2013	560	17	198	—	66
	2012	535	17	302	—	81
Dr. Immo Querner	2013	544	17	452	131	151
	2012	544	18	522	119	143
Dr. Heinz-Peter Roß[10]	2013	560	165	461	34	154
	2012	560	165	533	29	158
Ulrich Wallin	2013	520	13	729	—	243
	2012	520	15	835	—	259
Total	2013[11]	3,962	361	3,668	453	1,224
	2012	3,937	364	4,231	425	1,239

[1] As at the 2013 balance sheet date, no Board resolution was available regarding the amount of performance-based remuneration for 2013. The amounts are recognised on the basis of estimates and the provisions constituted accordingly

[2] Figures for 2012 include special payment in connection with the IPO

[3] Remuneration from supervisory board seats at affiliated companies netted with the variable remuneration payable for 2013

[4] The nominal amount is stated; full or partial payment will be made from 2016, depending on the development until such time of the balance in the bonus bank

[5] The nominal amount of the share awards to be granted for work in the year under review is stated; the equivalent amount of the share awards will be paid out from 2017 at the relevant value prevailing at that time

[6] Total of I, II, III, V, VI, VII

[7] The maximum total remuneration if share awards are granted is stated (excluding non-cash compensation/fringe benefits). Figures for 2012 include special payment in connection with the IPO. The minimum remuneration corresponds to annual fixed remuneration

[8] Estimate of number of Talanx share awards to be granted; the Xetra closing price of Talanx shares as at the balance sheet date (EUR 24.65 per share) was used as the basis. The actual number of Talanx share awards will be calculated on the basis of the arithmetic mean of Xetra closing prices for Talanx shares over a period of five trading days before to five trading days after the Supervisory Board meeting that approves the consolidated financial statements of Talanx AG in March 2014

[9] Estimate of the number of Hannover Re share awards to be granted; the Xetra closing price for Hannover Re shares as at the balance sheet date (EUR 62.38 per share) was used as the basis. The actual number of Hannover Re share awards will be calculated from the arithmetic mean of Xetra closing prices for Hannover Re shares over a period of 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 2014

[10] The non-cash compensation and fringe benefits of Mr. Leue and Dr. Roß include the non-performance-based additional payments granted with the fixed remuneration for the month of December

[11] A total of EUR 98 (202) thousand more was paid out than reserved for performance-based remuneration in 2012. The total amount recognised for performance-based remuneration in 2013 was increased accordingly (variable remuneration payable: +EUR 58 (120) thousand, allocation to bonus bank and allocation of Talanx share awards: +EUR 20 (41) thousand each). The amount shown for the total remuneration paid to the Board of Management as a whole therefore deviates from the total of the amounts shown for individual members of the Board of Management by this amount

Performance-based remuneration[1]					
Long-term					
VI	VII				
Talanx share awards granted[2), 5)]	Hannover Re share awards granted[5)]	Total remuneration[6)]	Maximum remuneration[7)]	Number of Talanx share awards[2), 8)]	Number of Hannover Re share awards[9)]
255	—	2,010	3,369	10,345	—
552	—	2,329	3,807	25,728	—
165	—	1,343	2,368	6,686	—
361	—	1,623	2,631	16,817	—
170	—	1,524	2,252	6,913	—
319	—	1,683	2,472	14,827	—
66	—	907	1,335	2,678	—
242	—	1,177	1,555	11,247	—
151	—	1,315	2,179	6,111	—
400	—	1,627	2,530	18,601	—
154	—	1,494	2,252	6,232	—
319	—	1,735	2,472	14,827	—
55	188	1,748	2,680	2,232	3,012
215	205	2,049	2,900	9,986	3,474
1,036	**188**	**10,439**	**16,435**	**41,197**	**3,012**
2,449	**205**	**12,425**	**18,367**	**112,033**	**3,474**

M64 CASH REMUNERATION ACTUALLY ACCRUING TO ACTIVE MEMBERS OF THE BOARD OF MANAGEMENT IN THE YEAR UNDER REVIEW

FIGURES IN EUR THOUSAND

Name		Non-performance-based remuneration	Non-performance-based remuneration [1]	Exercised stock appreciation rights	Total
Herbert K. Haas	2013	714	767	–	**1,481**
	2012	714	720	–	**1,434**
Dr. Christian Hinsch	2013	504	518	–	**1,022**
	2012	504	520	–	**1,024**
Torsten Leue	2013	660	477	–	**1,137**
	2012	660	472	–	**1,132**
Dr. Thomas Noth	2013	560	221	–	**781**
	2012	535	266	–	**801**
Dr. Immo Querner	2013	544	468	–	**1,012**
	2012	544	474	–	**1,018**
Dr. Heinz-Peter Roß	2013	725	462	–	**1,187**
	2012	725	434	–	**1,159**
Ulrich Wallin	2013	520	763	114	**1,397**
	2012	520	899	411	**1,830**
Total	2013	**4,227**	**3,676**	**114**	**8,016**
	2012	**4,202**	**3,785**	**411**	**8,398**

[1] Performance-based remuneration paid out in the year under review for the previous year. Figures for 2012 include special cash payment in connection with the IPO

The following table shows expenses for share-based remuneration for members of the Board of Management. This table should be viewed separately from the presentation of total remuneration received by active members of the Board of Management pursuant to DRS 17.

M65 **TOTAL EXPENSES FOR SHARE-BASED REMUNERATION FOR MEMBERS OF THE BOARD OF MANAGEMENT**

FIGURES IN EUR THOUSAND

Name		Expenses for new Talanx share awards granted[1]	Expenses 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	Exercised stock appreciation rights	Total
Herbert K. Haas	2013	62	—	260		—	—	**322**
	2012	110	—	74		—	—	184
Dr. Christian Hinsch	2013	46	—	165		—	—	**211**
	2012	79	—	51		—	—	130
Torsten Leue	2013	64	—	157		—	—	**221**
	2012	87	—	46		—	—	133
Dr. Thomas Noth	2013	47	—	152		—	—	**199**
	2012	100	—	31		—	—	131
Dr. Immo Querner	2013	45	—	175		—	—	**220**
	2012	92	—	43		—	—	135
Dr. Heinz-Peter Roß	2013	102	—	224		—	—	**326**
	2012	127	—	62		—	—	189
Ulrich Wallin	2013	33	40	113	62	59	114	**421**
	2012	80	77	20	135	–108	411	615
Total	2013	**399**	**40**	**1,246**	**62**	**59**	**114**	**1,920**
	2012	675	77	327	135	–108	411	1,517

[1] The expense for share awards is recognised pro rata in the year under review depending upon the remaining term of the respective contract of employment. Figures for 2012 include expenses for Talanx share awards for special payment in connection with the IPO

[2] The allocation to provisions for Talanx share awards from previous years is calculated based on the increased price of Talanx shares, the dividend agreed on for Talanx AG for 2012 and the distribution of expenses for share awards to the remaining terms of individual contracts

[3] The allocation to provisions for Hannover Re share awards from previous years is calculated based on the increased price of Hannover Re shares, the dividend agreed on for Hannover Re for 2012 and the distribution of expenses for share awards to the remaining terms of individual contracts

OCCUPATIONAL RETIREMENT PROVISION

Contracts between members of the Board of Management and Talanx AG – with one exception granting an annual pension fund contribution based on the member's fixed remuneration – provide for an annual retirement pension calculated as a percentage of fixed annual remuneration ("defined benefit"). The amount of the agreed maximum pension varies according to the particular contract and is between 35% and 65% of the Board member's monthly fixed salary at the time of scheduled retirement at or after the age of 65. A non-pensionable component of fixed remuneration was introduced in connection with the new remuneration structure as of the 2011 financial year.

In one instance, a contract provides for a pension on a defined-contribution basis. In this case, the company pays an annual contribution amounting to 20% of the Board member's pensionable income (fixed annual remuneration as at 1 July of each year) into a pension fund.

In both types of contract ("defined benefit" and "defined contribution"), income from other sources during the pension payment period may under certain circumstances (e.g. in the event of incapacity or termination of the contract before the age of 65) be counted towards the pension in full or in part.

SURVIVORS' PENSIONS

If a member of the Board of Management dies during the term of his or her contract, the surviving spouse, and in the absence thereof any eligible children, is entitled to continued payment of the monthly fixed salary for the month in which the Board member died and the following six months, but not beyond the expiry date of the contract. If a Board member dies after pension payments commence, the pension for the month in which the Board member dies and the following six months will be paid to the surviving spouse and in the absence thereof to dependent children.

The widow's pension is 60% of the retirement pension the deceased member of the Board of Management was drawing or would have drawn if he or she had become incapacitated before the time of death. If the widow re-marries, the widow's pension is forfeited. If that marriage is dissolved by death or divorce, the pension entitlement is revived, but all pensions, annuities and other insurance benefits accruing by virtue of the new marriage will be counted against the widow's pension.

An orphan's pension will be granted in the amount of 15%, or 25% if the widow's pension is forfeited, of the retirement pension 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. The maximum period for which the orphan's pension will be paid is until the child turns 27 years of age. Any income earned from employment or an apprenticeship will be counted in part against the orphan's pension.

ADJUSTMENTS

Retirement, widow's and orphan's pensions are linked to the consumer price index for Germany (overall index).

AMOUNT OF PENSIONS PAID

Pension commitments for active members of the Board of Management totalled EUR 1,479 (1,450) thousand. Expenditure in respect of pensions (service cost) for active members of the Board of Management amounted to EUR 1,291 (952) thousand.

Total payments made to former members of the Board of Management and their surviving dependants, for which there were 6 (6) commitments in force in the year under review, amounted to EUR 741 (839) thousand. Provisions set up in respect of pension obligations towards this group of persons totalled EUR 14,101 (14,197) thousand.

M66 PENSION ENTITLEMENTS OF ACTIVE MEMBERS OF THE BOARD OF MANAGEMENT

FIGURES IN EUR THOUSAND

Name		Pension commitment[1]	Present value of DBO[2]	Expenses for retirement provision[3]
Herbert K. Haas	2013	390	6,992	248
	2012	390	7,500	187
Dr. Christian Hinsch	2013	303	4,966	183
	2012	275	5,197	135
Torsten Leue	2013	225	792	300
	2012	225	701	198
Dr. Thomas Noth[4]	2013	—	—	112
	2012	—	—	112
Dr. Immo Querner	2013	192	2,051	147
	2012	191	2,344	116
Dr. Heinz-Peter Roß	2013	149	662	180
	2012	149	609	115
Ulrich Wallin	2013	220	3,284	121
	2012	220	3,620	89
Total	2013	**1,479**	**18,747**	**1,291**
	2012	**1,450**	**19,971**	**952**

1) Value of the agreed annual maximum pension on leaving the company as contractually agreed after reaching the age of 65
2) DBO = defined benefit obligation
3) The service cost recognised in the year under review for pensions and other post-retirement benefits is stated
4) In the case of Dr. Noth, a defined contribution commitment exists with an annual funding contribution of 20% of the annual fixed remuneration. The funding contribution of EUR 112 (112) thousand is stated here

REMUNERATION OF THE SUPERVISORY BOARD

The remuneration of the Supervisory Board is governed by § 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, an annual fixed remuneration (basic remuneration) and a performance-based variable remuneration, which is also 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 1.5 times these emoluments.

In the year under review, the annual basic remuneration is EUR 50,000 per Supervisory Board member. The basic remuneration of the Chairman is EUR 125,000, that of the deputy chairpersons EUR 75,000 each. In addition, each member of the Supervisory Board receives annual variable remuneration of EUR 55 for each full EUR million by which the average Group net income of the last three financial years, after non-controlling interests, exceeds the minimum return pursuant to § 113 Para. 3 Stock Corporation Act (AktG) (4% of contributions paid on the lowest issue price of the shares) (benchmark). The factor for the Chairman amounts to EUR 138, and for each of his deputies EUR 83. The variable remuneration of members of the Supervisory Board is capped at a maximum of EUR 50,000, for the Chairman at EUR 125,000 and for his deputies at EUR 75,000. If average Group net income of the last three financial years, after non-controlling interests, falls short of the minimum return pursuant to § 113 Para. 3 Stock Corporation Act (AktG), variable remuneration is forfeited. By calculating this performance-related payment component based on average Group net income for the last three financial years, we ensure that variable remuneration is geared towards the sustainable development of the company.

Further fixed remuneration of EUR 25,000 per member has been set for members of the Finance and Audit Committee and the Personnel Committee within the Supervisory Board. The chairman of each of these committees receives twice this amount.

The total annual remuneration payable to any Supervisory Board member (including remuneration for membership of Supervisory Board committees) is limited to a maximum of 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 for that day.

The value added tax payable on remuneration for the Supervisory Board is reimbursed by the company.

The total remuneration for all active members of the Supervisory Board amounted to EUR 2,235 (2,105) thousand. The details are given in the following table.

M67 INDIVIDUAL REMUNERATION OF MEMBERS OF THE SUPERVISORY BOARD[1)]

FIGURES IN EUR THOUSAND

Name	Function	Type of remuneration	2013[2)]	2012[2)]
Wolf-Dieter Baumgartl[3)]	■ Chairman of the ▪ Supervisory Board ▪ Personnel Committee ▪ Finance and Audit Committee ▪ Nomination Committee ▪ Standing Committee	Basic remuneration	183	183
		Variable remuneration	122	101
		Remuneration for committee activities	123	123
		Attendance allowances	24	24
			452	**431**
Prof. Dr. Eckhard Rohkamm	■ Deputy Chairman of the Supervisory Board ■ Member of the ▪ Personnel Committee ▪ Finance and Audit Committee ▪ Standing Committee	Basic remuneration	75	75
		Variable remuneration	50	36
		Remuneration for committee activities	50	50
		Attendance allowances	11	12
			186	**173**
Ralf Rieger[3)]	■ Deputy Chairman of the Supervisory Board ■ Member of the ▪ Finance and Audit Committee ▪ Standing Committee	Basic remuneration	84	81
		Variable remuneration	50	36
		Remuneration for committee activities	25	25
		Attendance allowances	9	12
			168	**154**
Antonia Aschendorf	■ Member of the Supervisory Board	Basic remuneration	50	50
		Variable remuneration	33	24
		Attendance allowances	5	4
			88	**78**
Karsten Faber	■ Member of the Supervisory Board	Basic remuneration	50	50
		Variable remuneration	33	24
		Attendance allowances	5	4
			88	**78**
Jutta Hammer[3)]	■ Member of the Supervisory Board	Basic remuneration	59	56
		Variable remuneration	33	24
		Attendance allowances	5	4
			97	**84**
Gerald Herrmann	■ Member of the Supervisory Board	Basic remuneration	50	50
		Variable remuneration	33	24
		Attendance allowances	5	4
			88	**78**
Dr. Herrmann Jung	■ Member of the Supervisory Board (since 6 May 2013)	Basic remuneration	33	—
		Variable remuneration	22	—
		Attendance allowances	4	—
			59	**—**
Dr. Thomas Lindner	■ Member of the ▪ Supervisory Board ▪ Finance and Audit Committee ▪ Nomination Committee	Basic remuneration	50	50
		Variable remuneration	33	24
		Remuneration for committee activities	25	25
		Attendance allowances	9	12
			117	**111**
Dirk Lohmann	■ Member of the ▪ Supervisory Board ▪ Nomination Committee (both since 6 May 2013)	Basic remuneration	33	—
		Variable remuneration	22	—
		Attendance allowances	4	—
			59	**—**

1) Amounts excluding VAT that is reimbursed
2) Remuneration for the financial year is payable at the end of the Annual General Meeting that ratifies the acts of management of the Supervisory Board for the financial year in question. The provisions constituted on the basis of estimates are stated for variable remuneration
3) Including supervisory board and advisory board remuneration received from consolidated companies
4) The total values reflect remuneration for all active members of the Supervisory Board during the period under review. In total, EUR 1 (48) thousand more was paid out than reserved for 2012 remuneration. The total amount for 2013 remuneration was increased accordingly

M67 **INDIVIDUAL REMUNERATION OF MEMBERS OF THE SUPERVISORY BOARD**[1]

FIGURES IN EUR THOUSAND

Name	Function	Type of remuneration	2013[2]	2012[2]
Jutta Mück[3]	▪ Member of the Supervisory Board	Basic remuneration	66	66
		Variable remuneration	33	24
		Attendance allowances	7	6
			106	**96**
Otto Müller[3]	▪ Member of the Supervisory Board	Basic remuneration	80	80
		Variable remuneration	55	44
		Attendance allowances	9	8
			144	**132**
Dr. Hans-Dieter Petram	▪ Member of the Supervisory Board (until 6 May 2013)	Basic remuneration	17	50
		Variable remuneration	12	24
		Attendance allowances	1	4
			30	**78**
Dr. Michael Rogowski	▪ Member of the ▪ Supervisory Board ▪ Personnel Committee ▪ Nomination Committee (all until 6 May 2013)	Basic remuneration	17	50
		Variable remuneration	12	24
		Remuneration for committee activities	9	25
		Attendance allowances	3	6
			41	**105**
Katja Sachtleben-Reimann[3]	▪ Member of the ▪ Supervisory Board ▪ Standing Committee	Basic remuneration	62	62
		Variable remuneration	33	24
		Attendance allowances	7	6
			102	**92**
Dr. Erhard Schipporeit[3]	▪ Member of the ▪ Supervisory Board ▪ Finance and Audit Committee	Basic remuneration	80	80
		Variable remuneration	55	45
		Remuneration for committee activities	40	40
		Attendance allowances	17	19
			192	**184**
Norbert Steiner	▪ Member of the ▪ Supervisory Board ▪ Personnel Committee (both since 6 May 2013)	Basic remuneration	33	—
		Variable remuneration	22	—
		Remuneration for committee activities	16	—
		Attendance allowances	2	—
			73	**—**
Prof. Dr. Ulrike Wendeling-Schröder	▪ Member of the ▪ Supervisory Board ▪ Personnel Committee	Basic remuneration	50	50
		Variable remuneration	33	24
		Remuneration for committee activities	25	25
		Attendance allowances	7	6
			115	**105**
Werner Wenning	▪ Member of the Supervisory Board (until 6 May 2013)	Basic remuneration	17	50
		Variable remuneration	12	24
		Attendance allowances	1	4
			30	**78**
Total[4]			**2,235**	**2,105**

[1] Amounts excluding VAT that is reimbursed
[2] Remuneration for the financial year is payable at the end of the Annual General Meeting that ratifies the acts of management of the Supervisory Board for the financial year in question. The provisions constituted on the basis of estimates are stated for variable remuneration
[3] Including supervisory board and advisory board remuneration received from consolidated companies
[4] The total values reflect remuneration for all active members of the Supervisory Board during the period under review. In total, EUR 1 (48) thousand more was paid out than reserved for 2012 remuneration. The total amount for 2013 remuneration was increased accordingly

LOANS TO MEMBERS OF BOARDS AND CONTINGENT LIABILITIES

In order to avoid potential conflicts of interest, Talanx AG or 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 balance sheet date, a mortgage loan for a member of the Supervisory Board existed with HDI Lebensversicherung AG (formerly HDI-Gerling Lebensversicherung AG) in an amount of EUR 34 (49) thousand. EUR 15 (15) thousand was repaid in the year under review; the remaining term of the loan is two years and three months, the agreed interest rate is nominally 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 Sequaero Advisors AG, Zurich, and holds a stake of 27.9% in this company. Sequaero Advisors AG held two contracts to advise Talanx AG in the year under review, as part of which total fees of EUR 121 thousand were paid for 2013. This company also provided advisory services in various areas to Hannover Rück SE in 2013 and received EUR 374 thousand in fees for 2013 in connection with this.

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

IAS 24 provides for separate presentation of remuneration components of key management personnel. Specifically, this group of persons encompasses the members of the Board of Management and Supervisory Board of Talanx AG. The remuneration of the aforementioned group of persons breaks down as follows:

M68 MANAGEMENT REMUNERATION PURSUANT TO IAS 24

FIGURES IN EUR THOUSAND

	2013	2012
Salaries and other short-term remuneration payable	10,226	10,596
Other long-term benefits payable[1]	1,224	1,239
Granting of shares and other equity-based remuneration[2]	1,224	2,654
Expenses for retirement provision[3]	1,291	952
Total	13,965	15,441

[1] The value of the portion of performance-based remuneration for members of the Board of Management to be allocated to the bonus bank for the year under review is stated

[2] The value of share awards to be granted to members of the Board of Management for the year under review is stated (for 2012 including special payment of share awards for IPO)

[3] The service cost recognised in the year under review for pensions and other post-retirement benefits is stated

REMUNERATION OF DIRECTORS AND MANAGERS BELOW THE GROUP BOARD OF MANAGEMENT

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 directors and managers below the Group Board of Management who are able to exert a material influence on the overall risk profile (risk carriers).

Remuneration for those directors and managers below the Group Board of Management who are not among the risk carriers consists of a fixed and a variable component in all divisions. Variable remuneration in 2013 accounted on average for 30% of total remuneration.

A consistent remuneration system is in place for risk carriers and managers at the first reporting level in primary insurance with effect 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 at the second reporting level with effect from 1 January 2014.

Target salary forms the basis of the performance-related remuneration system. This means the total gross salary for the year that can be achieved with good performance. The target salary is composed of a fixed component and a variable remuneration component that depends on responsibility and the function level of the individual position. Variable remuneration accounts on average for a share of 20% to 35% of the target salary.

Variable remuneration is calculated based on the extent to which certain targets in the categories of Group net income, divisional result and personal accomplishment have been achieved. These three target categories for variable remuneration are given weightings of 10%, 30% and 60% for managers in the primary insurance divisions. In Corporate Operations, personal targets are given a weighting of 70% and Group net income a weighting of 30%. Managers at the first reporting level in sales have an average variable remuneration component of 30% of target salary, of which Group net income and the divisional result each account for 10% and personal targets for 80%.

In reinsurance, a harmonised 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, the annual cash bonus, and a long-term share-based payment, the share award programme. In the market sectors, the assessment of variable remuneration is based on the elements of Group net income, divisional targets and personal targets, with weightings of 20%, 40% and 40% respectively. For managers with responsibilities in the service sector, 40% of variable remuneration is based on Group net income and 60% on the achievement of personal targets. Divisional targets and personal targets, and the extent to which they have been accomplished, are agreed upon as part of the management-by-objectives process.

EVENTS OF SPECIAL SIGNIFICANCE AFTER THE BALANCE SHEET DATE

Events that could have an influence on our assets, financial position and net income are described in the forecast and opportunities report and in the subsection of the Notes entitled "Events after the balance sheet date", on page 278.

RISK REPORT

RISK STRATEGY

Our risk strategy forms the basis for Group-wide implementation of risk management. It is, in conjunction with value-oriented management, an integral component of our entrepreneurial activities and is reflected in the detailed strategies of the various divisions. It is derived from our Group strategy and formulates the objectives of our risk management.

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

Our understanding of risk is holistic. For us, "risk" means uncertainty about future deviations, either positive or negative, from planned or expected values. Failure to meet targets that have been explicitly stated or implied is of particular significance in risk management, as positive deviations from planned or expected values (opportunities) are naturally not the focus of risk management.

A crucial aim of our risk management is to protect the Talanx Group's economic capital. This requires conscious handling of risks, taking into account their materiality and the legal framework. As part of our overriding Group strategy, our risk strategy sets out our basic stance on the recognition and handling of risks.

Our primary aim is to ensure compliance with our strategically defined risk appetite. This is determined by the following three statements.

- There is a probability of 90% that we will achieve positive net income in accordance with IFRS
- The economic capital base must correspond to at least an aggregated 3,000-year shock (probability of ruin)
- The Group's investment risks should be limited to less than 50% of the total risk capital requirement

As a secondary condition with regard to its capitalisation, Talanx is aiming for a target capital adequacy ratio that corresponds roughly to the "AA" category at Standard & Poor's (S&P). It also needs to fulfil regulatory requirements.

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

A key instrument in strategic risk management is the risk budget, which stipulates the material upper limit for the Talanx Group's risk potential, based on risk-bearing capacity and the strategically defined risk appetite. It thus reflects the Talanx Board of Management's risk appetite in this respect.

The risk budget is allocated to the Talanx Group's individual divisions as part of strategic programme planning for the following year and represents the upper limit on the risk capital available to the divisions. Talanx's system of limits and thresholds also specifies limits and thresholds for the capital adequacy ratio for the Group and divisions, which take into account the above secondary condition of a target capitalisation ratio in line with the "AA" category in S&P's capital model, among other points.

The level of security chosen (99.97%) exceeds the regulatory level required under Solvency II (99.5%) and ensures that the Group will in all probability also be able to cope with any new risks that arise.

Both our Group strategy and our risk strategy are subject to an established annual review process. Through this scrutiny of our assumptions and, if necessary, adjustment of the underlying strategy, we seek to ensure that our strategic guidelines are appropriate at all times and that actions are based on adequate information.

KEY ELEMENTS OF THE RISK MANAGEMENT SYSTEM

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:

M69 GROUP RISK MANAGEMENT SYSTEM

Management element	Key risk management tasks
Supervisory Board	■ Advising and monitoring the Board of Management in its management of the company, inter alia with respect to risk strategy and risk management
Board of Management	■ Overall responsibility for risk management ■ Defining the risk strategy ■ Responsibility for proper functioning of risk management
Risk Committee	■ Risk-monitoring and coordinating body, charged especially with the following tasks: ■ Critical observation and analysis of the risk position of the Group as a whole, with particular attention paid to the risk budget approved by the Board of Management and the risk strategy ■ Monitoring of management measures within the Group with a focus on risks that could threaten the Group's continued existence
Chief Risk Officer	■ Responsible for holistic monitoring across divisions (systematic identification and assessment, control/monitoring and reporting) of all risks that are material from a Group perspective ■ Chairman of the Risk Committee ■ Option to participate in meetings of the Board of Management when there are items on the agenda relating to risk
Central Risk Management	■ Group-wide, independent risk monitoring function ■ Methodological competence, inter alia for ■ Development of processes/methods for risk assessment, management and analysis ■ Risk limitation and reporting ■ Risk monitoring and quantifying the risk capital needed across the Group
Local Risk Management	■ Risk monitoring function in the divisions ■ Observance of the centrally defined guidelines, methods and processes and systems of limits and thresholds that serve as a framework for local implementation, monitoring and reporting
Compliance	■ Analysis of compliance risk, based on early identification, assessment and communication of relevant changes in the legal framework ■ Establishment and refinement of suitable structures for ensuring compliance with applicable legal standards and the rules applied by the Group
Group Auditing	■ Process-independent review of the functional areas of the Group

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

RISK MANAGEMENT PROCESS

The Talanx Group and its divisions cover an extensive range of products, from insurance to financial and other services. Accordingly, Talanx AG and its subsidiaries use a diverse range of methods and tools to monitor and manage their risks. The Talanx Group follows a central/local approach. Within the framework of the internal model (for Solvency II), the Group is responsible for risk categories that are of Group-wide relevance and to a large extent for the operation of models for these risk categories. By contrast, the divisions operate those models that map risks relating to specific risk carriers. These models are developed jointly by both levels, ownership of the models being vested with the Group holding company. The Group Auditing department and Group Risk Management carry out audits and validation procedures to ensure the adequacy of the models used and their compliance with Group guidelines.

The overall risk management process encompasses the identification, evaluation, analysis, management and monitoring of risks and also risk reporting.

We identify risks throughout the Group using key indicators and various risk surveys. Qualitative risks are systematically recorded using software tools. Risks spanning several divisions, such as compliance risks, are addressed by involving the segments or experts concerned. A comprehensive risk categorisation system specific to Talanx is in place to ensure that all risks are identified. This forms the basis for risk identification. Applicable methods and procedures are documented and are subject to in-house adequacy checks and reviews by Group Auditing.

In addition to this software-based risk identification procedure, Group Risk Management holds quarterly meetings with local risk management experts in the divisions and the Group's internal service companies. These risk meetings support the analysis and evaluation of risks at the level of Talanx AG and the divisions. An upward referral procedure has been established for bringing significant changes in the risk position to the attention of Group Risk Management, ensuring immediate risk management at the level of Talanx AG.

In order to evaluate and analyse risks, Group Risk Management uses an internal risk capital model (TERM – Talanx Enterprise Risk Model) to derive the risk situation of the Talanx Group from central and local risks that have been identified. We use this internal risk capital model to measure the risks. Since 2012, our main risk measurement has been based on the internal TERM model.

The Talanx Group has been in the preliminary application phase for approval of its internal model in accordance with Solvency II since 2008. The Federal Financial Supervisory Authority (BaFin) has been conducting extensive audits at Talanx AG and in various divisions as part of this preliminary application phase, a process that is still ongoing. Risks that are not considered material from the Group's perspective are in some cases modelled in TERM on a simplified basis, using standard methods in accordance with Solvency II. The internal risk model covers a time horizon of one calendar year and makes allowance for the effects of correlations between Group companies and between risk categories. The scope of consolidation used for the internal model essentially corresponds to that used in the Annual Report. In preparation for the application of Solvency II, however, solvency capital requirements for occupational pension scheme providers are calculated in accordance with the relevant sector requirements.

With respect to risk limitation within our central system of limits and thresholds, maximum values have been specified for limiting, managing and monitoring risks that could threaten the survival of the Group. In this context, limits and thresholds for material risk categories that can be quantified are designed to operationalise risk management and monitoring. Material risks that are impossible or difficult to quantify (such as strategic risks) are primarily managed and monitored using appropriate processes and practices.

The switch to a TERM-based limit and threshold system will be completed gradually in 2014.

In the area of risk monitoring, we make a distinction between process-integrated independent monitoring and process-independent monitoring. Process-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 carried out mainly 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 implications and to ensure adequate in-house 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 take action to manage risk; the Supervisory Board is also regularly advised of the risk situation. Material changes in the risk position must be reported to the Board of Management of Talanx AG immediately.

The potential implications of risks are not only to be documented but must also be incorporated into the annual planning of Group companies, thereby making it possible to allow for the risks of future development and to take appropriate countermeasures in a timely manner. Plans drawn up by all Group segments and the Group as a whole are discussed and approved by the Board of Management and Supervisory Board of Talanx AG, which draws up its own results planning on this basis. The purpose of this planning process is to make allowance not only for future developments but also for the interdependencies between the planning of each subsidiary and that of Talanx AG. Both operational and strategic considerations are factored into planning in the context of the performance management cycle.

Our decision-making and monitoring processes serve not only to satisfy the extensive regulatory requirements placed on the reporting and information systems but also extend to the preparation and examination of annual and consolidated financial statements, the internal control system and the use of planning and controlling tools, and make use of the possibilities offered by modelling with internal models.

Standard & Poor's upgraded our risk management activities in the area of primary insurance from "adequate with positive trend" to "strong" in 2012, and confirmed this assessment in 2013. S&P assessed Hannover Re's risk management as "very strong".

Talanx Asset Management GmbH and Ampega Investment GmbH, which are in charge of managing investments, are regularly certified in accordance with international audit standard ISAE 3402. This certification attests to an adequately configured control system and its effective implementation. This audit was carried out again in 2013.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM IN THE CONTEXT OF FINANCIAL REPORTING

Risk management within the Talanx Group has a central/local organisational structure. 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 Group financial reporting process can be described as follows:

- There is a clear management and corporate structure. Key functions that span multiple areas are managed centrally
- The functions of the main areas involved in the financial reporting process, Finance and Accounting and Controlling, are clearly separated. Areas of responsibility are unambiguously assigned (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, the systems concerned run on standard software
- An adequate system of guidelines (e.g. on recognition and measurement of assets and liabilities, work procedures) has been set up and is constantly updated
- Controls have been implemented in the financial reporting processes and workflows. Bookkeeping data that are received or forwarded are checked for completeness and correctness by the members of staff responsible. The peer-review principle is consistently applied. In addition, programmed plausibility checks are run using database-supported software
- 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, whereby they are checked to ensure that they are adequate and to determine whether any adjustments are necessary

Processes relating to the organisation and execution of consolidation tasks and the preparation of the consolidated financial statements of Talanx AG, together with associated checks, are presented in comprehensive ICS documentation, which is regularly reviewed and optimised in the light of compliance considerations.

Potential risks arising from the Group financial reporting process are identified and assessed by Group Accounting. Any action required is decided based on this. The risks are included in the Group's risk survey and are monitored by Group Risk Management.

The Group's in-house IFRS recognition and measurement rules are compiled in an accounting manual, which is available to all Group companies in computerised 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 consistent and correct application of International Accounting Standards on a Group-wide basis. It is regularly updated and modified as standards evolve. Supervision of local accounting units at subsidiaries by staff in Group Accounting ensures compliance with the rules contained in the manual.

Talanx AG's consolidated financial statements are drawn up at the parent company's headquarters in Hannover on the basis of IFRS packages requested and received from the contributing subsidiaries. The subsidiaries themselves are responsible for compliance with Group-wide financial accounting regulations and for the proper and timely running of their financial reporting processes and systems; investments of German and the majority of non-German subsidiaries are for the most part managed centrally by Talanx Asset Management GmbH.

The companies included in the consolidated financial statements use an Internet-based IT application for reporting. The items of the balance sheet, statement of income, statement of comprehensive income, cash flow statement, statement of changes in shareholders' equity and Notes as well as other data with a bearing on consolidation that are stored in a database are uploaded to the consolidation system via interfaces and processed in this system. Internal transactions within the Group are verified through prior reconciliation processes and consolidated where necessary. Written instructions exist in this regard to ensure that an appropriate procedure is followed. Furthermore, the consolidation system incorporates an approval process for manual postings that ensures compliance with the peer-review principle while taking certain value limits into account.

The independent auditor examines Talanx AG's consolidated financial statements as at the balance sheet date, and also reviews the Group's quarterly interim financial statements and the IFRS packages from consolidated companies.

RISKS OF FUTURE DEVELOPMENT

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

- underwriting risks
- default risks in insurance business
- investment risks
- operating risks
- other risks

The results of Market Consistent Embedded Value (MCEV) calculations and the assessment of risks based on our internal risk capital model TERM as at the end of 2013 will become available in the first half of 2014 and will be published on the Talanx Group's website.

EFFECTS OF THE ECONOMIC AND PARTIAL SOVEREIGN DEBT CRISIS

The sovereign debt crisis in parts of the Eurozone, a weak global economy, the need to ensure stability in the banking sector and the low interest rate policy resulting from all these concerns are continuing to shape the market environment.

The German economy is still quite stable despite high levels of sovereign debt and difficulties encountered in efforts to reschedule and write off debts in the Eurozone.

Problems arising from the sovereign debt crisis in the Eurozone remain largely unresolved. However, progress has been achieved in some cases with cost-cutting programmes and thus with the restructuring of public finances.

As at 31 December 2013, the Talanx Group held government bonds with a market value of EUR 1.5 billion from the GIIPS countries (including Greece at EUR 6 million, Italy at EUR 1,144 million, Spain at EUR 107 million, Ireland at EUR 258 million and Portugal at EUR 20 million, excluding unit-linked investments for the account and risk of holders of life insurance policies), which may lead to spread-related or rating-related burdens. Thanks to support measures at European level (the European Financial Stability Facility), however, there is no elevated risk of default in the near future on bonds from the GIIPS countries, with the exception of Greece.

With its system of limits and thresholds, together with investment guidelines, the Group is subject to precisely defined limits that aim to avoid risks relating to individual debtors that could jeopardise the Group's survival.

The crisis and the prospect of regulatory innovations are increasingly driving a tendency towards more exacting capital requirements on the part of supervisory authorities. This trend could also affect some Group companies and require capital measures to be taken.

The Financial Stability Board (FSB) has published a list of insurance companies classified as relevant to the global system. These insurance companies will be subject to "tighter regulation" and will need to draw up restructuring and liquidation plans by the end of 2014. Additional capital reserves for risks that are systemically relevant are also planned. The FSB has not classified the Talanx Group as systemically relevant worldwide. Unforeseen costs could arise for the Talanx Group if this were to change. (There are no reinsurance companies on the FSB's list as yet. A decision on their importance to the system will be made in 2014.)

Should the current low interest rate level be sustained or indeed should further interest rate cuts ensue, this would give rise to a considerable reinvestment risk (mapped in MCEV calculations due to their design) for life insurance companies offering traditional guarantee products, since it would become increasingly difficult to generate the guaranteed return – even if the Group reduces this interest guarantee risk primarily by means of interest rate hedges and by extending durations on the assets side, with the addition of a moderate volume of higher-yield securities including selected GIIPS issues (cf. section "Material underwriting risks"). Moreover, there may be a decrease in the MCEV of primary life insurers, especially in the context of further declines in interest rates and higher volatilities.

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 European peripheral countries (GIIPS), but also owing to much stricter regulatory requirements for risk capital, which are forcing banks to seek substantial amounts of fresh capital and/or to contract their balance sheets. A cut-back in lending by banks could also affect Talanx AG and constitute a liquidity risk.

However, for reasons associated with the business model, the liquidity risk is of less significance to the Talanx Group (compared with the banking industry), because regular premium payments and interest income from investments, together with its liquidity-conscious investment policy, provide Talanx with an adequate supply of liquid funds. Extensive unused lines of credit are also available. Liquidity risks may arise, however, 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. The holding company Talanx AG may face liquidity risks due to a potential discrepancy between incoming and outgoing payments. Talanx AG holds adequate levels of liquidity reserves and credit lines promised by banks to deal with unexpected liquidity requirements. In addition, Talanx AG holds liquid assets that can be sold if necessary.

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 sectors. In addition to the information provided below, the Notes contain a detailed and quantified description of underwriting risks in the section "Nature of risks associated with insurance contracts and financial instruments" in the subsections "Management of underwriting risks in property/casualty insurance" (cf. 191 et seq.) and "Management of underwriting risks in life/health insurance" (cf. page 194 et seq).

Underwriting risks in property/casualty business (primary insurance and reinsurance) derive principally from the premium/loss risk and reserving risk. Premium/loss risk arises because insurance premiums fixed in advance are used to pay indemnifications at some stage in the future, the amount of which, however, is initially unknown. Actual claims experience may therefore diverge 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. The 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 only incomplete data are available regarding claims from previous insurance periods. The forecasting risk refers to the risk that the probability distribution of total claims may change after the estimate is made, for example due to a higher inflation rate.

The Talanx Group manages and reduces all components of the premium/loss risk first and foremost through claims analyses, actuarial modelling, selective underwriting, specialist audits and regular review of the claims experience and by taking recourse to appropriate reinsurance cover. For details of the loss triangles, cf. item 21 "Loss and loss adjustment expense reserve" in the Notes. The subsection "Management of credit risk associated with insurance contracts" in the section "Nature of risks associated with insurance contracts and financial instruments", page 198 et seqq., provides details of the credit status of reinsurers.

External actuaries regularly analyse the effects of possible stress scenarios on the Talanx Primary Group, so that the impact of an unexpected change in inflation on the Group's loss provisions can be assessed in more detail. Hannover Re has taken out inflation swaps (zero coupon swaps in USD and EUR) to hedge some inflation risks. These derivative financial instruments hedge some of the loss reserves against inflation risks.

The second underwriting risk in property/casualty business, namely reserving risk, refers to the possibility that technical provisions may not suffice to pay in full claims that have not yet been settled or reported. This may then give rise to a need to establish additional provisions. In order to manage this risk, companies belonging to the Talanx Group measure their provisions prudently. They take into account not only the claims information provided by their clients but also insights from their own claims investigations and experience. Furthermore, an IBNR (incurred but not reported) reserve is constituted for claims that have probably already occurred but have not yet been reported (in their full amount).

The level of reserves is regularly reviewed – not only internally but also by external actuaries – and external expert assessments of the reserves are commissioned, to minimise the reserving risk. With regard to the run-off results of loss provisions, please refer to our comments in the Notes under "Notes to the consolidated balance sheet", item 21.

In the case of the reserve for pension benefits, which forms part of the loss and loss adjustment expense reserve, we also monitor interest rate trends, which can result in interest rate risk. A fall in actuarial interest rates could have a negative effect on earnings, at least in local financial reporting systems, owing to the need to establish a reserve.

The following paragraphs describe risks associated with individual classes of property/casualty insurance and then discuss risks in life primary insurance and life/health reinsurance.

Under liability insurance policies, we grant the policyholder and any other persons included in the coverage protection against claims for damages asserted by third parties. Indemnification is normally provided for bodily injuries and property damage, although purely financial losses are also insurable. This line also includes motor third-party liability insurance. The agreed sums insured constitute the policy limits. The frequency and amount of claims can be influenced by a number of factors. For instance, new precedents set by court rulings may increase the number of cases in which claims are brought before the courts, with corresponding implications for indemnity payments. Risks may also arise from inflation and changes in interest rates, since some claims are settled over a very long period of time. Provisions that have been constituted may therefore not suffice to meet future claims payments as a result of inflation. Under liability insurance policies, the (re)insurer is liable for all insured events that occur during the policy period, even if the harm caused is not discovered until after the policy period has ended. We therefore establish loss provisions for liability policies not only for claims of which we have already been notified, but also for those that have been incurred but not yet reported (IBNR). The actuarial methods used to calculate these provisions may involve a risk of error in the underlying assumptions.

Accident insurance policies provide cover against the economic repercussions of accidents. Depending on the consequences of the accident and the policy concerned, Group companies typically pay a daily allowance, a lump-sum disability benefit or a disability pension, or a death benefit. Provisions for pension benefits are calculated on the basis of life actuarial models.

Group (re)insurance companies calculate their premiums for liability and accident policies using empirical values and actuarial calculations. They also manage these risks through their underwriting policy. Underwriting guidelines, which set out inter alia underwriting exclusions and limits, define criteria for risk selection. These underwriting guidelines are binding for underwriters; they are reviewed annually and modified as necessary. The risk of peak exposures is also reduced by taking out appropriate reinsurance cover. Furthermore, the adequacy of provisions is regularly reviewed.

Property insurance policies provide indemnity for damaged or destroyed property in the event of a claim. The amount and extent of losses covered by such policies are determined in particular by the cost of rebuilding and restoration or the compensation payable for building contents; in industrial and commercial insurance, losses resulting from business interruption are also covered. Benefits are, however, limited by the sum insured. Benefits under motor insurance policies may be paid for replacement or repair of a destroyed or damaged vehicle.

Underwriting risks may arise due to the fact that incorrect assumptions used in calculations, inadequate accumulation control or errors of judgement in estimating future claims may result in key cash flow movements diverging from the expectations on which the calculation of the premium was based. Risks arising from natural hazards are of particular significance at the Talanx Group in this context. Climate change in particular can lead to frequent and 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, we 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, there are underwriting exclusions and limits that serve as criteria for risk selection. Retentions also apply in some lines. Carefully selected reinsurance cover minimises peak exposures caused by substantial individual and accumulation risks.

Comprehensive scenario calculations are performed for the Hannover Re Group in particular, to identify natural hazards accumulation risks – particularly 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 financial quality – is another vital tool for limiting underwriting risks.

In life primary 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 amount 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. While the premium for a given benefit is fixed at the inception of the policy for the entire policy period, the underlying parameters (interest rate level, biometric assumptions) may change. This is even more applicable to the general legal framework underlying the contractual relationship. Changes that can aggravate the risk in this regard are discussed under "Material operating risks."

Biometric actuarial criteria 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 data is therefore regularly reviewed. Epidemics, a pandemic or a worldwide 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, which increase longevity – with the result that insureds draw benefits for a longer time than calculated.

Reserves calculated on the basis of assumptions regarding the future development of biometric data such as mortality or occupational disability are set up to ensure that commitments under these policies can always be met. Specially trained life actuaries use safety margins to make sure that the actuarial bases also make sufficient allowance for risks of change.

In addition, life insurance policies entail lapse risks. In the event of an unusual accumulation of cancellations, for example, the available liquid assets may not be sufficient to cover the benefits payable. This may lead to losses being realised on the unplanned disposal of assets. For this reason, the Group's life insurers invest a sufficiently large asset portfolio in short-term holdings and regularly analyse the situation with regard to cancellations. They also regularly match and control the duration of their assets and liabilities. Furthermore, accounts receivable from insurance intermediaries may prove to be irrecoverable and be lost in the event of cancellation. Insurance intermediaries are therefore carefully selected. Cancellation may also create a cost risk if new business drops off significantly and fixed costs – unlike variable costs – cannot be reduced in the short term. We monitor trends resulting from the financial market crisis and the situation in the insurance sector in connection with this. The general market environment is difficult, particularly in the area of retirement products, and is marked by a tendency towards a decline in new business. Cost controlling and a focus on variable sales costs through distribution channels such as brokers limit this risk.

In the case of life insurance policies with guaranteed interest payments, an interest guarantee risk arises if a guaranteed return on the savings element of the premium is agreed when the policy is taken out. To generate this guaranteed return, insurance premiums must be invested under appropriate terms on the capital market. However, the capital market fluctuates over time, which means that future investments are subject to the risk of poorer terms. The recent reform of the Insurance Contract Act (VVG) in Germany exacerbated the interest guarantee risk by entitling policyholders to a share in the valuation reserves upon termination of the policy. Moreover, the duration of the investments is generally shorter than the term of the insurance contracts, giving rise to a reinvestment risk.

The fact that interest rates have remained low for several years, partly owing to the economic crisis and sovereign debt crisis in parts of the Eurozone and the associated low interest rate policy, has increased interest guarantee risk and reinvestment risk.

In particular, this poses a risk to the Group's life insurers and occupational pension scheme providers that draw up financial statements according to the German Commercial Code (HGB), in that they may need to boost provisions for interest payments. The amendment of the Mathematical Provisions Ordinance (Deckungsrückstellungsverordnung) by the Federal Ministry of Finance (BMF), which came into effect in March 2011, has resulted in the need to allocate additional provisions since the 2011 financial year.

It will be possible to partly offset expenses for the allocation of additional provisions by releasing valuation reserves that have accrued in parallel. There is, however, a risk of a discrepancy between the increase in the amount needed for the additional interest reserve and the change in valuation reserves, in terms of either the amount or the timing of the change. This would be the case in particular if there were a significant short-term increase in interest rates.

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

The Group reduces the interest guarantee risk primarily through regular analyses of its assets and liabilities, by constantly monitoring the investment portfolios and capital markets and by taking appropriate countermeasures. Interest rate hedging instruments such as book yield notes and forward purchases are also partly used. For a large part of our life insurance portfolio, the interest guarantee risk is reduced through contractual provisions. The surplus participations paid in addition to the guaranteed interest rate can be adjusted to the situation on the capital market. Under unit-linked life insurance policies, investment risks are borne by policyholders, who also profit from the associated opportunities. However, investment risks could be shifted back onto life insurers as a consequence of adverse legal developments.

There is also an interest rate risk in connection with guaranteed surrender values. A rapidly rising interest rate level, for example, may lead to unrealised losses. If contracts were terminated prematurely, policyholders would be entitled to the guaranteed surrender values but would not share in any unrealised losses incurred. Upon disposal of the corresponding investments, the unrealised losses would have to be borne by the life insurers, and in theory it is possible that the fair value of the investments may not suffice to cover the guaranteed surrender values. In addition, the change in the distribution of acquisition costs in compliance with the amended Insurance Contract Act leads to higher surrender values in the initial phase.

The biometric risks described above are especially important in life and health reinsurance, particularly catastrophe risks, such as in the event of pandemics. Reserves in life and health reinsurance are based mainly on the information provided by our ceding companies. Reliable biometric actuarial bases are used to check the plausibility of these figures. Quality assurance measures ensure that reserves calculated by ceding companies in accordance with local financial reporting principles satisfy all requirements with respect to the calculation methods used and assumptions made (e.g. use of mortality and morbidity tables, assumptions regarding the lapse rate). The Group writes new business in all regions in compliance with globally applicable 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 underwriting guidelines, the Group minimises the potential credit risk associated with the insolvency or deterioration in the financial status of cedants. Regular reviews and holistic analyses are performed whenever new business activities are launched or international portfolios taken over (e.g. with a focus on lapse risks). The interest guarantee risk that is so important in life primary insurance is of little relevance in life and health reinsurance, owing to the structure of the contracts.

A key risk management tool in the areas of life insurance and life/health reinsurance is systematic monitoring of the Market Consistent Embedded Value (MCEV). Sensitivity analyses highlight areas where the Group is exposed and provide pointers as to which areas to focus on from a risk management perspective.

DEFAULT RISKS IN INSURANCE RECEIVABLES

Accounts receivable on insurance business always entail a risk of default. 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.

The Group counteracts the risk of default by reinsurers and retrocessionaires by carefully selecting them with the aid of Credit Committees made up of experts, by constantly monitoring their credit status, monitoring the amount ceded to each reinsurance partner and – where necessary – taking appropriate measures to secure receivables. Depending upon the nature and expected run-off period of the reinsured business and subject to a minimum capital adequacy requirement, reinsurers and retrocessionaires are selected on the basis of our own credit assessments and the minimum ratings assigned by the rating agencies Standard & Poor's and A.M. Best.

A rating information system that can be accessed throughout the Group ensures consistent and uniform use of rating information relating to the balance sheet date.

The default risk for accounts receivable from policyholders is countered first and foremost by means of an effective dunning process and the reduction of outstandings. Intermediaries are subject to credit checks. General bad debt provisions are also established to allow for the default risk.

In addition to the above remarks, cf. the subsection "Management of credit risk associated with insurance contracts" in the section "Nature of risks associated with insurance contracts and financial instruments" in the Notes, page 198 et seqq.

MATERIAL INVESTMENT RISKS

Risks associated with investments consist most notably of market price, creditworthiness and liquidity risks and constitute an important risk category for the Talanx Group.

They must be seen in the context of investment policy. This is governed within the Talanx Group by investment guidelines and the regulatory framework that applies to each individual company.

In the interests of policyholders and with a view to accommodating future capital market requirements, our investment policy is essentially guided by the following goals:

- optimising the return on investments 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 is the principle of separation of functions – i. e. maintaining a distinction between Portfolio Management, Settlement and Risk Controlling. Risk Controlling is organisationally and functionally separate from Portfolio Management and is responsible primarily for monitoring all risk limits and evaluating financial products. Management and control mechanisms are geared closely to the standards adopted by the Federal Financial Supervisory Authority (BaFin) and the respective 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 by the principles set out in § 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 of Talanx Asset Management GmbH and the Chief Financial Officer of each company 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.

With regard to the scope and extent of these risks, cf. our comments in the Notes in the section "Nature of risks associated with insurance contracts and financial instruments" under "Risks associated with investments", page 201, in addition to the subsections below.

MARKET PRICE RISKS

Market price risks derive from potential losses due to adverse changes in market prices and may be attributable to changes in interest rates, equity prices and currency exchange rates. These can lead to impairments or result in losses being realised upon disposal of financial instruments.

Our portfolio of fixed-income securities is exposed to the interest rate risk. Declining market yields lead to increases and rising market yields to decreases in the market value of the fixed-income securities portfolio. The credit spread risk should also be mentioned. The credit spread refers to the interest rate differential between a bond entailing a risk and a risk-free bond of the same quality. As with changes in pure market yields, changes in these risk premiums, which are observable on the market, result in changes in the market values 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, cf. section "Material underwriting risks".

(Unsecured) equity price risks derive from unfavourable changes in the value of equities, equity derivatives or equity index derivatives held in the portfolio.

Currency risks result from exchange rate fluctuations – especially if there is a currency imbalance between the technical liabilities and the assets. To manage currency risk, we check that matching currency cover is maintained at all times. Risk is limited by investing capital wherever possible in those currencies in which obligations under our insurance contracts are to be fulfilled.

Investments in alternative asset classes such as private equity and hedge funds are limited and regularly monitored using a conservative control mechanism. The hedge funds are entirely transparent for individual companies and are reviewed daily with regard to liquidity, leverage and exposure.

Real estate risks may result from unfavourable changes in the value of real estate held either directly or through fund units. They may be caused by a deterioration in the qualities of a particular property or by a general downslide in market values (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. Risk control for indirect real estate investments, as with private equity funds, is based on regular monitoring of the development and performance of funds.

We reduce potential market price risks through a variety of risk-control mechanisms. One important measure for monitoring and managing market price risks is constant analysis of the value at risk (VaR), including the liabilities side. The VaR is determined on the basis of historical data, e.g. the volatility of market values and the correlation between risks. As part of these calculations, the potential decline in the market value of our portfolio is simulated with a given probability and within a certain period. Stress tests are another vital risk-control tool. Experts at Talanx Asset Management GmbH simulate possible market changes that could result in significant price and interest rate losses for the bulk of our securities. In addition, market price risks are identified using enterprise-specific stress tests and those required by regulators with the corresponding prescribed stress test parameters.

For further information on market price risks, cf. the subsection "Management of risks associated with investments" in the section "Nature of risks associated with insurance contracts and financial instruments" in the Notes, page 201.

RISKS ASSOCIATED WITH DERIVATIVE FINANCIAL INSTRUMENTS

The Talanx Group enters into derivative transactions, in particular to hedge against price risks or interest rate risks affecting existing assets, to prepare for the subsequent purchase of securities or to generate additional earnings on existing securities. The Group also uses OTC derivatives on a minor scale, which may involve a counterparty risk. In addition, Hannover Re has used inflation swaps to hedge some inflation risks arising from technical loss reserves.

The Group companies' full Boards of Management decide on the nature and scope of investments in derivative financial instruments.

Selection of counterparties with a good credit rating prevents a significant credit risk. Internal guidelines also regulate the use of derivative products to ensure the most efficient and risk-free 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 parameters of investment guidelines and statutory provisions governing the use of derivative financial instruments and structured products. Derivative positions and transactions are specified in detail in 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 security agreements.

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

CREDIT RISKS

Counterparty default or credit risks refer to a potential deterioration in the financial situation of debtors, resulting in the risk of their becoming 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. Credit ratings assigned by agencies such as S&P and Moody's are a key pointer for investment decisions taken by Portfolio Management. If a rating cannot be obtained in this way, an in-house rating is determined. This is done by applying premiums and discounts to the issuer's rating or to the ratings for other securities from the same issuer. In addition to the default probabilities associated with the respective rating class, further criteria for risk measurement and management are the type of product, the expected recovery ratio and the remaining term to maturity. The "credit value at risk" is determined as a further risk indicator, defined as the unanticipated loss given a holding period of one year and a target confidence level of 99.5%.

Counterparty default risks are controlled by applying various limits at the portfolio, rating class, issuer and issue levels. The exceeding of limits (violation of limits) triggers defined referral measures.

For further remarks, cf. the subsection "Management of risks associated with investments" in the section "Nature of risks associated with insurance contracts and financial instruments" in the Notes, page 201.

LIQUIDITY RISKS

We understand liquidity risks 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 (at least not without delay) or to close open positions (without accepting price mark-downs) due to the illiquidity of the markets.

As a rule, the Group continuously generates significant liquidity positions because premium income normally accrues well before claims payments and other benefits need to be rendered.

We counteract liquidity risks 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, for example, on the expected due dates, making allowance for the run-off pattern of reserves.

As an aid to monitoring liquidity risks, each type 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 where necessary. The data are then included in the standardised portfolio reporting provided to Chief Financial Officers.

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 securities that are not very liquid. Minimum limits in particular are based on the timeframe of technical payment obligations. 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 Chief Financial Officers and Portfolio Management.

Liquidity risks can arise at the level of Talanx AG for two reasons, the refinancing of liabilities to third parties as they fall due and the need for capital at subsidiaries, and generally come about due to discrepancies between incoming and outgoing payments. With regard to refinancing, there is a risk in particular that it will be possible to obtain liquid funds only at high 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 liquidity plans over a period of twelve months and three-year liquidity forecasts, which are presented to the Group Board of Management at regular intervals. Talanx AG holds adequate levels of liquidity reserves and credit lines promised by banks to deal with unexpected liquidity requirements.

As part of loan agreements with banks, Talanx AG has entered into commitments in line with common market practice (covenants). To prevent the outstanding loan amounts from being called in owing to failure to comply with obligations, the company has set up a system for continuous monitoring.

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

The Group also optimises the availability of liquid funds using cash pools within the respective subsidiaries and Talanx AG, thus facilitating management of cash inflows and outflows at the various Group companies.

Further information on liquidity risks can be found in the subsection "Management of liquidity risks" in the section "Nature of risks associated with insurance contracts and financial instruments" in the Notes, page 207 et seq.

MATERIAL OPERATING RISKS

For us, this category encompasses the risk of losses occurring due to the inadequacy or failure of internal processes or as a result of events triggered by employee-related, system-induced or external factors. Operating risk also includes risks relating to data protection and antitrust law and other legal risks.

Multifaceted, cause-targeted risk management and an efficient internal control system minimise risks associated with business activities in general, members of staff or technical systems. In addition to Group Auditing, the Compliance function also bears responsibility for overseeing compliance with applicable laws and with external and in-house guidelines.

Legal risks may arise in connection with contractual agreements and the broader legal environment, especially with respect to business-specific imponderables of commercial and tax law as they relate to a life/health and property/casualty (re)insurer that operates internationally. Primary insurers and reinsurers are also dependent on general political and economic conditions prevailing on their respective markets. Legal risks play an important part in the area of life insurance in particular. Talanx's Board of Management monitors them continuously as part of an ongoing exchange of information with local management.

Various 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. The European Commission presented a proposal for a directive on a financial transaction tax in February 2013. This is to be introduced by some member states (including Germany). Although the draft directive states that the transaction tax will be introduced in 2014, this is thought to be unlikely. However, it is thought to be very likely that the tax will be introduced in 2015. The precise form that the financial transaction tax will take, particularly with regard to the inclusion of pension insurance products and the associated investments, is still 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 relevant investments, based on minimum tax rates.

Furthermore, the revision of the general process for measuring loss provisions may result in tax risks for the Group. The Federal Ministry of Finance has for the time being extended the previous regulation, which was limited to financial years ending before 1 January 2014, by two years. The expiry of the general regulation involves a risk that companies in the Talanx Group may achieve higher profits solely due to tax reasons.

There are also proceedings pending before the courts that could have implications for the entire German insurance industry and hence also for the Talanx Group once their outcome is legally final. This applies in particular to the area of life insurance.

Such issues that are to be decided before the courts include, for example, the question of how to deal with a monthly, quarterly or half-yearly method of payment in insurance contracts. Court decisions vary with regard to treatment of surcharges for instalment payments, although higher regional courts appear to have ruled unanimously in favour of insurers. In a judgment relating to an individual action, issued on 6 February 2013, the Federal Court of Justice decided in favour of the insurer. Moreover, appeals have been withdrawn by the consumer association Verbraucherzentrale Hamburg in two lawsuits involving class actions. Another lawsuit is continuing, however. Elements that have so far been strongly challenged in court have been adjusted in new business as a precaution and for reasons of consumer-friendliness. This is not possible for in-force business.

With regard to the question of whether § 5a Para. 2 Sentence 4 of the Insurance Contract Act (VVG) regarding the policy model conforms to European law, the European Court of Justice complied with the final motion of the Advocate-General on 19 December 2013 and ruled that the limitation period established in the above regulation was not in keeping with European directives law. The European Court of Justice has not commented explicitly on whether the policy model conforms to European law. The Federal Court of Justice must now decide what conclusions to draw regarding the underlying case. The Federal Court of Justice is expected to grant policyholders a right of objection irrespective of the expiry of the deadline in § 5a Para. 2 Sentence 4 VVG. However, it is unclear what legal consequences this will have with regard to the possibility of complete rescission of the insurance contract.

The Federal Court of Justice also issued various judgments in 2012 and 2013 on the offsetting of acquisition costs when calculating surrender values. There is a risk in connection with this that the reserves already created may not be adequate to pay the minimum surrender values set by the courts.

In accordance with § 153 III 3 VVG, policyholders are entitled to a share in valuation reserves as well as the surplus paid on an ongoing/annual basis and the surplus paid upon termination of the policy, provided that no exclusion applies. The majority of life insurers grant a "minimum share in 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, the customer will receive a share in valuation reserves in addition to the minimum share upon termination of the policy. If the valuation reserves are low, it is possible that only the minimum share will be paid. This practice is coming under increasing criticism from consumer protection groups and customers. Proceedings are also already underway against an insurance company, and the outcome could have far-reaching consequences. If the outcome of the lawsuit is negative, (subsequent) settlement in favour of the policyholder may lead to "losses". Valuation reserves would have to be paid if this occurs, despite the existence of a notional minimum share (possibly applying an amount for valuation reserves for the following month).

Legislation in other countries can also give rise to new risks. The "Foreign Account Tax Compliance Act" (FATCA) was passed in the USA in March 2010. The aim of this law is to combat tax evasion by persons and companies liable for tax in the US. All non-US financial service providers will have an obligation to identify and report on any customers and business partners liable for tax in the USA to the US tax authorities (Internal Revenue Service, IRS) from 1 July 2014. Any non-US financial institutions that do not comply with this will face a 30% penalty tax on all income from US sources (from

2014) and all proceeds from the sale of US investments (from 2017). Products that allow investors to invest capital and obtain income are relevant to FATCA. These include insurance products with investment components. The USA is aiming to conclude agreements with the countries concerned (intergovernmental agreements, IGA) to legitimise the forwarding of data to the US authorities. The requirements of FATCA are currently coming into conflict with data protection regulations in a large number of countries. In countries with no intergovernmental agreement, financial institutions are to conclude an agreement on the provision of data directly with the IRS. However, financial institutions in countries with an intergovernmental agreement are exempt from this penalty tax. An intergovernmental agreement has already been concluded in Germany. FATCA is being implemented in German companies belonging to the Talanx Group in accordance with the schedule. As there are many countries in which Group companies are affected and no IGA has been concluded or the legal requirements for FATCA compliance have not yet been fulfilled, we are continuing to keep a close eye on developments relating to FATCA in order to reduce risks.

We are closely monitoring further potential developments in rulings of the Federal Court of Justice and changes in the law that could affect Group companies. Irrespective of the question of whether they are legally binding, individual court rulings can lead to reputational risks.

Like the entire insurance industry, the Talanx Group is also facing far-reaching changes against the backdrop of reforms of regulatory standards, especially in the context of IFRS and Solvency II. We are tracking the accounting and regulatory changes closely, and have identified the more exacting associated requirements and refined our risk management accordingly, in order to satisfy more complex and extensive guidelines in future. The Group legal department is supervising this closely with the aim of ensuring that legal guidelines for risk management are interpreted consistently throughout the Group.

The "full fair value" principle required by Solvency II leads to severe fluctuations in the capital requirements of German life insurers for long-term guarantees. Long-term guarantees must be taken into account when calculating the market value of underwriting commitments and must be backed up by equity. Persistently low interest rates are further exacerbating the situation, as life insurers face the challenge of generating the contractually agreed return for commitments with high interest guarantees. In view of the uncertainties involved in ensuring that reporting is consistent with the market in accordance with Solvency II, life insurers may therefore require additional equity or may need to reduce their net risks.

Solvency II may also lead to regulatory risks, particularly in connection with subsidiaries in which Talanx or, crucial to the supervision of the Group, HDI V.a.G., own a stake of less than 100%. In line with the draft requirements, risks arising from such participating interests are in future to be allowed for in full when calculating the required Group solvency capital, while own funds are subject to restrictions on transferability and are eligible at Group level only to a limited extent ("haircuts"). This risk may increase as a result of further foreign acquisitions with the involvement of our partner Meiji Yasuda as the minority shareholder.

Differences of opinion may naturally arise in our joint activities with Meiji Yasuda. These may lead to deadlock situations, which are typical of joint ventures, owing to the minority shareholder's legal and contractual rights of protection. Share transfers to the Talanx Group carried out to overcome this problem in extreme cases would then of course put a strain on liquidity.

Along with legal risks, other significant operating risks for the Talanx Group include failure of data processing systems and data security. Ensuring the availability of computer-based applications and protecting the confidentiality and integrity of data are of vital importance to the Talanx Group. Since information is increasingly shared worldwide via electronic data transfer, data exchange is also vulnerable to computer viruses. Dedicated investment in the security and availability of information technology preserves and enhances the existing high level of security.

Operating risks may also arise in the area of human resources, for example due to a shortage of the qualified, skilled 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 further and advanced training activities. Personalised development plans and targeted 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, in-house guidelines governing areas of competence and workflows and regular checks and audits by experts counter the risk of staff committing fraudulent acts to the detriment of the company.

We reduce risks arising from problems with building infrastructure that may cause business interruptions by complying with (fire) safety/maintenance standards. In addition, emergency plans enable us to return to normal operations as quickly as possible in the event of a disruption. We have set up task forces both at the level of Talanx and at individual Group companies, 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. These are identified, assessed, managed and monitored and included in risk reporting. We also conduct initial risk analyses before outsourcing activities/areas.

Sales-related risks can arise from the general market environment (economy, inflation, biometry, etc.) and the situation in the insurance sector (competition, needs of customers, intermediaries and employees, etc.). On the marketing side, the Talanx Group generally works together not only with its own field service but also with external intermediaries, brokers and a number of 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 erosion of in-force portfolios.

OTHER MATERIAL RISKS

Other risks of material importance to our company primarily include emerging risks, strategic risks and reputational risks, as well as risks associated with Talanx AG's participations in other enterprises.

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 these risks at an early stage and then assess their relevance. For the purpose of early detection, we have developed an efficient process that spans our divisions and ensures link-up to risk management, thereby making it possible to pinpoint any measures required (e.g. ongoing observation and evaluation, exclusions in insurance contracts, or designing new [re]insurance products).

Strategic risks derive from the risk of an imbalance between corporate strategy and the constantly changing general business environment. Such an imbalance might be caused, for example, by inappropriate strategic policy decisions, failure to consistently implement strategies once defined or inadequate implementation of strategic projects. We therefore review our corporate strategy and risk strategy annually and adjust our processes and structures as required.

Reputational risks are risks associated with possible damage to the company's reputation as a consequence of an unfavourable public perception (e.g. among clients, business partners, government agencies). These may result, for example, from the inadequate implementation of legal guidelines or from delays or errors in the publication of company figures. Our well-established communication channels, a professional approach to corporate communications, tried and tested processes for defined crisis scenarios and our firm Code of Conduct help us to manage this risk.

The Talanx Group's other risks also implicitly include Talanx AG's participation risks, especially those associated with the performance of subsidiaries, the stability of results in our portfolio of participating interests and a potentially inadequate balance in the business. Talanx AG participates directly in the business development and risks of its subsidiaries through profit/loss transfer agreements and dividend payments.

The Group uses appropriate tools in the areas of Controlling, Group Auditing and Risk Management to counter risks arising from the development of results at subsidiaries. A 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 control risks. The Group reduces risks associated with a lack of stability in the results of the portfolio of participating interests or with an inadequate business balance for the various risk sources primarily by means of segmental and regional diversification, appropriate strategies for risk minimisation and risk shifting, and by investing systematically in high-growth markets and in product and portfolio segments that stabilise results. Risks at subsidiaries that may lead to the realisation of participation risks at Talanx AG are identified, monitored and managed in the subsidiaries' risk management systems.

The risk of asset erosion or inadequate profitability of acquisitions is kept as low as reasonably possible through intensive due diligence audits, conducted in cooperation with Risk Management and independent professional consultants and auditors, and by closely monitoring their business development. An M&A guideline sets out the process for mergers and acquisitions, along with interfaces and responsibilities. Furthermore, Talanx pays close attention to risks deriving from the financing of acquisitions and those associated with the capital requirements of subsidiaries, and keeps track of their anticipated profitability and ability to pay dividends. It monitors the financing risk by regularly updating liquidity calculations and forecasts and by defining priorities for the allocation of funds.

The pension obligations taken over by Talanx AG may result in the need to establish additional reserves if interest rates fall 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 adjustments to pensions are necessary than those for which allowances have been made. Talanx commissions regular reviews of the adequacy of its actuarial bases to counteract the risk of possible inadequate allocations to pension provisions (e.g. due to changes in mortality, inflation and interest rate changes).

OVERALL VIEW OF THE RISK SITUATION

No definite risks are as yet discernible that could have a significant negative impact on the Talanx Group's assets, financial position or net income. Nevertheless, persistently low interest rates could lead to net losses for the year from parts of the life insurance business.

There is also considerable uncertainty as to whether risks associated with the economic and partial sovereign debt crisis could take an even more concrete form in future and have a lasting impact on the assets, financial position or net income of the Talanx Group. In particular, the further development of the crisis may also have lasting implications for the behaviour of policyholders. Ongoing developments in the legal framework governing our entrepreneurial activities are also – as explained – highly uncertain.

The Talanx Group satisfies all currently applicable regulatory solvency requirements; cf. the economic report, section "Assets and net income", subsection "Group solvency".

FORECAST AND OPPORTUNITIES REPORT

ECONOMIC ENVIRONMENT

The Eurozone appears to have emerged from recession and the economic situation has noticeably eased – proof that action taken by southern crisis-hit countries to consolidate public finances and introduce labour market reform is taking effect. Confidence in the eurozone economy is returning and growth in the real economy can be expected to follow. This improved sentiment is based on growing macroeconomic stability; there are encouraging signs of structural improvement in the Eurozone's trade balance, with peripheral countries in particular becoming net exporters. The deep recession experienced by these countries as a result of structural adjustments should gradually ease, and the backlog in household consumer demand arising from severe financial cutbacks should slowly disappear. It is probable that this will also be accompanied by increased borrowing. Overall, we expect that in 2014 the Eurozone will experience moderate economic growth.

The Eurozone economy has been boosted by trends in the US, where the economy is performing strongly and gross domestic product (GDP) is growing at a pleasing rate. Private household debt has also decreased significantly in recent years. The real estate market and higher employment rate will both support increased consumer spending by US households. Alongside an increase in assets, there is also a significant rise in US household disposable income. The US Federal Reserve (Fed) will also continue its expansionary course, despite tighter monetary policy, with prime rates remaining close to zero for the foreseeable future.

The pace has slowed recently in emerging countries. We believe that these countries are facing both structural and cyclical challenges. Nevertheless, growth rates are likely to remain relatively high in the future – due in part to high currency reserves held by some of these countries and low overall levels of sovereign debt. In addition, stronger US demand is of more importance for most emerging countries' economic performance than the Fed's decreased liquidity. Economic development in China in 2014 is expected to remain stable.

The monetary policy of central banks, which still remains expansionary, will not in our view lead to inflationary pressure in the current year. On the contrary, we expect that inflation will continue to be lower than western central banks' targets.

CAPITAL MARKETS

More stability in framework data – in conjunction with the political and economic risks still remaining – means that we expect interest rates in the medium term to remain low. It is unlikely that central banks and core currencies – euro, US dollar and sterling – will depart from their expansionary monetary policy for now. Market players continue to display little appetite for risk and considerable interest in investing in securities with a high interest premium (spread products). That is also obvious from the strong interest in such bonds at the beginning of 2014.

Although the market currently appears to be very stable, with various political problems solved or put on hold, the general risk situation has not yet been permanently stabilised. Demand for refinancing will remain high in many countries, and it is therefore probable that these countries will continue to issue government bonds on a large scale. In the medium term, we expect moderate increases in yields, primarily for securities with longer maturities, and a stable trend for risk premiums.

European and US shares are already highly valued and there is therefore little potential for further price increases. Nevertheless, the Fed's promise to leave prime rates at their low level will continue to support the stock markets in 2014 and drive the shift from bonds to shares. The 2014 scenario is likely to benefit European shares, as the recent strong performance of US stock markets makes European equities relatively cheaper. In addition, company profits are growing again in the Eurozone for the first time since spring 2012. The expected economic recovery in the Eurozone also supports expectations of a turnaround in company profits. In contrast, after its recent high growth rates, the US economy is now only registering consistent profits. We predict that European and US company profits will slowly converge – a positive signal for stock indices in the Eurozone.

FUTURE STATE OF THE INDUSTRY

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

INTERNATIONAL INSURANCE MARKETS

In international property and casualty insurance, we expect that real growth in premium income in 2014 will be negligible. While a slight decline in real premium growth is likely in emerging countries, we expect that in the developed markets there will be a small increase. In many non-life segments, the currently protracted soft market is showing the first signs of a recovery. However, recovery on a wider scale is still not in sight, with the result that for 2014 we again expect low profitability in international property and casualty insurance.

We expect that the modest growth achieved in Central and Eastern Europe in 2013 will be followed in 2014 by significantly higher real premium growth, even though prices remain under pressure as a result of a fiercely competitive environment. In Latin America, premiums rose strongly in real terms in 2013. However, we expect lower premium growth for 2014. There are two reasons for this. Firstly, one-off effects such as occurred in 2013 in Brazil and Mexico – i.e. where two oil companies renewed their policies – will not recur and, secondly, real premium growth in Argentina will be on a more modest scale.

In international life insurance markets we expect a further increase in real premium growth for 2014, not only in developed markets but also in emerging countries. However, it is unlikely that life insurance profitability, which has fallen in recent years, will rise again in 2014. The challenging interest rate environment and regulatory changes involving stricter capital requirements continue to impact negatively on life insurers' results.

In Central and Eastern Europe it is likely that, after decreasing sharply in 2013, real premium growth in 2014 will more or less revert to its 2012 level. The length of time required for individual countries to return to growth will depend on each country's own economic performance. The Polish life insurance market, for example, after contracting in 2013, is expected to start growing again in the current financial year. Latin America, after returning to sustainable premium growth in real terms in 2013, is likely to show a slight increase in real premium growth in 2014.

GERMAN INSURANCE INDUSTRY

Property and casualty insurance in Germany is expected to retain the same level of premium growth in 2014 as in the year under review. Losses from 2013 arising out of a series of natural disasters could encourage further increases in premiums.

Following the improvement in real premium growth in life assurance in Germany for 2013, we expect that there will only be minimum premium growth in 2014. Persistently low interest rates that impact negatively on total returns are likely to continue to have an adverse effect on German life assurers' profitability in 2014.

ORIENTATION OF THE TALANX GROUP FOR THE 2014 FINANCIAL YEAR

Our expectations for the Group and its divisions for the current year are set out below. It is still extremely challenging to forecast earnings with any certainty, not least because of the difficulty in assessing further developments in important parameters such as the sovereign debt and financial markets crises and, above all, the ongoing low interest rate situation.

In the Industrial Lines Division we aim to further extend our global presence by achieving above-average growth outside Germany. Restructuring of the Retail Germany division should be complete by 2015, and potential savings be fully realised from 2016 onwards. One of our priorities here is to adjust to the changed life insurance environment. In Retail International we are looking to successfully complete the integration of the companies we acquired. In the Non-Life Reinsurance Division our aim is to continue generating profitable selective growth, and in the Life and Health Reinsurance Division we wish to further extend our global market position.

M70 ORIENTATION OF THE TALANX GROUP IN THE PRINCIPAL DIVISIONS TAKING ECONOMIC CONDITIONS INTO ACCOUNT

Group segment	Our mission and strategic tasks
Industrial Lines	▪ Growth in international markets ▪ Become a global player ▪ Structural increase of retention
Retail Germany	▪ Enhance customer benefit through innovative needs-based products and services ▪ Increase profitability ▪ Increase efficiency and improve cost structure
Retail International	▪ Profitable growth in strategic target markets ▪ Optimise business in existing markets
Non-Life Reinsurance	▪ Profitable selective growth ▪ Flexible and rapid response to client needs
Life and Health Reinsurance	▪ Improve global market position ▪ Sophisticated solutions based on long-term partnership

ANTICIPATED FINANCIAL DEVELOPMENT OF THE GROUP

We are making the following assumptions:

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

TALANX GROUP

Based on steady exchange rates, the Talanx Group is aiming for gross premium growth in 2014 of 2% to 3%; with most of this generated outside Germany. The IFRS net return on investment should be around 3.4% in 2014, with by far the largest contribution coming from ordinary income. We are aiming for Group net income of at least EUR 700 million for 2014, although the beneficial effect of selling Swiss Life shares will no longer be felt, and we are also substantially increasing our calculated budget for major losses over 2013. This profit target is therefore indicative of a significant improvement in operating performance. It follows that we expect return on equity in 2014 to be around 10%, thereby meeting our strategic target of 750 basis points in excess of the average risk-free interest rate. This profit target assumes that any major losses will be within the expected range and that there will be no disruptions to currency and capital markets. Our express aim is to pay out 35% to 45% of Group net income as dividends.

INDUSTRIAL LINES

As our domestic market penetration is already high, the best opportunities for growth are still to be found outside Germany. For this reason, we intend to continue our efforts in 2014 to make HDI-Gerling Industrie Versicherung AG into a global player. Europe-wide, we aim to expand our industrial insurance business in the fields of local business, small and medium enterprises and international insurance programmes. Our target regions outside Europe continue to be Latin America, (South-)East Asia and the Arabian peninsula. Particularly as a result of the continuing increase in international business, we expect gross premium growth overall of 3% to 5%. To enable us to reflect a disproportionate benefit from achieved premium growth in the result, we will continue in 2014 to follow our strategic aim of gradually raising the retention. The strong capital position of the segment should probably make it possible to increase the retention ratio to around 50%. Compared to the previous year, we expect that in 2014 major losses will return to normal and, as a result, the combined ratio will be lower at 96% to 98%. The EBIT margin should therefore increase to over 10% in 2014, and the return on equity should be in the region of 9%.

RETAIL GERMANY

We anticipate gross written premium in the Retail Germany Group segment to fall slightly in 2014 by 1% to 2%, due in particular to life business treaties maturing and further improvements to motor insurance profitability. With regard to new life insurance business we aim to improve the proportion of term life products and the flexibility of guarantee products. We are targeting a new business margin of at least 2%. The combined ratio is expected to be under 100%, due to a further increase in motor insurance prices. We expect an EBIT margin for 2014 of at least 3% that is likely to reflect the positive impact of the division's realignment when compared to the previous year. The return on equity for 2014 is therefore expected to be around 4%.

RETAIL INTERNATIONAL

In the Retail International Group segment we are aiming for growth in gross written premium in 2014 of 4% to 8%, as long as there are no material exchange rate fluctuations. It is probable that growth will slow down somewhat in comparison to 2013. Gross premium grew strongly in the year under review, reflecting the fact that the Polish companies acquired in 2012 were recognised for the entire financial year for the first time. We expect that growth in the value of new business in 2014 is likely to be between 5% and 10%, in line with our strategic target. The combined ratio for 2014 should be no higher than 96%; the expected EBIT margin of at least 5% is likely to be positively influenced by the synergy created from merging with the Polish WARTA companies. Integration is expected to be completed in 2014 and should lead to further synergistic effects in subsequent years. In addition, we expect return on equity for 2014 to be in excess of 6%.

NON-LIFE REINSURANCE

Even compared to 2013, competition is intensifying appreciably in the non-life reinsurance market in the current year. This is being driven by a number of factors: along with the absence of market-changing major losses, cedants are also keeping more risks in their retention due to good capitalisation. Furthermore, inflow of capital from the catastrophe bond market (ILS) – particularly in US catastrophe business – is leading to significant price erosion. Nevertheless, this factor has not given rise to any material reductions in market share for the Non-Life Reinsurance segment. Overall, it can be said that there is currently oversupply in reinsurance capacities. This was already becoming apparent in the year under review, and affected treaty renewals as at 1 January 2014. Around 65% of our Non-Life Reinsurance treaties (excluding facultative business and structured reinsurance) are renegotiated on this date.

In view of the relatively soft market conditions in non-life reinsurance and the selective underwriting approach that we take in consequence, we assume that premium volume in the current year will generally remain stable. Going forward, too, we shall not make any concessions as far as our systematic underwriting discipline is concerned, and that we will reduce our business share where risks are not adequately priced.

We expect our targeted combined ratio to be under 96%, and are aiming for an EBIT margin of at least 10%. Return on equity for the Reinsurance Division in 2014 should be around 15%.

LIFE AND HEALTH REINSURANCE

Not only must the insurance industry manage the impact of global economic trends, it also faces the enormous challenge of dealing with a constantly changing age structure. As people's average life expectancy grows, there is a consistently high demand for suitable insurance solutions. We anticipate global demand for competitive and innovative insurance concepts providing cover for longevity to increase in 2014. Customers will rely on us to use our many years of experience to provide fresh ideas and appropriote reinsurance solutions.

For 2014 we expect that organic growth in the Life and Health Reinsurance segment, as adjusted for exchange rate effects, will be in the low to middle single-digit percentage range. The value of new business (excluding non-controlling interests) should exceed EUR 90 million. We continue to anticipate an EBIT margin of 2% for financial solutions and longevity business, and 6% for mortality and morbidity business. The return on equity for the Reinsurance Division in 2014 should be around 15%.

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, thereby orienting the Talanx Group towards long-term value creation. An essential prerequisite for achieving these aims is a soundly capitalised Talanx Group which provides its clients with effective cover for their risks. By giving that assurance we serve the interests of our shareholders, clients, staff and other stakeholders, and create the greatest possible benefit for all concerned. We have therefore deliberately geared our organisational structure to meet the needs of customers; these needs are the compass needle we follow to achieve a lean and efficient structure. The main thrust of our restructuring is to generate profitable growth, with the aim of further developing our own strengths and pooling those which exist within the Group.

The Talanx Group actively responds to the challenges of a globalised world. It has set itself the goal of achieving above-average success in generating business, particularly abroad. Strategic cooperation agreements and acquisitions of companies that are well-positioned in terms of sales in the defined regions of Latin America and Central and Eastern Europe are expected to help expand the Group's capacity to act internationally. Industrial Lines offers industrial groups and small and medium enterprises a worldwide service, while simultaneously gaining new customers on local foreign markets. Foreign companies consolidated under Talanx International conduct business with local retail and commercial customers. Reinsurance per se is an international business. Worldwide diversification of large-scale and complex risks in order to make them acceptable is one of the basic instruments used in reinsurance.

OPPORTUNITIES MANAGEMENT

Identifying, steering 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 holistic management philosophy for years. We see consistent exploitation of available opportunities as a basic entrepreneurial challenge that is crucial to achieving our corporate objectives. The core element of our opportunities management process is an integrated performance metric constructed along the lines of a balanced scorecard. This is applied across all levels of hierarchy – from senior Group management down to individual functions at Group companies. It also forms the link between our strategic and operative opportunities management.

In strategic opportunities management, the annual performance management cycle begins by Group management evaluating strategic targets and specific strategic core issues identified on the basis of our umbrella strategy and breaking them down into targets for the divisions. The divisions then use this 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 respective divisional Boards of Management, individual strategic programmes are put together to form a strategic programme for the entire Group that forms the starting point and framework for the operative part of opportunities management.

In operative opportunities management, strategic inputs are translated into operative targets and a detailed activities schedule, and put into place as mandatory agreed targets, at all levels up to and including division level. The integrated performance metric again comes into play here. Whether and to what extent opportunities and possibilities actually result in operative success is checked and followed up in mid-year and end-of-year performance reviews. In turn, these reviews generate feed-forward inputs to the next opportunities management cycle.

Two key aspects of opportunities management at the Talanx Group, therefore, are shifting focus from short-term performance and purely financial results onto the success factors and actions required for long-term excellence, and monitoring the successful implementation of these value-drivers in a regular, integrated control and verification process.

ASSESSMENT OF FUTURE OPPORTUNITIES AND CHALLENGES

OPPORTUNITIES ASSOCIATED WITH DEVELOPMENTS IN THE BUSINESS ENVIRONMENT

Demographic change in Germany: Triggered by demographic change, the emergence of two markets offering considerable growth potential can currently be observed: firstly, a market for senior-citizen products and, secondly, a market for young customers needing to make additional personal provision in response to the diminishing benefits afforded 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 very willing and able to pay, but, even more significantly, this customer group is increasingly active and 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 might include products for second homes and extensive foreign travel, for sporting pursuits conducted well into advancing years, and passing on assets to 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 flexible saving and dissaving phases. Thanks to their comprehensive range of products with innovative solutions and sales positioning, the Group's life insurance companies may be able to profit disproportionately strongly from the senior citizen and young customer markets.

If we were able to benefit from sales opportunities arising from demographic change more than currently expected, this would impact positively on premium growth and profitability and lead to us exceeding our forecasts.

Turnaround in energy policy: Germany has decided in principle that in future it will meet its energy demand primarily from renewable sources. The turnaround in energy policy and climate protection feature strongly in the new German government's coalition agreement. The policy of converting the energy system to supplying renewable energy is to be continued, whilst attention is also to be focused on slowing down price increases for the end consumer. Together with the fact that renewable energies are to be extended further within a stable regulatory framework, energy efficiency becomes increasingly important. We see the change to the energy system as a chance to stimulate innovation and technological progress, thus creating an important opportunity to strengthen Germany as a business location. As an insurance group, we actively support this change. We offer our industrial clients tailor-made solutions for developing, marketing and using new energy technologies. Not only renewable energies, but also storage technologies, expansion of the power grid and intelligent control of individual components (smart grids) will make a decisive contribution to the success of the energy policy turnaround. We are supporting the turnaround with our investments in the energy sector. Building on existing participating interests in energy networks (including an interest in the largest German transmission network operator Amprion), we are planning to increase our investments in power distribution and renewable energies.

If we were able to benefit from sales opportunities arising from the turnaround in energy policy more than currently expected, this would impact positively on premium growth and net income and 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 great uncertainty as a result of today's low interest levels and volatility on the stock markets. However, this macro-economic 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 and stock-market-indexed products. Traditional German life insurance, which gives guarantees for the entire term of the policy, has been put to the test. Given the high equity requirements for this business, it is imaginable in principle that guarantees could be limited in future to a certain period of time.

If financial markets were to stabilise more definitively and innovative products be accepted more quickly than currently expected, this would impact positively on premium growth, return on investment and net income, and lead to us exceeding our forecasts.

Regulatory and financial reporting changes: Against a backdrop of impending and in some cases already effective regulatory amendments, the entire insurance industry is faced with extensive changes, especially in the context of IFRS, Solvency II and a deluge of associated European and German implementation provisions. We are following the financial reporting and regulatory changes closely, have identified the associated stricter requirements and have taken action accordingly. At the same time, this situation offers us an opportunity to develop our risk management appropriately to meet the more complex and extensive future requirements. We are currently implementing and refining an in-house, Solvency II-compliant stochastic risk capital model. Already at the pre-application stage with BaFin, its purpose is to evaluate risk categories and the Group's overall risk position, and thus enable the use of in-house models across the Talanx Group, cf. page 45 in the section entitled "The Talanx Group".

In Europe, reinsurance companies may benefit from increased demand by cedants for reinsurance solutions as a result of higher capital requirements under Solvency II; this is because the transfer of risk to reinsurers with good ratings offers an economically attractive alternative.

If the Group were to succeed in fully meeting the new regulatory requirements faster than currently expected, this would impact positively on premium growth and net income and lead to us exceeding our forecasts.

OPPORTUNITIES CREATED BY THE COMPANY

We are currently in the process of realigning the Retail Germany segment in order to improve the Group's future viability and 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. Action is based on four areas: benefit for the client, profitable growth, efficiency and performance culture. We will only be successful if our clients are fully satisfied, and we are therefore working on making it as simple as possible for end clients and sales partners alike to make their decisions – our aims are clear language, speedy solutions and convincing products. If we wish to achieve positive development in premiums and results, we need to align our business with clear-cut risk and profit targets, and fully exploit opportunities in the market. For that reason it is important for us to review each individual product for sustainable profitability. We are working on ways to make more systematic cross-divisional use of existing client contacts. This realignment requires the firm belief that the way we think and act must be consistently geared towards a performance benchmark. We actively wish to encourage this kind of culture.

We have therefore developed a group-wide variable remuneration system for first-level managers which is due to be extended in 2014 to those at second-level. In addition, annual appraisal reviews with all employees should contribute to achieving a structured discussion of mutual expectations.

Should we succeed in restructuring our internal procedures faster than currently expected, this would impact positively on premium growth and net income and lead to us exceeding our forecasts.

SALES OPPORTUNITIES

Bancassurance: Selling insurance products over the bank counter, under the name of bancassurance, has become an established practice in recent years. Bancassurance has been a great success in the Talanx Group, and shows encouraging prospects for the future. The basis of this success is a special business model, whereby the insurance business is fully integrated into the banking partner's business structures. The insurance companies design and develop the insurance products – in return, banks, savings banks and post offices provide a variety of sales outlets. The Talanx Group bancassurance sales channel is not only established in Germany, but is also especially strong in Poland, Hungary and Russia. We see the use of this model outside Germany basically as a means of promoting profitable growth, oriented towards the European markets. The success of Talanx's bancassurance model with regard to the current Group companies stems essentially from three core factors. Firstly, drawing up exclusive long-term partnership cooperation agreements with terms of up to 30 years, enabling insurance products to be sold via the co-operating partner's sales outlets. Secondly, the highest possible degree of integration is required, together with excellent products and services: cooperation is part and parcel of the partner's strategic focus. The insurance companies design exclusive tailor-made products for the bank's client segments, and thus form an integral part of the respective market presence. Integration into the partner's 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 the partner. The bank's sales staff are given personal training and exclusive guidance by sales coaches from the insurance companies. In this way they obtain product expertise and advice on sales approaches. The insurance companies also supply readily understandable and supporting sales materials.

Our companies in Poland also market their established products via sales cooperation agreements, but via different banks and without full integration into their partner's market presence.

If we were able to expand our bancassurance activities faster than currently expected, this would impact positively on premium growth and net income and lead to us exceeding our forecasts.

Internet: Growing digitalisation means that companies are increasingly suffering huge damages as a result of internet cyber attacks. Most notably, espionage activities by intelligence services have shown very recently that manufacturing industries in particular are not immune to risks from cyber crime, despite excellent defence mechanisms. Attention is also focusing increasingly on senior management responsibility. For this reason, HDI-Gerling has developed the Cyber+. This product provides an insurance solution that comprehensively covers the various risks. HDI-Gerling's all-round insurance spans all lines of business and covers both first-party losses arising as a result of cyber crime, and also third-party losses for which companies are liable to customers, service providers or other third parties. In addition, it also allows management's civil and criminal responsibilities to be taken into account.

If we were to exploit sales opportunities arising from the need for additional internet risk cover more successfully than currently expected, this would impact positively on premium growth and net income and lead to us exceeding our forecasts.

Brokers: Despite the increasing importance of internet sales, personal contact with the client will also continue to remain a major factor for success. Sales via brokers have a particularly high potential for future growth. Talanx AG has developed a close partnership with Swiss Life, in which it holds a long-term share package of around 5%. As part of this cooperation, Talanx is a key partner in supplying products to the financial service provider Swiss Life Select. The Talanx Group also holds around 9% of the financial services provider MLP. Both MLP and Swiss Life Select are important partners in brokered marketing. These participating interests give us the opportunity to strengthen and further expand existing business links with the brokers concerned.

If we were able to develop closer links with brokers faster than currently expected, this would impact positively on premium growth and net income and lead to us exceeding our forecasts.

OVERALL PICTURE OF FUTURE OPPORTUNITIES

Talanx AG's Board of Management considers that identifying, steering and taking advantage of opportunities is an integral part of the Talanx Group's range of management tools. In our systematic approach, a clear strategy geared to ensuring the Group's long-term viability and consistent enforcement of that strategy are fundamental to efficient company and group management. We therefore constantly monitor changing external market conditions to enable us to identify opportunities arising at an early stage, and to respond to them through our flexible internal structure. In this way we are able fully to exploit future opportunities that are crucial to achieving our company's goals.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

NOTES

CONSOLIDATED BALANCE SHEET OF TALANX AG AS AT 31 DECEMBER 2013

N1 CONSOLIDATED BALANCE SHEET — ASSETS

FIGURES IN EUR MILLION

	Notes			31.12.2013	31.12.2012[1]	1.1.2012
A. Intangible assets						
a. Goodwill	1		1,105		1,152	690
b. Other intangible assets	2		1,446		1,641	1,520
				2,551	**2,793**	**2,210**
B. Investments						
a. Investment property	3		1,623		1,297	1,100
b. Investments in affiliated companies and participating interests	4		92		80	78
c. Investments in associated companies and joint ventures	5		247		237	209
d. Loans and receivables	6/12		32,231		32,101	32,961
e. Other financial instruments						
i. Held to maturity	7/12	2,984			3,857	4,294
ii. Available for sale	8/12	44,922			41,337	32,141
iii. At fair value through profit or loss	9/12/13	1,090			1,642	1,000
f. Other invested assets	10/12	3,121			3,501	3,967
Investments under own management			**86,310**		**84,052**	**75,750**
g. Investments under investment contracts	11/12/13		1,758		1,698	—
h. Funds withheld by ceding companies			12,894		13,198	11,717
Investments				**100,962**	**98,948**	**87,467**
C. Investments for the account and risk of holders of life insurance policies				8,325	7,451	6,067
D. Reinsurance recoverables on technical provisions				6,596	6,989	6,467
E. Accounts receivable on insurance business	14			5,071	5,081	4,729
F. Deferred acquisition costs	15			4,513	4,378	4,012
G. Cash				1,864	2,119	1,570
H. Deferred tax assets	28			532	529	325
I. Other assets	16			2,201	2,006	1,865
J. Non-current assets and assets of disposal groups classified as held for sale[2]				248	56	565
Total assets				**132,863**	**130,350**	**115,277**

[1] Adjusted on the basis of IAS 8, see section “Accounting policies”, subsection “Changes in accounting policies and accounting errors” in the Notes
[2] For further remarks, cf. section “Assets held for sale and disposal groups” in the Notes

N2 CONSOLIDATED BALANCE SHEET – LIABILITIES

FIGURES IN EUR MILLION

	Notes	31.12.2013			31.12.2012 1)	1.1.2012 1)
A. Shareholders' equity	17					
a. Common shares		316			316	260
Nominal value: 316 (previous year: 316) Conditional capital: 78 (previous year: 78)						
b. Reserves		6,898			6,837	5,103
Shareholders' equity excluding non-controlling interests			**7,214**		**7,153**	**5,363**
d. Non-controlling interests in shareholders' equity			3,997		4,156	3,282
Total shareholders' equity				**11,211**	**11,309**	**8,645**
B. Subordinated liabilities	12/18		3,107		3,107	2,615
C. Technical provisions						
a. Unearned premium reserve	19	5,678			5,440	4,677
b. Benefit reserve	20	49,767			48,248	45,739
c. Loss and loss adjustment expense reserve	21	33,755			33,243	31,438
d. Provision for premium refunds	22	2,178			2,279	1,006
e. Other technical provisions		319			274	256
			91,697		**89,484**	**83,116**
D. Technical provisions in the area of life insurance insofar as the investment risk is borne by policyholders			8,325		7,451	6,067
E. Other provisions						
a. Provisions for pensions and similar obligations	23	1,696			1,869	1,430
b. Provisions for taxes	24	711			632	557
c. Sundry provisions	25	688			763	672
			3,095		**3,264**	**2,659**
F. Liabilities						
a. Notes payable and loans	12/26	942			677	762
b. Funds withheld under reinsurance treaties		5,535			5,975	5,039
c. Other liabilities	12/13/27	6,969			7,079	4,411
			13,446		**13,731**	**10,212**
G. Deferred tax liabilities	28		1,749		1,984	1,472
H. Liabilities of disposal groups classified as held for sale 2)			233		20	491
Total liabilities/provisions				**121,652**	**119,041**	**106,632**
Total liabilities				**132,863**	**130,350**	**115,277**

1) Adjusted on the basis of IAS 8, see section "Accounting policies", subsection "Changes in accounting policies and accounting errors" in the Notes
2) For further remarks, cf. section "Assets held for sale and disposal groups" in the Notes

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

CONSOLIDATED STATEMENT OF INCOME OF TALANX AG
FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2013

N3 **CONSOLIDATED STATEMENT OF INCOME**

FIGURES IN EUR MILLION

	Notes	2013			2012[1]
1. Gross written premium including premium from unit-linked life and annuity insurance			28,151		26,659
2. Savings elements of premiums from unit-linked life and annuity insurance			1,131		1,200
3. Ceded written premium			3,539		3,253
4. Change in gross unearned premium			–506		–331
5. Change in ceded unearned premium			–138		–124
Net premium earned	**29**			**23,113**	**21,999**
6. Claims and claims expenses (gross)	31		21,620		20,553
Reinsurers' share			2,405		2,197
Claims and claims expenses (net)				**19,215**	**18,356**
7. Acquisition costs and administrative expenses (gross)	32		5,903		5,314
Reinsurers' share			552		476
Acquisition costs and administrative expenses (net)				**5,351**	**4,838**
8. Other technical income			52		49
Other technical expenses			200		301
Other technical result				**–148**	**–252**
Net technical result				**–1,601**	**–1,447**
9. a. Income from investments	30	3,963			3,882
b. Expenses for investments	30	518			418
Net income from investments under own management			**3,445**		**3,464**
Income/expense from investment contracts	30		13		8
Net interest income from funds withheld and contract deposits	30		334		323
Net investment income				**3,792**	**3,795**
Income/expense from associated companies and joint ventures recognised using the equity method				13	7
10. a. Other income	33		808		595
b. Other expenses	33		1,215		1,195
Other income/expenses				**–407**	**–600**
Profit before goodwill impairments				**1,784**	**1,748**
11. Goodwill impairments				—	—
Operating profit/loss (EBIT)				**1,784**	**1,748**
12. Financing costs	34			206	185
13. Taxes on income	35			296	419
Net income				**1,282**	**1,144**
thereof attributable to non-controlling interests				520	518
thereof attributable to Talanx AG shareholders				762	626
Earnings per share					
Basic earnings per share (figures in EUR)				3.02	2.86
Diluted earnings per share (figures in EUR)				3.02	2.86

[1] Adjusted on the basis of IAS 8, see section "Accounting policies", subsection "Changes in accounting policies and accounting errors" in the Notes

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF TALANX AG FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2013

N4 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FIGURES IN EUR MILLION

	2013	2012[1)]
Net income	**1,282**	**1,144**
Not reclassifiable in the consolidated statement of income		
Actuarial gains (losses) on pension provisions		
Gains (losses) recognised in other comprehensive income during the period	160	–441
Tax income (expense)	–48	133
	112	**–308**
Changes in policyholder participation/shadow accounting		
Gains (losses) recognised in other comprehensive income during the period	–5	17
Tax income (expense)	—	—
	–5	**17**
Total non-reclassifiable income (expenses) after taxes recognised in other comprehensive income during the period	**107**	**–291**
Reclassifiable in the consolidated statement of income		
Unrealised gains and losses from investments		
Gains (losses) recognised in other comprehensive income during the period	–900	2,561
Shifted to the consolidated statement of income	–314	–228
Tax income (expense)	246	–397
	–968	**1,936**
Currency translation		
Gains (losses) recognised in other comprehensive income during the period	–410	–1
Shifted to the consolidated statement of income	–17	—
Tax income (expense)	43	3
	–384	**2**
Changes in policyholder participation/shadow accounting		
Gains (losses) recognised in other comprehensive income during the period	487	–1,154
Tax income (expense)	–8	38
	479	**–1,116**
Changes from cash flow hedges		
Gains (losses) recognised in other comprehensive income during the period	–59	160
Shifted to the consolidated statement of income	—	–9
Tax income (expense)	1	–1
	–58	**150**
Changes from equity measurement		
Gains (losses) recognised in other comprehensive income during the period	1	4
Shifted to the consolidated statement of income	—	—
Tax income (expense)	—	—
	1	**4**
Other changes		
Gains (losses) recognised in other comprehensive income during the period	1	–1
Shifted to the consolidated statement of income	—	—
Tax income (expense)	—	—
	1	**–1**
Total reclassifiable income (expenses) after taxes recognised in other comprehensive income during the period	**–929**	**975**
Income (expenses) after taxes recognised in other comprehensive income during the period	**–822**	**684**
Total comprehensive income during the period	**460**	**1,828**
thereof attributable to non-controlling interests	154	822
thereof attributable to Talanx AG shareholders	306	1,006

[1)] Adjusted on the basis of IAS 8. Cf. “General accounting principles and application of International Financial Reporting Standards (IFRS)” section in the Notes, Subsection “Newly applicable standards/interpretations and changes in standards”; IAS 1 “Presentation of Financial Statements”, section “Presentation of items of other comprehensive income” (OCI) and adjusted on the basis of IAS 8, see section “Accounting policies”, subsection “Changes in accounting policies and accounting errors” in the Notes

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

N5 **CHANGES IN SHAREHOLDERS' EQUITY**

FIGURES IN EUR MILLION

	Common shares	Additional paid-in capital	Retained earnings
2012			
As at 31.12.2011	**260**	**630**	**4,170**
Adjusted on the basis of IAS 8[1]	—	—	5
As at 1.1.2012 adjusted	**260**	**630**	**4,175**
Changes in ownership interest without change of control status	—	—	9
Other changes in scope of consolidation	—	—	–6
Net income[1]	—	—	626
Income and expenses recognised in other comprehensive income[1]	**—**	**—**	**—**
thereof not reclassifiable	**—**	**—**	**—**
thereof actuarial gains or losses on pension provisions	—	—	—
thereof changes in policyholder participation/shadow accounting	—	—	—
thereof reclassifiable	**—**	**—**	**—**
thereof unrealised gains and losses from investments	—	—	—
thereof currency translation	—	—	—
thereof change from cash flow hedges	—	—	—
thereof change from equity measurement	—	—	—
thereof sundry changes[2]	—	—	—
Total comprehensive income	**—**	**—**	**626**
Capital increase from IPO	56	761	—
Cost of IPO for new issue after taxes	—	–22	—
Other capital increase	—	—	—
Capital reduction	—	—	—
Dividends to shareholders	—	—	—
Other changes not impacting on income	—	—	26
As at 31.12.2012	**316**	**1,369**	**4,830**
2013			
As at 1.1.2013	**316**	**1,369**	**4,830**
Changes in ownership interest without change of control status	—	—	6
Other changes in scope of consolidation	—	—	—
Net income	—	—	762
Income and expenses recognised in other comprehensive income			
thereof not reclassifiable	**—**	**—**	**—**
thereof actuarial gains or losses on pension provisions	—	—	—
thereof changes in policyholder participation/shadow accounting	—	—	—
thereof reclassifiable	**—**	**—**	**—**
thereof unrealised gains and losses from investments	—	—	—
thereof currency translation	—	—	—
thereof change from cash flow hedges	—	—	—
thereof change from equity measurement	—	—	—
thereof sundry changes[2]	—	—	—
Total comprehensive income	**—**	**—**	**762**
Capital increase	—	4	—
Capital reduction	—	—	—
Dividends to shareholders	—	—	–265
Other changes not impacting on income	—	—	4
As at 31.12.2013	**316**	**1,373**	**5,337**

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

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

Other reserves						
Unrealised gains/losses on investments	Gains/losses from currency translation	Other changes in shareholders' equity	Measurement gains and losses from cash flow hedges	Equity attributable to shareholders of Talanx AG	Non-controlling interests	Total shareholders' equity
416	**49**	**–58**	**–60**	**5,407**	**3,284**	**8,691**
—	—	–49	—	–44	–2	–46
416	**49**	**–107**	**–60**	**5,363**	**3,282**	**8,645**
—	1	—	—	10	–8	2
—	—	—	—	–6	242	236
—	—	—	—	626	518	1,144
1,536	**—**	**–1,303**	**147**	**380**	**304**	**684**
—	**—**	**–278**	**—**	**–278**	**–13**	**–291**
—	—	–293	—	–293	–15	–308
—	—	15	—	15	2	17
1,536	**—**	**–1,025**	**147**	**658**	**317**	**975**
1,536	—	—	—	1,536	400	1,936
—	—	—	—	—	2	2
—	—	—	147	147	3	150
—	—	2	—	2	2	4
—	—	–1,027	—	–1,027	–90	–1,117
1,536	**—**	**–1,303**	**147**	**1,006**	**822**	**1,828**
—	—	—	—	817	—	817
—	—	—	—	–22	—	–22
—	—	—	—	—	12	12
—	—	—	—	—	–6	–6
—	—	—	—	—	–202	–202
–3	–2	–36	—	–15	14	–1
1,949	**48**	**–1,446**	**87**	**7,153**	**4,156**	**11,309**
1,949	**48**	**–1,446**	**87**	**7,153**	**4,156**	**11,309**
—	1	—	—	7	–7	—
—	—	—	—	—	–14	–14
—	—	—	—	762	520	1,282
–680	**–263**	**540**	**–53**	**–456**	**–366**	**–822**
—	**—**	**102**	**—**	**102**	**5**	**107**
—	—	106	—	106	6	112
—	—	–4	—	–4	–1	–5
–680	**–263**	**438**	**–53**	**–558**	**–371**	**–929**
–680	—	—	—	–680	–288	–968
—	–263	—	—	–263	–121	–384
—	—	—	–53	–53	–5	–58
—	—	—	—	—	1	1
—	—	438	—	438	42	480
–680	**–263**	**540**	**–53**	**306**	**154**	**460**
—	—	—	—	4	2	6
—	—	—	—	—	–2	–2
—	—	—	—	–265	–258	–523
—	5	—	—	9	–34	–25
1,269	**–209**	**–906**	**34**	**7,214**	**3,997**	**11,211**

CONSOLIDATED CASH FLOW STATEMENT OF TALANX AG
FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2013

N6 CONSOLIDATED CASH FLOW STATEMENT

FIGURES IN EUR MILLION

	2013	2012[1]
I. 1. Net income	1,282	1,144
I. 2. Changes in technical provisions	4,617	3,676
I. 3. Changes in deferred acquisition costs	–211	–427
I. 4. Changes in funds withheld and in accounts receivable and payable	–912	–159
I. 5. Changes in other receivables and liabilities as well as investments and liabilities from investment contracts	318	373
I. 6. Changes in financial assets held for trading	22	–58
I. 7. Net gains and losses on investments	–572	–369
I. 8. Other non-cash expenses and income	1,353	1,489
I. Cash flows from operating activities[2]	**5,897**	**5,669**
II. 1. Cash inflow from the sale of consolidated companies	–6	–46
II. 2. Cash outflow from the purchase of consolidated companies[3]	—	–801
II. 3. Cash inflow from the sale of real estate	81	204
II. 4. Cash outflow from the purchase of real estate	–474	–276
II. 5. Cash inflow from the sale and maturity of financial instruments	21,146	18,466
II. 6. Cash outflow from the purchase of financial instruments	–25,448	–22,955
II. 7. Changes in investments for the account and risk of holders of life insurance policies	–1,188	–1,117
II. 8. Changes in other invested assets	354	655
II. 9. Cash outflows from the acquisition of tangible and intangible assets	–119	–184
II. 10. Cash inflows from the sale of tangible and intangible assets	21	74
II. Cash flows from investing activities	**–5,633**	**–5,980**
III. 1. Cash inflow from capital increases	6	498
III. 2. Cash outflow from capital reductions	–2	–6
III. 3. Dividends paid	–523	–202
III. 4. Net changes from other financing activities	86	518
III. Cash flows from financing activities	**–433**	**808**
Change in cash and cash equivalents (I. + II. + III.)	**–169**	**497**
Cash and cash equivalents at the beginning of the reporting period, without disposal groups	**2,119**	**1,570**
Cash and cash equivalents – exchange-rate differences on cash	**–87**	**–5**
Changes in cash and cash equivalents attributable to scope of consolidation[4]	**3**	**5**
Changes in cash and cash equivalents of disposal groups in the reporting period	**–2**	**52**
Cash and cash equivalents at the end of the reporting period, without disposal groups	**1,864**	**2,119**
Additional information		
Taxes paid	373	290
Interest paid[5]	280	249
Dividends received	98	134
Interest received	3,422	3,246

[1] Adjusted on the basis of IAS 8, see section "Accounting policies", subsection "Changes in accounting policies and accounting errors" in the Notes
[2] Taxes paid on income as well as dividends and interest received are allocated to cash flows from operating activities. Dividends received also comprise dividend-like distributions from investment funds and private equity companies, which results in deviations from our figures in Note 12 "Net investment income"
[3] Cash outflow from the purchases of property companies described in section „Consolidation" is shown under position "Cash outflow from the purchase of real estate"
[4] This item essentially includes changes in the scope of consolidation excluding disposals and acquisitions
[5] EUR 188 (191) million of interest paid pertains to cash flows from financing activities, EUR 59 (58) million to cash flows from operating activities and EUR 33 (—) million to cash flows from investing activities

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

NOTES

GENERAL INFORMATION

Based in Hannover/Germany, Talanx AG heads Germany's third-largest and Europe's 11th largest insurance group (based on gross premium income 2012) as a financial and management holding company. It does not, however, itself transact insurance business. The Group, which is active in roughly 150 countries worldwide through cooperation arrangements, offers high-quality insurance services in non-life and life insurance as well as reinsurance and also conducts business in the asset management sector (cf. also section "Segment reporting".

Talanx AG, whose majority shareholder is HDI Haftpflichtverband der Deutschen Industrie V.a.G., Hannover/Germany (HDI V.a.G.), is the parent company for all Group companies belonging to HDI V.a.G. With effect from 2 July 2013, it placed 8.2 million of its shares on the market, meaning that 79.0% of Talanx AG is held by HDI V.a.G. as at the balance sheet date. 14.4% of the shares are in free float with private and institutional investors, 6.5% are held by the Japanese partner of Talanx AG (the insurance company Meiji Yasuda), and 0.1% of the shares are held by employees. As part of an employee stock programme, almost 0.2 million shares were created in the fourth quarter of 2013 during a capital increase and sold to subscribing employees with a vesting period of four years.

Talanx AG is entered in the commercial register of the Hannover County Court under the number HR Hannover B 52546 with an address of "Riethorst 2, 30659 Hannover". In accordance with §§ 341i et seq. of the German Commercial Code (HGB), HDI V.a.G. is obliged to prepare consolidated annual accounts that include the annual financial statements of Talanx AG and its subsidiaries. The consolidated financial statements are published in the Federal Gazette.

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

As the parent company of the Talanx Group, Talanx AG has drawn up consolidated financial statements pursuant to § 290 of the German Commercial Code (HGB). The consolidated financial statements were prepared on the basis of § 315a Para. 1 of the German Commercial Code (HGB) pursuant to Article 4 of Regulation (EC) No. 1606/2002 in accordance with International Financial Reporting Standards (IFRS) in the form adopted for use in the European Union. The standards and rules specified in § 315a Para. 1 of the German Commercial Code (HGB) were observed in full. The consolidated financial statements are published in the Federal Gazette.

Since 2002 the standards adopted by the International Accounting Standards Board (IASB) have been referred to as IFRS. The standards approved in earlier years still bear the name IAS (International Accounting Standards). Standards are cited in our Notes accordingly; in cases where the Notes do not make explicit reference to a particular standard, the term IFRS is used. Insurance-specific transactions for which IFRSs do not contain any separate standards are recognised in compliance with IFRS 4 "Insurance Contracts" according to the pertinent provisions of United States Generally Accepted Accounting Principles (US GAAP) as at the initial application of IFRS 4 on 1 January 2005.

The consolidated financial statements reflect all IFRSs in force as at 31 December 2013 as well as the interpretations then issued by the IFRS Interpretations Committee (IFRS IC, formerly known as the International Financial Reporting Interpretations Committee [IFRIC]) and the previous Standing Interpretations Committee (SIC), application of which was mandatory for the 2013 financial year and which were adopted by the EU. In addition, the German Accounting Standards (DRS) adopted by the German Accounting Standards Committee (DRSC) have been observed insofar as they do not conflict with currently applicable IFRS standards.

The consolidated financial statements were drawn up in euros (EUR). The amounts shown have been rounded to EUR millions (EUR million), unless figures are required in EUR thousands (EUR thousand) for reasons of transparency. This may give rise to rounding differences in the tables presented in this report. Figures in brackets refer to the previous year.

NEWLY APPLICABLE STANDARDS/INTERPRETATIONS AND CHANGES IN STANDARDS

As at 1 January 2013, the Group for the first time applied the following changed or new IFRSs:

IFRS 13 "Fair Value Measurement" was published in May 2011, and its application is mandatory for financial years beginning on or after 1 January 2013. It standardises the definition of fair value and sets down a framework of applicable methods for measuring fair value. Fair value is defined as the price that would be received to sell an asset, the measurement of this price being based as far as possible on observable market parameters. In addition, an entity is required to provide comprehensive explanatory and qualitative disclosures, which are to describe, in particular, the quality of the fair-value measurement. The scope of IFRS 13 is more extensive and comprises non-financial items alongside financial items. The amendments will essentially be applied if another standard calls for fair-value measurement or if disclosures concerning fair value are prescribed. Initial application, implemented prospectively by the Group (without comparative information for previous years) in agreement with the transition guidelines, resulted in no significant change in the valuation of the Group's assets and liabilities. For information regarding the new disclosures or adjustments in the classification for quoted fixed-income securities, please refer to the section "Non-current assets held for sale and disposal groups", item 3 "Investment Property", item 12 "Fair-value hierarchy" and item 16 "Other assets" in the Notes.

In June 2011 the IASB published an amendment to IAS 1 "Presentation of Financial Statements" designed to improve how items of other comprehensive income (OCI) should be presented. It is applicable retrospectively to financial years beginning on or after 1 July 2012. IAS 1 stipulates that items under "Other comprehensive income" must be disclosed separately according to whether they can be carried in the consolidated statement of income through profit and loss (reclassifiable) or must remain under "Other comprehensive income" (not reclassifiable in the consolidated statement of income). Sub-totals must be calculated as required in both cases. According to this logic, taxes on income attributable to items under "Other comprehensive income" are also to be allocated. Thus these amendments relate exclusively to the presentation of "Other comprehensive income". The Group changed the presentation of items under "Other comprehensive income" in its consolidated statement of comprehensive income based on the amendments to IAS 1. Comparative information was adjusted accordingly.

Amended IAS 19 "Employee Benefits" (revised in 2011), which was ratified by the EU in 2012, is mandatory for financial years beginning on or after 1 January 2013. Pursuant to the transition rules, the standard is to be applied retroactively, apart from several exceptions. The Group thoroughly explains the impact of initial application in the section "Accounting policies", subsection "Changes in accounting policies and accounting errors" (letter b), which mainly relates to a higher provision and a charge under "Other comprehensive income". The new disclosures in the Notes, such as explanations of defined benefit plan characteristics, including the related risks and sensitivity analyses for actuarial assumptions, have been included in item 23 "Provisions for pensions and other post-employment benefits".

In December 2011, the IASB published amendments to IFRS 7 "Financial Instruments: Disclosures" dealing with the presentation of financial assets and liabilities. They mandate comprehensive disclosures regarding certain netting arrangements. The amended standard is applicable retrospectively to financial years beginning on or after 1 January 2013. The changes require disclosure of all recognised financial instruments that are subject to enforceable master netting arrangements or similar agreements, irrespective of whether they are set off in accordance with IAS 32. As at the balance sheet date, these consisted of derivatives transactions that are concluded on the basis of standardised master agreements and contain master netting arrangements. For the corresponding disclosures, cf. our remarks in item 13 "Derivative financial instruments and hedge accounting".

The "Annual Improvements 2009–2011 Cycle", a collection of amendments to IFRSs issued by the IASB on 17 May 2012, forms part of the annual improvement process of the standards issued by the IASB. It contains a multitude of minor amendments to IFRS. The amendments, which were approved by the EU in March 2013, are applicable to financial years beginning on or after 1 January 2013. The application of these amendments had no significant impact for the Group.

In May 2013 the IASB published "Recoverable Amount Disclosures for Non-Financial Assets" (Amendments to IAS 36 "Impairment of Assets") and adjusted consequential amendments resulting from IFRS 13 that were broader than originally intended. This clarified that the disclosure of the recoverable amount is only required for assets and cash-generating units if impairment was recovered or reversed in the current period. Disclosure requirements were also introduced for valuation methods applied and the fair value hierarchy used to determine fair values for certain impaired assets. The amendments were ratified by the EU in December 2013 and application is mandatory for financial years beginning on or after 1 January 2014; earlier application is permitted. The Group implemented these amendments in the 2013 financial year in accordance with the transition guidelines.

IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine" must be applied for financial years beginning on or after 1 January 2013, but had no practical relevance for the Group.

STANDARDS, INTERPRETATION AND CHANGES TO PUBLISHED STANDARDS, APPLICATION OF WHICH WAS NOT YET MANDATORY IN 2013 AND WHICH WERE NOT APPLIED EARLY BY THE GROUP

On 12 May 2011 the IASB published three new and two revised standards governing consolidation, the accounting of interests in associated companies and joint ventures, and the related disclosures in the Notes:

IFRS 10 "Consolidated Financial Statements" replaces the regulations previously contained in IAS 27 "Consolidated and Separate Financial Statements" and SIC 12 "Consolidation – Special purpose Entities". It defines the principle of control as the universal basis for establishing the existence of a parent-subsidiary relationship. The standard also contains additional guidelines demonstrating when control exists. In future the revised IAS 27 will contain only provisions on accounting requirements for interests in subsidiaries, associated companies and joint ventures disclosed in the parent company's individual financial statements. Aside from several minor changes, the wording of the previous standard was retained. We are currently examining the implications of the new IFRS 10 for the Group. Based on current information, however, we do not expect any significant change in consolidation decisions regarding our participating interests and special purpose entities, nor any significant change in the current recognition of these participating interests and special purpose entities.

IFRS 11 "Joint Arrangements" addresses the accounting requirements in cases where an entity shares management control over a joint venture or joint operation. The new standard replaces the pertinent regulations in IAS 31 "Interests in Joint Ventures" and SIC 13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers". According to IFRS 11 it is no longer permitted to consolidate joint ventures, e.g. arrangements where the parties have rights to the net assets, on a proportional basis. The equity method must be applied in future where an entity is classified as a joint venture. The Group does not expect any significant impact from this new rule as the joint ventures in the financial statements are already included at equity. According to the current status of the analysis there are also no joint operations on the basis of which the Group has rights to assets under an arrangement and liabilities for related debts.

The revised IAS 28 "Investments in Associates and Joint Ventures" is being expanded to include rules governing accounting for interests in joint ventures. The equity method must be applied as standard in future. Another amendment affects accounting procedures in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" if only part of an interest in an associated company/joint venture is held for sale. IFRS 5 must only be applied for the portion held for sale.

Disclosure requirements relating to the consolidation and accounting treatment of interests in associated companies and joint ventures are brought together in IFRS 12 "Disclosure of Interests in Other Entities". To some extent, duties of disclosure under the new standard for subsidiaries, associated companies, joint arrangements, unconsolidated structured companies and all other participating interests extend far beyond what was previously the case, the aim being to provide users of financial statements with a clearer picture of the nature of the company's interests in other entities and the effects on assets, financial position and net income, including risks. We are currently reviewing the implications of these expanded disclosure requirements for the Group.

Application of the provisions of IFRS 10, 11 and 12 and the amended IAS 27 and 28 – ratified by the EU on 11 December 2012 – is mandatory for financial years beginning on or after 1 January 2014.

In June 2012 the IASB published transitional provisions (amendments to IFRS 10, IFRS 11 and IFRS 12). The amendments clarify the transition guidance and also provide additional relief, limiting the requirement to provide comparative information. The effective date of the amendments is aligned with the effective date of IFRS 10, 11 and 12. In October 2012 the IASB announced further amendments to IFRS 10 and 12 and IAS 27, which contain an exception to the full consolidation of controlled subsidiaries. These amendments provide that parent companies meeting the definition of an investment entity must measure their investments in subsidiaries at fair value through profit or loss. As a non-investment entity, Talanx AG will not be affected by this exception, meaning that this amendment has no practical relevance for the consolidated financial statements. The June 2012 amendment was ratified by the EU on 4 April 2013, and the amendment announced in October 2012 was ratified on 20 November 2013.

The IASB adapted the provisions governing the set-off of financial assets and liabilities and published changes on 16 December 2011 in the form of amendments to IAS 32 "Financial Instruments: Presentation" – Offsetting Financial Assets and Financial Liabilities. The offsetting requirements set down in IAS 32 were retained more or less in their entirety and were merely clarified by additional guidelines on application. The amendment is applicable retrospectively to financial years beginning on or after 1 January 2014. We are currently reviewing the implications of these two amendments, ratified by the EU on 13 December 2012, for the consolidated financial statements.

In June 2013 the IASB adopted "Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39 "Financial Instruments: Recognition and Measurement"). According to this amendment, despite novation the derivative remains designated as a hedging instrument in an existing hedging relationship. Application of the amendments ratified by the EU in December 2013 is mandatory for financial years beginning on or after 1 January 2014. The Group does not expect these amendments to have any material impact.

On 20 May 2013 the IASB published IFRIC 21 "Levies". This clarifies how liabilities should be recognised for levies and in particular when these liabilities which are imposed by a government body and do not fall under the scope of a different standard, should be carried. Application of this interpretation, which has not yet been ratified by the EU, is mandatory for financial years beginning on or after 1 January 2014. We are currently examining the impacts of this amendment.

On 21 November 2013 the IASB published "Defined Benefit Plans: Employee Contributions" (amendments to IAS 19 [revised in 2011]). This amendment clarified how companies should recognise contributions to defined benefit plans from employees or third parties. This amendment – whose application is mandatory for financial years beginning on or after 1 July 2014 – has not yet been ratified by the EU. This amendment has no practical relevance for the Group.

On 12 December 2013 and as part of the IFRS annual improvement process the IASB published the outstanding document from the 2010–2012 Cycle and the collection of amendments for the 2011–2013 Cycle. Application of these amendments, which have not yet been ratified by the EU, is mandatory for financial years beginning on or after 1 July 2014. The Group is currently examining the impacts of these amendments.

In November 2009 the IASB published a new standard on the classification and measurement of financial instruments. IFRS 9 "Financial Instruments" is the first step in a three-phase project intended to replace IAS 39. Amongst other things, IFRS 9 introduces new provisions for classifying and measuring financial assets. In this context, financial assets must be classified into two measurement categories (at fair value or amortised cost). Crucial for this categorisation are the contractually agreed upon cash flows associated with the financial instrument as well as the type of financial-instrument management employed by the Group (business model). This standard was expanded in October 2010 to include rules governing the accounting treatment of financial liabilities and derecognition of financial instruments, the latter having been imported unchanged from IAS 39. Furthermore, the IASB published a draft amendment on IFRS 9 in November 2012, which provides for a third measurement model for financial assets. Under certain conditions, debt instruments can therefore be measured at fair value, recognising any changes in value under "Other comprehensive income". On 19 November 2013 the IASB finalised phase 3 as part of the revision of IFRS 9 and published the new section on the accounting treatment of hedging relationships (hedge accounting). IFRS 9 no longer includes an initial application date either. Consequently, the mandatory initial application date from 1 January 2015 contained in IFRS 9 will be removed; the initial application date is not expected before 1 January 2017. Neither IFRS 9 nor the consequential amendments mentioned have been ratified yet by the EU. The Group has still to analyse the full implications of IFRS 9, including the two additional phases (rules on recording impairments and on recognising hedging relationships). It is already becoming clear, however, that the revised rules will have an influence, inter alia, on the accounting treatment of financial assets within the Group.

ACCOUNTING POLICIES

The annual financial statements of subsidiaries and special purpose entities included in the Group are governed by uniform accounting policies, the application of which is based on the principle of consistency. In the following we will describe the accounting policies applied, any amendments made to accounting policies in 2013 and major discretionary decisions and estimates. Newly applicable accounting standards in the 2013 financial year are described in the section "General accounting principles and application of International Financial Reporting Standards (IFRS)", while consolidation principles are discussed in the section "Consolidation" (pages 149 et seqq. and 183 et seqq.).

CHANGES IN ACCOUNTING POLICIES AND ACCOUNTING ERRORS

a) Pursuant to the transition guidelines, revised IAS 19 "Employee Benefits" was applied retrospectively in conformity with IAS 8. The key amendment to IAS 19 is the abolishment of the option available to companies to recognise future actuarial gains and losses either under "Other comprehensive income" or on a deferred basis using the "corridor method". Previous application of the corridor method in connection with the recognition of defined benefit pension plans led to the situation where actuarial gains and losses were recognised only when they exceeded certain threshold values. In addition, the portion to be recognised was spread across several years. Off-balance-sheet recognition of partial amounts of the defined benefit obligation also resulted from previously applicable rules on retroactive plan changes, which led to an increase in the existing obligation and thus to a past service cost. This past service cost had to be recognised immediately only if the additional entitlements had already vested. Amounts exceeding this were recognised on a pro rata basis until the resulting entitlements had vested.

In accordance with revised IAS 19, all actuarial gains and losses are to be recognised immediately and in full under "Other comprehensive income", and past service cost is to be recognised immediately and in full in profit or loss. The effects on the balance sheet item "Provisions for pensions and other post-employment benefits" and on shareholders' equity, as reduced by deferred taxes and deferred premium refunds, are depicted in the following tables. In addition, the yield on plan assets is in future to be derived from the discount rate underlying the measurement of the defined benefit obligation. Since pension commitments in the Group are financed to only a limited extent using plan assets, there were no material effects on Group net income. Furthermore, because of the change in recognition of supplemental benefits, application of the revised standard led to a modification of the German obligations regarding partial retirement. In particular, when applying the so-called block model, supplemental amounts are no longer accumulated in full when the contract on partial retirement is concluded, but instead pro rata over the period from contract signature to the end of the phase when the beneficiary is working. In this regard, all annual payments as a whole are accumulated, not each individual benefit (so-called FIFO method). The effects on the balance sheet item "Other provisions", where partial retirement benefits are recognised, and on shareholders' equity, as reduced by deferred taxes and deferred premium refunds, are likewise depicted in the following tables.

b) In recognising the interest-rate-driven portion of the change in the loss and loss adjustment expense reserve (loss provision), various Group companies exercised an option in different ways for certain contracts in the area of Life/Health Reinsurance. For instance, this item was sometimes recognised in the statement of income and sometimes directly in shareholders' equity. Following the requirements of IAS 8 we have made in these financial statements a uniform Group recognition in the statement of income and in accordance with IAS 8.41, we have made a corresponding adjustment to the comparable figures.

c) With effect from 30 September 2013, in the Retail Germany segment, the Group retroactively corrected fair-value information in the Notes with respect to several financial instruments in the category "Loans and receivables" that are a component of internal Group transactions involving interest-rate peaks and for which the original interest rate is thus to be taken as a basis in ascertaining them (Retail Germany segment). As a consequence, recognised fair values under "Loans and receivables" increased by EUR 206 million compared with their original recognition as at 31 December 2012. The adjustment of the information in the Notes did not have any effect on the recognised carrying amounts or shareholders' equity in the previous year.

d) In the fourth quarter of 2013, the indicated maturities for "Loans and receivables", "Financial assets available for sale" and "Financial assets at fair value through profit or loss" were retroactively corrected (31 December 2012). These adjustments of the information in the Notes did not have any effect on either shareholders' equity or the carrying amount of the financial instruments.

Retroactive application of the aforementioned changes (letters a) and b)) to the previous year's opening balance sheet as at 1 January 2012, consolidated balance sheet as at 31 December 2012, consolidated statement of income and consolidated statement of comprehensive income had the following effects:

N7 EFFECTS ON THE CONSOLIDATED BALANCE SHEET AS AT 1 JANUARY 2012

FIGURES IN EUR MILLION

	As reported at 1.1.2012	Changes due to adjustments in accordance with IAS 8		1.1.2012
		Adjustment re a)	Adjustment re b)	
Liabilities				
A. b. Reserves	5,147	–44	—	5,103
thereof retained earnings	4,170	14	–9	4,175
thereof other reserves	347	–58	9	298
A. d. Non-controlling interests in shareholders' equity	3,284	–2	—	3,282
C. d. Provision for premium refunds	1,008	–2	—	1,006
E. a. Provisions for pensions and other post-employment benefits	1,343	87	—	1,430
E. c. Other provisions	689	–17	—	672
G. Deferred tax liabilities	1,494	–22	—	1,472

N8 EFFECTS ON THE CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2012

FIGURES IN EUR MILLION

	As reported at 31.12.2012	Changes due to adjustments in accordance with IAS 8 (including adjustments as at 1.1.2012)		31.12.2012
		Adjustment re a)	Adjustment re b)	
Assets				
H. Deferred tax assets	433	96	—	529
Liabilities				
A. b. Reserves	7,156	–319	—	6,837
thereof retained earnings	4,829	15	–14	4,830
thereof other reserves	958	–334	14	638
A. d. Non-controlling interests in shareholders' equity	4,171	–15	—	4,156
C. d. Provision for premium refunds	2,297	–18	—	2,279
E. a. Provisions for pensions and other post-employment benefits	1,347	522	—	1,869
E. c. Other provisions	776	–13	—	763
F. c. Other liabilities	7,080	–1	—	7,079
G. Deferred tax liabilities	2,044	–60	—	1,984

N9 EFFECTS ON THE CONSOLIDATED STATEMENT OF INCOME 2012

FIGURES IN EUR MILLION

	As reported 1.1.–31.12.2012	Changes due to adjustments in accordance with IAS 8		1.1.–31.12.2012
		Adjustment re a)	Adjustment re b)	
6. Claims and claims expenses (gross)	20,537	1	15	20,553
Reinsurers' share	2,195	—	2	2,197
10. b. Other expenses	1,197	–2	—	1,195
13. Taxes on income	423	—	–4	419
Net income	1,152	1	–9	1,144
thereof attributable to shareholders of Talanx AG	630	—	–4	626

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

N10 **EFFECTS ON EARNINGS PER SHARE IN 2012**

FIGURES IN EUR

	As reported at 31.12.2012	Changes due to adjustments in accordance with IAS 8		31.12.2012
		Adjustment re a)	Adjustment re b)	
Basic earnings per share	2.87	0.01	–0.02	2.86
Diluted earnings per share	2.87	0.01	–0.02	2.86

N11 **EFFECTS ON THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME 2012**

FIGURES IN EUR MILLION

	As reported 1.1.–31.12.2012	Adjustment re a)	Adjustment re b)	1.1.–31.12.2012
Net income	**1,152**	**1**	**–9**	**1,144**
Not reclassifiable in the consolidated statement of income				
Actuarial gains (losses) on pension provisions				
Gains (losses) recognised in other comprehensive income during the period	—	–441	—	–441
Tax income (expense)	—	133	—	133
	—	**–308**	**—**	**–308**
Changes in policyholder participation/shadow accounting				
Gains (losses) recognised in other comprehensive income during the period	—	17	—	17
Tax income (expense)	—	—	—	—
	—	**17**	**—**	**17**
Total non-reclassifiable income (expenses) after taxes recognised in other comprehensive income during the period	**—**	**–291**	**—**	**–291**
Reclassifiable in the consolidated statement of income				
Currency translation				
Gains (losses) recognised in other comprehensive income during the period	–1	—	—	–1
Shifted to the consolidated statement of income	—	—	—	—
Tax income (expense)	4	–1	—	3
	3	**–1**	**—**	**2**
Changes in policyholder participation/shadow accounting				
Gains (losses) recognised in other comprehensive income during the period	–1,157	3	—	–1,154
Tax income (expense)	37	1	—	38
	–1,120	**4**	**—**	**–1,116**
Other changes				
Gains (losses) recognised in other comprehensive income during the period	–13	–1	13	–1
Shifted to the consolidated statement of income	—	—	—	—
Tax income (expense)	4	—	–4	—
	–9	**–1**	**9**	**–1**
Total non-reclassifiable income (expenses) after taxes recognised in other comprehensive income during the period	**964**	**2**	**9**	**975**
Income (expenses) after taxes recognised in other comprehensive income during the period	**964**	**–289**	**9**	**684**
Total comprehensive income during the period	**2,116**	**–288**	**—**	**1,828**
thereof attributable to non-controlling interests	835	–13	—	822
thereof attributable to shareholders of Talanx AG	1,281	–275	—	1,006

The effects from corrections made to information in the previous year's Notes (letters c) and d)) are shown in the following tables:

N12 EFFECTS ON THE CONTRACTUAL MATURITY OF AMORTISED COSTS AND FAIR VALUES OF LOANS AND RECEIVABLES AS AT 31 DECEMBER 2012 (NOTE (6))

FIGURES IN EUR MILLION

	Amortised cost			Fair value			
	As reported at 31.12.2012	Adjustment re d)	31.12.2012	As reported at 31.12.2012	Adjustment re c)	Adjustment re d)	31.12.2012
Due one year or sooner	2,801	–606	2,195	3,151	–412	–399	2,340
Later than one year, up to two years	2,806	—	2,806	2,918	4	—	2,922
Later than two years, up to three years	2,826	—	2,826	3,025	3	—	3,028
Later than three years, up to four years	2,374	—	2,374	2,580	3	—	2,583
Later than four years, up to five years	2,140	—	2,140	2,353	33	—	2,386
Later than five years, up to ten years	6,659	114	6,773	7,544	163	106	7,813
Later than ten years	12,495	492	12,987	14,805	412	293	15,510
Total maturities	**32,101**	**—**	**32,101**	**36,376**	**206**	**—**	**36,582**

N13 EFFECTS ON THE CONTRACTUAL MATURITY OF AMORTISED COSTS AND FAIR VALUES OF FIXED-INCOME FINANCIAL ASSETS AVAILABLE FOR SALE AS AT 31 DECEMBER 2012 (NOTE (8))

FIGURES IN EUR MILLION

	Fair value			Amortised cost		
	As reported at 31.12.2012	Adjustment re d)	31.12.2012	As reported at 31.12.2012	Adjustment re d)	31.12.2012
Due one year or sooner	2,519	–71	2,448	2,497	–69	2,428
Later than one year, up to two years	4,007	2	4,009	3,931	1	3,932
Later than two years, up to three years	4,177	–4	4,173	4,022	–4	4,018
Later than three years, up to four years	3,491	—	3,491	3,308	—	3,308
Later than four years, up to five years	4,100	5	4,105	3,891	5	3,896
Later than five years, up to ten years	13,685	63	13,748	12,610	61	12,671
Later than ten years	8,101	5	8,106	7,202	6	7,208
Total maturities	**40,080**	**—**	**40,080**	**37,461**	**—**	**37,461**

N14 EFFECTS ON THE CONTRACTUAL MATURITY OF FINANCIAL ASSETS CLASSIFIED AT FAIR VALUE THROUGH PROFIT OR LOSS AS AT 31 DECEMBER 2012 (NOTE (9))

FIGURES IN EUR MILLION

	Fair value		
	As reported at 31.12.2012	Adjustment re d)	31.12.2012
Due one year or sooner	456	–119	337
Later than one year, up to two years	151	—	151
Later than two years, up to three years	100	—	100
Later than three years, up to four years	71	—	71
Later than four years, up to five years	54	—	54
Later than five years, up to ten years	343	—	343
Later than ten years	187	119	306
Total maturities	**1,362**	**—**	**1,362**

Adjustment amounts for the current reporting period from the new rules in IAS 19 (letter a)) – difference between IAS 19 as actually applied starting in 2013 and the old rule:

N15 EFFECTS OF THE ADJUSTMENT UNDER IAS 19 ON THE CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2013

FIGURES IN EUR MILLION

	Changes due to adjustments in accordance with IAS 8
	re a)
A. b. Reserves	234
C. d. Provision for premium refunds	12
E. a. Provisions for pensions and other post-employment benefits	–326
E. c. Other provisions	12
G. Deferred tax liabilities	96

N16 EFFECTS OF THE ADJUSTMENT UNDER IAS 19 ON THE CONSOLIDATED STATEMENT OF INCOME 2013

FIGURES IN EUR MILLION

	Changes due to adjustments in accordance with IAS 8
	re a)
6. Claims and claims expenses (gross)	1
10. b. Other expenses	–42
13. Taxes on income	13

N17 EFFECTS OF THE ADJUSTMENT UNDER IAS 19 ON EARNINGS PER SHARE FOR THE YEAR 2013

FIGURES IN EUR

	2013 prior to adjustment	Change from adjustment	2013
		re b)	
Basic earnings per share	2.91	0.11	3.02
Diluted earnings per share	2.91	0.11	3.02

CHANGES IN ESTIMATES DURING THE REPORTING PERIOD

With effect from the third quarter of 2013, the calculation logic for amortising inflation-indexed government bonds was modified in order to level out seasonal deviations in the underlying inflation indexes. This involves changing an accounting-related estimate that, pursuant to IAS 8, is to be made prospectively in the reporting period without adjusting the comparable figures for previous years. In future, amortisation amounts will not be different as at the balance sheet date and at the end of each year, since adjustment of the parameters merely constitutes a levelling during the year that has an effect only at the end of the respective quarter.

With Hannover Rück SE, a change was made to the estimate of the portion of the equalisation reserve that is expected to be allotted to foreign commercial units to which the so-called exemption method in the sense of relevant double taxation conventions is to be applied. Since pursuant to § 341h of the German Commercial Code (HGB) and § 29 of the Regulation on Insurance Accounting (RechVersV) an exemption reserve is not to be recognised for tax purposes in accordance with local rules in these countries, this leads to a reduction of deferred tax liabilities in the consolidated financial statements. This adjustment has to do with a change in an accounting-related estimate, which, pursuant to IAS 8.32 et seqq., is to be recognised in income prospectively and in the current period. In all, deferred tax liabilities in the amount of EUR 89 million were eliminated from income. The allocation of the exemption reserve to the foreign commercial units for future financial years, and thus the effect of this adjustment on subsequent accounting periods, is made according to a parameter key per financial statement branch and cannot be feasibly estimated.

As at the fourth quarter of 2013, the renegotiation process was concluded concerning several contractual components in a reinsurance agreement that was concluded in previous years and is updated on an ongoing basis (Industrial Lines segment). Based on new information, the Group has revised its original estimate concerning the accounting depiction of this reinsurance relationship in the current period. The affected book values and items in the technical result – essentially corrected premium accounting and loss provisions – were determined in connection with the revision of an accounting-related estimate that is required by IAS 8 to be made prospectively in the reporting period and without adjustment of prior-year figures. During the year under review, the change in estimate resulted in an improved technical result in the after-tax amount of EUR 68 million. A depiction of this effect on future periods was not undertaken due to the unreasonable effort that would have been required to ascertain it.

MAJOR DISCRETIONARY DECISIONS AND ESTIMATES

Preparation of the consolidated financial statement to a certain extent entails taking discretionary decisions and making estimates and assumptions that have implications for the assets and liabilities recognised, the consolidated statement of income and contingent claims and liabilities. Actual results may deviate from these estimates.

As a rule, these decisions and assumptions are subject to ongoing review and are based in part on historical experiences as well as on other factors, including expectations in respect of future events that currently appear reasonable. The processes in place both at the Group level and at subsidiary level are geared towards calculating the values in question as reliably as possible, taking all relevant information into account. It is further ensured – inter alia, through uniform Group accounting guidelines – that the standards laid down by the Group are applied in a consistent and appropriate manner.

Estimates and assumptions that entail a significant risk in the form of a material adjustment within the next financial year to the carrying amounts of recognised assets and liabilities are discussed below. In addition, further details can be found in the subsection "Summary of major accounting policies", the section "Nature of risks associated with insurance contracts and financial instruments", and directly in the remarks on individual items.

Technical provisions: As at 31 December 2013, the Group recognised loss and loss adjustment expense reserves in the amount of EUR 33,755 million and benefit reserves in the amount of EUR 49,767 million.

Loss and loss adjustment expense reserves are created for claims that are uncertain in terms of their amount or when they will become due. In general, these reserves are recognised in the amount that is likely to be claimed, using best-estimate principles that are based on actuarial methods, such as the chain ladder method. 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. The level of reserves is regularly reviewed – not only internally but also by external actuaries – and an external expert assessment of the reserves is commissioned in order to minimise the reserving risk.

In the area of life primary insurance and Life/Health Reinsurance, the determination of provisions and assets is crucially dependent on actuarial projections of the business. Key differentiating criteria include age, smoking status of the insured individual, metrics of the insurance plan, policy duration, policy amount and duration of premium payment. 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, for instance, on country-specific parameters, sales channel, quality of underwriting and type of reinsurance. For the purposes of US GAAP accounting, these assumptions are reviewed as at each balance sheet 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).

Fair value and impairments of financial instruments: Financial instruments with a fair value of EUR 50,997 million were recognised as at the balance sheet date, including financial assets of EUR 49,970 million and financial liabilities of EUR 1,027 million. Fair value and impairments of financial instruments, especially for those not traded on an active market, are determined using appropriate measurement methods. In this regard, cf. our remarks on the determination of fair values as well as the applicability criteria for assessment of the need to take impairments on certain financial instruments set forth in the subsection "Investments including income and expenses" (section "Summary of major accounting policies"). The allocation of financial instruments to various levels of the fair-value hierarchy is described under item 12 "Fair value hierarchy" in the Notes. To the extent that significant measurement parameters are not based on observable market data (level 3), estimates and assumptions play a major role in determining the fair value of these instruments.

Impairment testing of goodwill (carrying amount as at 31 December 2013: EUR 1,105 million): The Group tests for impairment of goodwill. Insofar as the recoverable amount is based on calculations of the value in use, appropriate assumptions – such as sustainably achievable results and growth rates – are used as a basis (cf. item 1 in the Notes, "Goodwill", pages 209 et seqq.). In addition, the Group performs sensitivity analyses for the most important parameters, such as anticipated combined ratio and discount rates.

Deferred acquisition costs: As at the balance sheet date, the Group recognised acquisition costs in the amount of EUR 4,513 million. The actuarial bases for amortisation of deferred acquisition costs are continuously reviewed and adjusted where necessary. Impairment tests are carried out by means of regular checks on, for example, profit developments, lapse assumptions, and default probabilities.

Present value of future profits (PVFP) on acquired insurance portfolios: The PVFP (EUR 1,182 million as at 31 December 2013) is the present value of anticipated future net cash flows from existing life insurance contracts, life reinsurance contracts and investment contracts at the time of acquisition and is determined respectively amortised using actuarial methods. Uncertainties may arise with regard to the expected amount of these net cash flows.

Realisability of deferred tax assets: Estimates are made in particular with respect to the utilisation of tax loss carry-forwards, first and foremost in connection with deferred tax liabilities recognised in the balance sheet and anticipated future earnings. The Group's tax department tests for impairment of key deferred tax assets. The Group's deferred tax assets amounted to EUR 548 million as at the balance sheet date.

Provisions for pensions and other post-employment benefits: As at the balance sheet date, pension liabilities under defined benefit plans – net of plan assets – amounted to EUR 1,695 million. The present value of pension liabilities is influenced by numerous factors based on actuarial assumptions. The assumptions used to calculate net expenses (and income) for pensions include discount rates, the estimated rate at which salaries will increase and pension increases. These parameters take into account the individual circumstances of the units concerned and are determined with the aid of actuaries. For detailed remarks on how pension liabilities are determined, including a depiction of sensitivity analyses in the event of deviations from certain key assumptions, cf. item 23 in the Notes, "Provisions for pensions and other post-employment benefits".

Provisions for restructuring (31 December 2013: EUR 73 million): Provisions for restructuring recognised by the Group are based on official restructuring measures of which the affected employees have been informed, and they include inter alia, assumptions in respect of the number of employees affected by the redundancies, the amount of the severance payments due and costs in connection with terminating contracts The Group's accounting guidelines establish the requirements for creating a restructuring provision as well as for the cost components for which provisions may be created.

SUMMARY OF MAJOR ACCOUNTING POLICIES

RECOGNITION OF INSURANCE CONTRACTS

In March 2004 the IASB published IFRS 4 "Insurance Contracts", the first standard governing the accounting of insurance contracts, dividing the "Insurance Contracts" project into two phases. IFRS 4 represents the outcome of Phase 1 and serves as a transitional arrangement until the IASB redefines the measurement of insurance contracts after completion of Phase 2. Following publication of the exposure draft "Insurance Contracts" (ED/2010/8) in 2010, the IASB published a revised exposure draft (ED/2013/7) on 20 June 2013 in response to extensive feedback that it received to the earlier draft. The revised exposure draft provides for a transition period of three years for application of the new accounting rules. The draft is based on a measurement model consisting of four components: expected present value of future cash flows, discounted time value of money, risk adjustment for cash flow uncertainties and a contractual service margin (profitability that the entity expects the contract to generate).

IFRS 4 (Phase 1) – which also applies to reinsurance contracts – requires that all contracts written by insurance companies be classified either as insurance contracts or investment contracts. An insurance contract exists if one party (the insurer) assumes a significant insurance risk from the other party (the policyholder) by agreeing to pay compensation to the policyholder if a defined uncertain future event detrimentally impacts the policyholder. For the purposes of recognising insurance contracts within the meaning of IFRS 4, insurance companies are permitted to retain their previously used accounting practice for insurance contracts for the duration of the currently applicable project stage (Phase 1). In line with this, technical items are shown in the consolidated financial statements in accordance with US GAAP as at time of initial application of IFRS on 1 January 2005 – provided IFRS 4 contains no special provisions to the contrary. Therefore, we cite certain rules of US GAAP using the designation valid at that time (Statement of Financial Accounting Standard [SFAS]). Investment contracts, e.g. contracts that have no significant insurance risk and do not provide for a discretionary surplus participation, are treated as financial instruments pursuant to IAS 39. Investment contracts that provide for a discretionary surplus participation are recognised in accordance with US GAAP.

ASSETS

Intangible assets

The item "Intangible assets" is broken down into "Goodwill" and "Other intangible assets". The latter consist of, in particular, acquired and self-developed software, insurance-related intangible assets, acquired brand names and acquired sales networks and customer relationships.

Goodwill is the positive difference between the cost of acquiring a company and the fair value of the Group's interests in that company's net assets. In accordance with IFRS 3 "Business Combinations", negative differences from initial consolidation are to be recognised immediately as expenses after renewed testing. Recognised goodwill is tested for impairment at least once a year, and it is measured at initial cost less cumulative impairments. Neither scheduled amortisation nor reversals of impairment are 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 36.80 et seqq. "Impairment of Assets", goodwill must be allocated to cash-generating units (CGUs) (cf. item 1 in the Notes, "Goodwill", pages 209 et seqq.). Goodwill is allocated to the CGU that is expected to derive benefit from the acquisition that gave rise to such goodwill. A CGU cannot be larger than a business segment. In order to determine possible impairment, the recoverable amount of a CGU – defined as the higher of the value in use or the fair value less costs to sell – is established and compared with the carrying amounts of such a CGU in the Group, including goodwill. If the carrying amounts exceed the recoverable amount, a goodwill impairment is recognised in the statement of income (under "Goodwill impairments").

Insurance-related intangible assets: The present value of future profits (PVFP) on acquired insurance portfolios refers to the present value of the anticipated future net cash flows from insurance contracts, reinsurance contracts and investment contracts existing at the time of acquisition. It consists of a shareholders' and tax portion, for which deferred taxes are established, 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 in observance of the remaining duration of the acquired contracts. Item 2 in the Notes, "Other intangible assets", pages 213 et seqq., shows a breakdown by remaining duration of the underlying insurance contracts acquired. Impairment and the measurement parameters used are tested at least once a year. Where necessary, amortisation patterns are adjusted, otherwise an impairment loss is recognised. Only amortisation of the shareholders' portion results in a charge to future earnings. The PVFP in favour of policyholders is recognised by life insurance companies that are obliged to enable their policyholders to participate in all results through establishment of a provision for deferred premium refunds. We recognise amortisation of PVFP from investment contracts in "Net investment income" (under "Income/expense from investment contracts").

Intangible assets acquired in exchange for consideration that have a limited useful life as well as self-developed software are recognised at acquisition or production cost less accumulated amortisation and accumulated amortisation expenses. We recognise intangible assets acquired in connection with business combinations in the amount of their fair value at the time of acquisition, provided such assets are separated or arise from contractual or other legal rights and can be measured reliably. These assets are amortised over a period of their estimated useful life. With software (straight-line amortisation), this generally amounts to three to 10 years. For the most part, we amortise acquired sales networks and customer relationships by applying an estimated useful life of four to 16 years. Intangible assets with an unlimited useful life (e.g. acquired brand names) are tested for impairment annually, as well as where there is evidence of impairment. Amortisation methods, useful lives and residual asset values are reviewed as at the balance sheet date and adjusted where necessary. Amortisation and impairment expenses as well as write-ups are recognised in profit or loss and are allocated to functional units. Insofar as an allocation to functional units is not possible, they are recognised in "Other income/expenses" under "Other expenses". Write-ups are recognised under "Other income".

Investments including income and expenses

With respect to real estate, a distinction is made between investment property and own-use real estate based on the following criteria: investment property and own-use real estate involving mixed-use buildings are classified separately if the portions used by third parties and for own use could be sold separately. If this is not the case, properties are classified as investment property only if less than 10% is used by Group companies.

Investment property is recognised at acquisition or production cost less cumulative depreciation and cumulative impairment. Scheduled depreciation is taken on a straight-line basis over the expected useful life, at most 50 years. An impairment expense is taken if the market value (recoverable amount) determined using recognised valuation methods is less than the carrying amount by more than scheduled depreciation during a calendar year. If the portfolio is directly held, a qualified external opinion is drawn up for each property every five years as at the balance sheet date based on the discounted cash flow method (calculation of discounted cash flows from rents, etc. that can be generated by each property). Internal assessments, which are also based on the discounted cash flow method, are drawn up for each property on the intervening balance sheet dates in order to review their value. Opinions are obtained at shorter intervals if special facts or circumstances arise that may affect value. An external opinion on market value is obtained for real estate in special funds every 12 months starting from the date of first appraisal. For properties that are not rented out, market value is established using the discounted cash flow method, taking into account projected vacancy rates. Profit or loss from the sale of real estate as well as amortisation and any impairments is recognised in profit or loss.

Maintenance costs and repairs are recognised under "Net investment income". Value-enhancing expenditures that constitute subsequent acquisition or production costs are capitalised and can extend the useful life in certain cases.

The item "Investments in associated companies and joint ventures" encompasses solely those associated companies and joint ventures valued using the equity method on the basis of the proportionate shareholders' equity attributable to the Group. The share of these companies' net income attributable to the Group is included in "Net investment income". Shareholders' equity and net income are taken from the latest available annual financial statements of the associated companies. In this context, allowance is made for special extraordinary circumstances in the relevant reporting period if they are material to the company's assets, financial position or net income. As at each balance sheet date, the Group tests for impairment. In such a case, the difference between the carrying amount and the recoverable amount is recognised as an impairment in profit or loss (under "Income/expense from associated companies and joint ventures").

In accordance with IAS 39 "Financial Instruments: Recognition and Measurement", financial assets and liabilities, including derivative financial instruments, are recognised/derecognised upon acquisition or sale as at the settlement date. When added to the portfolio, financial assets are recognised as one of four items, depending on the respective 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 assets at fair value through profit or loss or at amortised cost. Depending on categorisation, transaction costs directly connected with acquisition may be recognised.

Subsequent measurement of financial instruments is determined by the above categorisation and is carried out either at amortised cost or at fair value. Amortised cost is calculated at historical cost after allowance for amounts repayable, premiums or discounts amortised using the effective interest rate method and recognised in income and any impairments or write-ups.

The item "Investments in affiliated companies and participating interests" includes investments in subsidiaries that are not consolidated because of their subordinate importance to the presentation of the Group's assets, financial position and net income as well as other participating interests. Associated companies and joint ventures not measured at equity on account of their subordinate importance are also recognised here. Investments in listed companies are recognised at the fair value prevailing on the balance sheet date. Other investments are measured at cost, less impairments where applicable.

The item "Loans and receivables" consists of non-derivative financial instruments with fixed or determinable cash flows that are not listed on an active market and are not intended to be sold at short notice. They consist primarily of fixed-income securities in the form of Schuldschein (e.g. debt-certificate) loans, registered bonds and mortgage loans. They are measured at amortised cost using the effective interest rate method. Individual receivables are tested for impairment as at the balance sheet date. An impairment is recognised if the loan or receivable is no longer expected to be repaid in full or at all (cf. also our remarks in the subsection "Impairment" in this section). Reversals are recognised in profit or loss. The upper limit of the write-up is the amortised cost that would have resulted on measurement date absent impairments.

The item "Financial assets held to maturity" comprises financial instruments with fixed or determinable cash flows that have a defined due date but are not loans or receivables. The Group has the intention and the ability to hold the securities recognised here until maturity. The procedures for measuring and for testing for impairment are the same as for loans and receivables.

The item "Financial assets available for sale" includes fixed-income and variable-yield financial instruments that the Group does not immediately intend to sell and that cannot be allocated to any other item. These securities are recognised at fair value. Premiums and discounts are spread over the maturity period using the effective interest rate method. Unrealised gains and losses arising out of changes in fair value are recognised under "Other comprehensive income" and shown in shareholders' equity ("Other reserves") after allowance for accrued interest, deferred taxes and amounts that life insurers owe policyholders upon realisation (provision for deferred premium refunds).

The item "Financial assets at fair value through profit or loss" consists of the trading portfolio and those financial instruments that, upon acquisition, are categorised as being recognised at fair value through profit or loss.

The trading portfolios ("Financial assets 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 under this item are all derivative financial instruments with positive market values, including derivatives embedded in hybrid financial instruments that have to be separated out and derivatives related to insurance contracts, unless they qualify as hedges (hedge accounting under IAS 39). Derivatives with negative market values are recognised under "Other liabilities" (trading liabilities). We use derivative financial instruments prudently in order to hedge parts of our portfolio against interest-rate and market-price risks, to optimise returns and to realise our intentions to buy or sell.

The item "Financial assets classified at fair value through profit or loss" consists of structured products that are recognised by applying the fair value option of IAS 39. This involves structured financial instruments – whose fair value can be reliably established – that would need to be broken down into their constituent parts (underlying plus one or more embedded derivatives) when being recognised under the items "Loans and receivables", "Financial assets held to maturity" or "Financial assets available for sale". The Group utilises the fair value option only for select parts of the investment portfolio.

All securities recognised at fair value through profit or loss are carried at the fair value as at the balance sheet date. If stock exchange prices are unavailable for determining market value, it is established using recognised measurement methods. Like realised gains and losses, all unrealised gains and losses from this valuation are recognised in profit or loss (under "Net investment income").

Derivative financial instruments that are designated as hedging instruments in the form of valuation units pursuant to IAS 39 (hedge accounting) are recognised at fair value in connection with initial or subsequent measurement. The method used to recognise gains and losses upon subsequent measurement depends on the type of hedged risk. The Group designates some derivatives as hedges on the fair value of particular assets (fair value hedges) and others as hedges against specific risks of fluctuating cash flows associated with a recognised liability or asset or with an anticipated transaction that is highly likely to materialise in the future (cash flow hedges). Further information is provided in item 13 in the Notes, "Derivative financial instruments and hedge accounting". These hedging instruments are recognised under "Other assets" or "Other liabilities".

Determination of fair value: 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 – e.g. the disposal price. Accordingly, the fair value of a liability depicts the risk of default (e.g. the entity's own credit risk). 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 asking price as at the balance sheet date. In the case of securities for which no current market price is available, a valuation price is determined on the basis of current and observable market data using established mathematical financial models. Such models are used principally for the measurement of unlisted securities. The following table shows the measurement techniques that were used to determine 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 primarily measured on the basis of proven measurements prepared by independent professional experts, e.g. audited net asset value, that have been previously subjected to systematic plausibility checks.

N18 MEASUREMENT MODELS FOR DETERMINATION OF FAIR VALUE

Financial instrument	Pricing method	Parameter	Pricing model
Fixed-income securities			
Unlisted plain vanilla bonds	Theoretical price	Interest rate curve	Present value method
Unlisted structured bonds	Theoretical price	Interest rate curve, volatility surfaces, correlations	Hull-White, Black-Karasinski, Libor market model, etc.
ABS/MBS for which no market prices are available	Theoretical price	Prepayment speed, incurred losses, default probabilities, recovery rates	Present value method
CDOs/CLOs	Theoretical price	Prepayment speed, risk premiums, default rates, recovery rates, redemptions	Present value method
Equities and funds			
Unlisted equities	Theoretical price	Acquisition cost, cash flows, EBIT multiples, expert opinions, carrying amount where applicable	NAV method[1]
Unlisted equity, real estate, and annuity funds	Theoretical price	Audited net asset value	NAV method[1]
Other invested assets			
Private equity funds/private equity real estate funds	Theoretical price	Audited net asset value	NAV method[1]
Derivative financial instruments			
Listed stock options	Listed price	—	—
Equity and index futures	Listed price	—	—
Interest rate and annuities futures	Listed price	—	—
Plain vanilla interest rate swaps	Theoretical price	Interest rate curve	Present value method
Currency forwards	Theoretical price	Interest rate curve, spot and forward rates	Interest parity model
OTC stock options, OTC stock index options	Theoretical price	Listing of the underlying share, implicit volatilities, money-market interest rate, dividend yield	Black-Scholes
FX options	Theoretical price	Spot rates, exchange rates, implicit volatilities	Garman/Kohlhagen
Interest rate futures (forward purchases)	Theoretical price	Interest rate curve	Present value method
Inflation swaps	Theoretical price	Inflation swap rates (Consumer Price Index), historical index fixings, interest rate curve	Present value method with seasonality adjustment
Swaptions	Theoretical price	Interest rate curve, implicit volatilities	Black76
Credit default swaps	Theoretical price	Interest rate curve, recovery rates	ISDA model
Insurance derivatives	Theoretical price	Market values of CAT bonds, interest rate curve	Present value method
Other			
Real estate	Theoretical value	Location, year of construction, rental space, type of use, term of leases, amount of rent	Expanded discounted cash flow method

[1] NAV: net asset value

The Group allocates all financial instruments measured at fair value as well as assets/financial liabilities not measured at fair value (e.g. loans and receivables, financial instruments held to maturity, subordinated liabilities, notes payable and loans) – whose fair values are required to be published in the Notes – to a fair value hierarchy level of IFRS 13. For further explanation, cf. our remarks in item 12 in the Notes, "Fair value hierarchy".

Impairment: As at each balance sheet date, we test our financial instruments – with the exception of financial assets recognised at fair value through profit or loss (since impairments are implicitly included in fair value) – for the presence of objective, substantial evidence of impairment. IAS 39.59 contains a list of objective evidence indicating that a financial asset is impaired. In addition, IAS 39.61 provides that a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment.

For the Group, a decline in the fair value of an equity instrument is significant if such value falls by more than 20% below the instrument's cost. A decline is prolonged if the fair value is below cost for a period of at least nine months. In the case of securities denominated in foreign currencies, the assessment is made in the functional currency of the company that holds the equity instrument. We apply these rules in a similar manner for participating interests 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 so-called "J curve" effect during the investment period of the funds), we take an impairment to net asset value as an approximation of market value only after a two-year waiting period where there has been a significant or prolonged decline in value.

Indicators for determining whether fixed-income securities 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. In so doing, a case-by-case analysis is carried out. In making the determination, we factor in first and foremost the rating of the security, the rating of the issuer or borrower and a specific market assessment. Moreover, with securities measured at amortised cost, we test whether material items – looked at on their own – are impaired.

In the event of a prolonged decline in value, impairments are taken on the fair value as at the balance sheet date – if available, on the published exchange price – and expensed in profit or loss. In this context, we generally deduct impairments on investments from the relevant items on the assets side without using an impairment account. Reversals on debt instruments are recognised in profit or loss up to the amount of amortised cost. In the case of financial assets available for sale, any excess amount is recognised under "Other comprehensive income" and shown in "Other reserves". Reversals on equity instruments, on the other hand, are recognised without impacting income in shareholders' equity through "Other comprehensive income".

Financial assets and liabilities are netted out and recognised in the net amount only if a corresponding legal claim exists (reciprocity, similarity and maturity of the liability) or has contractually been expressly agreed upon, i.e. if we intend to offset such items on a net basis or simultaneously bring about such an offset.

Securities loaned as part of **securities lending** continue to be carried in the balance sheet, since the material opportunities and risks resulting from such securities still remain within the Group.

In connection with genuine **securities repurchase transactions** (repo transactions), the Group sells securities with a simultaneous obligation to redeem them at a later date and at a fixed price. Since the material risks and opportunities associated with the financial assets remain within the Group, we continue to recognise these investments. We recognise the redemption obligation under "Other liabilities" in the amount of the payment received. The difference between the amount received for the transfer and that agreed to for retransfer is allocated in accordance with the effective interest rate method for the term of the repurchase transaction and recognised in profit or loss (under "Net investment income").

Other financial instruments are recognised primarily at fair value. The remarks on "Financial assets available for sale" apply correspondingly. Where these are not listed on public markets (e.g. participating interests in private equity firms), they are recognised at the latest available net asset value as an approximation of market value. Loans included in this item are recognised at amortised cost.

Investments under investment contracts

Investment contracts that do not provide for discretionary surplus participation are recognised as financial instruments pursuant to 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 "Investments" under a separate item, "Investments under investment contracts", while financial liabilities (e.g. investment contracts with policyholders) are recognised under the liability item "Other liabilities". Our remarks on the recognition of financial assets and liabilities (cf. above) apply correspondingly. The impact 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 less the relevant administrative expenses are presented as a separate item in "Net investment income" under "Income/expense from investment contracts". 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

The item "Funds withheld by ceding companies" consists of receivables due under reinsurance provided to our clients in the amount of the cash deposits contractually withheld by such clients. The item "Funds withheld under reinsurance treaties" (shown under liabilities) represents cash deposits furnished to us by our retrocessionaires. Neither of these types of deposit triggers any cash flows, and the funds cannot be used without the consent of the other party. The durations of these deposits are matched to the corresponding provisions. 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 (under "Other income/expenses").

Investments for the account and risk of holders of life insurance policies

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 kept and invested separately from other invested assets. They are recognised at market 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

Under this item, reinsurance recoverables on technical provisions are generally calculated according to the contractual conditions from the gross technical provisions. Appropriate allowance is made for credit risks.

Receivables

Receivables are recognised under "Accounts receivable on insurance business" and "Other receivables" at nominal value. Where necessary, impairments are taken on an individual basis. We use impairment accounts for impairments on accounts receivable from the insurance business. In all other cases, the underlying assets are written down directly.

Deferred acquisition costs

Commissions and other costs that are closely connected with the renewal or conclusion of contracts and thus are variable in relation to the acquired new business are recognised under "Deferred acquisition costs". Deferred acquisition costs are regularly tested for impairment using an adequacy test. The actuarial bases are also subject to ongoing review and, where necessary, adjustment.

In the case of primary property/casualty insurance companies and Non-Life Reinsurance, acquisition costs are normally deferred pro rata for the unearned portion of the premium. They are amortised at a constant rate over the average contract period. With short-duration contracts, premiums are amortised as they are collected, in accordance with time-based amortisation of unearned premium. In the area of primary life insurance, including Life/Health Reinsurance, deferred acquisition costs are determined in light of the contract duration anticipated surrenders, lapse expectations and anticipated interest income. The amount of amortisation 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 taken 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 period or period of annuity payment.

Deferred tax assets

IAS 12 "Income Taxes" requires that deferred tax assets be recognised if, in the consolidated balance sheet, asset items are to be recognised at a lower amount or liability items at a higher amount than in the tax balance sheet of the relevant Group company and where these temporary differences lead to reduced tax burdens in future. Such valuation differences may in principle arise between tax balance sheets drawn up in accordance with national standards and the IFRS balance sheets of the companies included in the consolidated financial statements drawn up in accordance with uniform Group standards as well as a result of consolidation processes. Also recognised under this item are deferred tax assets for tax credits and on tax loss carry-forwards. The assessment as to whether deferred tax claims from tax loss carry-forwards can be used, e.g. are not impaired, is guided by the company's earnings forecast and specific tax strategies that can realistically be achieved. Impairments are taken for impaired deferred tax assets.

Insofar as they relate to items recognised in shareholders' equity through "Other comprehensive income", the resulting deferred taxes are also recognised under "Other comprehensive income". 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, appropriate allowance is made in the year in which such change comes into law. Deferred taxes at the Group level are generally booked 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 offset actual tax refund claims against actual tax liabilities. The prerequisite for this is that deferred tax claims and deferred tax liabilities relate to income taxes assessed by the same tax office for either (i) the same tax subject or (ii) different tax subjects. In so doing, the aim must be either to net out the actual tax liabilities and refund claims or to recover the claims and settle the liabilities simultaneously in every future period in which it is expected that considerable amounts will be available to settle tax liabilities and recover tax claims. When recognising deferred tax assets and deferred tax liabilities in the consolidated balance sheet, no distinction is made between whether they are short term or long term.

Taxes on income: Tax expenditures consist of the actual taxes imposed 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 and penalties payable to the tax authorities are shown under "Other income/expenses".

Other assets

Receivables included under "Other assets" are generally recognised at nominal value, less impairments where required. Derivatives used as hedging instruments in connection with valuation units (hedge accounting) are recognised at fair value, provided they have a positive market value. Property, plant and equipment are recognised at acquisition or production cost less straight-line depreciation. The useful life for own-use real estate is at most 50 years. The useful life for operating and office equipment is normally between two and 10 years. The same statements made about the presentation of investment property generally apply to the measurement and testing of impairment for own-use real estate. Impairments are spread across the technical functional areas or recognised under "Other income/expenses".

Cash

Cash is recognised at its nominal value.

Disposal groups pursuant to IFRS 5

Non-current assets held for sale (or groups of assets and liabilities held for sale) are classified as held for sale pursuant to IFRS 5 if their carrying amount is realised largely through sale rather than through continued operational use. Sale must be highly probable. These assets are measured at the lower of carrying amount and fair value less cost to sell and are recognised separately in the balance sheet as assets or liabilities. Scheduled depreciation is recognised until the date of classification as held for sale. Impairments on fair value less cost to sell are to be recognised in profit or loss. Any subsequent increase in fair value less cost to sell leads to the realisation of gains up to the amount of the cumulative impairment expense. If the impairment for a disposal group exceeds the carrying amount of the corresponding non-current assets, the need to establish a provision within the meaning of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" is examined. For more detailed information, cf. section "Non-current assets held for sale and disposal groups".

CASH FLOW STATEMENT

The cash flow statement is presented using the indirect method for cash flows from operating activities. Liquid funds are limited to cash and cash equivalents and correspond to the balance sheet item "Cash". The effects of exchange rate differences on cash and cash equivalents and the influence of changes in the scope 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 sum of purchase prices paid less acquired cash and cash equivalents is recognised here.

LIABILITIES

Shareholders' equity

Shareholders' equity consists of common shares, additional paid-in capital, retained earnings and other reserves. Common shares and additional paid-in capital comprise the amounts paid in for shares by shareholders of Talanx AG. Costs directly associated with the issuance of new shares are recognised in additional paid-in capital, 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, consolidated special purpose entities and consolidated special funds have generated while belonging to the Group. In addition, in the event of a retrospective change in accounting policies, an adjustment for previous periods is made to the opening balance sheet value for retained earnings and comparable items of the earliest reported period.

Other reserves: Unrealised gains and losses from changes in the fair value of financial assets available for sale are recognised under "Unrealised gains/losses on investments". Differences resulting from the currency translation of foreign subsidiaries as well as unrealised gains and losses from the valuation of associated companies at equity are also recognised under "Other reserves". In addition, write-ups on variable-yield securities available for sale are recognised under this item in shareholders' equity. In the year under review, various derivatives were used as hedging instruments in connection with cash flow hedges. The effective portion of fluctuations in the value of these derivatives is recognised in a separate reserve item in shareholders' equity.

The share of net income attributable to non-controlling interests is shown in the consolidated statement of income. Based on this, the shares of non-controlling interests in shareholders' equity are recognised as a separate component of shareholders' equity. This refers to interests in the shareholders' equity of subsidiaries that are held by parties outside the Group.

Subordinated liabilities

The item "Subordinated liabilities" consists of financial obligations that, in the event of liquidation or bankruptcy, are satisfied only after the claims of other creditors. These financial obligations are recognised at amortised cost using the effective interest rate method.

Technical provisions (gross)

Technical provisions are shown in the balance sheet in their gross amount, e.g. before deduction of the portion attributable to reinsurers. The reinsurers' portion of technical provisions is 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 apportionable to future risk periods are deferred on an accrual basis and recognised under "Unearned premium reserves". These premiums are recognised as earned – and thus as income – over the duration of the insurance contracts in proportion to the amount of insurance cover provided or as they fall due. With 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 an accrual calculation is unavailable. Unearned premiums also include amounts charged when certain long-duration contracts are concluded (e.g. payment protection insurance). Unearned premiums correspond to the insurance cover to be granted in future periods. Short-duration insurance business consists primarily of Non-Life Reinsurance and primary property/casualty insurance.

The benefit reserve, which covers commitments arising out of guaranteed claims of policyholders under life primary insurance policies and of cedants in Life/Health Reinsurance, is calculated and recognised in life insurance business 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 and interest rate trends. The actuarial bases used in this context 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 as to the best estimate of investment income, life expectancy and morbidity risk, allowing for a risk margin. These assumptions are based on customer and industry data. 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 the surplus participation.

The measurement of the benefit reserve depends on the respective product category. Accordingly, life insurance products must be divided into the following categories:

In the case of life insurance contracts with "natural" surplus participation (SFAS 120 in conjunction with SOP 95-1 [Statement of Principles]), 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 premium less the portion of premium 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 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 future net level premium. Net level premium corresponds to the portion of 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 kept 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 policyholders.

The loss and loss adjustment expense reserve is created 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 balance sheet date and reserves for claims that have been incurred but not yet reported as at the balance sheet 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 (as regards estimates for individual cases, cf. our remarks in the subsection "Catastrophe losses and major claims"). The reserve is recognised according to best-estimate principles in the amount likely to be utilised. Receivables arising from recourse actions, claims to insured objects or loss allocation agreements are taken into account when making the best estimate. In order to assess ultimate liability, anticipated ultimate loss ratios are calculated for all lines of non-life reinsurance as well as primary casualty insurance with the aid of actuarial methods such as the chain ladder method. In making the calculation, the development of a claim 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 analogous 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, but also in liability lines, 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 of non-life actuarial principles. In this regard, provisions for the assumed insurance business are generally created 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 settlement of major losses depends on the given 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 created, are made on a case-by-case basis by employees entrusted with 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.

With regard to life insurance, the provision for premium refunds is created for obligations that relate to surplus participation by policyholders that have not yet been definitively allocated to individual insurance contracts as at the balance sheet date. It consists of amounts allocated to policyholders in accordance with national regulations or contractual provisions and amounts resulting from temporary differences between the consolidated financial statement under IFRS and local annual financial statements (provision for deferred premium refunds, shadow provision for premium refunds) that will have a bearing on future calculations of surplus participation. For German life insurers in particular, the applicable regulatory requirements of the German Insurance Supervision Act (VAG) and the German Regulation on the Minimum Refund in Life Insurance (Minimum Allocation Regulation) need to be observed.

At least once a year, we subject all technical provisions to an adequacy test in accordance with IFRS 4. If current experience indicates that future income will not cover anticipated expenses, technical provisions are adjusted as an expense or an additional provision is established for anticipated losses after writing off deferred acquisition costs. We perform the adequacy test for the unearned premium reserve and the loss and loss adjustment expense reserve on the basis of the realistically estimated future settlement amount. In so doing, the calculation 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 control over the profitability of individual contractual relationships. Capital gains are not included in this calculation. We test the adequacy of the benefit reserve on the basis of current assumptions as to the actuarial bases, including pro rata net investment income and (where relevant) future surplus participations.

Shadow accounting

IFRS 4.30 allows recognised but unrealised gains and losses (deriving predominantly from changes in the fair value of assets in the category "available for sale") that are recognised under "Other comprehensive income" (in "Other reserves") to be included in the measurement of technical items. This approach is applied so that unrealised gains and losses are treated the same way as realised gains and losses. This may affect deferred acquisition costs, PVFP, provisions for terminal bonuses for policyholders, provisions for deferred costs and the provision for premium refunds. The aforementioned asset and liability items and their corresponding amortisation patterns are determined on the basis of estimated gross margins (EGMs), which are modified accordingly following subsequent recognition of unrealised gains and losses. The resulting adjustments are recognised as so-called shadow adjustments of the affected items. The counterpart is shown under "Other comprehensive income" analogously to the underlying changes in value.

Technical provisions in the area of life insurance insofar as the investment risk is borne by policyholders

In the case of life insurance products under which policyholders bear the investment risk themselves (e.g. in unit-linked life insurance contracts), the benefit reserve and other technical provisions reflect the market value of the corresponding investments. These provisions are shown separately. Cf. our remarks on the asset item "Investments for the account and risk of holders of life insurance policies", page 165.

Other provisions

This item includes provisions for pensions and other post-employment benefits. In general, Group companies make pension commitments to their employees based on defined contributions or defined benefits. The type and amount of pension commitments depend on 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 to these pension plans, executive staff and members of the Board of Management, in particular, enjoy individual commitments as well as commitments provided for under the benefit plan of the Bochumer Verband.

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 reinsured under insurance contracts with various insurance companies, mainly within the Group. Furthermore, Group employees have the opportunity to make additional provision for retirement through direct life insurance policies, variously structured pension funds or payment of deferred compensation to reinsured provident funds.

In the case of pension commitments based on defined contributions, companies pay a fixed amount to an external pension fund. The company's liability is fully discharged upon payment of the contribution. In the case of pension commitments based on defined benefits, the employee receives a specific pension commitment from the company or a pension fund. The contributions payable by the company to fund the commitment are not fixed in advance. In addition to the company under an obligation to make the contribution, the PENSIONS-SICHERUNGS-VEREIN Versicherungsverein auf Gegenseitigkeit a. G. is liable for fulfilling pension commitments in accordance with its articles of association.

If pension liabilities are balanced against assets of a legally independent entity (e.g. a fund or benefit commitments covered by external assets) that may be used solely to cover the pension assurances given and cannot be seized by any creditors, such pension liabilities are to be recognised less such assets. If the fair value of such assets exceeds the associated pension liabilities, the net amount is recognised under "Other accounts receivable", as adjusted for effects from the asset ceiling.

Liabilities under defined benefit pension plans are calculated separately for each plan according to actuarial principles. In so doing, pension liabilities are measured in accordance with IAS 19 "Employee Benefits" using the projected unit credit method. Benefit entitlements and current pension payments existing as at the balance sheet date are measured with allowance being made for their future development. They are calculated in accordance with actuarial principles and take into consideration length of service and the estimated rate at which employee salaries will increase. The interest rate used for discounting pension liabilities is based on the rates applicable to senior corporate bonds in accordance with the currency and duration of the pension liabilities. Recognition of liability for post-employment benefits is based on opinions obtained from qualified actuaries prior to the balance sheet date. The results of these measurements are updated as at the balance sheet date in order to account for material transactions and changes in parameters. Changes in the present value of liabilities through interest rate changes are calculated on the basis of sensitivity analyses by means of rescaling, including where such changes are immaterial.

The amounts payable under defined contribution plans are expensed when they become due.

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 time they occur. All remeasurement effects are recognised in "Other comprehensive income" and shown in shareholders' equity. Remeasurement of pension liabilities covers actuarial gains or losses from gross pension liabilities and the difference between the yield on plan assets actually realised and the actuarial interest income from plan assets. Moreover, where plans have a 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. Actuarial gains and losses derive from deviations between estimated claims experience and actual claims experience (irregularities in claims experience as well as effects of changes in the calculation parameters, including the effect of changes on the discount rate).

Liabilities from partial retirement are recognised at their present value in accordance with actuarial principles. Under the so-called block model, a reserve for settlement arrearages is created during the working phase in the amount of the uncompensated portion of the work rendered. Supplemental benefits are accumulated pro rata until the end of the employee's working phase. During periods in which the employee is paid in accordance with the partial retirement rules without having to work, the liability item is disposed. In calculating the net liability, the fair value of the plan assets is deducted from the liability from partial retirement.

Sundry provisions, including tax provisions, are established in the amount that is likely to be used, based on best estimates. This presupposes that the Group currently has a de jure or de facto obligation arising out of a past event, that a claim is likely with respect to such obligation, and that the amount of such obligation can be reliably determined.

Restructuring provisions are recognised where a detailed, formal restructuring plan is in place and has begun to be implemented or where key restructuring details have been published. These provisions mainly comprise payments for the premature termination of leases, severance payments for employees and consulting services related directly to the dismantling of obsolete structures. Expenses related to future business activities (e.g. relocation costs) are not taken into account in the creation of restructuring reserves.

Sundry provisions are discounted if the interest rate effect is of material significance. The carrying amount of the provisions is reviewed as at each balance sheet date.

Liabilities

Financial liabilities, including "Notes payable and loans", are recognised at amortised cost, provided they do not involve liabilities from derivatives or liabilities under investment contracts at fair value through profit or loss.

Liabilities from derivatives are measured at fair value (for information about the valuation techniques used within the Group, cf. the subsection "Investments including income and expenses"). In addition, derivatives used as hedging instruments in connection with hedge accounting are recognised under "Other liabilities". For further information in this regard, cf. our remarks in item 13 in the Notes, "Derivative financial instruments and hedge accounting". With regard to written put options for non-controlling interests, the Group recognises a liability at the present value of the repurchase amount for the interests. It is booked against the interest of non-controlling shareholders in shareholders' equity. Effects from subsequent measurement are recognised as income or expenses under "Other income/expenses". The compounding of these financial liabilities is recognised under "Financing costs".

The fair value of investment contracts is generally calculated using repurchase values for policyholders and their account balances. In addition, the Group uses the fair value option for a select 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 under "Income/expense from investment contracts".

Share-based remuneration

Share-based remuneration is settled in the Group exclusively in cash. Liabilities for compensation plans to be settled in cash are determined at fair value as at every balance sheet date and as at the settlement date. 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: IAS 12 "Income Taxes" requires that deferred tax liabilities be recognised if, in the consolidated balance sheet, asset items are to be recognised at a higher amount or liability items at a lower amount than in the tax balance sheet of the relevant Group company, where these temporary differences lead to increased tax burdens in future. Cf. our remarks on "Deferred tax assets". Deferred tax liabilities may not be recognised when goodwill is first recognised.

TECHNICAL PERFORMANCE DATA

The Group considers premiums, claims and claims expenses and acquisition costs and administrative expenses to be relevant both gross and net, e.g. after taking into account reinsurance items. Premiums can be subdivided into written premium and premium earned.

Premiums: The amount that the insurer declared due during the financial year is recognised under written premium, either once or on a continual basis, in exchange for providing insurance coverage. Premium also includes instalment payment surcharges, ancillary payments and cash payments for assumed portions of technical provisions (portfolio accessions). With regard to life insurance contracts that are recognised in accordance with the principles of SFAS 97, only premiums paid by customers for risk assumption and ongoing costs are recognised. Also recognised under this item are payments received for premium receivables that lapsed or were written down in prior years as well as income resulting from the release or reduction of one-time or general impairments on accounts receivables from policyholders. Increases in one-time or general impairments are deducted from written premium.

Deduction of ceded written premium results in net written premium.

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. Premium earned consists of the portion of written premium that is to be deferred in accordance with the terms of the insurance contracts. Savings elements under life insurance contracts are deducted from premium earned. In this respect, cf. our remarks under "Unearned premium reserve".

The item "Claims and claims expenses" includes claims paid during the financial year as well as claims paid during prior years (including terminal bonuses in life insurance). It also includes changes in the loss and loss adjustment expense reserve and changes in the benefit reserve. Also recognised under this item are expenses for premium refunds. 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. Cf. our remarks on the corresponding technical liability items.

The item "Acquisition costs" essentially consists of commissions to individuals and organisations entrusted with the sale of insurance products, reinsurance commissions and changes in deferred acquisition costs and in reserves for commissions. Also recognised here are 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. The item "Administrative expenses" primarily consists of expenses for contract management, such as collection of premiums when due. Recognised here are all costs directly attributable to this functional area, including personnel costs, write-offs and rents.

CURRENCY TRANSLATION

Items in the financial statements of Group companies are measured on the basis of the currency corresponding to that of the primary economic environment in which the company operates (functional currency). The consolidated financial statements are prepared in euros, which is the parent company's functional currency.

Transactions in foreign currencies are generally converted into the functional currency using exchange rates prevailing on the transaction date. In accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates", the recognition of exchange rate gains and losses on translation depends on the nature of the underlying balance sheet item.

Gains and losses from the translation of monetary assets and liabilities existing in foreign currencies are recognised in the statement of income under "Other income or expenses" in "Other income/expenses".

Currency translation differences relating to non-monetary assets, changes of the fair values of which are carried in income, are recognised with the latter as profit or loss from fair value measurement changes. Exchange rate gains or losses from non-monetary items, such as equities classified as available for sale, are initially recognised under "Other comprehensive income" and subsequently reallocated to profit or loss when such an instrument is sold or in the event of impairment.

The Group companies' statements of income prepared in national currencies are converted into euro at the average rates of exchange and transferred to the consolidated financial statement. The conversion of foreign currency items in the balance sheets of the individual companies and the transfer of these items to the consolidated financial statement are effected at the mean rates of exchange as at the balance sheet date. All resulting currency translation differences – including those arising out of capital consolidation – are recognised under "Other comprehensive income" and shown in the reserve for currency translation in shareholders' equity. Currency translation differences resulting from long-term loans or open-ended loans to a foreign business operation whose repayment is neither planned nor likely are also recognised under "Other comprehensive income" and shown in the reserve for currency translation in shareholders' equity. Goodwill arising from the acquisition of a foreign company is treated as an asset of the foreign entity and translated as at the balance sheet date.

N19 EXCHANGE RATES FOR OUR KEY FOREIGN CURRENCIES

1 EUR corresponds to		Balance sheet (balance sheet date)		Statement of income (average)	
		2013	2012	2013	2012
AUD	Australia	1.5513	1.2690	1.3842	1.2465
BRL	Brazil	3.2095	2.6942	2.8727	2.5243
CHF	Switzerland	1.2264	1.2081	1.2273	1.2054
CNY	China	8.3445	8.2148	8.1738	8.1475
GBP	United Kingdom	0.8357	0.8180	0.8480	0.8136
MXN	Mexico	17.9831	17.1341	17.1102	17.0258
PLN	Poland	4.1502	4.0776	4.2026	4.1922
USD	USA	1.3766	1.3182	1.3293	1.2932
ZAR	South Africa	14.4390	11.2069	12.8556	10.5674

SEGMENT REPORTING

IDENTIFICATION OF REPORTABLE SEGMENTS

In conformity with IFRS 8 "Operating Segments", the reportable segments were determined in accordance with the internal reporting and management structure of the Group, on the basis of which the Group Board of Management regularly assesses the performance of the segments and decides on the allocation of resources to the segments. The Group splits its business activities into the areas of insurance and Corporate Operations. Insurance activities are further subdivided into five reportable segments. In view of the different product types, risks and capital allocations, a differentiation is initially made between primary insurance and reinsurance.

Since they are managed according to customer groups and geographical regions (domestic versus international) – and therefore span various lines of business – insurance activities in the primary sector are organised into three reportable segments: "Industrial Lines", "Retail Germany" and "Retail International". This segmentation also corresponds to the responsibilities of the members of the Board of Management.

Reinsurance business is handled solely by the Hannover Re Group and is divided into the two segments Non-Life Reinsurance and Life/Health Reinsurance in accordance with that group's internal reporting system. In a departure from the segmentation used in the consolidated financial statements of Hannover Rück SE, however, we allocate that group's holding functions to its Non-Life Reinsurance segment. By contrast, cross-segment loans within the Hannover Re Group are allocated to the two reinsurance segments in the consolidated financial statements of the Talanx Group (in the consolidated financial statements of Hannover Rück SE, these loans are shown in the consolidation column). Deviations between the segment results for reinsurance business as presented in the consolidated financial statements of Talanx AG and reported in the financial statements of Hannover Rück SE are thus unavoidable.

The major products and services from which these reportable segments generate income are set out below.

Industrial Lines: In the Industrial Lines segment we report worldwide industrial business as an independent segment. The scope of business operations encompasses a wide selection of insurance products such as liability, motor, accident, fire, property, legal protection, marine, special lines and engineering insurance for large and mid-sized enterprises in Germany and abroad. In addition, reinsurance is provided in various classes of insurance.

Retail Germany: Insurance activities serving German retail and commercial customers that span the various lines of business, including bancassurance business transacted Germany-wide – e.g. insurance products sold over the counter at banks – are managed in this reportable segment. In the area of life insurance, this segment provides insurance services across the border in Austria too. The products range from property/casualty insurance through all segments of life insurance and occupational pension insurance to all-round solutions for small and medium-sized companies and freelancers. The Group employs a wide range of sales channels, including its own exclusivity organisation as well as sales through independent brokers and multiple agents, direct sales and bank cooperations.

Retail International: The scope of operations in this segment encompasses insurance business transacted across the various lines of insurance with retail and commercial customers, including bancassurance activities in foreign markets. The range of insurance products includes 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 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*: The most important activities are property and liability business with retail, commercial and industrial customers (first and foremost in the US and German markets), marine and aviation business, credit/surety business, structured reinsurance, and facultative and NatCat business.

Life/health reinsurance*: The segment comprises the international activities of the Hannover Re Group in all lines of life/health insurance. The Group also has speciality line products such as Sharia-compliant 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, primarily relating to asset management and, in the primary insurance sector, the run-off and placement of portions of reinsurance cessions, including intra-group reinsurance as well as Group financing. Asset management for private and institutional investors outside the Group by Ampega Investment GmbH, Cologne, is also shown in this segment. This segment includes centralised service companies that provide specific billable services – such as IT, collection, personnel and accounting services – mainly to the Group's primary insurers based in Germany.

MEASUREMENT BASES FOR THE PERFORMANCE OF THE REPORTABLE SEGMENTS

All transactions between reportable segments are measured on the basis of standard market transfer prices that would also be applicable to transactions at arm's length. Cross-segment transactions within the Group are consolidated in the consolidation column, whereas income from dividend payments and profit/loss transfer agreements accruing to the Group holding company are eliminated in the respective segment. For reasons of consistency and comparability, we have adjusted the segment statement of income in line with the consolidated statement of income. The same applies to the segment balance sheet and the consolidated balance sheet.

Depending upon the nature and time frame of the commercial activities, various management metrics and performance indicators are used to assess the financial success of the reportable segments within the Group. However, the operating profit (EBIT) – determined from IFRS profit contributions – is used as a consistent measurement basis. Net profit or loss for the period before income taxes is highlighted as a means of capturing true operating profitability and for the sake of better comparability. In addition, the result is adjusted for interest charges incurred for borrowing (financing costs).

CHANGES IN PRESENTATION OF SEGMENT REPORTING

As part of the modifications made to internal reporting in 2013, the tax expenditure from provisions for tax risk within the consolidation group was first allocated to primary insurance segments and Corporate Operations (previously Corporate Operations). The figures for 2012 were not adjusted. This change had no impact for the whole Group on either the recognition and measurement of provisions for taxes nor on equity or net income. The adjustment would have had the following impact on the annual results of the segments in 2012: Corporate Operations EUR 15 million, Industrial Lines –EUR 20 million, Retail Germany EUR 6 million and Retail International –EUR 1 million.

* Please refer to our notes at the start of the section regarding the differences in segment results between the Talanx Group and the Hannover Re Group

N20 SEGMENT REPORTING. BALANCE SHEET AS AT 31 DECEMBER 2013

FIGURES IN EUR MILLION

Assets	Industrial Lines		Retail Germany		Retail International	
	31.12.2013	31.12.2012[1]	31.12.2013	31.12.2012[1]	31.12.2013	31.12.2012[1]
A. Intangible assets						
a. Goodwill	153	153	403	403	533	580
b. Other intangible assets	16	20	1,000	1,104	235	313
	169	**173**	**1,403**	**1,507**	**768**	**893**
B. Investments						
a. Investment property	21	35	734	689	21	82
b. Investments in affiliated companies and participating interests	19	19	17	19	—	5
c. Investments in associated companies and joint ventures	124	126	35	38	—	—
d. Loans and receivables	2,029	2,383	26,466	26,210	672	247
e. Other financial instruments						
i. Held to maturity	32	113	116	294	353	389
ii. Available for sale	3,821	3,427	14,194	12,338	3,883	3,221
iii. At fair value through profit or loss	98	89	319	329	565	1,016
f. Other invested assets	524	567	549	849	528	565
Investments under own management	**6,668**	**6,759**	**42,430**	**40,766**	**6,022**	**5,525**
g. Investments under investment contracts	—	—	—	—	1,758	1,698
h. Funds withheld by ceding companies	23	24	25	23	—	1
Investments	**6,691**	**6,783**	**42,455**	**40,789**	**7,780**	**7,224**
C. Investments for the account and risk of holders of life insurance policies	—	—	7,616	6,354	709	1,097
D. Reinsurance recoverables on technical provisions	4,632	4,687	2,446	2,495	668	703
E. Accounts receivable on insurance business	1,200	1,177	364	340	820	756
F. Deferred acquisition costs	16	24	2,161	1,977	403	315
G. Cash	322	317	398	869	427	305
H. Deferred tax assets	61	8	95	115	99	80
I. Other assets	423	381	794	1,074	409	319
J. Non-current assets and assets of disposal groups classified as held for sale[2]	—	9	4	23	233	18
Total assets	**13,514**	**13,559**	**57,736**	**55,543**	**12,316**	**11,710**

[1] Adjusted on the basis of IAS 8, see section "Accounting policies", subsection "Changes in accounting policies and accounting errors" in the Notes
[2] For further remarks, cf. section "Non-current assets held for sale and disposal groups" in the Notes

	Non-Life Reinsurance		Life/Health Reinsurance		Corporate Operations		Consolidation		Total	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012[1]	31.12.2013	31.12.2012	31.12.2013	31.12.2012[1]
	16	16	—	—	—	—	—	—	1,105	1,152
	22	23	94	101	79	80	—	—	1,446	1,641
	38	**39**	**94**	**101**	**79**	**80**	**—**	**—**	**2,551**	**2,793**
	845	489	2	2	—	—	—	—	1,623	1,297
	32	12	—	—	24	25	—	—	92	80
	126	118	19	15	13	13	–70	–73	247	237
	3,137	3,340	72	75	11	1	–156	–155	32,231	32,101
	2,469	3,407	198	200	6	10	–190	–556	2,984	3,857
	16,918	16,162	5,768	5,806	338	383	—	—	44,922	41,337
	38	132	69	76	1	—	—	—	1,090	1,642
	1,536	1,598	281	247	245	303	–542	–628	3,121	3,501
	25,101	**25,258**	**6,409**	**6,421**	**638**	**735**	**–958**	**–1,412**	**86,310**	**84,052**
	—	—	—	—	—	—	—	—	1,758	1,698
	890	951	13,453	13,800	—	—	–1,497	–1,601	12,894	13,198
	25,991	**26,209**	**19,862**	**20,221**	**638**	**735**	**–2,455**	**–3,013**	**100,962**	**98,948**
	—	—	—	—	—	—	—	—	8,325	7,451
	1,307	1,426	589	763	1	—	–3,047	–3,085	6,596	6,989
	1,702	1,691	1,243	1,376	4	—	–262	–259	5,071	5,081
	491	476	1,181	1,365	2	—	259	221	4,513	4,378
	434	411	209	161	74	56	—	—	1,864	2,119
	16	16	56	32	205	278	—	—	532	529
	1,273	935	151	94	483	573	–1,332	–1,370	2,201	2,006
	11	6	—	—	—	—	—	—	248	56
	31,263	31,209	23,385	24,113	1,486	1,722	–6,837	–7,506	132,863	130,350

N21 SEGMENT REPORTING. BALANCE SHEET AS AT 31 DECEMBER 2013

FIGURES IN EUR MILLION

Liabilities	Industrial Lines		Retail Germany		Retail International	
	31.12.2013	31.12.2012[1]	31.12.2013	31.12.2012[1]	31.12.2013	31.12.2012[1]
B. Subordinated liabilities	144	149	213	214	2	—
C. Technical provisions						
a. Unearned premium reserve	936	856	888	815	1,591	1,525
b. Benefit reserve	1	1	36,795	35,579	2,554	2,073
c. Loss and loss adjustment expense reserve	8,442	8,196	2,701	2,574	2,142	2,040
d. Provision for premium refunds	8	11	2,071	2,167	99	101
e. Other technical provisions	34	34	8	8	8	18
	9,421	**9,098**	**42,463**	**41,143**	**6,394**	**5,757**
D. Technical provisions in the area of life insurance insofar as the investment risk is borne by policyholders	—	—	7,616	6,354	709	1,097
E. Other provisions						
a. Provisions for pensions and other post-employment benefits	502	547	92	103	14	13
b. Provisions for taxes	130	101	116	90	92	69
c. Sundry provisions	70	96	266	299	74	83
	702	**744**	**474**	**492**	**180**	**165**
F. Liabilities						
a. Notes payable and loans	—	—	—	—	—	—
b. Funds withheld under reinsurance treaties	27	13	1,951	2,074	184	179
c. Other liabilities	1,283	1,553	2,138	2,254	2,543	2,355
	1,310	**1,566**	**4,089**	**4,328**	**2,727**	**2,534**
G. Deferred tax liabilities	39	96	285	337	121	139
H. Liabilities of disposal groups classified as held for sale[2]	—	—	—	—	235	20
Total liabilities/provisions	11,616	11,653	55,140	52,868	10,368	9,712

	Non-Life Reinsurance		Life/Health Reinsurance		Corporate Operations		Consolidation		Total	
	31.12.2013	31.12.2012[1]	31.12.2013	31.12.2012[1]	31.12.2013	31.12.2012[1]	31.12.2013	31.12.2012[1]	31.12.2013	31.12.2012[1]
	2,238	2,233	60	97	612	612	–162	–198	3,107	3,107
	2,297	2,254	108	86	8	—	–150	–96	5,678	5,440
	—	—	10,632	10,975	—	—	–215	–380	49,767	48,248
	18,848	18,595	2,821	3,017	9	—	–1,208	–1,179	33,755	33,243
	—	—	—	—	—	—	—	—	2,178	2,279
	129	141	140	73	—	—	—	—	319	274
	21,274	**20,990**	**13,701**	**14,151**	**17**	**—**	**–1,573**	**–1,655**	**91,697**	**89,484**
	—	—	—	—	—	—	—	—	8,325	7,451
	90	97	27	30	971	1,079	—	—	1,696	1,869
	218	207	4	31	151	134	—	—	711	632
	90	91	45	32	145	163	–2	–1	688	763
	398	**395**	**76**	**93**	**1,267**	**1,376**	**–2**	**–1**	**3,095**	**3,264**
	227	168	213	275	1,217	1,352	–715	–1,118	942	677
	440	517	5,778	6,101	—	—	–2,845	–2,909	5,535	5,975
	953	893	1,495	1,315	112	329	–1,555	–1,620	6,969	7,079
	1,620	**1,578**	**7,486**	**7,691**	**1,329**	**1,681**	**–5,115**	**–5,647**	**13,446**	**13,731**
	1,005	1,015	271	372	—	3	28	22	1,749	1,984
	—	—	—	—	—	—	–2	—	233	20
	26,535	**26,211**	**21,594**	**22,404**	**3,225**	**3,672**	**–6,826**	**–7,479**	**121,652**	**119,041**
Shareholders' equity[3]									**11,211**	**11,309**
Total liabilities									**132,863**	**130,350**

[1] Adjusted on the basis of IAS 8, see section "Accounting policies", subsection "Changes in accounting policies and accounting errors" in the Notes
[2] For further remarks, cf. section "Non-current assets held for sale and disposal groups" in the Notes
[3] Group shareholders' equity incl. non-controlling interests

N22 SEGMENT REPORTING. STATEMENT OF INCOME FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2013

FIGURES IN EUR MILLION

	Industrial Lines		Retail Germany		Retail International	
	2013	2012	2013	2012[1]	2013	2012
1. Gross written premium, including premiums from unit-linked life and annuity insurance	3,835	3,572	6,954	6,829	4,220	3,261
thereof attributable to other segments	65	60	63	63	—	—
with third parties	3,770	3,512	6,891	6,766	4,220	3,261
2. Savings elements of premiums from unit-linked life and annuity insurance	—	—	946	976	185	224
3. Ceded written premium	2,127	1,942	351	324	374	342
4. Change in gross unearned premium	–109	–86	–70	–40	–174	–83
5. Change in ceded unearned premium	–145	–64	–18	–12	–26	–9
Net premium earned	**1,744**	**1,608**	**5,605**	**5,501**	**3,513**	**2,621**
6. Claims and claims expenses (gross)	2,839	2,610	6,219	5,950	2,630	2,002
Reinsurers' share	1,424	1,401	204	135	163	140
Claims and claims expenses (net)	**1,415**	**1,209**	**6,015**	**5,815**	**2,467**	**1,862**
7. Acquisition costs and administrative expenses (gross)	721	660	1,154	1,075	1,037	786
Reinsurers' share	361	339	115	129	82	98
Acquisition costs and administrative expenses (net)	**360**	**321**	**1,039**	**946**	**955**	**688**
8. Other technical income	20	9	9	29	20	18
Other technical expenses	13	8	75	194	79	86
thereof attributable to amortisation PVFP	1	5	57	87	32	41
Other technical result	**7**	**1**	**–66**	**–165**	**–59**	**–68**
Net technical result	**–24**	**79**	**–1,515**	**–1,425**	**32**	**3**
9. a. Income from investments	291	275	2,026	1,852	339	317
b. Expenses for investments	52	28	216	199	67	43
Net income from investments under own management	**239**	**247**	**1,810**	**1,653**	**272**	**274**
Income/expense from investment contracts	—	—	—	—	13	8
Net interest income from funds withheld and contract deposits	1	—	–24	–32	–1	–1
Net investment income	**240**	**247**	**1,786**	**1,621**	**284**	**281**
thereof attributable to interest and similar income	202	214	1,550	1,552	314	263
attributable to interest and similar expenses	—	—	24	29	47	26
impairments/depreciation on investments	8	4	65	63	8	5
write-ups on investments	—	2	10	5	1	9
income/expense from associated companies and joint ventures recognised using the equity method	3	6	2	–3	—	–1
10. a. Other income	105	80	211	211	64	29
b. Other expenses	174	147	321	307	195	206
Other income/expenses	**–69**	**–67**	**–110**	**–96**	**–131**	**–177**
thereof attributable to interest and similar income	1	2	6	11	15	10
write-ups on accounts receivable and other assets	2	1	9	6	3	2
attributable to interest and similar expenses	29	23	14	22	3	3
write-downs on accounts receivable and other assets	30	13	2	2	53	58
Profit before goodwill impairments	**147**	**259**	**161**	**100**	**185**	**107**
11. Goodwill impairments	—	—	—	—	—	—
Operating profit/loss (EBIT)	**147**	**259**	**161**	**100**	**185**	**107**
12. Financing costs	9	14	13	13	1	2
13. Taxes on income	29	88	64	–40	57	51
Net income	**109**	**157**	**84**	**127**	**127**	**54**
thereof attributable to non-controlling interests	—	—	6	7	26	12
thereof attributable to shareholders of Talanx AG	109	157	78	120	101	42

[1] Adjusted on the basis of IAS 8, see section "Accounting policies", subsection "Changes in accounting policies and accounting errors" in the Notes

Non-Life Reinsurance		Life/Health Reinsurance		Corporate Operations		Consolidation		Total	
2013	2012	2013	2012[1]	2013	2012	2013	2012[1]	2013	2012[1]
7,818	7,717	6,145	6,058	40	—	−861	−778	28,151	26,659
509	444	184	211	40	—	−861	−778	—	—
7,309	7,273	5,961	5,847	—	—	—	—	28,151	26,659
—	—	—	—	—	—	—	—	1,131	1,200
787	758	756	650	10	—	−866	−763	3,539	3,253
−175	−164	−29	18	−8		59	24	−506	−331
−10	−59	1	—	—	—	60	20	−138	−124
6,866	6,854	5,359	5,426	22	—	4	−11	23,113	21,999
5,242	5,230	5,110	5,088	20	—	−440	−327	21,620	20,553
420	387	658	535	1	—	−465	−401	2,405	2,197
4,822	4,843	4,452	4,553	19	—	25	74	19,215	18,356
1,826	1,827	1,418	1,305	6	—	−259	−339	5,903	5,314
120	91	93	63	—	—	−219	−244	552	476
1,706	1,736	1,325	1,242	6	—	−40	−95	5,351	4,838
2	1	—	—	—	—	1	−8	52	49
8	3	4	8	1	—	20	2	200	301
—	—	7	3	—	—	—	—	97	136
−6	−2	−4	−8	−1	—	−19	−10	−148	−252
332	273	−422	−377	−4	—	—	—	−1,601	−1,447
969	1,116	296	366	102	28	−60	−72	3,963	3,882
173	148	28	24	74	65	−92	−89	518	418
796	968	268	342	28	−37	32	17	3,445	3,464
—	—	—	—	—	—	—	—	13	8
15	14	343	342	—	—	—	—	334	323
811	982	611	684	28	−37	32	17	3,792	3,795
707	778	687	681	9	10	−59	−76	3,410	3,422
5	9	117	106	—	—	−8	−11	185	159
20	19	—	3	1	—	—	—	102	94
—	3	—	—	—	—	—	—	11	19
11	5	2	5	1	—	−6	−5	13	7
232	130	120	90	827	779	−751	−724	808	595
278	251	170	127	768	778	−691	−621	1,215	1,195
−46	−121	−50	−37	59	1	−60	−103	−407	−600
13	4	10	3	2	9	−1	−6	46	33
8	9	—	—	—	—	—	—	22	18
28	25	57	59	35	69	−9	−13	157	188
26	37	8	18	3	2	—	—	122	130
1,097	1,134	139	270	83	−36	−28	−86	1,784	1,748
—	—	—	—	—	—	—	—	—	—
1,097	1,134	139	270	83	−36	−28	−86	1,784	1,748
127	105	3	5	96	105	−43	−59	206	185
180	313	−15	52	−25	−38	6	−7	296	419
790	716	151	213	12	−103	9	−20	1,282	1,144
413	391	75	109	—	—	—	−1	520	518
377	325	76	104	12	−103	9	−19	762	626

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

The tables have been simplified to show only Primary Insurance, Reinsurance and Corporate Operations.

INVESTMENTS (EXCLUDING FUNDS WITHHELD BY CEDING COMPANIES AND EXCLUDING INVESTMENTS UNDER INVESTMENT CONTRACTS) BY GEOGRAPHICAL ORIGIN [1)]

N23 INVESTMENTS UNDER OWN MANAGEMENT BY GEOGRAPHICAL ORIGIN

FIGURES IN EUR MILLION

	Primary Insurance	Reinsurance	Corporate Operations	Total
31.12.2013				
Germany	23,484	5,910	173	**29,567**
United Kingdom	3,062	2,348	53	**5,463**
Central and Eastern Europe (CEE), including Turkey	2,992	507	2	**3,501**
Rest of Europe	21,159	8,457	347	**29,963**
USA	1,315	8,353	4	**9,672**
Rest of North America	92	1,257	1	**1,350**
Latin America	931	884	2	**1,817**
Asia and Australia	1,524	3,135	4	**4,663**
Africa	14	300	—	**314**
Total	**54,573**	**31,151**	**586**	**86,310**
31.12.2012				
Germany	25,587	6,479	123	**32,189**
United Kingdom	3,286	2,889	209	**6,384**
Central and Eastern Europe (CEE), including Turkey	2,658	235	—	**2,893**
Rest of Europe	17,706	7,869	348	**25,923**
USA	998	7,947	1	**8,946**
Rest of North America	86	1,139	1	**1,226**
Latin America	876	775	—	**1,651**
Asia and Australia	1,038	3,389	2	**4,429**
Africa	17	394	—	**411**
Total	**52,252**	**31,116**	**684**	**84,052**

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

NON-CURRENT ASSETS BY GEOGRAPHICAL ORIGIN

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

N24 **NON-CURRENT ASSETS BY GEOGRAPHICAL ORIGIN**

FIGURES IN EUR MILLION

	Primary Insurance	Reinsurance	Corporate Operations	Total
31.12.2013				
Germany	3,279	616	79	3,974
United Kingdom	—	3	—	3
Central and Eastern Europe (CEE), including Turkey	—	—	—	—
Rest of Europe	408	87	—	495
USA	—	335	—	335
Rest of North America	—	—	—	—
Latin America	33	—	—	33
Asia and Australia	—	2	—	2
Africa	—	7	—	7
Total	3,720	1,050	79	4,849
31.12.2012				
Germany	3,358	286	80	3,724
United Kingdom	—	3	—	3
Central and Eastern Europe (CEE), including Turkey	—	—	—	—
Rest of Europe	527	94	—	621
USA	—	307	—	307
Rest of North America	—	—	—	—
Latin America	40	—	—	40
Asia and Australia	—	2	—	2
Africa	—	7	—	7
Total	3,925	699	80	4,704

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

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

N25 GROSS WRITTEN PREMIUM BY GEOGRAPHICAL ORIGIN

FIGURES IN EUR MILLION

	Primary Insurance	Reinsurance	Corporate Operations	Total
2013				
Germany	8,505	836	—	**9,341**
United Kingdom	140	2,617	—	**2,757**
Central and Eastern Europe (CEE), including Turkey	2,207	201	—	**2,408**
Rest of Europe	2,205	1,953	—	**4,158**
USA	334	3,293	—	**3,627**
Rest of North America	25	639	—	**664**
Latin America	1,246	841	—	**2,087**
Asia and Australia	178	2,414	—	**2,592**
Africa	41	476	—	**517**
Total	**14,881**	**13,270**	**—**	**28,151**
2012				
Germany	8,455	730	—	9,185
United Kingdom	131	2,765	—	2,896
Central and Eastern Europe (CEE), including Turkey	1,411	177	—	1,588
Rest of Europe	2,048	2,013	—	4,061
USA	226	3,158	—	3,384
Rest of North America	11	642	—	653
Latin America	1,111	799	—	1,910
Asia and Australia	122	2,337	—	2,459
Africa	24	499	—	523
Total	13,539	13,120	—	26,659

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

GROSS WRITTEN PREMIUM BY TYPE AND CLASS OF INSURANCE AT GROUP LEVEL[1]

N26 GROSS WRITTEN PREMIUM BY TYPE AND CLASS OF INSURANCE

FIGURES IN EUR BILLION

	31.12.2013	31.12.2012
Property/casualty primary insurance	8,103	7,349
Life primary insurance	6,778	6,190
Non-Life Reinsurance	7,309	7,273
Life/Health Reinsurance	5,961	5,847
Total	**28,151**	26,659

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

CONSOLIDATION

CONSOLIDATION PRINCIPLES

The consolidated financial statements were drawn up according to uniform Group accounting policies in accordance with IFRS. The annual financial statements included in the consolidated financial statements were for the most part prepared as at 31 December. Compilation of interim financial statements for the Group companies with diverging financial years was not required pursuant to IAS 27 "Consolidated and Separate Financial Statements" because their closing dates are no more than three months prior to the Group closing date. The effects of significant transactions between diverging financial years and the Group closing date were taken into account.

The capital consolidation is compiled in accordance with the requirements of IAS 27. Subsidiaries are all companies (including special purpose entities) with respect of which the Group exercises control over financial and business policy or, in the case of special purpose entities, where the majority of economic risks and benefits remain within the Group. The Group also considers potential exercisable voting rights when assessing control. Subsidiaries are included in the consolidated financial statements (full consolidation) from the point when control passed to the Group. They are deconsolidated at the point when this control ends.

Acquired subsidiaries are accounted using the purchase method. The acquisition costs associated with purchases correspond to the fair value of the assets offered and liabilities arising/assumed at the time of the transaction. Acquisition-related costs are recognised as an expense when they are incurred. Assets, liabilities and contingent liabilities that can be identified in the context of a corporate acquisition are measured upon initial consolidation at their fair values at the time of acquisition. A difference arising out of the netting of the acquisition costs with the fair value of the assets and liabilities is recognised as goodwill under intangible assets. If the difference is negative, the Group recognises a gain from the acquisition at a price below market value, directly through profit or loss.

Non-controlling interests in acquired companies are generally recognised based on the proportionate interest in the net assets of the acquired companies. Changes in the interest of the Group in a subsidiary that do not result in a loss of control are recognised as an equity transaction. Non-controlling interests in shareholders' equity or in the net income of majority-owned subsidiaries are shown separately in equity in the item "Non-controlling interests in equity" and in the statement of income in the item "Non-controlling interests".

All intra-group receivables and liabilities as well as income, expenses and interim results derived from intra-group transactions were eliminated as part of the consolidation of debt, earnings and interim results. Transactions between disposal groups and the Group's continuing operations are also eliminated.

Companies over which the Group is able to exercise a significant influence are normally consolidated using the equity method in accordance with IAS 28 "Investments in Associates" as associated companies and initially carried at the cost of acquisition, 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. The Group's interest in associated companies includes the goodwill arising upon acquisition. The accounting policies used by associated companies were modified – if necessary – in order to ensure consistent Group-wide accounting.

Joint ventures, i.e. companies whose commercial activities are jointly managed by the Group with one or more partners, are essentially included in the consolidated financial statements using the equity method, a choice provided by IAS 31 "Interests in Joint Ventures".

Interests in associated companies and joint ventures consolidated using the equity method are recognised in the balance sheet item "Interests in associated companies and joint ventures" in the area of "Assets under own management". The share of the Group in the profits and losses of these companies is recognised separately in the Group's statement of income under net investment income in accordance with IAS 1 "Presentation of Financial Statements". For further details please refer to the "Accounting policies" section and the information in note 5 "Investments in associated companies and joint ventures" as contained in the section "Notes on individual items of the consolidated balance sheet".

SCOPE OF CONSOLIDATION

In accordance with IAS 27 and SIC 12 "Consolidation – Special-purpose Entities" the consolidated financial statements include Talanx AG (as the parent company) and all major domestic and foreign Group companies/special purpose entities in which Talanx AG indirectly or directly holds the majority of the voting rights or where it exercises a de facto power of control or can exercise a controlling influence on operations in some other way.

Only subsidiaries that are of minor importance – both individually and in their entirety – for the assets, financial position and net income of the Group and that do not transact insurance business are exempted from consolidation. The Group assesses whether a subsidiary is of minor importance on the basis of the company's total assets and net income relative to the corresponding average values for the Group as a whole over the last three years. For this reason 36 (40) subsidiaries, whose business purpose is primarily the rendering of services for insurance companies within the Group, were not consolidated in the reporting year. Altogether, the balance sheet total of these subsidiaries amounts to less than 0.1% of the average balance sheet total of the Group over the last three years; the result of these companies amounts to altogether less than 1% of the average result of the Group over the last three years. In subsequent periods the subsidiaries not included in the scope of consolidation on grounds of materiality are examined on each closing date to verify whether consolidation is required in light of a reassessment of materiality.

N27 SCOPE OF CONSOLIDATION

	Domestic	Foreign	Total
Number of fully consolidated subsidiaries			
31.12.2012	69 [1]	96 [2]	165
Additions	2	9	11
Disposals	1	7	8
31.12.2013	**70 [1]**	**98 [2]**	**168**
Number of fully consolidated special purpose entities			
31.12.2012	19	12	31
thereof investment funds	19	10	29
Additions	14	3	17
thereof investment funds	14	3	17
Disposals	8	2	10
thereof investment funds	8	2	10
31.12.2013	**25**	**13**	**38**
Total of fully consolidated subsidiaries/special purpose entities	95	111	206
Number of associated companies and joint ventures consolidated using equity method			
31.12.2012	4	9 [3]	13 [4]
Additions	—	1	1
Disposals	—	—	—
31.12.2013	**4**	**10 [3]**	**14 [4]**

[1] Consists of: 68 (69) individual companies and two (—) companies fully consolidated into one (—) subgroup
[2] Consists of: 55 (58) individual companies and 43 (38) companies fully consolidated into four (three) subgroups
[3] Consists of five (five) individual companies and five (four) companies consolidated in a subgroup using the equity method
[4] Includes a foreign joint venture

All affiliates, joint ventures, associated companies and special purpose entities are specified in the list of shareholdings, including information on the size of shareholders' equity and profit (see separate section of these Notes, pages 279 et seqq.).

SIGNIFICANT ADDITIONS AND DISPOSALS OF FULLY CONSOLIDATED SUBSIDIARIES AS WELL AS OTHER CORPORATE CHANGES

ACQUISITIONS AND ESTABLISHMENTS

At Hannover Rück SE in the reporting year, the structures of Hannover Re Euro RE Holdings GmbH, Hannover and Hannover Re Real Estate Holdings, Inc. Orlando, USA were expanded for the purposes of holding individual real estate ("property companies") and satisfying company legal statutory requirements ("holding companies"). The sum of EUR 124 million was invested in this context to acquire the appropriate companies. No contingent liabilities, contingent considerations or separate transactions within the meaning of IFRS 3 were identified. In the third quarter of 2013 this included the acquisition by HR GLL Central Europe GmbH & KG of all the shares in HR GLL Europe Holding S.à.r.l. (company renamed following the acquisition). With effect from 30 September 2013, the company was consolidated for the first time in the subgroup financial statements of HR GLL Central Europe GmbH & Co. KG. HR GLL Central Europe Holding GmbH was founded in the first quarter of 2013 and was consolidated for the first time in the subgroup financial statements of GLL Central Europe GmbH & Co. KG with effect as at 30 September 2013. All of the shares in the company are held by HR GLL Central Europe GmbH & KG. Both holding companies have started investing in property companies. This led to the establishment of property companies HR GLL Roosevelt Kft., HR GLL CDG Plaza S.r.l., HR GLL Liberty Corner Sp. z.o.o. and HR GLL Griffin House Sp. z.o.o. in the reporting year. Property company Akvamarine Beta s.r.o. was also eventually acquired. Via the subsidiary GLL HRE Core Properties, LP, 100% of the shares in the property companies Broadway 101 LLC, and River Terrace Parking LLC were acquired in the US subgroup Hannover Re Real Estate Holdings, Inc., in which a holding of 95.1% is maintained by Hannover Re Group.

In August 2013, Hannover Rück SE and another investor agreed to acquire a financial participation in a company designed for the indirect acquisition of Heidelberger Lebensversicherung AG, Heidelberg. The supervisory authority's approval regarding the acquisition of Heidelberger Leben from a seller belonging to Lloyds Banking Group, London, has been granted for Hannover Rück SE as the indirect acquirer but not yet for the other investor.

SALES AND DISPOSALS

The merger of Metropolitana Compañia de Seguros S.A., Mexico City, Mexico, into HDI Seguros S.A. de C.V., León, Mexico, became legally effective retroactive to 1 January 2013 upon recording in the Public Registry of Commerce of León on 20 March 2013.

With effect from 1 January 2013, Hannover Rück SE perfected the contractually agreed retransfer of its voting share (management share) in Secquaero ILS Fund Ltd., Georgetown, Grand Cayman, to the non-Group investment manager, thereby ceding control over the company and its participating interests. For this reason, the company is no longer included in the consolidated financial statements as at that date and is instead carried as a participating interest that is recognised at net asset value under "Other invested assets". As a result of the derecognition of assets and liabilities and the recognition of the participating interest at net asset value, income of EUR 1.2 million was recognised under "Other income/expenses". In addition, currency translation gave rise to cumulative other comprehensive income in the amount of EUR 3.9 million, which was likewise recognised under "Other income/expenses".

With effect from 31 July 2013, Talanx International Holding AG (TINT) contributed its shares (100%) in the life insurance company HDI-Gerling Zycie Towarzystwo Ubezpieczeń S. A. (HG-PLZ) to TUiR WARTA S. A., Warsaw, Poland (Retail International segment) by means of a capital increase through a contribution in kind. All new shares in TUiR WARTA S. A. were subscribed to by TINT, meaning that the Group's holding in TUiR WARTA S. A. increased slightly to 75.74 (75.00)%. The Group recognised this change in the shareholding as an equity transaction. In so doing, the carrying amounts of the controlling and non-controlling interests were modified in such a way as to reflect the changes in the shareholding. As a result, the controlling interests' share of equity increased by EUR 7 million at the expense of the non-controlling interests' share of equity (cf. "Consolidated statement of changes in shareholders' equity"). On 30 December 2013, TUnŻ WARTA S. A. (WARTA Life), wholly owned by TUiR WARTA S. A., was merged into HG-PLZ as planned; since the merger, the company has traded as Towarzystwo Ubezpieczeń na Życie "WARTA" S. A.

OTHER CORPORATE CHANGES

The conversion of Hannover Rück AG into the legal form of a European public limited-liability company (Societas Europaea, or SE) became effective upon its recording on 19 March 2013 in the commercial register maintained by the Hannover District Court. Accordingly, the company is now called Hannover Rück SE, with its registered office at Karl-Wiechert-Allee 50, 30625 Hannover, Germany.

CONSOLIDATION OF SPECIAL PURPOSE ENTITIES

Below we make a distinction between investment funds, investments, securitisation of reinsurance risks and the assumed life and health reinsurance business as well as between retrocessions and insurance-linked securities (ILS). Relations with such special purpose entities are to be examined, inter alia, in accordance with SIC 12 with a view to their consolidation requirement. In cases where IFRSs do not currently contain any specific standards, our analysis also falls back – in application of IAS 8 – on the relevant standards of US GAAP.

INVESTMENT FUNDS

The scope of SIC 12 includes, inter alia, special investment funds that are chiefly created to serve a narrowly defined purpose. As such the Group must assess whether economic control according to IAS 27.13 in conjunction with SIC 12 exists for its investment funds. Economic control exists, for example, when the majority of the economic benefits or risks arising out of the activities of a special fund is attributable to a Group company. As at the balance sheet date, 36 special funds were included in the consolidated financial statements due to the existence of a controlling relationship or economic control with respect to the special investment fund. Of these, 25 were domestic funds.

In the year under review, 17 investment funds were launched and consolidated for the first time. Public fund terrAssisi Aktien I AMI (Retail Germany segment) was deconsolidated in the third quarter of 2013 due to a reduction of the holding in the special investment fund to 31.09% and carried as a financial instrument. The Group liquidated or deconsolidated a further nine funds, mainly for reasons of materiality regarding assets, financial position and net income.

INVESTMENTS

As part of its asset management activities, the Group participates in numerous special purpose entities – predominantly funds – which for their part transact certain types of equity and debt-capital investments. On the basis of our analysis of the relations with these entities, we concluded that the Group does not exercise a controlling influence in any of these transactions and that a consolidation requirement therefore does not exist.

Hannover Re participates in a number of special purpose entities through Leine Investment SICAF-SIF which was founded in September 2012 and is based in Luxembourg for the securitisation of catastrophe risks by investing in catastrophe (CAT) bonds. 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. Since Hannover Rück SE does not exercise a controlling influence in any of these transactions either, there is no consolidation requirement for the special purpose vehicles in question. The portfolio of CAT bonds held by Hannover Insurance-Linked Securities GmbH & Co. KG (HILS), which was used for these transactions until the previous year, was completely wound down in the year under review through sales and repayments.

SECURITISATION OF REINSURANCE RISKS

The securitisation of reinsurance risks is largely structured through the use of special purpose entities.

In the previous year, 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 and 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. afford Hannover Rück SE, E+S Rückversicherung AG and Hannover Re (Bermuda) Ltd. protection against the aforementioned catastrophe risks. Since Hannover Rück SE does not exercise any controlling influence over Eurus III Ltd., there is no consolidation requirement for the special purpose entity.

Within the scope of its "K" transactions, Hannover Rück SE raised underwriting capacity for catastrophe risks on the capital market. "K-cession", which was placed with institutional investors from Europe, North America and Asia involves a quota share cession on worldwide natural catastrophe business as well as aviation and marine risks. The volume of "K-cession" was equivalent to EUR 239 (268) million as at the balance sheet date. The transaction has an indefinite term and can be cancelled annually by the investors. Kaith Re Ltd., a special purpose entity domiciled in Bermuda, is being used for transformer purposes in relation to part of this transaction.

Hannover Rück SE also uses Kaith Re Ltd. for various retrocessions of its traditional covers to institutional investors. In accordance with SIC 12, it is included in the consolidated financial statements.

ASSUMED LIFE/HEALTH REINSURANCE BUSINESS

Some transactions in the Life/Health Reinsurance segment require the involvement of cedant special purpose entities as contractual partners established by parties outside the Group and from whom companies of the Hannover Re Group assume certain technical and/or financial risks. For example, the transactions serve to transfer extreme mortality risks above a contractually defined retention ratio or to transfer longevity risks. Since Hannover Rück SE does not bear the majority of the economic risks or benefits arising out of its business relations with these special purpose entities and is not capable of exercising a controlling influence over them, there is no consolidation requirement for Hannover Rück SE. Depending on the classification of the contracts in accordance with IFRS 4 or IAS 39, the transactions are recognised either under reinsurance or as derivative financial instruments or financial guarantees.

With reinsurance contracts that serve to finance statutory reserves (so-called Triple-X or AXXX reserves), under which special purpose entities carry extreme mortality risks securitised by cedants above a contractually defined retention ratio, these risks are transferred by way of a fixed/floating swap to a Group company of Hannover Re Group. The total of the contractually agreed upon capacities of the transactions is equivalent to EUR 1,372 (1,138) million, of which the equivalent of EUR 892 (848) million has been underwritten as at the balance sheet date. The variable payments to the special purpose entities guaranteed by companies of the Hannover Re Group 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 to be capitalised separately from and up to the amount of the provision. Under IAS 39 these transactions are to be recognised at fair value as a financial guarantee. To this end Hannover Rück SE uses the net method, according to which the present value of the agreed upon 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 the fair value and the amount carried as a provision on the liabilities side pursuant to IAS 37 is recognised at the point in time at which utilisation is considered probable. This was not the case as at the balance sheet date.

RETROCESSIONS AND INSURANCE-LINKED SECURITIES (ILS)

As part of its extended insurance-linked securities (ILS) activities, Hannover Rück SE has underwritten so-called collateralised fronting arrangements, under which risks assumed from ceding companies are passed on to institutional investors outside the Group using special purpose entities. The purpose of such transactions is to directly transfer clients" business. Due to the lack of a controlling influence over the special purpose entities involved, there is no consolidation requirement for Hannover Rück SE with respect to these structures.

In the course of selling the operational companies of the subgroup Clarendon Insurance Group, Inc. (CIGI), Wilmington, to Enstar Group Ltd., Hamilton, Bermuda, a partial portfolio of CIGI was retroceded to a special purpose entity with effect from 12 July 2011. The term of the retrocession runs until final settlement of the underlying obligations. Since Hannover Rück SE is not the major beneficiary of the special purpose entity and exercises neither indirect nor direct control over it, there is no consolidation requirement for this special purpose entity.

ASSOCIATED COMPANIES VALUED AT EQUITY

Associated companies are those over whom the Group exercises significant influence but no control. As at the balance sheet date, 13 (12) companies were measured using the equity method in accordance with IAS 28 "Investments in Associates". Another seven (nine) associated companies were not valued at equity due to their lack of material significance for the presentation of assets, financial position and net income (cf. our remarks in the section "Accounting policies" on page 153 et seqq.).

JOINT VENTURES VALUED AT EQUITY

As was the case in the 2012 annual financial statements, Magma HDI General Insurance Company Limited, Kolkata, continues to be included at equity as a joint venture.

NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS

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

As part of the merger of HDI Seguros S. A. de C. V. and Metropolitana Compañía de Seguros, Mexico City, Mexico, the Group continues to report the sale of a life insurance portfolio, including investments for covering liabilities, a situation unchanged since the previous year. The purchase price amounts to EUR 2 million. In addition, in the first quarter of 2013, the company decided to sell a non-life insurance portfolio. We anticipate that both transactions will take place in the second quarter of 2014.

The key carrying amounts of both disposal groups relate to investments including accounts receivable on the insurance business totalling EUR 17 (18) million as well as technical provisions and other liabilities amounting to EUR 19 (20) million. Cumulative income/expenses recognised under "Other comprehensive income" amounted to EUR 0 (2) million. No impairments were recognised from measurement at fair value less costs to sell.

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

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

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

REAL ESTATE

As at 31 December 2013, we classified real estate portfolios in the amount of EUR 15 (45) million as held for sale. Of this amount, EUR 11 (11) million was attributable to the Non-Life Reinsurance segment, EUR 4 (22) million to the Retail Germany segment and EUR 0 (12) million to the Industrial Lines segment.

The total portfolio is offset by market values (corresponding to expected purchase prices) totalling EUR 16 (58) million. Measurement of these properties at fair value less costs to sell did not result in any material impairments. As at the balance sheet date, the book value (fair value less costs to sell) of impaired real estate amounted to EUR 1 million and was allocated to level 3 of the fair value hierarchy. 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. Sales intentions depend on specific factors associated with the real estate market and the properties themselves, taking into account current and future opportunity and risk profiles. We expect these transactions to close within one year.

NATURE OF RISKS ASSOCIATED WITH INSURANCE CONTRACTS AND FINANCIAL INSTRUMENTS

The disclosures provided below complement the risk reporting in the Management Report pursuant to § 315 in conjunction with § 315a, Para. 1 of the German Commercial Code (HGB) and reflect the requirements of § 315, Para. 2, no. 2 HGB as well as those of IFRS 4 (with respect to disclosure of the nature and extent of risks arising from insurance contracts) and IFRS 7 (nature and extent of risks arising from financial instruments). The disclosures mandated by § 315, Para. 2, no. 2 HGB regarding the Group's risk management objectives and methods, including its hedging transactions with respect to the use of financial instruments are contained in the risk report and are supplemented in the following subsection essentially in qualitative terms.

This section describes the disclosures required by IFRS 4 and IFRS 7, namely those dealing with the description of risk management; information about concentrations of risk; information about credit risk, liquidity risk and market risk associated with insurance contracts and financial instruments; and information about sensitivity analyses for our investments and in parts about our underwriting risks. Additional remarks about our financial instruments and insurance liabilities, such as maturities, ratings, the use of derivative financial instruments and hedge accounting, and the development of claims can be found in the descriptions of the individual items in the sections "Notes on the Consolidated Balance Sheet" and "Notes on the Consolidated Statement of Income".

For fundamental qualitative statements, e.g. regarding the organisation of our risk management or the assessment of the risk situation, cf. the risk report contained in the Management Report.

Therefore, to obtain a complete overview of the risks to which the Group is exposed, both the risk report and the corresponding disclosures in the Notes need to be taken into account.

CLASSES OF FINANCIAL INSTRUMENTS

IFRS 7 stipulates certain disclosures for classes of financial instruments. These classes are based on the risk characteristics of the financial instruments, whereby a distinction is made at least between those financial instruments measured at amortised cost and those measured at fair value. This classification is not necessarily identical to the categorisation of financial instruments pursuant to IAS 39. The classes established for our financial instruments were guided by the needs of our portfolio and our balance sheet structure. The degree of detail of the stated classes may vary as permitted depending on the required disclosure.

The following table connects the classes of financial instruments established by the Group with the associated items in the balance sheet and provides information about the corresponding measurement basis.

N28 CLASSES OF FINANCIAL INSTRUMENTS, BALANCE SHEET ITEMS AND MEASUREMENT BASES

	Classes of financial instruments	Measurement basis
Financial instruments associated with investments		
	Investments 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: ▪ Fixed-income securities ▪ Variable-yield securities	Fair value
	Financial instruments at fair value through profit or loss: ▪ Financial assets classified at fair value through profit or loss ▪ Financial assets held for trading	Fair value
	Other investments	Fair value, in some cases amortised cost [1]
	Investment contracts – loans and receivables	Amortised cost
	Investment contracts: ▪ Financial instruments available for sale ▪ Financial assets classified at fair value through profit or loss ▪ Financial assets held for trading (derivatives)	Fair value
Other financial assets		
	Other assets, derivative financial instruments (hedging instruments with positive market value)	Fair value
	Subordinated liabilities	Amortised cost
	Notes payable and loans	Amortised cost
	Other liabilities – derivative financial instruments (trading portfolios with negative market value)	Fair value
	Other liabilities – derivatives (hedging instruments with negative market value)	Fair value
	Other liabilities investment contracts (other commitments)	Amortised cost
	Other liabilities – investment contracts: ▪ Financial assets classified at fair value through profit or loss ▪ Financial assets available for sale ▪ Derivatives	Fair value

[1] For an itemised breakdown of financial assets measured at amortised cost or fair value, see Note 10 "Other investments" on page 222

RISKS ASSOCIATED WITH INSURANCE CONTRACTS

The Group's business activities focus on the sale and administration of insurance products in all standard lines of property/casualty and life insurance in both the primary and reinsurance business.

Risk associated with insurance contracts consists principally of underwriting risk, default risk, liquidity risk, and market risk. Insurance risks in non-life insurance are considered separately from those in life/health insurance because of the significant differences between the two.

MANAGEMENT OF TECHNICAL RISK IN PROPERTY/CASUALTY INSURANCE

With regard to non-life insurance (primary insurance and reinsurance), the principal risks are those involving premium/loss, reserving, and concentration.

The insurance business is based on assuming individual risks from policyholders (in primary insurance) and cedants (in reinsurance) and spreading these risks over the community of (re)insureds and over time. For the insurer, the fundamental risk (premium/loss risk) lies in providing insurance benefits, the amount and timing of which are unknown, from premiums that are calculated in advance and cannot be changed. Reserving risk means that loss reserves created on the balance sheet may prove to be insufficient, which can have a negative impact on the technical result. Concentration risk results from significant geographical concentration of the insured risks as well as from concentration on certain business areas or insurance lines.

PREMIUM/LOSS RISK

We counter the assumed premium/loss risk, inter alia, by obtaining appropriate reinsurance. The volume of reinsurance cover relative to gross written premium is determined by the retention ratio, which shows the proportion of underwritten risks retained for our risk.

N29 RETENTION RATIO BY SEGMENT IN PROPERTY/CASUALTY INSURANCE

IN %

	2013	2012	2011	2010	2009	2008	2007[2]	2006	2005[2]	2004[2]
Industrial Lines	44.5	45.6	44.1	46.1	43.7	n. a.	n. a.	n. a.	n. a.	n. a.
Retail Germany	94.9	94.6	92.9	91.6	85.6	n. a.	n. a.	n. a.	n. a.	n. a.
Retail International	88.5	88.5	88.7	92.4	86.9	n. a.	n. a.	n. a.	n. a.	n. a.
Non-life primary insurance[1]	n. a.	n. a.	n. a.	n. a.	n. a.	66.7	61.2	61.6	62.0	42.3
Non-Life Reinsurance	89.9	90.2	91.3	88.9	94.1	89.0	82.2	82.0	76.1	83.9
Total property/casualty insurance	**79.3**	**79.8**	**79.8**	**78.9**	**78.7**	**76.9**	**71.4**	**73.0**	**71.5**	**64.3**

[1] In 2010 the Group brought its segment reporting into line with IFRS 8 "Operating Segments" after having implemented a corporate reorganisation by customer group in its primary insurance business. Because of cost/benefit considerations, however, reporting for periods prior to 2009 was not retroactively adjusted

[2] Due to changes in segment allocation, the years 2007, 2005 and 2004 are comparable to only a limited extent

N30 LOSS RATIO BY SEGMENT FOR OWN ACCOUNT

IN %

	2013	2012	2011	2010	2009	2008	2007[2]	2006	2005[2]	2004[2]
Industrial Lines	80.8	75.2	66.8	82.0	68.6	n. a.	n. a.	n. a.	n. a.	n. a.
Retail Germany	67.0	65.2	67.5	69.4	62.5	n. a.	n. a.	n. a.	n. a.	n. a.
Retail International	66.3	68.9	70.4	75.6	71.6	n. a.	n. a.	n. a.	n. a.	n. a.
Non-life primary insurance[1]	n. a.	n. a.	n. a.	n. a.	n. a.	69.1	73.5	73.7	69.4	77.2
Non-Life Reinsurance	70.3	70.7	78.8	72.0	72.8	70.5	73.6	71.3	82.4	76.3
Total property/casualty insurance	**70.7**	**70.3**	**74.4**	**73.6**	**70.5**	**69.9**	**73.6**	**72.2**	**78.8**	**76.6**

[1] In 2010 the Group brought its segment reporting into line with IFRS 8 "Operating Segments" after having implemented a corporate reorganisation by customer group in its primary insurance business. Because of cost/benefit considerations, however, reporting for periods prior to 2009 was not retroactively adjusted

[2] Due to changes in segment allocation, the years 2007, 2005 and 2004 are comparable to only a limited extent

The increase in the loss ratio in the Industrial Lines segment is attributable to large claims. Following the natural disasters that occurred in the reporting year, especially the flooding in southern and eastern Germany, hailstorm "Andreas" and storm "Xaver", as well as the burdens caused by other major claims (particularly damage to property), the loss ratio increased by 5.6 percentage points. In the Retail Germany segment this ratio increased by 1.8 percentage points. Alongside the higher large claims and natural disaster claims that arose in the third quarter, this was also influenced significantly by the participation of policyholders in our life insurers' investment income. Higher premiums and lower claim settlement costs in individual markets resulted in a decline in the loss ratio for the Retail International segment by 2.6 percentage points. The loss ratios in the Non-Life Reinsurance segment fell by 0.4 percentage points, despite the increased net burden in major losses of EUR 578 (478) million.

Overall, the loss ratio at Group level rose slightly by 0.4 percentage points. The moderate loss ratios in recent years reflect our cautious underwriting policy and our success in active claims management.

Major losses are losses that exceed a stipulated amount or which fulfil other criteria, and as such they have particular significance for property/casualty insurance. The following table shows the major losses (net) during the financial year in millions of euro, divided into natural catastrophes and other major losses, as well as their share of the Group's combined ratio:

N31 MAJOR LOSSES (NET) DURING THE FINANCIAL YEAR

	2013[1]	2012[1]	2011[2]
FIGURES IN EUR MILLION			
Major losses (net)	838	600	1,173
thereof natural catastrophes	563	454	900
thereof other	275	146	273
IN %			
Combined ratio for non-life primary insurance and reinsurance	96.9	96.4	101.0
thereof major losses (net)	6.8	5.1	11.5

1) Natural catastrophes and other major losses over EUR 10 million gross for the share of the Group
2) Natural catastrophes and other major losses over EUR 5 million gross (reinsurance, industrial liability insurance, industrial fire insurance), over EUR 2.5 million gross (industrial marine insurance, industrial engineering insurance), and over EUR 1 million, gross (all other lines), for the share of the Group

RESERVING RISK

To ensure that we will be able to meet our benefit commitments at all times, we establish provisions and continuously analyse their adequacy using actuarial methods. These also provide insights into the quality of the underwritten risks, their distribution across individual lines with differing risk exposures and anticipated claims and claims expenses. In addition, our portfolios are subject to active claims management. Analyses of the distribution of claim amounts and claim frequency facilitate targeted management of risks.

Loss reserves, which are calculated using actuarial methods, are supplemented where necessary by additional reserves based on our own actuarial claims estimates and by IBNR (losses incurred but not reported) reserves. In view of the long run-off of such claims, especially liability claims, IBNR reserves are calculated differently depending on risk class and region.

Adequately calculating reserves for asbestos-related claims and pollution damage is a highly complex matter, since in many cases several years or even decades may lapse between the harm being caused and a claim being reported. The Group's exposure to asbestos-related claims and pollution damage is, however, relatively limited. The adequacy of these reserves is normally estimated on the basis of the survival ratio. This ratio expresses how long the reserves would last if the average amount of claims and claims expenses paid over the past three years were to continue. At the end of the year under review, our survival ratio in the Non-Life Reinsurance segment stood at 32.1 (29.1) years, and reserves for asbestos-related claims and pollution damage amounted to EUR 200 (210) million.

Licensed scientific simulation models, supplemented by the expertise of the relevant specialist departments, are used to estimate the major catastrophe risks associated with natural hazards (earthquakes, storms, flooding) for the Group on a consistent basis. Furthermore, we quantify the risk to our portfolio under various scenarios in the form of probability distributions. Monitoring of the portfolio's exposure to natural hazards (accumulation control) is rounded out by realistic extreme loss scenarios. The adequacy of the estimates and the simulation models employed as a whole are subject to a comprehensive and independent validation process. This means the independent risk control function performs a validation regardless of the units assuming risks.

In the following section „concentration risks" on the basis of selected relevant accumulation scenarios for natural hazards we report estimates for net loss burdens from these scenarios.

Run-off triangles are another tool used to test our assumptions within the Group. These triangles show how reserves change over time as claims are paid and as reserves to be established as at each balance sheet date are recalculated. Adequacy is monitored using actuarial methods (cf. item 21 in the Notes, "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 actuaries and auditors.

To hedge against inflation risk at least in part, our subsidiary Hannover Rück SE has obtained inflation swaps (USD and EUR zero-coupon swaps). These derivatives serve to hedge parts of the claims reserves against inflation risks. Inflation risk means the possibility of inflation causing our obligations (e.g. claims reserves) to develop differently than was assumed at the time when the reserves were established. We purchased inflation cover for the first time in the second quarter of 2010, with terms of four and five years. This cover was increased in the first quarter of 2011 (eight-year term). Moreover, to be able to more precisely the impact of an unexpected change in inflation on the Group's loss reserves, stress scenarios on the Talanx primary insurance group, and the resulting effects are regularly analysed by external actuaries.

Risk modelling shows that a 5% increase in the net loss ratio for the property/casualty primary and reinsurance segment would reduce after-tax net income by EUR 424 (406) million.

CONCENTRATION RISKS

In non-life insurance, concentration risk results, in particular, from geographical concentration and from insured natural-catastrophe risks.

We analyse extreme scenarios and accumulations that could lead to large losses. A uniform Global Event Set has been developed as part of Solvency II to analyse natural hazard accumulation risks.

Based on the most recently calculated figures, the estimates for the Group's net loss burdens under the following accumulation scenarios for natural hazards are as follows:

N32 **ACCUMULATION SCENARIOS, INCLUDING NON-CONTROLLING INTERESTS, BEFORE TAX** [1), 2)]

FIGURES IN EUR MILLION

	2013	2012
250-year loss event Atlantic hurricane [3)]	1,429	1,209
250-year loss event US earthquake [4)]	1,032	978
250-year loss event Europe storm (winter storm)	954	670
250-year loss event Japan earthquake [5)]	615	694
250-year loss event Pacific typhoon [6)]	532	593
250-year loss event Australia earthquake [7)]	545	575

1) Actual trends in natural hazards may diverge from the model assumptions
2) The geographical nature of the scenarios presented and the basis for the calculations were adjusted compared to the previous year. This resulted in changes to the figures compared with the 2012 annual financial statements. Alongside general improvements to the model, the change was prompted by an effort to increase the consistency in terms of the limit system and the Group risk model further
3) Previous year's scenario limited to the USA
4) Previous year's scenario limited to California
5) Previous year's scenario limited to Tokyo
6) Previous year's scenario limited to Japan
7) Previous year's scenario limited to Sydney

In addition, other accumulation scenarios are regularly tested. We protect ourselves against peak exposures from accumulation risks by using carefully and individually selected reinsurance coverage. This enables us to effectively limit large individual losses and the impact of accumulation events and thereby to make them plannable.

The following table depicts the distribution of loss provisions by region on both a gross and a net basis (after allowing for the reinsurers' share of these provisions):

N33 LOSS AND LOSS ADJUSTMENT EXPENSE RESERVE[1)]

FIGURES IN EUR MILLION

	Gross	Re	Net[2)]
31.12.2013			
Germany	8,366	1,368	6,998
United Kingdom	3,790	553	3,237
Central and Eastern Europe including Turkey (CEE)	1,381	68	1,313
Rest of Europe	7,160	1,254	5,906
USA	5,368	569	4,799
Rest of North America	964	627	337
Latin America	1,025	55	970
Asia and Australia	1,915	120	1,795
Africa	189	5	184
Total	**30,158**	**4,619**	**25,539**
31.12.2012			
Germany	7,675	1,336	6,339
United Kingdom	3,590	527	3,063
Central and Eastern Europe including Turkey (CEE)	1,298	67	1,231
Rest of Europe	7,169	1,362	5,807
USA	5,485	726	4,759
Rest of North America	882	493	389
Latin America	890	269	621
Asia and Australia	2,265	178	2,087
Africa	225	10	215
Total	**29,479**	**4,968**	**24,511**

1) After elimination of internal transactions within the Group across segments
2) After allowing for the reinsurers' share of these provisions

The following table shows the focus of the insurance business that we conduct in property/casualty primary insurance, broken down by key insurance types and segments:

N34 PREMIUM BY INSURANCE TYPE AND SEGMENT

FIGURES IN EUR MILLION

	Gross written premium	Net written premium
31.12.2013		
Property/casualty primary insurance		
Motor insurance	3,088	2,921
Property insurance	2,359	992
Liability insurance	1,579	882
Accident insurance	280	230
Other property/casualty insurance	902	645
Non-Life Reinsurance	7,818	7,031
Total	**16,026**	**12,701**
31.12.2012		
Property/casualty primary insurance		
Motor insurance	2,815	2,680
Property insurance	2,111	870
Liability insurance	1,501	828
Accident insurance	309	255
Other property/casualty insurance	674	485
Non-Life Reinsurance	7,717	6,959
Total	**15,127**	**12,077**

INTEREST RATE RISK

In the case of the reserve for pension benefits, which forms part of the loss and loss adjustment expense reserve, we also monitor interest rate trends, which can embody interest rate risk. A fall in actuarial interest rates, at least in local accounting, would result in a charge to income owing to the need to establish a reserve.

MANAGEMENT OF UNDERWRITING RISK IN LIFE/HEALTH INSURANCE

Typical risks in life/health primary and reinsurance stem from policies containing long-term benefit guarantees. Along with interest rate risk, biometric and lapse risks are particularly relevant here.

BIOMETRIC RISK

Biometric actuarial bases such as mortality, longevity and morbidity are established when the policy is taken out and used to calculate premiums and reserves as well as to assess deferred acquisition costs. Over time, however, these assumptions may no longer prove to be accurate, in which case additional expenditures may be required. The adequacy of biometric actuarial bases is therefore regularly reviewed.

Due to this risk, the calculation bases and our expectations may prove inadequate. Our life insurers use a variety of tools to counter this possibility.

- In calculating premiums and technical provisions, Group companies use prudently quantified biometric actuarial parameters, the adequacy of which is regularly assured by continuously comparing claims expected according to mortality and morbidity tables against claims actually incurred. In addition, the actuarial bases make appropriate allowance for risks of error, random fluctuation and change by applying commensurate safety margins
- Life insurance policies are typically long-term contracts with a discretionary surplus participation. Minor changes in assumptions with respect to biometric factors, interest rates and costs used as a basis for calculations are absorbed by the safety margins built into the actuarial bases. If such safety margins are not needed, they generate surpluses that are largely passed on to policyholders in accordance with statutory requirements. The impact on profitability in the event of a change in risk, cost or interest rate expectation can thus be limited by adjusting the policyholders' future surplus participation
- We regularly review the lapse patterns of our policyholders and the lapse trends of our insurance portfolio
- Additional protection is obtained through reinsurance against certain – primarily biometric – risks

The described biometric risk is also of special importance in life/health reinsurance. Reserves are mainly calculated using information provided by our cedants. The plausibility of this information is checked against reliable biometric actuarial bases. Furthermore, local regulatory authorities ensure that cedant-calculated reserves satisfy all requirements in terms of the adopted actuarial methods and assumptions (e.g. use of mortality and morbidity tables, assumptions regarding lapse rates). Lapse risk and credit risk are also of importance when prefinancing our cedants' acquisition costs. Interest guarantee risk, on the other hand, has only minimal relevance in most instances due to the structures of the contracts.

The volume of reinsurance cover relative to gross written premium is determined by the retention ratio, which shows the proportion of the underwritten risks that we bear.

N35 **RETENTION RATIO BY SEGMENT IN LIFE/HEALTH INSURANCE**

IN %

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Retail Germany	93.9	94.4	93.6	92.9	90.4	n. a.	n. a.	n. a.	n. a.	n. a.
Retail International	95.8	89.7	82.8	84.1	83.3	n. a.	n. a.	n. a.	n. a.	n. a.
Life/Health Primary Insurance [1]	n. a.	n. a.	n. a.	n. a.	n. a	87.9	86.9	86.0	85.2	78.7
Life/Health Reinsurance	87.7	89.3	91.0	91.7	90.7	89.3	90.8	85.4	92.8	91.2
Total life/health insurance	**90.9**	**91.3**	**91.8**	**91.8**	**90.1**	**88.4**	**88.5**	**85.8**	**88.2**	**86.5**

[1] In 2010 the Group brought its segment reporting into line with IFRS 8 "Operating Segments" after having implemented a corporate reorganisation by customer group in its primary insurance business. Because of cost/benefit considerations, however, reporting for periods prior to 2009 was not retroactively adjusted

SENSITIVITY ANALYSIS

We measure sensitivity to these risks using an embedded value analysis. The Market Consistent Embedded Value (MCEV) is a key risk management tool. It describes the present value of future shareholders' earnings plus shareholders' equity less the cost of capital for life/health primary and reinsurance business after appropriate allowance for all risks underlying this business. The embedded value is market consistent inasmuch as it is arrived at using a capital market valuation that meets certain requirements: free of arbitrage and risk neutral, with the modelling of financial instruments providing current market prices.

The New Business Value (NBV) is also taken into consideration. The MCEV and the NBV describe the present value of future shareholders' earnings from the life primary insurance and Life/Health Reinsurance businesses after appropriate allowance for all risks underlying the business in question.

The MCEV is calculated for our major life insurers and for the Life/Health Reinsurance business written by Hannover Rück SE. Sensitivity analyses highlight the areas of life/health insurance in which the Group's life insurers and hence the Group as a whole are exposed, and they offer indications of the areas that should be emphasised from a risk management standpoint. The analyses take into account sensitivity to mortalities, lapse rates, administrative expenses, interest rates and equity prices.

In reinsurance business, MCEV sensitivity is determined by the technical risk. Whereas changes in assumptions regarding mortality/morbidity, lapse, and costs have a significant influence on the MCEV, the impact from changes in basic economic conditions is minor. By contrast, the MCEV in primary insurance business is chiefly influenced by basic economic conditions. The main driving force is change in interest rates, whereas technical risk has less of an influence on the MCEV. In conformity with IFRS 4, we describe below the relevant sensitivities and their effects on the MCEV in exclusively qualitative terms.

Sensitivity to mortalities

The exposure of the Group's life insurers varies according to the type of insurance products they offer. Thus, lower-than-expected mortality has a positive effect on products primarily involving a death or morbidity risk and a negative impact on products with a longevity risk – with corresponding implications for the MCEV.

Sensitivity to lapse rates

Under contracts with a surrender option, the recognised benefit reserve is at least as high as the corresponding surrender value, and hence the economic impact of the lapse pattern tends to be influenced more by the amount of cancellation charges and other product characteristics. A higher-then-expected lapse rate would to some extent negatively affect the MCEV.

Sensitivity to administrative expenses

Higher-than-expected administrative expenses would result in a reduction of the MCEV.

Sensitivity to interest rates and equity prices

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

Technical provisions are arranged according to the expected maturity, and investments, according to the remaining contract duration. Contained in this is a duration (Macaulay Duration) of 9.9 (9.6) for recognised obligations and of 7.2 (6.8) for fixed-income securities (including interest rate derivatives).

This leads to a risk in terms of re-investing accumulated credit balances as well as to a first-time investment risk for premiums received in the future. If the investment income generated over the remaining duration of the obligations falls short of the interest payable under the guarantees, this leads to a reduction in income and a decrease in the MCEV.

Because of the way life insurance contracts are structured, German life insurers in particular are affected by interest guarantee risk. For German life insurance companies and pension funds in the Talanx Group, the average guaranteed interest rate – weighted according to the companies' gross provisions – is 2.97 (3.13)% in 2013.

A decline in equity prices would also negatively impact the MCEV, although this impact would be very minor due to the currently low share of equities.

DERIVATIVES EMBEDDED IN LIFE INSURANCE CONTRACTS AND NOT RECOGNISED SEPARATELY

Insurance products of primary life insurers may include the following major options on the part of policyholders if agreed upon when the contract was taken out:

- Minimum returns/guaranteed interest rate: This entails a risk that current interest rates might be significantly lower than the discount rate used to calculate the insurance benefits. In this case, generated interest earnings may not suffice to cover compounding amounts. This option is taken into account with respect to adequacy testing pursuant to IFRS 4.
- Surrender of policy and premium waiver: There is a risk that, on the one hand, surrender may result in the obligation to pay the corresponding insurance benefit in cash to policyholders and, on the other, a premium waiver may result in cessation of further liquidity flows on account of the lack of premium payments by policyholders. Allowance is made for this risk through suitable liquidity planning.
- Increase in insured benefit without subsequent medical examination – usually with the actuarial bases with respect to the biometric factors and the guaranteed return applicable at that time (index-linked adjustment, supplementary insurance guarantees in the event of certain changes in living conditions): Here there is a risk that policyholders may be able to obtain insurance at a premium lower than that corresponding to their health risk, since possible surcharges may not have been imposed.
- Possibility under deferred annuity policies to take a one-time payment of the insured benefit (lump-sum option) instead of drawing a pension. This entails a risk that an unexpectedly large number of policyholders might exercise their lump-sum option at an interest rate significantly higher than the discount rate used to calculate the annuities. However, there is no direct interest rate or market sensitivity to exercise the lump-sum option, since personal factors of policyholders have a material influence on existing insurance components. This option is taken into account with respect to adequacy testing pursuant to IFRS 4.

With unit-linked products, policyholders may opt to take ownership of the accumulated units upon maturity of the contract (benefit in kind) instead of accepting payment of their equivalent value at that time. In this regard, there is no direct market risk.

Other embedded derivatives are economically insignificant.

With life/health insurance, a number of contracts have features that require embedded derivatives to be split from the underlying insurance contract and, pursuant to IAS 39, recognised separately at market value. In this regard, cf. our remarks in item 13 in the Notes, "Derivative financial instruments and hedge accounting".

CONCENTRATION RISKS

With life insurance, concentration risk is not as significant as interest guarantee risk. In this regard, cf. the subsection "Sensitivity analysis" and the remarks on "Sensitivity to interest rates and equity prices".

With respect to geographical concentration, cf. the following table, which depicts the distribution of the benefit reserve by region on both a gross and a net basis (after allowing for the reinsurers' share of these provisions) for life/health insurance.

N36 BENEFIT RESERVE BY REGION [1]

FIGURES IN EUR MILLION

	Gross	Re	Net
31.12.2013			
Germany	37,789	477	37,312
United Kingdom	4,922	18	4,904
Central and Eastern Europe including Turkey (CEE)	962	—	962
Rest of Europe	2,445	47	2,398
USA	2,164	110	2,054
Rest of North America	490	—	490
Latin America	15	—	15
Asia and Australia	850	179	671
Africa	39	—	39
Total	**49,676**	**831**	**48,845**
31.12.2012			
Germany	36,721	489	36,232
United Kingdom	4,769	17	4,752
Central and Eastern Europe including Turkey (CEE)	705	—	705
Rest of Europe	2,289	75	2,214
USA	2,891	125	2,766
Rest of North America	88	219	–131
Latin America	20	—	20
Asia and Australia	632	92	540
Africa	46	—	46
Total	**48,161**	**1,017**	**47,144**

[1] After elimination of internal transactions within the Group across segments

MANAGEMENT OF CREDIT RISKS ASSOCIATED WITH INSURANCE CONTRACTS

Accounts receivable on insurance business are subject to credit risk. In order to limit this risk, we always take care to ensure that debtors are creditworthy, measuring this, for instance, in terms of standard market rating categories. We choose our reinsurers carefully from the standpoint of creditworthiness and constantly monitor these selections.

Accounts receivable from policyholders and insurance intermediaries are generally unsecured. The default risk on these receivables is subject to constant monitoring in connection with our risk management. This has to do with a large number of receivables in relatively modest amounts due from a diverse array of debtors. Most of these receivables are due from policyholders who do not have a rating. Only commercial clients in excess of a certain magnitude can provide independent assessments of their creditworthiness. Insurance intermediaries are either individual brokers or broker organisations, which likewise do not normally have a rating. Each Group company operates its own effective dunning process designed to reduce outstanding receivables that result from delays in or defaults on premium payments from policyholders direct or through intermediaries. Intermediaries are also subject to creditworthiness reviews.

Credit risk also arises in primary insurance business in connection with accounts receivable from reinsurers and in reinsurance business in connection with receivables from retrocessionaires, since gross written business is not always fully retained but instead (retro)-ceded as necessary. In passive reinsurance we pay close attention to ensuring that our reinsurers are financially very sound, especially in the case of long-tail accounts.

The Group counters the default risk associated with accounts receivable from reinsurers and retrocessionaires by having security committees carefully select reinsurance partners. These committees constantly monitor creditworthiness and, where necessary, take appropriate measures to secure receivables. Security standards are generally applied uniformly when selecting reinsurance partners.

In the area of primary insurance, our wholly owned reinsurance broker Talanx Reinsurance Broker AG manages reinsurance cessions in accordance with security and placement guidelines by setting cession amounts and by regularly calculating absolute and relative cession limits while taking into account various default probabilities such as by duration of the reinsurance contract, rating and the reinsurer's capital. To limit concentrations, an upper limit is set for each reinsurance group's share of total loss provisions.

Default risk associated with reinsurance business is essentially managed on the basis of system-supported cession control: cession limits are set for individual reinsurance partners, and free capacities are ascertained for short-, medium-, and long-term business. Depending on the type of reinsured business and the anticipated run-off duration, the selection of reinsurers takes into consideration not just minimum ratings issued by the rating agencies Standard and Poor's and A. M. Best, but also internal and external expert assessments (e.g. market information from brokers). In addition to standard retrocessions in Non-Life Reinsurance, Hannover Rück SE also transfers risks to the capital market.

In the three primary insurance segments, claims arising out of passive reinsurance, e.g. the cession of risks that we have assumed – the reinsurer's share – amounted to EUR 4.7 (4.8) billion. The resulting reinsurer's share of the loss and loss adjustment expense reserve amounted to EUR 3.5 (3.7) billion.

The ratings of counterparties to the reinsurer's share of the loss and loss adjustment expense reserves at the Group level were as follows, cf. table N37.

Accordingly, 89 (83)% of our reinsurers are rated A or better. In determining the ratings, allowance has already been made for any collateral received – such as deposits or letters of credit.

Serving as the equivalent of the maximum exposure to default risk as at the balance sheet date, the book value of financial assets related to insurance business – irrespective of collateral or other agreements that serve to minimise default risk – was as follows (excluding funds withheld by ceding companies), cf. table N38.

N37 **REINSURANCE RECOVERABLES ON TECHNICAL PROVISIONS BY RATING**

IN %

	AAA	AA	A	BBB	<BBB	Without
2013						
Reinsurance recoverables on technical provisions	— (1)	45 (43)	44 (39)	2 (2)	— (1)	9 (14)

N38 **BOOK VALUES OF FINANCIAL INSTRUMENTS ASSOCIATED WITH INSURANCE CONTRACTS**

FIGURES IN EUR MILLION

	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance
31.12.2013 [1]					
Receivables					
Policy loans	—	190	2	—	—
Accounts receivable from policyholders	315	207	659	—	—
Accounts receivable from insurance intermediaries	307	110	64	428	—
Accounts receivable from reinsurance business	493	25	86	1,156	1,221
Other assets					
Reinsurance recoverables on technical provisions	3,571	773	386	1,277	589
Total	**4,686**	**1,305**	**1,197**	**2,861**	**1,810**
31.12.2012 [1]					
Receivables					
Policy loans	—	190	2	—	—
Accounts receivable from policyholders	310	155	644	—	—
Accounts receivable from insurance intermediaries	345	148	57	397	—
Accounts receivable from reinsurance business	465	11	50	1,151	1,348
Other assets					
Reinsurance recoverables on technical provisions	3,706	703	429	1,388	763
Total	**4,826**	**1,207**	**1,182**	**2,936**	**2,111**

[1] Presentation after elimination of intra-Group relations between segments

Funds withheld by ceding companies represent the cash and securities deposits furnished by Group companies to cedants. These funds do not trigger any cash flow movements and cannot be disposed of by cedants without the consent of our companies. The durations of these deposits match the corresponding provisions. In the event that a ceding company were to default on funds it has withheld, technical provisions would be reduced by the same amount. Credit risk is therefore limited and as a result not shown in the above table.

Accounts receivable from the passive reinsurance business in the three primary insurance segments (after deduction of impairments) amounted to EUR 494 (464) million. As at the balance sheet date, more than 52 (57)% of these accounts receivable were rated A or better.

In the two reinsurance segments, claims due from retrocessionaires amounted to EUR 1.9 (2.2) billion as at the balance sheet date. Altogether, 89 (90)% of retrocessionaires have an investment-grade rating. Of these, almost 89 (87)% are rated A or better. The large proportion of reinsurers with top ratings reflects our policy of avoiding default risk in this area wherever possible.

The accounting balance (income for primary insurer), defined as the reinsurers' share of earned premiums less the reinsurers' share of gross expenses for insurance benefits and insurance operations, was –EUR 444 (–458) million for the year under review.

N39 **ACCOUNTS RECEIVABLE ON INSURANCE BUSINESS THAT WERE OVERDUE BUT NOT IMPAIRED AS AT THE BALANCE SHEET DATE**

FIGURES IN EUR MILLION

	> 1 day < 3 months	> 3 months < 1 year	> 1 year
31.12.2013			
Accounts receivable from policyholders	350	121	37
Accounts receivable from insurance intermediaries	148	31	6
Accounts receivable from reinsurance business	365	309	219
Total	**863**	**461**	**262**
31.12.2012			
Accounts receivable from policyholders	322	90	22
Accounts receivable from insurance intermediaries	198	42	8
Accounts receivable from reinsurance business	706	195	213
Total	**1,226**	**327**	**243**

Overdue accounts receivable on insurance business are composed of receivables that had not been paid by the due date and were still outstanding as at the balance sheet date. .

As at the balance sheet date, accounts receivable from insurance business by primary insurers with policyholders and insurance intermediaries that were in arrears by more than 90 days amounted to EUR 158 (112), of which EUR 37 (50) million remains in arrears by more than one year. This is equivalent to a rate of 13 (10)% and 4 (5)%, respectively. The combined average default rate over the past three years was 1.2 (1.5)%. The default rate in 2013 is 1.4 (1.2)%. Accounts receivable from the passive reinsurance business that were in arrears by more than 90 days amounted to EUR 203 (207) million, corresponding to a rate of 38 (42)%.

As regards the major companies in the Non-Life Reinsurance and Life/Health Reinsurance segments (the Hannover Re Group), reinsurance business totalled EUR 2.9 (3.1) billion. As at the balance sheet date, accounts receivable that were in arrears by more than 90 days, and in some cases impaired, amounted to EUR 301 (175) million. This represents a rate of 10.2 (5.7)%. The average default rate over the past three years is 0.1 (0.1)%.

Some 47 (42)% of receivables from ceded reinsurance business (Non-Life Reinsurance segment) were secured by deposits or letters of credit. We also act as reinsurer for most of our retrocessionaires, so we would normally be able to offset any defaults against our own liabilities.

No impairments were taken for accounts receivable from insurance business where the default risk associated with the assets is reduced by collateral (such as letters of credit, cash deposits, securities deposits).

Impaired receivables can be broken down as follows:

N40 **ANALYSIS OF INDIVIDUALLY IMPAIRED ASSETS ASSOCIATED WITH INSURANCE CONTRACTS**

FIGURES IN EUR MILLION

	Risk provision	thereof attributable to 2013/2012	Book value after risk provision
31.12.2013			
Accounts receivable from policyholders	77	13	1,181
Accounts receivable from insurance intermediaries	23	2	909
Accounts receivable from reinsurance business	54	–7	2,981
Total	**154**	**8**	**5,071**
31.12.2012			
Accounts receivable from policyholders	64	38	1,109
Accounts receivable from insurance intermediaries	21	2	947
Accounts receivable from reinsurance business	61	13	3,025
Total	**146**	**53**	**5,081**

Impairments on accounts receivable from insurance business, which we recognise in separate impairment accounts, developed as follows in the year under review:

N41 IMPAIRMENTS ON ACCOUNTS RECEIVABLE FROM INSURANCE BUSINESS

FIGURES IN EUR MILLION

	2013	2012
Cumulative impairments as at 31.12 of the previous year	146	93
Change in scope of consolidation	—	—
Impairments during the financial year	28	35
Write-ups	13	—
Exchange rate fluctuations	–2	1
Other changes	–5	17
Cumulative impairments as at 31.12 of the financial year	**154**	**146**

Default risk associated with accounts receivable from insurance business was generally determined on the basis of individual analyses. Any existing collateral was taken into account. The proportion of impaired receivables stood at 3 (3)%.

N42 IMPAIRMENT RATES

IN %

	31.12.2013	31.12.2012
Accounts receivable from policyholders	6.1	5.5
Accounts receivable from insurance intermediaries	2.5	2.2
Accounts receivable from reinsurance business	1.8	2.0

N43 ANNUAL DEFAULT RATES

IN %

	31.12.2013	31.12.2012
Accounts receivable from policyholders	1.4	1.2
Accounts receivable from insurance intermediaries	0.7	1.2
Accounts receivable from reinsurance business	0.1	0.2

RISKS ASSOCIATED WITH INVESTMENTS

Risks associated with investments principally consist of market risk, counterparty default risk and liquidity risk, whereby market risk includes risk associated with changes in interest rates, changes in yield mark-ups for bonds of issuers prone to credit risk, foreign currency risk and risk associated with price changes.

MANAGEMENT OF RISKS ASSOCIATED WITH INVESTMENTS

The structure of assets under own management (excluding funds withheld by ceding companies) is regularly examined in order to monitor strategic asset allocation.

N44 WEIGHTING OF MAJOR ASSET CLASSES

IN %

	Parameter as per investment guidelines	Position as at 31.12.2013	Position as at 31.12.2012
Bonds (direct holdings and investment funds)	At least 50	91	91
Listed equities (direct holdings and investment funds)	At most 25	1	1
Real estate (direct holdings and investment funds)	At most 5	3	2

Our comprehensive asset/liability management systems endeavour to balance the investment goals of security, profitability, liquidity, mix and spread and are subject to compliance with the company's risk-carrying capacity and regulatory requirements. The main challenges to achieving these investment goals are market risk, counterparty default risk and liquidity risk. Limits are set using the Talanx limit and threshold system for the weighting of investment classes. These did not change over the previous year, whereby there are still small differences between property/casualty insurers, life primary insurance and the reinsurance segments. The ratios presented for bonds, equities and real estate as of 31 December 2013 are within the defined Group limits.

MARKET RISK

Market risk consists primarily of the risk that the market prices of fixed-income assets and equities may change and of the risk that exchange rates may fluctuate where there is no matching cover. This may lead to a need to take impairments or to losses being realised when financial assets are sold. A decline in interest rates related to the reinvestment may also reduce investment income.

One important means of monitoring and controlling market price risk is continuous analysis of value at risk (VaR), where alongside investments, consideration is also given to projected cashflows from underwriting commitments and their sensitivity to market risk factors (ALM-VaR). The ALM-VaR is based on historical market data and represents a model-based forecast for the maximum loss potential within a given holding period (e.g. ten days), which cannot be exceeded with the 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 a 0.5% probability of this estimated loss potential being exceeded within ten days. The input data for the calculation are portfolio investment values, which are updated daily. Alongside the portfolio data for investments, replicating portfolios for the projected cashflows from underwriting commitments are also taken into account in the form of payment obligations (so-called short positions) to reflect and monitor dependencies between investments and underwriting benefits as well as any existing duration gap in the investment. A duration gap is the mismatch in fixed interest rate durations between investments and commitments.

The market data used for this risk model cover the past 521 weeks. On this basis, 520 weekly changes are calculated for each relevant market parameter, such as equity prices, exchange rates, commodities prices and interest rates, and then used to ascertain the ALM-VaR. The time series used as the basis for calculating the risk parameters are updated monthly, with the market parameters of the oldest four weeks being removed and replaced by those of the last four weeks. The risk model is thus recalibrated monthly on the basis of the updated market data.

The risk model used is a multi-factor model based on a multitude of representative time series, e.g. interest rates, exchange rates and stock indexes, from which all risk-relevant factors can be ascertained by using on principal component analysis. Correlations between the time series are taken into account in the weighting of risk factors. In this way the risk assessment makes allowance for cumulative and diversification effects. The individual elements of the portfolio are analysed through regression towards these factors. The factor weightings ascertained in this process establish a correlation between movements in the factors, which in turn were extrapolated from movements in the representative time series, and movements in the securities. Risks associated with securities are extrapolated by simulating trends in the factors. The risk associated with derivatives, such as options, is extrapolated through comprehensive remeasurement during risk simulation, which also takes into account non-linear correlations between option prices and price movements in the underlying instruments.

The ALM-VaR is ascertained using normal market scenarios extrapolated from the past.

As at 31 December 2013 the ALM-VaR (confidence level 99.5%, holding period of ten days) totalled EUR 1.3 billion, corresponding to 1.5% of the investments observed.

Besides the rather long-term monitoring of risk-carrying capacity of the market risks associated with the investments, a model version is used to identify risks early where only the last 180 weekly yields are considered and where market observations from the most recent past have a stronger influence on risk figures through the use of exponential weighting. This version exhibits a much higher sensitivity of the ALM-VaR model to current volatility changes on the capital markets and can also provide early indications of higher risk.

These stress tests and scenario analyses complement the range of our management tools. In the case of interest-rate-sensitive products and equities, we calculate a possible change in fair value on a daily basis using a historical worst-case scenario, estimating the potential loss under extreme market conditions. In connection with the scenarios, we simulate changes in equity prices, exchange rates, general interest rates and yields for bonds of issuers prone to credit risk (spreads). Interest rate risk means that the value of financial assets held in the portfolio may change unfavourably due to changes in market interest rates. The fair value of the fixed-income securities portfolio increases with declining market yields and decreases with rising market yields. (Unsecured) equity price risk means that the value of equities and equity- or index-linked derivatives may change unfavourably due to e.g. downward movements on particular stock indexes. Currency risk is of considerable importance to an internationally operating insurance group that writes a significant amount of its business in foreign currencies.

The following table shows scenarios depicting trends in investments held by the Group as at the balance sheet date. The amounts shown are gross amounts. In particular, the depicted effects make no allowance for taxes or the provision for premium refunds. Effects in connection with surplus participations to policyholders in life/health primary insurance are thus not part of the analysis. If allowance were made for these effects, the depicted impact on earnings and shareholders' equity would be much milder.

N45 SCENARIOS DEPICTING CHANGES IN THE FAIR VALUE OF ASSETS HELD BY THE GROUP AS AT THE BALANCE SHEET DATE

FIGURES IN EUR MILLION

Portfolio	Scenario		Recognised in the statement of income[1]	Recognised in other comprehensive income[1]	31.12.2013 Portfolio change based on market value[2]	31.12.2012 Portfolio change based on market value[2]
Equities[3]						
	Share prices	+20%	31	154	185	+175
	Share prices	+10%	16	77	93	+88
	Share prices	–10%	–20	–93	–113	–109
	Share prices	–20%	–41	–186	–227	–219
Fixed-income securities						
	Yield increase	+200 bps	–325	–4,618	–9,764	–9,283
	Yield increase	+100 bps	–182	–2,465	–5,262	–4,972
	Yield decrease	–100 bps	215	2,675	5,534	+5,372
	Yield decrease	–200 bps	452	5,628	11,596	+11,489
Exchange-rate-sensitive investments						
	Change in exchange rate[4]	+10%	–1,847	–137	–1,984	–2,374
	thereof USD		–1,185	–108	–1,293	–1,263
	thereof GBP		–277	–2	–279	–277
	thereof AUD		–151	—	–151	–183
	thereof other		–234	–27	–261	–651
	Change in exchange rate[4]	–10%	1,847	137	1,984	+2,374
	thereof USD		1,185	108	1,293	+1,263
	thereof GBP		277	2	279	+277
	thereof AUD		151	—	151	+183
	thereof other		234	27	261	+651

[1] Gross (before taxes and surplus participation)
[2] Including financial assets in the categories “Loans and receivables” and “Financial assets held to maturity”
[3] Including derivatives
[4] Exchange rate fluctuations of +/–10% versus the euro, on the basis of the balance sheet values

The breakdown by currency of our investments under own management, including investment contracts, was as follows:

N46 INVESTMENTS

IN %

	31.12.2013	31.12.2012
EUR	76	70
USD	15	15
GBP	3	3
AUD	2	2
Other	4	10
Total	**100**	**100**

We use derivative financial instruments to partially hedge portfolios, especially against price, currency and interest rate risks and to optimise our portfolio in light of risk/return considerations. Contracts are concluded solely with first-class counterparties and in compliance with the standards defined in the investment guidelines in order to avoid risks – especially credit risks – associated with the use of such transactions (for counterparty default risk cf. also the following section). By systematically adhering to the principle of matching currency coverage, we are also able to significantly reduce foreign currency risk within the Group. More information on the use of derivative financial instruments can be found in item 13 “Derivative financial instruments and hedge accounting” in the Notes – assets.

COUNTERPARTY DEFAULT RISK

Counterparty default risk describes the risk that a borrower is not willing or, in the case of insolvency, is not capable of meeting its obligations with respect to its creditors.

At the Talanx Group, counterparty default risk for investments comprises the following risks:

- Issuer risk (default risk, migration risk)
- Counterparty risk (replacement risk and settlement risk)
- Concentration risk

Counterparty default risk is primarily limited by the Talanx limit and threshold system and by our investment guidelines and is constantly monitored. To this end, limits are determined at portfolio, issuer/counterparty and sometimes asset class level, ensuring a broad mix and spread in the portfolio. The credit rating of the issuer is the main requirement for the investment decision. Credit rating assessments are based on the Group's own credit risk analyses, which are supplemented by ratings from external agencies such as Standard & Poor's or Moody's. New investments are largely restricted to investment-grade securities. An early-warning system has been implemented on the basis of market information (especially credit spreads and equity prices) to recognise initial signs of a critical situation at companies and to identify potential migration risks. To reduce counterparty risk, OTC transactions are only carried out with a select group of counterparties, and cross-product framework agreements are agreed on that comprise both netting and collateral services (cf. item 13 in the Notes on "Derivative financial instruments and hedge accounting). We also use credit default swaps to hedge credit risks.

In the Group, counterparty default risk is characterised at the level of the individual counterparty using the following principal risk components:

- Probability of default (PD) is based on an internal rating and describes the probability that a debtor will default within a defined period
- Loss given default (LGD) shows the anticipated loss in the event of default on the investment. It relates to the specific issue and is influenced by the nature and degree of the security and the seniority of receivables
- Exposure at default (EAD) shows the anticipated amount of the receivable at the time of default
- Change in credit spreads with constant, objective credit condition

An expected loss is calculated for the investment that takes into account the rating, the probability of default assigned to that investment and the expected loss rate. In addition, at the portfolio level, an unexpected loss (i.e. possible deviation from expected loss) and a credit VaR are calculated. The credit VaR takes into account specific features for individual credit risk assessment as well as portfolio concentrations (sectors, countries, debtor groups) and correlations between individual levels. The credit VaR shows the impairment to the observed portfolio of investments occasioned by credit risk, and this may not be exceeded at a stipulated probability for a period of one year.

The procedure for risk calculation defined in this way ensures that, taking into account clustering effects, higher-risk investments are assigned significantly higher risk than lower-risk investments. The risk parameters ascertained in this way are grouped together at various control levels and aid in the monitoring and control of credit risk.

As at 31 December 2013, the credit VaR for the entire Group amounted to EUR 2,982 (2,918) million, or 3.5 (3.4)% of assets under own management. In comparison with the previous year, the credit VaR ratio of 3.4% thus rose by 0.1 percentage point. In internal risk quantification, all investments exposed to credit risk, with the exception of country exposure, have a rating better than AA– and are therefore modelled significantly more conservatively than in the current version of the Solvency II standard model.

N47 **CREDIT VAR**

FIGURES IN EUR MILLION

	31.12.2013	2012
Rating downgraded by one level	3,535	3,509
Rating downgraded by two levels	4,300	4,317
Increase in LGD by 10 percentage points	3,725	3,597

The table shows the sensitivity of the credit portfolio to certain credit scenarios, measured as credit VaR. It depicts both the impact of a downgrade in issuer ratings by one or two levels and the reduction of the expected recovery rates in the event of payment default. Sensitivities are ascertained by keeping all other parameters constant.

The maximum default risk exposure (of our investments, excluding funds withheld by ceding companies) as at the balance sheet date, irrespective of collateral or other agreements that serve to minimise default risk, corresponds to the balance sheet item.

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

In the Group, a total of EUR 527 (372) million in financial assets serves to secure liabilities and contingent liabilities. Of this amount, carrying amounts of EUR 92 (84) million secure existing derivative transactions for which separate assets are maintained in blocked custody accounts. We have received collateral with a fair value of EUR 60 (9) million for existing derivative transactions. In addition, Hannover Re Real Estate Holdings granted customary collateral to various credit institutions for liabilities in connection with real estate investments and transactions. As at the balance sheet date, this collateral amounted to EUR 460 (288) million.

For further information about collateral granted by the Group or received in connection with business, cf. "Contingent liabilities and other financial commitments" in the section "Other information".

With the exception of mortgage loans, the portfolio did not contain any overdue, unadjusted assets as at the balance sheet date, because overdue securities are written down immediately. Mortgage loans show arrearages totalling EUR 19 (17) million. This figure includes accounts receivable of EUR 7 (4) million in arrears by more than 12 months. Since these receivables are adequately secured by charges on property, no impairment was taken. Pursuant to contractual provisions, realisation is possible only in the event of failure to perform. With regard to impairments taken on investments during the year under review, cf. item 30 in the Notes, page 259.

Credit rating structure of investment portfolio: 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 (AAA to BBB), with 81 (83)% rated A or better. Upon acquisition debenture bonds and registered debt securities are assigned an internal rating that is derived, where possible, from the issuer's rating. Approximately 61 (61)% of short-term investments, mainly in overnight money, time deposits and money-market securities with a maturity of up to one year (balance sheet item: "Other investments") are rated A or better.

The rating structures of our fixed-income securities, differentiated by balance sheet item, as well as investment contracts and short-term investments are presented in the relevant items in the "Notes on the consolidated balance sheet – assets".

MANAGEMENT OF CONCENTRATION RISK

A broad mix and spread of asset classes is maintained in order to minimise portfolio risk. Concentration risk is limited by the Talanx limit and threshold system and by our investment guidelines and is constantly monitored. It is comparatively slight overall, even where in the past bank mergers may have significantly increased concentrations. Investments may be made in higher-risk assets only to a limited extent.

Overall, the measurement and monitoring mechanisms described here result in a prudent, broadly diversified investment strategy. This is reflected in the fact that, within its portfolio of assets under own management, the Group's exposure to government bonds issued by so-called GIIPS countries totals no more than EUR 1.5 (1.0) billion on a market-value basis, which corresponds to a proportion of 1.8 (1.2)%. Italy accounts for EUR 1,144 (647) million of this sum, Spain EUR 107 (88) million, Ireland EUR 258 (235) million, Portugal EUR 20 (26) million and Greece EUR 6 (4) million.

The following table shows the exposure to GIIPS countries, including corporate bonds we hold on a market-value basis.

N48 GIIPS EXPOSURE IN FIXED-INCOME INVESTMENTS

FIGURES IN EUR MILLION

	Government bonds	Semi-government bonds	Corporate securities: Financial bonds	Corporate securities: Industrial bonds	Covered bonds/ asset-backed securities	Other	Total
31.12.2013 [1]							
Greece	6	—	—	—	—	—	**6**
Ireland	258	—	10	49	137	234	**688**
Italy	1,144	—	335	386	854	19	**2,738**
Portugal	20	—	2	3	8	—	**33**
Spain	107	282	123	203	402	—	**1,117**
Total	**1,535**	**282**	**470**	**641**	**1,401**	**253**	**4,582**
31.12.2012 [1]							
Greece	4	—	—	—	—	—	4
Ireland	235	—	14	29	162	188	628
Italy	647	—	420	279	961	—	2,307
Portugal	26	—	—	1	8	—	35
Spain	88	254	90	231	522	—	1,185
Total	1,000	254	524	540	1,653	188	4,159

[1] With regard to the allocation of countries, the country of the banking group's parent company, rather than that of the issuer, is decisive

As a result of precautions taken at the European level (the European Financial Stability Facility), there is currently no risk of default on the government bonds of GIIPS countries.

With respect to its assets under own management, the Talanx Group also holds government bonds of the following countries:

N49 EXPOSURE TO OTHER GOVERNMENT BONDS

FIGURES IN EUR MILLION

	Amortised costs	Market values	thereof issuer country = investor country: Amortised costs	thereof issuer country = investor country: Market values
31.12.2013				
Belgium	757	763	12	12
Hungary	183	193	179	189
Slovenia	—	—	—	—
Slovakia	119	123	—	—
Total	**1,059**	**1,079**	**191**	**201**
31.12.2012				
Belgium	188	210	—	—
Hungary	156	163	156	163
Slovenia	42	41	—	—
Slovakia	107	111	—	—
Total	493	525	156	163

[1] With regard to the allocation of countries, the country of the banking group's parent company, rather than that of the issuer, is decisive

The breakdown of exposures in which a Spanish bank was the risk carrier was as follows for all asset classes as at the balance sheet date:

N50 **EXPOSURE TO SPANISH BANKS**[1)]

FIGURES IN EUR MILLION

	31.12.2013	31.12.2012
Covered bonds and asset-backed securities/cédulas	402	522
Financial bonds	123	90
Banks with a public guarantee	—	21
Time deposits	1	2
Equities	5	2
Derivatives	4	6
Total	**535**	**643**

1) With regard to the allocation of countries, the country of the banking group rather than that of the issuer is decisive

At EUR 402 (522) million, the biggest asset class involving Spanish banks is covered bonds/asset-backed securities and multi-cédulas, which have a similar structure to German covered bonds (Pfandbriefe). The portfolio decline is essentially attributable to repayments and sales. The covered bonds also include EUR 112 million with non-Spanish subsidiaries of Spanish parent companies. These bonds were issued under British law and generally contain exclusively British mortgage cover. The remainder of the investment volume consists exclusively of unsecured senior bonds and subordinated loans of the largest globally operating Spanish commercial banks.

MANAGEMENT OF LIQUIDITY RISK

Liquidity risk means that it may not be possible to convert investments and other assets into cash in a timely manner in order to meet our financial obligations when they fall due. For example, due to illiquidity on the markets, it may not be possible to sell holdings (or least without some delay) or to close open positions (or at least without price markdowns). Generally speaking, the Group continually generates significant liquidity positions due to the fact that premium revenues are normally taken in well in advance of claims, claims expenses and other benefits being paid out. We counter liquidity risk through regular planning of incoming and outgoing payments and by continuously matching the maturities of investments to our financial obligations. A liquid asset structure ensures that the Group is in a position to make necessary payments. With regard to payment obligations in connection with underwriting business, our planning is based on expected maturities, which reflect the run-off patterns of the reserves.

In order to monitor liquidity risks, each security type is assigned a liquidity code that indicates its degree of liquidity at fair market prices. These codes are regularly reviewed by Risk Controlling at Talanx Asset Management GmbH, checked for plausibility by taking into account market data and the assessment of portfolio management, and then modified as appropriate. The data are then included in standardised portfolio reporting given to the Chief Financial Officers of the decentralised units.

Each Group company has individual minimum limits for holding securities with high liquidity and maximum limits for holding securities with low liquidity. In particular minimum limits are derived from the timing component of technical payment obligations. For instance, because the Group's property/casualty insurers have shorter durations for technical payment obligations, they are generally subject to higher minimum limits for holding securities with high liquidity than are life insurers, which normally have longer durations for technical payment obligations. If, risk limits are exceeded, this is brought to the attention of the Chief Financial Officers and portfolio management without delay.

The Group also optimises the availability of liquid funds by using cash pools maintained by various subsidiary companies and Talanx AG to facilitate management of Group companies' cash inflows and outflows.

For a depiction of investments, key gross provisions (benefit reserve, loss and loss adjustment expense reserve) and reinsurers' shares (broken down by their expected or contractual maturities), cf. the remarks on the corresponding 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 incurred administrative costs, as at the respective balance sheet date.

Liquidity inflows, which we depict below for non-life insurance, are positive in all respects.

N51 CASH FLOWS AND LIQUID FUNDS FROM INSURANCE BUSINESS[1]

FIGURES IN EUR MILLION

	31.12.2013	31.12.2012
Gross written premium, including premiums from unit-linked life and annuity insurance	15,412	14,623
Claims and claims expenses paid (gross)	–8,773	–8,857
Acquisition costs, reinsurance commissions and administrative expenses	–3,847	–3,580
Liquid funds	**2,792**	**2,186**

[1] Presentation after elimination of intra-Group relations between segments

Life/health insurance: In order to monitor liquidity risk, the Group's life insurers regularly compare net claims and claims expenses paid during the financial year against existing assets (during the year, plan figures are used for net claims and claims expenses paid during the financial year).

In so doing, possible unforeseen increases in net claims and claims expenses through suitable supplements are considered and the liquidity of assets is monitored.

Other basic financial conditions: In addition to assets available to cover provisions and liabilities, the Group continues to maintain the following credit lines, which can be drawn down as needed:

In 2011, and by way of an addendum in 2012, Talanx AG concluded agreements on two syndicated floating-rate lines of credit with a total nominal amount of EUR 1.2 billion, with a term of five years. As at the balance sheet date, draw-downs amounted to EUR 150 million. Existing syndicated credit lines can be terminated by the lenders if there is a change of control, i.e. if a person or persons acting jointly, other than HDI Haftpflichtverband der Deutschen Industrie V.a.G., gain direct or indirect control over more than 50% of the voting rights or share capital of Talanx AG.

Facilities for letters of credit (LoC) are in place with various credit institutions. For the syndicated facility in the converted amount of EUR 726 (759) million concluded in 2011, the second extension option was used to extend the term from early 2018 to early 2019. In addition, several other bilateral credit agreements have been concluded, and existing ones have been augmented.

Letter of credit facilities on a bilateral basis are also in place with a number of credit institutions. These have various terms, running to 2022 at the latest and a total volume equivalent to EUR 2.6 (2.6) billion. For further information on letters of credit, cf. our remarks in the section "Other information," subsection "Contingent liabilities and other financial commitments," page 276. A long-term unsecured line of credit with a total volume equivalent to at most EUR 363 (379) million was concluded in December 2009. This is intended specifically for the US life reinsurance business.

A number of the LoC facilities include standard market clauses that give credit institutions the right to terminate in the event of material changes in the shareholding structure of our Group company Hannover Rück SE or that trigger a requirement to furnish collateral upon the occurrence of material events, e.g. a significant rating downgrade.

NOTES ON THE CONSOLIDATED BALANCE SHEET – ASSETS

(1) GOODWILL

N52 **SEGMENT BREAKDOWN OF GOODWILL**

FIGURES IN EUR MILLION

	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Corporate Operations	2013	2012
Gross book value as at 31.12. of the previous year	159	527	612	16	3	**1,317**	**855**
Currency translation as at 1.1. of the financial year	—	—	–21	—	—	–21	–6
Gross book value after currency translation as at 1.1. of the financial year	159	527	591	16	3	1,296	849
Change in scope of consolidation (additions)							
Business combinations	—	—	—	—	—	—	449
Other changes	—	—	–26	—	—	–26	19
Gross book value as at 31.12. of the financial year	159	527	565	16	3	**1,270**	**1,317**
Accumulated depreciation and 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 depreciation and accumulated impairment losses after currency translation as at 1.1. of the financial year	5	124	33	—	3	165	165
Impairments	—	—	—	—	—	—	—
Accumulated depreciation and accumulated impairment losses as at 31.12. of the financial year	5	124	33	—	3	**165**	**165**
Book value as at 31.12 of the previous year	154	403	579	16	—	1,152	690
Book value as at 31.12 of the financial year	154	403	532	16	—	**1,105**	**1,152**

IMPAIRMENT TEST

Goodwill is allocated to cash-generating units (CGUs) pursuant to IFRS 3 in conjunction with IAS 36. It is allocated to those CGUs which are expected to generate a value in use (in the form of cash flows) as a result of the business combination that gave rise to the goodwill. Each CGU to which goodwill is allocated represents the lowest entity level on which goodwill is monitored for internal management purposes.

The Group has therefore allocated all goodwill to CGUs. With regard to the Industrial Lines and Retail Germany segments, the CGUs in primary insurance satisfy the definition of an operating segment pursuant to IFRS 8. In the Retail International segment, each foreign market generally constitutes a separate CGU. Cross-company synergistic potentials (in relation to cash flows) can in general be realised only in those countries in which the Group is represented by several companies. In this case, we have allocated goodwill to individual companies or groups of companies. In terms of their products and sales structures, the individual foreign units otherwise operate largely self-sufficiently. By contrast, the insurance companies in Argentina and Uruguay constitute one CGU due to, inter alia, existing management structures.

There are two separate CGUs in the Polish market. With regard to the WARTA Group, the TU Europa Group is considered to be a separate CGU.

N53 CGUs CARRYING GOODWILL

FIGURES IN EUR MILLION (MEASURED AT THE RATE PREVAILING AS AT THE BALANCE SHEET DATE)

	31.12.2013	31.12.2012
Industrial Lines operating segment	154	154
Retail Germany operating segment	403	403
Retail International operating segment		
Argentina/Uruguay	5	5
Brazil	63	74
Chile	6	6
Mexico	44	46
Poland – TU Europa Group	113	141
Poland – Warta Group	301	307
Non-Life Reinsurance segment	16	16

The Group tests goodwill for impairment in the fourth quarter of each year based on data as at 30 September of that year.

In order to establish whether an impairment needs to be taken, the carrying value of the CGU, including its allocated goodwill, is compared with its recoverable amount. The recoverable amount is the higher of the fair value less costs of disposal and the value in use. For all CGUs, with the exception of the two reinsurance segments, the recoverable amount is established on the basis of the value in use, which is calculated by the Group using a recognised measurement method, namely the discounted cash flow method or, for life insurance companies, MCEV. Insofar as CGUs are composed of more than one Group company, a sum-of-the-parts approach is used. The recoverable amount for the reinsurance segment is established on the basis of the fair value less costs to sell.

When it comes to measuring the value of the property/casualty insurers in the Industrial Lines, Retail Germany and Retail International CGUs, the present value of future cash flows is calculated based on plan income statements approved by the management of the companies concerned. The planning calculations are drawn up on a stand-alone basis under the assumption that the entity will continue with a generally unchanged concept. They forecast post-tax net income for the subsequent five years and, starting in the sixth year, make an extrapolation into perpetuity.

Five-year planning – which generates detailed data for the statement of income in local currency for each company, taking into account a variety of factors – looks at, inter alia, the following aspects: estimation of the company in light of current market trends; planning of liquidity volume for the purposes of approximating investment portfolios; uniform Group indication of interest income from investments, by investment class; planning of solvency requirements for each company; and validation of plan underwriting data, including on the basis of indicators (e.g. loss ratio, cost ratio, combined ratio).

Entity-specific approximations are made in the detailed planning (at the time of the planning). In particular, estimates are made of the possibilities for growth in the market environment as well as profitability according to trends in claims and costs in the context of planned measures at the company level. Investment income is projected in relation to each asset portfolio. In addition, planning calculations are tested for plausibility by the respective controlling department or, at Group level, by the Group controlling department.

The discount factor (capitalisation rate) for the Group companies consists of a risk-free, country-specific base interest rate, a market risk premium and a company-specific beta factor (calculated on the basis of the capital asset pricing model). In addition, we also use constant growth rates – based on conservative assumptions – in order to extrapolate cash flows beyond the period of the detailed planning.

The combined ratio is an indicator for business development in the area of property/casualty insurance, and it results from planning concerning premium development and expenses. During the detailed planning period, premiums and costs are budgeted, resulting in the combined ratio as technical figure. The values for the property/casualty insurers of the CGUs range from 90% to nearly 100%. The net return on investment is likewise an indicator for development during the detailed planning phase. This varies widely by CGU, depending on the interest rate level of the respective currency area.

Where possible, corresponding long-term data on yield curves in the respective countries is used to determine risk-free base interest rates. If the rates cannot be determined, or can be determined only with an unreasonable amount of effort, the yields used are those for the respective government bonds with a maturity of 30 years or the longest available maturity. With respect to the market risk premium, the current recommendations of the Institute of Public Auditors in Germany (IDW) are taken into account. The beta factor is ascertained on the basis of publicly available capital market data.

N54 KEY PARAMETERS FOR THE PROPERTY/CASUALTY INSURANCE SEGMENT

IN %

	Capitalisation rate	Long-term growth rate
Industrial Lines		
German-speaking countries	8.00–8.25	0.00–0.50
Other countries (Eurozone only)	8.25	1.00
Other countries (non-Eurozone)	9.00–14.00	1.00–2.00
Retail Germany	7.45–11.00[1]	0.00–0.50
Retail International		
Argentina/Uruguay	26.00 (ARG); 10.00 (UYU)	2.00 (ARG); 1.00 (UYU)
Brazil[2]	16.00	1.00
Chile	11.25	0.50
Mexico	12.00	1.00
Poland	10.00	1.00

[1] Capitalisation rate 11% (increase of 3%) for the period after the end of the current bancassurance cooperation

[2] Parameters as at 31 December 2013: Due to significant changes between the date of the impairment test (30 September 2013) and the annual financial statements, the impairment test was repeated with the adjusted parameters

The figures are arrived at from past experience and future expectations, and they do not exceed long-term average growth rates for the respective markets in which the companies operate. Fair values that may have been calculated in local currency are translated at the exchange rate as at the balance sheet date.

The latest forecast for the Market Consistent Embedded Values (MCEVs) for 2013 plus the present value of anticipated new business (new business value, NBV) form the basis for the valuation of life insurers. 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 from the present value of future profits as well as the sum total of capital costs, options and guarantees as well as remaining risks that are not able to be hedged. Estimation of the present value of profits from the portfolio and valuation of options and guarantees are undertaken in a market-consistent manner, i.e. analogous to the way in which the value of financial derivatives is calculated. To this end, underwriting liabilities are measured with the aid of replication portfolios (i.e. replicating a portfolio's disbursement structure based on another portfolio).

Like the NBV, the MCEV is calculated from the perspective of the shareholder, i.e. it generally includes a limited liability put option (LLPO).

The NBV is extrapolated for future years from estimated MCEV earnings for the current year, relative to APE (annual premium equivalent) trends. In simple terms, the valuation method assumes a constant relationship between the APE and the NBV. APE values for the period 2014–2018 are based on the forecast and on medium-term planning. Extrapolation beyond 2018 (in perpetuity after the fifth year) assumes growth of between 0% and 2% p.a., depending on the local market. The interest rate swap curves used as a basis in calculating the MCEV values assume interest rates of between 1% and 2% in the short to medium term.

A modified variant of this method, which is generally applicable to all life insurers, is used for companies with long-term, exclusive cooperation agreements and the associated stability in their new business. Because these cooperation agreements have a limited term, a risk premium of currently three percentage points on the discount rate is assessed to cover the period beyond the end of the current agreement. For German companies, we also calculated a growth value in short-term planning that exceeds the decline in gross written premium generally assumed for life insurance contracts and takes into account existing bancassurance cooperations. This approach (premium on discount rate) is also used with the discounted cash flow method for property companies with bancassurance cooperation.

Small insurers and non-insurance companies are measured either at the present value of future cash flows or at their shareholders' equity.

N55 KEY PARAMETERS FOR THE LIFE INSURANCE SEGMENT

IN %

	Capitalisation rate	Long-term growth rate
Retail Germany	8.00	0.00
Retail International		
Argentina/Uruguay	26.00 (ARG); 10.00 (UYU)	2.00
Mexico	12.00	1.00
Poland	10.00	1.00

In connection with the forecasting of future company-specific cash flows for individual CGUs, macroeconomic assumptions were made with respect to economic growth, inflation, interest rate trends and market environment that correspond to the economic forecasts for the respective countries of the units to be measured and conform to market expectations and sector forecasts.

The figures are arrived at from past experience and future expectations, and they do not exceed long-term average growth rates for the respective markets in which the companies operate. Fair values that may have been calculated in local currency are translated at the exchange rate as at the balance sheet date.

For the Non-Life Reinsurance and Life/Health Reinsurance CGUs, which together correspond to the Hannover Re Group, reference is first made to the Hannover Re share price as at the balance sheet date for the purposes of impairment testing. The stock market value of Hannover Rück SE is divided between the two CGUs on the basis of the average operating margin over the past three years. The recoverable amount determined in this way is compared with the carrying value, including the goodwill allocated to the CGU in question. Alternatively, should the Hannover Re share price be adversely affected to a significant extent on a balance sheet date by factors that do not reflect the sustainable profit potential of the Hannover Re Group, a discounted cash flow method may be used instead.

No impairments to goodwill needed to be taken as at the balance sheet date.

Talanx AG performed sensitivity analyses with respect to the most important parameters when calculating the values in use for all CGUs carrying goodwill.

In each case, a parameter described below was changed (ceteris paribus) when calculating the value in use. The other assumptions (in medium-term planning and in the exploration) were left unchanged, and the resulting change in fair value was calculated. The calculations are based on the value in use updated as at 31 December 2013.

In order to cover key risks when calculating the value in use, such as underwriting risk (loss/expense ratio), interest rate parameters (interest rate risk), currency parameters (foreign exchange risk) and equity parameters (equity risk), a variety of conceivable scenarios were defined with the respective parameter changes and studied in detail. Unless indicated otherwise in the following, the calculations concerning the conceivable changes of parameters did not lead to any potential impairments.

Under the scenarios described in the following, one possible need to take an impairment emerged as a result:

1. Increase of the combined ratio by 3.0 percentage points for the entire future (detailed planning phase for the next five years and in perpetuity) for property/casualty insurers.

2. Reduction of assumed capital gains as a result of an interest rate decline of 100 basis points (bps) for the entire future (detailed planning phase and in perpetuity), without simultaneously adjusting the discount rate (parallel consideration of the lower interest rate with risk-free interest as a component of the discount rate) by 100 bps, for life insurance companies measured on the basis of extrapolated MCEVs and with property/casualty insurers.

3. Immediate appreciation of the euro/depreciation of foreign currency of important foreign-currency pairs for Retail International CGUs: EUR/PLN (Polish zloty) and EUR/BRL (Brazilian real) by 10%.

The following table summarises the results concerning the potential need to take an impairment in the event of a change in accordance with the respective scenario as well as about the value of the scenario under which the carrying amount and the recoverable amount are the same (threshold).

N56 INFORMATION ABOUT SCENARIOS THAT LEAD TO A POSSIBLE IMPAIRMENT OF GOODWILL OF INDIVIDUAL CGUs

FIGURES IN EUR MILLION

	Argentina		Brazil		Chile		Poland – TU Europa Group	
	Possible impairment[1]	Threshold	Possible impairment[1]	Threshold	Possible impairment[1]	Threshold	Possible impairment[1]	Threshold
1 Combined ratio +3 percentage points[3]	8	+0.10 percentage points	107	+1.01 percentage points	1	+2.88 percentage points	—	—
2 Reduction of capital gains by 100 bps[3]	2	–15 bps	—	—	—	—	9	–71 bps
3 Appreciation of the EUR by 10% versus BRL or PLN	—	—	—	—	—	—	10	5.84%[2]

1) Amount by which the carrying amount would exceed the recoverable amount, as adjusted by minority shares of goodwill
2) Corresponds to a rate of 4.39 EUR/PLN
3) The consequences for the Group from these potential changes can normally be counteracted in the medium to long term through suitable measures. As a result, the impairment risk is reduced accordingly. We did not take into consideration possible individual counter-measures under these scenarios

(2) OTHER INTANGIBLE ASSETS

N57 **CHANGES IN OTHER INTANGIBLE ASSETS**

FIGURES IN EUR MILLION

	Limited useful life					Unlimited useful life		
		Software						
	Insurance-related intangible assets	Acquired	Created	Acquired distribution networks and customer relationships	Other	Acquired brand names	2013	2012
Gross book value as at 31.12. of the previous year	**2,561**	**406**	**120**	**134**	**50**	**34**	**3,305**	**2,905**
Change in scope of consolidation (additions)								
Business combinations	—	—	—	—	—	—	—	358
Other	15	45	3	—	14	—	77	91
Disposals	8	84	3	—	4	—	99	67
Reclassifications	—	4	—	—	–4	—	—	—
Other changes	—	—	—	—	—	—	—	—
Exchange rate fluctuations	–4	–3	—	–2	–2	–1	–12	18
Gross book value as at 31.12. of the financial year	**2,564**	**368**	**120**	**132**	**54**	**33**	**3,271**	**3,305**
Accumulated depreciation and accumulated impairment losses as at 31.12. of the previous year	**1,233**	**286**	**87**	**43**	**15**	**—**	**1,664**	**1,385**
Change in scope of consolidation (additions)								
Business combinations	—	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—	—
Disposals	8	82	—	—	1	—	91	5
Depreciation/amortisation								
scheduled	158	45	11	37	3	—	254	277
unscheduled	—	1	—	1	—	—	2	3
Reclassifications	—	2	—	—	–2	—	—	—
Other changes	—	—	—	—	—	—	—	1
Exchange rate fluctuations	–1	–2	—	—	–1	—	–4	3
Accumulated depreciation and accumulated impairment losses as at 31.12. of the financial year	**1,382**	**250**	**98**	**81**	**14**	**—**	**1,825**	**1,664**
Book value as at 31.12 of the previous year	1,328	120	33	91	35	34	1,641	1,520
Book value as at 31.12 of the financial year	**1,182**	**118**	**22**	**51**	**40**	**33**	**1,446**	**1,641**

"Insurance-related intangible assets" (=PVFP) with respect to life primary insurance companies derived principally from the insurance portfolios of the former Gerling Group acquired in 2006 (EUR 693 million), the portfolios of the former BHW Lebensversicherung AG (formerly PB Lebensversicherung, now PB Lebensversicherung AG) acquired in 2007 (EUR 239 million), and neue leben Lebensversicherung AG (EUR 49 million). In addition, EUR 85 million is attributable to Hannover Life Reassurance (Ireland) Ltd. (Life/Health Reinsurance segment). Business combinations in 2012 resulted in a PVFP of EUR 102 million for the Polish TU Europa Group and in a PVFP of EUR 12 million for the Polish life insurance company WARTA Life.

The PVFP is composed of a shareholders' portion – on which deferred taxes are established – and a policyholders' portion. It is capitalised in order to spread the charge to Group shareholders' equity required by IFRS upon acquisition of an insurance portfolio in equal portions across future periods in step with amortisation. Only amortisation of the shareholders' portion results in a charge to 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 through establishment of a provision for deferred premium refunds.

N58 PVFP FOR LIFE PRIMARY INSURANCE COMPANIES

FIGURES IN EUR MILLION

	31.12.2013	31.12.2012
Shareholders' portion	564	674
Policyholders' portion	513	499
Book value	**1,077**	**1,173**

Of depreciation/amortisation on insurance-related intangible assets totalling EUR 158 (189) million, an amount of EUR 106 (144) million was attributable to the shareholders' portion – thereof to investment contracts totalling EUR 9 (8) million – and EUR 52 (45) million to the policyholders' portion. This relates primarily to the Retail Germany and Retail International segments. We recognise amortisation of the PVFP associated with investment contracts in "Net investment income" under "Income/expense from investment contracts". Amortisation of the shareholders' portion (less investment contracts) is recognised in the statement of income under "Other technical expenses".

The acquired brand names WARTA (EUR 32 million) and Europa (EUR 1 million) are intangible assets with unlimited useful life, 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 will presumably generate net cash flow. Both were tested for impairment in the CGU (for the brand name Warta: Poland CGU – Warta Group; for the brand name Europa: Poland CGU – TU Europa Group) (cf. the remarks in the subsection "Goodwill"). In addition, the brand name Warta was subjected to further detailed testing for a possible need to take an impairment. The result showed no need to take an impairment.

Apart from certain amounts of goodwill, intangible assets are recognised in their entirety in the Group. Excluding non-controlling interests and the policyholders' portion, intangible assets attributable to the Group are as follows:

N60 NON-CONTROLLING INTERESTS AND POLICYHOLDERS' PORTION

FIGURES IN EUR MILLION

	31.12.2013	31.12.2012
Intangible assets before deduction of non-controlling interests and the policyholders' portion and including deferred taxes		
a. Goodwill	1,105	1,152
b. Other intangible assets	1,446	1,641
Total	**2,551**	**2,793**
thereof attributable to: non-controlling interests		
a. Goodwill	7	35
b. Other intangible assets	159	204
Total	**166**	**239**
thereof attributable to: policyholders' portion		
a. Goodwill	—	—
b. Other intangible assets	513	499
Total	**513**	**499**
thereof attributable to: deferred taxes		
a. Goodwill	—	—
b. Other intangible assets	148	176
Total	**148**	**176**
Intangible assets after deduction of non-controlling interests and the policyholders' portion and excluding deferred taxes		
a. Goodwill	1,098	1,117
b. Other intangible assets	626	762
Total	**1,724**	**1,879**

N59 PVFP BY POLICY TERM

FIGURES IN EUR MILLION

	Policy term				
	Up to 10 years	Up to 20 years	Up to 30 years	Longer than 30 years	**Total**
Shareholders' portion	355	169	104	41	**669**
thereof investment contracts	65	3	—	—	**68**
Policyholders' portion	251	140	78	44	**513**
Book value as at 31.12.2013	606	309	182	85	**1,182**

(3) INVESTMENT PROPERTY

N61 INVESTMENT PROPERTY

FIGURES IN EUR MILLION

	2013	2012
Gross book value as at 31.12. of the previous year	**1,488**	**1,293**
Change in scope of consolidation (additions)		
Business combinations	—	7
Additions	455	249
Disposals	9	144
Disposal groups pursuant to IFRS 5	–33	–56
Reclassification	–58	145
Exchange rate fluctuations	–16	–6
Gross book value as at 31.12. of the financial year	**1,827**	**1,488**
Accumulated depreciation and accumulated impairment losses as at 31.12. of the previous year	191	193
Disposals	2	16
Reversal after impairment	6	6
Depreciation		
scheduled	27	23
unscheduled	12	9
Disposal groups pursuant to IFRS 5	–15	–32
Reclassification	–2	20
Exchange rate fluctuations	–1	—
Accumulated depreciation and accumulated impairment losses as at 31.12. of the financial year	**204**	**191**
Book value as at 31.12 of the previous year	1,297	1,100
Book value as at 31.12 of the financial year	**1,623**	**1,297**

The additions primarily relate to the Non-Life Reinsurance segment (EUR 394 million). Of these additions, EUR 267 million is attributable to HR GLL Central Europe GmbH & Co. KG, Munich. The remaining additions are attributable to GLL HRE Core Properties, LP, Wilmington (EUR 49 million), a group company of Hannover Re Real Estate Holdings, Inc., and to Hannover Re Euro RE Holdings GmbH, Hannover (EUR 78 million).

The reclassification relates to real estate in the Retail International segment in accordance with use (EUR 58 million).

The fair value of investment property amounted to EUR 1,774 (1,417) million as at the balance sheet date. Of this amount, EUR 32 million is attributable to Fair Value Level 2 and EUR 1,742 million to Level 3. Fair values are determined largely internally within the Group using discounted cash flow methods and, in individual cases, on the basis of external expert opinions. The directly allocable operating expenses (including repairs and maintenance) totalled EUR 42 (33) million with respect to properties rented out. Operating expenses of EUR 6 (6) million were incurred on properties with which no rental income was generated.

With regard to investment property, there were limitations on disposal and guarantee assets in the amount of EUR 524 (541) million as at 31 December 2013. Contractual obligations to buy, create or develop investment property as well as those for repairs, maintenance and improvements amounted to EUR 49 (90) million as at the balance sheet date.

(4) INVESTMENTS IN AFFILIATED COMPANIES AND PARTICIPATING INTERESTS

N62 INVESTMENTS IN AFFILIATED COMPANIES AND PARTICIPATING INTERESTS

FIGURES IN EUR MILLION

	2013	2012
Affiliated companies	27	33
Participating interests	65	47
Book value as at 31.12. of the financial year	**92**	**80**

Associated companies that are not valued at equity due to their lack of material significance for the presentation of assets, financial position and net income are recognised under participating interests (cf. our remarks in the section "Accounting policies", subsection "Summary of major accounting policies", from page 159). For these associated companies not valued using the equity method, we recognised assets of EUR 45 (45) million, debts of EUR 7 (7) million, net income of EUR 2 (–3) million and revenues of EUR 7 (10) million.

(5) INVESTMENTS IN ASSOCIATED COMPANIES AND JOINT VENTURES

N63 INVESTMENTS IN ASSOCIATED COMPANIES AND JOINT VENTURES

FIGURES IN EUR MILLION

	2013	2012
Book value as at 31.12 of the previous year	**237**	209
Change in scope of consolidation	—	25
Additions	2	31
Disposals	—	22
Depreciation	1	1
Adjustment recognised in income	8	–9
Adjustment recognised directly in equity	2	4
Exchange rate fluctuations	–1	—
Book value as at 31.12 of the financial year	**247**	237

This balance sheet item covers the investments in associated companies and joint ventures that are valued using the equity method on the basis of the share of equity attributable to the Group. In the financial year, shares of losses totalling 0.5 (—) were not recognised.

The goodwill of all companies valued using the equity method amounted to EUR 77 (83) million as at year-end. Of the associated companies, Petro Vietnam Insurance Holdings, Hanoi, Vietnam (PVI), and C-QUADRAT Investment AG, Vienna, Austria (C-QUADRAT), are publicly traded. The market value of our interests was EUR 77 (67) million as at the balance sheet date. Of this, EUR 47 (41) million was attributable to PVI and EUR 30 (26) million to C-QUADRAT.

For all associated companies, we recognised assets of EUR 2.6 (2.3) billion, debts of EUR 2.1 (1.8) billion, net income of EUR 39 (21) million and revenues of EUR 506 (521) million.

Joint ventures: Current and non-current assets amounted to EUR 3 (1) million and to EUR 47 (34) million as at the balance sheet date. Current and non-current debts amounted to EUR 12 (3) million and to EUR 17 (3) as at the balance sheet date. Income and expenses attributable to the Group amounted to –EUR 3 (–0.2) million. There are no contingent liabilities or other capital obligations.

For further information on our associated companies, cf. the list of shareholdings on pages 279 et seqq.

(6) LOANS AND RECEIVABLES

N64 LOANS AND RECEIVABLES

FIGURES IN EUR MILLION

	Amortised cost		Unrealised gains/losses		Fair value	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012[2]	31.12.2013	31.12.2012[2]
Mortgage loans	849	990	88	140	937	1,130
Loans and prepayments on insurance policies	192	192	—	—	192	192
Loans and receivables due from governmental or quasi-governmental entities[1]	9,691	9,687	860	1,407	10,551	11,094
Corporate securities	6,731	6,516	218	564	6,949	7,080
Covered bonds/asset-backed securities	14,737	14,700	1,608	2,367	16,345	17,067
Participation rights	31	16	5	3	36	19
Total	**32,231**	32,101	**2,779**	4,481	**35,010**	36,582

[1] Loans and receivables due from governmental or quasi-governmental entities include securities of EUR 3,060 (2,585) million that are guaranteed by the Federal Republic of Germany, other EU states or German federal states

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

The book value of loans and receivables is based on amortised cost.

The item "Covered bonds, asset-backed securities" includes German covered bonds (Pfandbriefe) with a carrying amount of EUR 12,434 (14,676) million, which corresponds to 84 (99)%.

N65 **CONTRACTUAL MATURITIES**

FIGURES IN EUR MILLION

	Amortised cost		Fair value	
	31.12.2013	31.12.2012[1]	31.12.2013	31.12.2012[1]
Due one year or sooner	3,118	2,195	3,238	2,340
Later than one year, up to two years	2,344	2,806	2,439	2,922
Later than two years, up to three years	2,072	2,826	2,190	3,028
Later than three years, up to four years	1,912	2,374	2,061	2,583
Later than four years, up to five years	1,238	2,140	1,360	2,386
Later than five years, up to ten years	6,463	6,773	7,161	7,813
Later than ten years	15,084	12,987	16,561	15,510
Total	**32,231**	**32,101**	**35,010**	**36,582**

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

N66 **RATING STRUCTURE OF LOANS AND RECEIVABLES**

FIGURES IN EUR MILLION

	Amortised cost	
	31.12.2013	31.12.2012
AAA	11,430	11,204
AA	10,964	11,848
A	4,971	4,647
BBB or lower	3,532	2,983
No rating	1,334	1,419
Total	**32,231**	**32,101**

The rating categories are based on the classifications of leading international rating agencies. Unrated loans and receivables consist principally of mortgage loans and policy loans.

(7) FINANCIAL ASSETS HELD TO MATURITY

N67 FINANCIAL ASSETS HELD TO MATURITY

FIGURES IN EUR MILLION

	Amortised cost		Unrealised gains/losses		Fair value	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Government debt securities of EU member states	556	578	26	46	582	624
US treasury notes	501	825	13	28	514	853
Other foreign government debt securities	69	57	—	1	69	58
Debt securities issued by quasi-governmental entities[1]	544	678	25	42	569	720
Corporate securities	343	502	10	16	353	518
Covered bonds/asset-backed securities	971	1,217	65	91	1,036	1,308
Total	**2,984**	**3,857**	**139**	**224**	**3,123**	**4,081**

[1] Debt securities issued by quasi-governmental entities include securities of EUR 130 (167) million that are guaranteed by the Federal Republic of Germany, other EU states or German federal states

The book value of financial assets held to maturity is based on amortised cost.

The item "Covered bonds, asset-backed securities" includes German covered bonds (Pfandbriefe) with a carrying amount of EUR 969 (1,213) million, which corresponds to 99 (99)%.

N68 CONTRACTUAL MATURITIES

FIGURES IN EUR MILLION

	Amortised cost		Fair value	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Due one year or sooner	647	869	654	874
Later than one year, up to two years	1,160	660	1,213	683
Later than two years, up to three years	549	1,136	582	1,219
Later than three years, up to four years	158	545	167	592
Later than four years, up to five years	152	167	158	179
Later than five years, up to ten years	301	450	331	498
Later than ten years	17	30	18	36
Total	**2,984**	**3,857**	**3,123**	**4,081**

N69 RATING STRUCTURE OF FINANCIAL ASSETS HELD TO MATURITY

FIGURES IN EUR MILLION

	Amortised cost	
	31.12.2013	31.12.2012
AAA	897	1,178
AA	1,258	1,648
A	540	709
BBB or lower	272	320
No rating	17	2
Total	**2,984**	**3,857**

The rating categories are based on the classifications of leading international rating agencies.

(8) FINANCIAL ASSETS AVAILABLE FOR SALE

N70 **FINANCIAL ASSETS AVAILABLE FOR SALE**

FIGURES IN EUR MILLION

	Amortised cost		Unrealised gains/losses		Fair value	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Fixed-income securities						
Government debt securities of EU member states	6,554	5,256	217	363	6,771	5,619
US treasury notes	1,750	1,294	–5	40	1,745	1,334
Other foreign government debt securities	1,682	1,758	–30	26	1,652	1,784
Debt securities issued by quasi-governmental entities[1]	7,056	7,121	219	523	7,275	7,644
Corporate securities	16,923	13,675	361	912	17,284	14,587
Investment funds	699	808	38	71	737	879
Covered bonds/asset-backed securities	7,152	7,104	489	680	7,641	7,784
Participation rights	416	445	10	4	426	449
Total fixed-income securities	**42,232**	**37,461**	**1,299**	**2,619**	**43,531**	**40,080**
Variable-yield securities						
Equities	391	423	221	164	612	587
Investment funds	639	558	99	73	738	631
Participation rights	41	39	—	—	41	39
Total variable-yield securities	**1,071**	**1,020**	**320**	**237**	**1,391**	**1,257**
Total securities	**43,303**	**38,481**	**1,619**	**2,856**	**44,922**	**41,337**

[1] Debt securities issued by quasi-governmental entities include securities of EUR 2,681 (3,147) million that are guaranteed by the Federal Republic of Germany, other EU states or German federal states

The book value of financial assets available for sale is based on fair value. Unrealised gains/losses are recognised under "Other comprehensive income" and under "Other reserves" in shareholders' equity.

The item "Covered bonds, asset-backed securities" includes German covered bonds (Pfandbriefe) with a carrying amount of EUR 6,442 (6,827) million, which corresponds to 84 (88)%.

N71 CONTRACTUAL MATURITIES OF FIXED-INCOME SECURITIES

FIGURES IN EUR MILLION

	Fair value		Amortised cost	
	31.12.2013	31.12.2012[1]	31.12.2013	31.12.2012[1]
Due one year or sooner	2,800	2,448	2,784	2,428
Later than one year, up to two years	3,983	4,009	3,901	3,932
Later than two years, up to three years	3,074	4,173	2,967	4,018
Later than three years, up to four years	3,589	3,491	3,469	3,308
Later than four years, up to five years	4,141	4,105	4,027	3,896
Later than five years, up to ten years	16,037	13,748	15,499	12,671
Later than ten years	9,907	8,106	9,585	7,208
Total	**43,531**	**40,080**	**42,232**	**37,461**

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

N72 RATING STRUCTURE OF FIXED-INCOME SECURITIES

FIGURES IN EUR MILLION

	Fair value	
	31.12.2013	31.12.2012
AAA	10,803	12,301
AA	12,047	9,621
A	10,644	9,331
BBB or lower	9,484	8,303
No rating	553	524
Total	**43,531**	**40,080**

The rating categories are based on the classifications of leading international rating agencies.

As at the balance sheet date, the Group recognised securities – which were 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. Of these transactions, investments in the category "Financial assets available for sale" in the amount of EUR 64 million (carrying amount prior to the transfer: EUR 63 million, fair value as at the balance sheet date corresponds to the carrying amount) were affected. There are no restrictions on the use of the transferred assets. The Group recognised the redemption obligation under "Other liabilities" in the amount of the payment received (EUR 63 million). The difference between the amount received for the transfer and that agreed to for retransfer is allocated in accordance with the effective interest rate method for the term of the repurchase transaction and recognised under "Net investment income".

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

N73 **FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

FIGURES IN EUR MILLION

	Fair value	
	31.12.2013	31.12.2012
Fixed-income securities		
Government debt securities of EU member states	31	347
Other foreign government debt securities	39	195
Debt securities issued by quasi-governmental entities[1]	34	38
Corporate securities	453	480
Investment funds	114	104
Covered bonds/asset-backed securities	24	91
Participation rights	82	91
Other	20	—
Total fixed-income securities	**797**	**1,346**
Investment funds (variable-yield securities)	52	55
Other variable-yield securities	35	28
Total financial assets classified at fair value through profit or loss	**884**	**1,429**
Fixed-income securities		
Government debt securities of EU member states	—	15
Other foreign government debt securities	1	—
Corporate securities	3	—
Other securities	—	1
Total fixed-income securities	**4**	**16**
Investment funds (variable-yield securities)	120	123
Derivatives	82	74
Total financial assets held for trading	**206**	**213**
Total	**1,090**	**1,642**

[1] Debt securities issued by quasi-governmental entities include securities of EUR 7 (8) million that are guaranteed by the Federal Republic of Germany, other EU states or German federal states

The book value of financial assets at fair value through profit or loss is based on fair values.

The item "Covered bonds, asset-backed securities" includes German covered bonds (Pfandbriefe) with a carrying amount of EUR 12 (11) million, which corresponds to 50 (12)%.

N74 CONTRACTUAL MATURITIES OF FIXED-INCOME SECURITIES

FIGURES IN EUR MILLION

	Fair value	
	31.12.2013	31.12.2012[1]
Due one year or sooner	146	337
Later than one year, up to two years	144	151
Later than two years, up to three years	103	100
Later than three years, up to four years	61	71
Later than four years, up to five years	32	54
Later than five years, up to ten years	48	343
Later than ten years	267	306
Total	**801**	**1,362**

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

N75 RATING STRUCTURE OF FIXED-INCOME SECURITIES

FIGURES IN EUR MILLION

	Fair value	
	31.12.2013	31.12.2012
AAA	10	11
AA	25	26
A	193	526
BBB or lower	314	584
No rating	259	215
Total	**801**	**1,362**

The rating categories are based on the classifications of leading international rating agencies.

Financial assets classified at fair value through profit or loss (with no trading intention) include, inter alia, structured products in respect of which the fair value option afforded by IAS 39 was exercised. The carrying amount of these financial assets constitutes – contrary to a purely economic perspective – the maximum credit exposure. The amount with respect to the change in fair value that is attributable to changes in the credit risk of financial assets was EUR 4 (2) million in the reporting period and –EUR 4 (–3) million on an accumulated basis. There are no credit derivatives or similar hedging instruments for these securities.

(10) OTHER INVESTED ASSETS

N76 CLASSIFICATION OF OTHER INVESTED ASSETS

FIGURES IN EUR MILLION

	Carrying amounts	
	31.12.2013	31.12.2012
Loans and receivables	2	117
Financial assets available for sale	3,029	3,384
Financial assets at fair value through profit or loss	90	—
Total	**3,121**	**3,501**

N77 **LOANS AND RECEIVABLES**

FIGURES IN EUR MILLION

	Amortised cost		Unrealised gains/losses		Fair value	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Loans to affiliated companies	—	113	—	3	—	116
Other loans	2	4	—	—	2	4
Total	**2**	**117**	**—**	**3**	**2**	**120**

The book value of loans and receivables is based on amortised costs.

N78 **FINANCIAL ASSETS AVAILABLE FOR SALE**

FIGURES IN EUR MILLION

	Amortised cost		Unrealised gains/losses		Fair value	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Participations in partnerships	824	775	317	307	1,141	1,082
Other participating interests	71	142	4	7	75	149
Other short-term investments	1,813	2,152	—	1	1,813	2,153
Total	**2,708**	**3,069**	**321**	**315**	**3,029**	**3,384**

The book value of financial assets available for sale is based on fair values. Unrealised gains/losses are recognised under "Other comprehensive income" and shown under "Other reserves" in shareholders' equity. Short-term investments consist predominantly of overnight money and time deposits with a maturity of up to one year.

N79 **RATING STRUCTURE OF OTHER SHORT-TERM INVESTMENTS**

FIGURES IN EUR MILLION

	Fair value	
	31.12.2013	31.12.2012
AAA	—	15
AA	222	329
A	885	965
BBB or lower	539	635
No rating	167	209
Total	**1,813**	**2,153**

Financial assets at fair value through profit or loss relate to purchased life insurance policies.

(11) INVESTMENTS UNDER INVESTMENT CONTRACTS

N80 CLASSIFICATION OF INVESTMENTS UNDER INVESTMENT CONTRACTS

FIGURES IN EUR MILLION

	Carrying amounts	
	31.12.2013	31.12.2012
Loans and receivables	1,005	1,183
Financial assets available for sale	32	—
Financial assets classified at fair value through profit or loss	652	462
Derivatives	69	53
Total	**1,758**	**1,698**

"Loans and receivables" mainly consist of overnight money and time deposits. The book value of loans and receivables is based on amortised cost. There are no material differences between carrying amounts and fair value.

LOANS AND RECEIVABLES

N81 CONTRACTUAL MATURITIES

FIGURES IN EUR MILLION

	Amortised cost		Fair value	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Due one year or sooner	194	504	194	504
Later than one year, up to two years	136	95	138	95
Later than two years, up to three years	66	119	66	119
Later than three years, up to four years	206	15	206	15
Later than four years, up to five years	—	7	—	7
Later than five years, up to ten years	403	443	404	444
Total	**1,005**	**1,183**	**1,008**	**1,184**

N82 RATING STRUCTURE

FIGURES IN EUR MILLION

	Amortised cost	
	31.12.2013	31.12.2012
AAA	—	—
AA	4	—
A	25	43
BBB or lower	844	902
No rating	132	238
Total	**1,005**	**1,183**

FINANCIAL ASSETS AVAILABLE FOR SALE

N83 **CONTRACTUAL MATURITIES**

FIGURES IN EUR MILLION

	Fair value		Amortised cost	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Due later than one year, up to two years	2	—	2	—
Later than three years, up to four years	10	—	10	—
Later than four years, up to five years	6	—	6	—
Later than five years, up to ten years	14	—	14	—
Total	**32**	—	**32**	—

Financial assets available for sale have a rating of category A.

FINANCIAL ASSETS CLASSIFIED AT FAIR VALUE THROUGH PROFIT OR LOSS AND DERIVATIVES

N84 **CONTRACTUAL MATURITIES**

FIGURES IN EUR MILLION

	Fair value	
	31.12.2013	31.12.2012
Due one year or sooner	86	215
Later than one year, up to two years	11	31
Later than two years, up to three years	20	45
Later than three years, up to four years	21	1
Later than four years, up to five years	3	4
Later than five years, up to ten years	54	75
Later than ten years	526	144
Total	**721**	**515**

N85 **RATING STRUCTURE**

FIGURES IN EUR MILLION

	Fair value	
	31.12.2013	31.12.2012
AAA	2	—
AA	13	—
A	138	181
BBB or lower	124	226
No rating	444	108
Total	**721**	**515**

The carrying amount of financial assets classified at fair value through profit or loss constitutes – contrary to a purely economic perspective – the maximum credit exposure. The amount with respect to the change in fair value occasioned by the change in the credit risk was not significant. There are no credit derivatives or similar hedging instruments for these securities.

(12) FAIR VALUE HIERARCHY

FAIR VALUE HIERARCHY

For the purposes of the disclosure requirements pursuant to IFRS 13, financial instruments that are to be recognised at fair value must be assigned to a three-level fair value hierarchy as must those assets and liabilities recognised at amortised cost for which a disclosure of fair value is required in connection with annual reporting (financial instruments not measured at fair value).

Due to the prospective application of IFRS 13, information in addition to that required by IFRS 7 is provided without corresponding previous-year values.

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

- Level 1: Assets and liabilities that are measured using (unadjusted) prices quoted directly on active, liquid markets. This includes, first and foremost, listed equities, futures and options, investment funds and highly liquid bonds traded on regulated markets.
- Level 2: Assets and liabilities that are measured using observable market data and are not allocated to Level 1. Measurement is based in particular on prices for comparable assets and liabilities that are traded on active markets, prices on markets that are not deemed active and inputs derived from such prices and market data. This level includes, for example, assets measured on the basis of yield curves such as debenture bonds and registered debt securities. Also allocated to Level 2 are market prices for bonds with limited liquidity such as corporate securities.
- Level 3: Assets and liabilities that cannot be measured or can be measured only in part using inputs observable on the market. These instruments are mainly measured using measurement models and methods. This level primarily includes unlisted equity instruments.

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

BREAKDOWN OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

As at the balance sheet date, the share of Level 1 financial instruments in the total portfolio of financial assets measured at fair value was 7 (38)%.

Altogether, 89 (58)% of financial instruments measured at fair value were allocated to Level 2 as at the balance sheet date.

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

N86 FAIR VALUE HIERARCHY

FIGURES IN EUR MILLION

Book value of financial instruments recognised at fair value by class	Level 1	Level 2	Level 3[1]	Book value
31.12.2013				
Financial assets measured at fair value				
Available for sale				
Fixed-income securities	49	43,482	—	43,531
Variable-yield securities	801	67	523	1,391
Financial assets at fair value through profit or loss				
Financial assets classified at fair value through profit or loss	53	807	24	884
Financial assets held for trading	127	77	2	206
Other invested assets	1,782	72	1,265	3,119
Other assets, derivative financial instruments (hedging instruments)	—	86	—	86
Investment contracts				
Financial assets classified at fair value through profit or loss	295	268	89	652
Available for sale	—	32	—	32
Derivatives	—	59	10	69
Total financial assets measured at fair value	**3,107**	**44,950**	**1,913**	**49,970**
Financial liabilities measured at fair value				
Other liabilities (negative market values under derivative financial instruments)				
Negative market values under derivatives	—	67	117	184
Negative market values under hedging instruments	—	7	—	7
Other liabilities (investment contracts)				
Financial liabilities classified at fair value through profit or loss	414	263	89	766
Derivatives	—	60	10	70
Total financial liabilities measured at fair value	**414**	**397**	**216**	**1,027**
31.12.2012				
Financial assets measured at fair value				
Available for sale				
Fixed-income securities	13,791	26,289	—	40,080
Variable-yield securities	776	112	369	1,257
Financial assets at fair value through profit or loss				
Financial assets classified at fair value through profit or loss	611	787	31	1,429
Financial assets held for trading	173	37	3	213
Other invested assets	2,086	119	1,179	3,384
Other assets, derivative financial instruments	—	149	—	149
Investment contracts				
Financial assets classified at fair value through profit or loss	207	141	114	462
Derivatives	—	35	18	53
Total financial assets measured at fair value	**17,644**	**27,669**	**1,714**	**47,027**
Financial liabilities measured at fair value				
Other liabilities (negative market values under derivative financial instruments)				
Negative market values under derivatives	—	39	103	142
Negative market values under hedging instruments	—	—	—	—
Other liabilities (investment contracts)				
Financial liabilities classified at fair value through profit or loss[2]	397	169	115	681
Derivatives	—	35	18	53
Total financial liabilities measured at fair value	**397**	**243**	**236**	**876**

[1] Categorisation in Level 3 does not amount to a statement as to quality. No conclusions may be drawn as to the creditworthiness of the issuers
[2] Level 2 includes reinsurance contracts measured like financial instruments (EUR 28 million) that do not meet the risk-transfer test required under US GAAP. We recognise these financial instruments under "Funds withheld under reinsurance treaties"

In the financial year just ended, fixed-income securities, primarily bonds traded on the OTC market, with a fair value of EUR 13,830 million that had been allocated to Level 1 were instead allocated to Level 2. Average prices supplied by price service agencies were used to measure these financial assets.

The reallocation was solely the result of the accounting statement "IDW RS HFA 47: Specific issues regarding calculation of fair value under IFRS 13" adopted by the Main Committee of the Institute of Public Auditors in Germany (IDW) on 6 December 2013. As a consequence, the aforementioned average prices now constitute Level 2 inputs if the basic data underlying these average prices constitute binding offers or observable, transaction-based prices. Accordingly, all fixed-income securities that were measured using such average prices and previously allocated to Level 1 were reclassified in wholesale fashion with effect as at 1 January 2013. The reclassification is not based on either changed liquidity characteristics of these securities or on a changed investment strategy.

This change of depiction had no implications for the figures in the present consolidated financial statements. Since the criteria for level allocation was first specified and adjusted to reflect IFRS 13 and because that standard is to be applied prospectively starting with 1 January 2013, we have not made any corresponding adjustments to the previous-year figures shown for the purposes of comparison. Because of the short period between the adoption of IDW RS HFA 47 and the preparation of the consolidated financial statements, a detailed portfolio analysis will first be undertaken in the coming months. The results of this analysis may lead to corrections in the amounts shown in the fair value hierarchy as at 31 December 2013.

In addition, securities with a fair value of EUR 75 million that had been classified as Level 1 financial assets in the previous year were instead allocated to Level 2 in the financial year. The reclassification had to be carried out primarily as a consequence of the reduced liquidity of the instruments. No securities that had been classified as Level 2 financial assets in the previous year were reclassified to Level 1 in 2013. The reclassifications relate to EUR 28 million of fixed-income securities in the class "Financial assets available for sale", EUR 10 million of financial instruments in the class "Financial assets at fair value through profit or loss" and EUR 37 million of derivatives in the class "Financial assets held for trading".

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

The following table shows a reconciliation of the financial instruments (hereinafter, "FI") included in Level 3 at the beginning of the reporting period with the values as at 31 December of the financial year.

N87 **RECONCILIATION OF FINANCIAL INSTRUMENTS[1] (FINANCIAL ASSETS) INCLUDED IN LEVEL 3 AT THE BEGINNING OF THE REPORTING PERIOD WITH THE VALUES AS AT 31 DECEMBER 2013**

FIGURES IN EUR MILLION

	FI available for sale/ fixed-income securities	FI available for sale/ variable-yield securities	FI classified at fair value through profit or loss	FI held for trading	Other invested assets	Investment contracts/FI classified at fair value through profit or loss	Investment contracts/ derivatives	Total amount of financial assets measured at fair value
2012								
Book value as at 1.1.2012	11	292	27	3	1,005	—	—	1,338
Income and expenses								
recognised in the statement of income	—	–16	4	—	–3	12	1	–2
recognised in other comprehensive income	1	15	—	—	94	—	—	110
Transfers to Level 3	—	—	—	—	—	—	—	—
Transfers from Level 3	—	—	—	—	—	—	—	—
Additions	—	137	4	—	259	334	23	757
Disposals	12	57	4	—	164	235	7	479
Exchange rate fluctuations	—	–2	—	—	–12	3	1	–10
2013								
Book value as at 1.1.2013	—	369	31	3	1,179	114	18	1,714
Change in scope of consolidation	—	—	–7	—	–9	—	—	–16
Income and expenses								
recognised in the statement of income	—	–26	1	–1	–14	–29	–2	–71
recognised in other comprehensive income	—	28	—	—	26	—	—	54
Transfers to Level 3	—	30[2]	4[2]	—	—	—	—	34
Transfers from Level 3	—	—	1[3]	3[3]	—	—	—	4
Additions								
Purchases	—	177	15	3	256	35	2	488
Disposals								
Sales	—	50	2	—	141	29	8	230
Repayments	—	—	16	—	—	—	—	16
Exchange rate fluctuations	—	–5	–1	—	–32	–2	—	–40
Book value as at 31.12.2013	—	523	24	2	1,265	89	10	1,913

[1] In the following, financial instruments are abbreviated as "FI"
[2] Measurement at net asset value and thus transfer to Level 3
[3] Transfer due to changed information

N88 **RECONCILIATION OF FINANCIAL INSTRUMENTS[1] (FINANCIAL LIABILITIES) INCLUDED IN LEVEL 3 AT THE BEGINNING OF THE REPORTING PERIOD WITH THE VALUES AS AT 31 DECEMBER 2013**

FIGURES IN EUR MILLION

	Other liabilities/negative market values under derivatives	Investment contracts/ FI classified at fair value through profit or loss	Investment contracts/ derivatives	Total amount of financial liabilities measured at fair value
2012				
Book value as at 1.1.2012	—	—	—	—
Income and expenses				
recognised in the statement of income	—	—	—	—
recognised in other comprehensive income	—	—	—	—
Transfers to Level 3	—	—	—	—
Transfers from Level 3	—	—	—	—
Additions	103	112	17	232
Disposals	—	—	—	—
Exchange rate fluctuations	—	3	1	4
2013				
Book value as at 1.1.2013	**103**	**115**	**18**	**236**
Income and expenses				
recognised in the statement of income	—	29	2	31
recognised in other comprehensive income	—	—	—	—
Transfers to Level 3	—	—	—	—
Transfers from Level 3	—	—	—	—
Additions				
Purchases	19	35	2	56
Disposals				
Sales	2	30	8	40
Repayment	—	—	—	—
Exchange rate fluctuations	–3	–2	—	–5
Book value as at 31.12.2013	**117**	**89**	**10**	**216**

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

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.

N89 EFFECT ON RESULTS OF LEVEL 3 FINANCIAL INSTRUMENTS[1] (FINANCIAL ASSETS) MEASURED AT FAIR VALUE

FIGURES IN EUR MILLION

	FI available for sale/variable-yield securities	FI classified at fair value through profit or loss	FI held for trading	Other invested assets	Investment contracts/FI classified at fair value through profit or loss	Investment contracts/derivatives	Total amount of financial assets measured at fair value
2012							
Gains and losses in the 2012 financial year							
Income from investments	—	4	—	4	132	5	145
Investment expenses	–16	—	—	–7	–120	–4	–147
thereof attributable to financial instruments included in the portfolio at 31.12.2012							
Income from investments	—	4	—	4	132	5	145
Investment expenses	–16	—	—	–7	–120	–4	–147
2013							
Gains and losses in the 2013 financial year							
Income from investments	—	7	2	1	147	11	168
Investment expenses	–26	–6	–3	–15	–176	–13	–239
thereof attributable to financial instruments included in the portfolio at 31.12.2013							
Income from investments[2]	—	7	1	1	146	11	166
Investment expenses[3]	–26	–6	–2	–15	–176	–13	–238

[1] In the following, financial instruments are abbreviated as “FI”
[2] Thereof EUR 166 million attributable to unrealised gains
[3] Thereof –EUR 200 million attributable to unrealised loses

N90 EFFECT ON RESULTS OF LEVEL 3 FINANCIAL INSTRUMENTS[1] (FINANCIAL LIABILITIES) MEASURED AT FAIR VALUE

FIGURES IN EUR MILLION

	Other liabilities/negative market values under derivatives	Investment contracts/FI classified at fair value through profit or loss	Investment contracts/derivatives	Total amount of financial liabilities measured at fair value
2013				
Gains and losses in the 2013 financial year				
Income from investments	1	176	13	190
Investment expenses	—	–147	–11	–158
Financing costs	–1	—	—	–1
thereof attributable to financial instruments included in the portfolio at 31.12.2013				
Income from investments[2]	1	176	13	190
Investment expenses[3]	—	–147	–11	–158
Financing costs[4]	–1	—	—	–1

[1] In the following, financial instruments are abbreviated as “FI”
[2] Thereof EUR 190 million attributable to unrealised gains
[3] Thereof –EUR 158 million attributable to unrealised loses
[4] Thereof –EUR 1 million attributable to unrealised loses

N91 OTHER INFORMATION ABOUT THE MEASUREMENT OF LEVEL 3 FINANCIAL INSTRUMENTS

FIGURES IN EUR MILLION

	Fair value 31.12.2013	Measurement method	Unobservable inputs	Fluctuation (weighted average)
CDOs/CLOs[2]	14	Present value method	Prepayment speed, risk premiums, default rates, recovery rates, redemptions	n. a.[4]
Unlisted equity, real estate and bond funds[1]	660	NAV method[3]	n.a.	n. a.
Private equity funds/private equity real estate funds[1]	1,074	NAV method[3]	n.a.	n. a.
Written put options for minority interests[1]	48	Discounted NAV[3]	Risk-free interest	5.6%
Unlisted bond funds[1]	5	NAV method[3]	n.a.	n. a.
Insurance derivatives[2]	130	Present value method	Market values of CAT bonds, interest rate curve	n. a.[4]
Investment contracts	198	—	—	—

1) These financial instruments are classified in Level 3, since they are neither based on market prices nor measured by the Group on the basis of observable inputs. They are measured using the NAV method
2) These financial instruments are classified in Level 3, since unobservable inputs were used to measure them
3) NAV: net asset value – alternative inputs within the meaning of IFRS 13 cannot be reasonably established
4) Due to the distinct character of the individual measurement inputs, fluctuations cannot be reasonably established without disproportionate effort

If Level 3 financial instruments are measured using models where the adoption of reasonable alternative inputs leads to a material change in fair value, IFRS 7 requires disclosure of the effects of these alternative assumptions. Of the Level 3 financial instruments with fair values of altogether EUR 2.1 (1.9) billion as at the balance sheet date, the Group generally measured financial instruments with a volume of EUR 1.8 (1.5) billion using the net asset value method, whereby alternative inputs within the meaning of the standard cannot reasonably be established. In addition, assets from investment contracts in the amount of EUR 99 (132) million are offset by liabilities from investment contracts in the same amount. Since assets and debts completely offset each other and trend similarly in value, we have elected to dispense with a scenario analysis. Insurance derivatives in the amount of EUR 130 (108) million are recognised in Level 3. The trend in the value of these derivatives depends on the risk trends in a subordinate group of primary insurance contracts with statutory reserve requirements. The use of alternative inputs and assumptions had no material effect on the consolidated financial statements. For the remaining Level 3 financial instruments with a volume of EUR 14 (36) million, the effects of alternative inputs and assumptions are immaterial.

MEASUREMENT PROCESS

The measurement process consists of using either publicly available prices on active markets or measurements with economically established models that are based on observable 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 proven measurements prepared by independent professional experts (e.g. audited net asset value) that have been previously subjected to systematic plausibility checks. The organisational unit entrusted with measuring investments is independent from the organisational units that enter into investment risks, thus ensuring separation of functions and responsibilities. The measurement processes and methods are documented in full. Decisions on measurement questions are taken by the Talanx measurement committee, which meets monthly.

We do not make use of the option of portfolio measurement within the meaning of IFRS 13.48.

BREAKDOWN OF FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE IN THE NOTES

N92 **FAIR VALUE HIERARCHY — FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE**

FIGURES IN 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
31.12.2013				
Financial assets not measured at fair value				
Loans and receivables	61	34,783	166	35,010
Financial assets held to maturity	12	3,111	—	3,123
Other invested assets	—	1	1	2
Investment contracts – loans and receivables	695	313	—	1,008
Total financial assets not measured at fair value	**768**	**38,208**	**167**	**39,143**
Financial liabilities not measured at fair value				
Subordinated liabilities	1,003	2,353	—	3,356
Notes payable	150	808	—	958
Other commitments under investment contracts	628	288	—	916
Total financial liabilities measured at fair value	**1,781**	**3,449**	**—**	**5,230**

[1] Categorisation in Level 3 does not amount to a statement as to quality. No conclusions may be drawn as to the creditworthiness of the issuers

(13) DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

DERIVATES

We use derivative financial instruments to hedge against interest rate, currency and other market price 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 first-class counterparties are always selected.

In addition, embedded derivatives in structured products and insurance contracts are – where required under the rules in IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 4 "Insurance Contracts" – separated from the underlying contracts and recognised separately at fair value.

Derivative financial instruments are initially measured at the fair value attributable to them on the date of contract conclusion. Thereafter, they are measured at the fair value applicable as at each balance sheet date. Regarding the measurement techniques used, cf. subsection "Determination of fair value" in section "Accounting policies", pages 153 et seqq.

The method for recognising gains and losses depends on whether the derivative financial instrument is used as a hedging instrument within the meaning of hedge accounting pursuant to IAS 39 and, if it is, on the type of hedged position/risk. In the case of derivatives that are not hedging instruments, fluctuations in value are recognised as income or expenses under "Net investment income". This approach also applies to separated embedded derivatives associated with structured financial instruments and insurance contracts. With respect to hedging instruments, the Group distinguishes between derivatives according to their intended use as fair value hedges or cash flow hedges (see separate subsection of this item in the Notes).

N93 DERIVATIVE FINANCIAL INSTRUMENTS, BY BALANCE SHEET ITEM

FIGURES IN EUR MILLION

	Hedging instrument under IAS 39	31.12.2013	31.12.2012
Balance sheet item (positive market values)			
Financial assets at fair value through profit or loss, financial assets held for trading (derivatives)	No	82	74
Investment contracts, financial assets held for trading (derivatives)	No	69	53
Other assets, derivative financial instruments (hedging instruments)	Yes	86	149
Balance sheet item (negative market values)			
Other liabilities			
Liabilities from derivatives	No	–184	–142
Liabilities from derivatives (hedging instruments)	Yes	–7	—
Investment contracts, derivatives	No	–70	–53
Total (net)		**–24**	81

Derivative financial instruments – excluding hedging instruments – produced an unrealised loss of EUR 13 (–107) million in the financial year. The result realised on positions closed in 2013 amounted to –EUR 8 (–9) million.

The fair values of our open derivative positions, including their associated nominal values, as at the balance sheet date are shown below, differentiated according to risk type and maturity. Positive and negative market values are netted in the table. Accordingly, open positions from derivatives amounted to –EUR 24 (81) million as at the balance sheet date, corresponding to 0.02 (0.06)% of the balance sheet total, see Table A94.

In the year under review, the Group held derivative financial instruments in connection with reinsurance business for the purposes of hedging inflation risks within loss reserves. These transactions resulted in recognition of EUR 1 (13) million under "Financial assets at fair value through profit or loss" and of EUR 34 (5) million under "Other liabilities".

DISCLOSURES CONCERNING THE NETTING OF FINANCIAL ASSETS AND LIABILITIES

The Group concludes derivatives transactions on the basis of standardised framework agreements that contain master netting arrangements. The netting arrangements set forth below do not generally meet the criteria for netting in the balance sheet because the Group has no legal claim whatsoever to the netting of the recognised amounts as at the present time. The right to net is generally enforceable only when certain defined future events occur. Depending on the counterparty, the collateral provided or received is taken into account up to the amount of the respective net liability or the respective net asset, see table N95.

HEDGE ACCOUNTING

In connection with hedge accounting, the Group seeks to compensate for changes in an underlying transaction's value or in cash flow that are caused by changes in market prices by obtaining a hedging instrument (derivative), whose changes in value or cash flow trend in approximately the opposite direction. Hedging is carried out for individual transactions (micro hedge). When a hedge is obtained, we document the hedge relationship between the underlying transaction and the hedging instrument, the risk management aim and the underlying hedging strategy. In addition, we document at the outset of the hedge relationship, our assessment of the extent to which the hedging instruments are effective in offsetting the corresponding changes in the underlying transaction. Proof was furnished that the hedge relationships are effective.

Fair value hedges

In order to hedge changes in the fair value of equities (underlying transactions), the Group designated equity swaps as hedging derivatives. With this hedging of general price risk, which qualifies as a fair value hedge, changes in the fair value of the derivatives are recognised under "Net investment income" along with the changes in the fair value of the underlying transaction allocable to the hedged risk. Existing fair value hedges were ended in the second quarter of the year under review. At the time the fair value hedges were ended, losses of –EUR 13 (–23) million from hedging instruments and gains of EUR 13 (23) million from underlying transactions were recognised in income. There was no ineffectiveness in the case of these hedges.

N94 **MATURITIES OF DERIVATIVE FINANCIAL INSTRUMENTS**

FIGURES IN EUR MILLION

	One year or sooner	Later than one year, up to five years	Later than five years, up to ten years	Later than ten years	Other	31.12.2013	31.12.2012
Interest rate hedges							
Fair value	44	36	–2	—	—	78	144
Nominal value	564	1,020	279	—	—	1,863	2,233
Currency hedges							
Fair value	12	–5	—	—	—	7	–15
Nominal value	296	18	1	—	—	315	332
Equity and index hedges							
Fair value	4	3	–48	—	—	–41	–46
Nominal value	68	61	–74	—	—	55	164
Inflation hedges							
Fair value	–1	–19	–13	—	—	–33	8
Nominal value	1,280	1,810	370	—	—	3,460	2,849
Derivatives associated with insurance contracts[1)]							
Fair value	–15	–79	6	—	—	–88	–13
Other risks							
Fair value	1	6	2	—	44	53	3
Nominal value	20	31	39	—	—	90	63
Total hedges							
Fair value	**45**	**–58**	**–55**	**—**	**44**	**–24**	**81**
Nominal value	**2,228**	**2,940**	**615**	**—**	**—**	**5,783**	**5,641**

[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 indicate maturities or depict nominal values, and this information has therefore been omitted. These derivatives were recognised at fair value

N95 **NETTING ARRANGEMENTS**

FIGURES IN EUR MILLION

	Fair value	Netting arrangement	Cash collateral received/provided	Other collateral received/provided	Net amount
31.12.2012					
Derivatives (positive market values)	178	12	13	29	124
Derivatives (negative market values)	47	6	—	3	38
31.12.2013					
Derivatives (positive market values)	118	17	36	15	50
Derivatives (negative market values)	54	8	8	28	10

Cash flow hedges

The Group hedged against interest rate risk for future transactions with a high likelihood of occurring. In this connection, valuation units are established, which consist of 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/rates applicable at the time. In accordance with IAS 39, the hedging of forecast transactions is depicted as a cash flow hedge.

The effective portion of hedging instruments measured at fair value is recognised in equity in the reserve for cash flow hedges after allowance for deferred taxes and any policyholder participation. The ineffective portion of such changes in value, on the other hand, is recognised directly in the statement of income under "Net investment income". If hedged transactions result in the recognition of financial assets, the amounts recognised in equity are amortised over the duration of the acquired asset.

The following table shows the reconciliation of the reserve for cash flow hedges (before taxes and policyholder participation):

N96 **CHANGES IN THE RESERVE FOR CASH FLOW HEDGES**

FIGURES IN EUR MILLION

	2013	2012
Balance as at 31.12. of the previous year (before taxes)	87	–63
Disposals in the statement of income (hedging of cash flows from floating interest rates)	—	9
Allocations (hedging of forecast transactions)	–71	155
Withdrawal (hedging of forecast transactions)	12	—
Reductions (hedging of currency risks associated with long-term investments)	—	–14
Balance as at 31.12. of the year under review (before taxes)	**28**	87

In the year under review, the reserve for cash flow hedges changed by –EUR 59 (160) million before taxes and by –EUR 58 (150) million after taxes.

In connection with due and owing forward purchases, an amount of EUR 12 (—) million was withdrawn from equity and amortised in the statement of income in the amount of EUR 0.3 (—) million (under "Net investment income").

The amount of EUR 1 (0) million was recognised in income in the year under review owing to the ineffectiveness of cash flow hedges.

The expected cash flows from cash flow hedges were as follows, see Table A98.

In 2013 there were no forecast transactions previously recognised as a hedging relationship that would no longer be likely to occur in the future.

Fair values of hedging instruments

As at the balance sheet date, the fair values of derivative financial instruments designated in connection with hedge accounting were as follows:

N97 **HEDGING INSTRUMENTS**

FIGURES IN EUR MILLION

	31.12.2013	31.12.2012
Fair value hedges		
Equity swaps	—	2
Cash flow hedges		
Forward securities transactions (net)	79	147
Total	**79**	**149**

In the year under review, the net profit or loss on hedging derivatives recognised in the statement of income amounted to EUR 12 (–36) million and relates chiefly to –EUR 13 (–23) million from hedging derivatives in connection with fair value hedges, changes in value recognised in income as a result of ineffectiveness (EUR 1 [0] million), current interest payments (EUR 0 [–12] million) and EUR 0 (–1) million from other payments.

DERIVATIVES ASSOCIATED WITH INSURANCE CONTRACTS

A number of contracts in the Life/Health Reinsurance segment have characteristics requiring application of IFRS 4 rules on embedded derivatives. According to the rules, certain derivatives embedded in reinsurance contracts are to be separated from the underlying insurance contract, or "host contract", and recognised separately pursuant to IAS 39 under "Net investment income".

N98 **CASH FLOWS OF FORECAST HEDGED TRANSACTIONS**

FIGURES IN EUR MILLION

	One year or sooner	Later than one year, up to five years	Later than five years, up to ten years	31.12.2013	31.12.2012
Cash flow from underlying transactions	–696	–800	–261	**–1,757**	–1,645

In connection with the recognition of reinsurance contracts involving modified coinsurance and coinsurance funds withheld ("ModCo"), where securities deposits 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 as at the valuation date to ascertain the market values of derivatives embedded in ModCo contracts based on a credit spread method by which the derivative has a value of zero on the date of contract conclusion and then fluctuates over time depending on how the credit spread changes for the securities. As at the balance sheet date, the derivative had a positive value of EUR 45 (40) million. Over the course of the year, the derivative's market value changed by EUR 7 (52) million before taxes, resulting in a positive contribution to income.

A number of transactions underwritten in 2012 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 likewise 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. Pursuant to IAS 39, the contracts are to be classified and recognised as free-standing credit derivatives. The initial recognition of these derivative financial instruments had no impact on income since receivables were recognised in the same amount. As at the balance sheet date, the fair value of these instruments amounted to EUR 69 (55) million and is recognised under "Other liabilities". The change in value in subsequent periods depends on risk trends and led to an improvement in results of EUR 1 million in the financial year.

For another group of contracts in the Life/Health Reinsurance segment, derivative components are measured on the basis of stochastic considerations. As at the balance sheet date, measurement led to a positive derivative value of EUR 7 (8) million. As at 31 December 2012, measurement resulted in a charge to income of EUR 1 (1) million.

Overall, as at the balance sheet date, application of the rules on recognition of insurance derivatives led to recognition of assets in the amount of EUR 52 (48) million and to recognition of liabilities associated with derivatives resulting from technical items in the amount of EUR 78 (61) million. In the year under review, income improvements of EUR 9 (52) million and income charges of EUR 4 (7) million were recorded from all insurance derivatives required to be measured separately.

(14) ACCOUNTS RECEIVABLE ON INSURANCE BUSINESS

N99 **ACCOUNTS RECEIVABLE ON INSURANCE BUSINESS**

FIGURES IN EUR MILLION

	2013	2012
Accounts receivable on direct written insurance business	2,090	2,056
thereof		
from policyholders	1,181	1,109
from insurance intermediaries	909	947
Accounts receivable on reinsurance business	2,981	3,025
Book value as at 31.12 of the financial year	**5,071**	**5,081**

(15) DEFERRED ACQUISITION COSTS

N100 DEFERRED ACQUISITION COSTS

FIGURES IN EUR MILLION

	Gross business	Reinsurers' share	Net business	Gross business	Reinsurers' share	Net business
	2013			2012		
Book value as at 31.12 of the previous year	**4,636**	**258**	**4,378**	4,275	263	4,012
Change in scope of consolidation	—	—	—	—	—	—
Portfolio entries/withdrawals	2	—	2	—	2	–2
Additions	999	15	984	993	60	933
Amortised acquisition costs	738	7	731	618	63	555
Currency adjustments	–125	–4	–121	–14	–4	–10
Other changes	–8	–9	1	—	—	—
Book value as at 31.12 of the financial year	**4,766**	**253**	**4,513**	4,636	258	4,378

(16) OTHER ASSETS

N101 OTHER ASSETS

FIGURES IN EUR MILLION

	2013	2012
Own-use real estate	675	614
Tax refund claims	392	213
Plant and equipment	167	167
Interest and rent due	7	8
Derivative financial instruments – hedging instruments, hedge accounting	86	149
Sundry assets	874	855
Book value as at 31.12 of the financial year	**2,201**	2,006

The fair value of own-use real estate amounted to EUR 724 (685) million as at the balance sheet date These fair values were mainly calculated using the discounted cash flow method. Of this amount, EUR 113 million is attributable to Fair Value Level 2, and EUR 611 million to Level 3. These fair values were mainly calculated using the discounted cash flow method.

With regard to own-use real estate, there were limitations on disposal and guarantee assets in the amount of EUR 449 (435) million as at 31 December 2013. The expenditures capitalised for property, plant and equipment under construction amounted to EUR 8 (1) million as at the balance sheet date. Contractual commitments for the acquisition of property, plant and equipment totalled EUR 4 (3) million as at the balance sheet date, see Table A102.

N102 CHANGES IN OWN-USE REAL ESTATE

FIGURES IN EUR MILLION

	2013	2012
Gross book value as at 31.12. of the previous year	**783**	887
Change in scope of consolidation (additions)		
Business combinations	—	30
Additions	18	27
Disposals	9	11
Reclassifications	65	–152
Exchange rate fluctuations	–3	2
Gross book value as at 31.12. of the financial year	**854**	783
Accumulated depreciation and accumulated impairment losses as at 31.12. of the previous year	**169**	189
Disposals	6	—
Depreciation		
scheduled	16	14
unscheduled	2	—
Reversal after impairment	8	7
Reclassifications	7	–27
Exchange rate fluctuations	–1	—
Accumulated depreciation and accumulated impairment losses as at 31.12. of the financial year	**179**	169
Book value as at 31.12 of the previous year	614	698
Book value as at 31.12 of the financial year	**675**	614

N103 **CHANGES IN PLANT AND EQUIPMENT**

FIGURES IN EUR MILLION

	2013	2012
Gross book value as at 31.12. of the previous year	**511**	**447**
Change in scope of consolidation (additions)		
Business combinations	—	8
Additions	51	91
Disposals	126	35
Reclassifications	–1	—
Exchange rate fluctuations	–8	—
Gross book value as at 31.12. of the financial year	**427**	**511**
Accumulated depreciation and accumulated impairment losses as at 31.12. of the previous year	**344**	**301**
Disposals	122	9
Depreciation		
scheduled	43	52
Exchange rate fluctuations	–5	—
Accumulated depreciation and accumulated impairment losses as at 31.12. of the financial year	**260**	**344**
Book value as at 31.12 of the previous year	167	146
Book value as at 31.12 of the financial year	**167**	**167**

N104 **SUNDRY ASSETS**

FIGURES IN EUR MILLION

	31.12.2013	31.12.2012
Trade accounts receivable	44	63
Receivables relating to investments	64	50
Receivables from non-Group-led business	137	130
Other tangible assets	13	10
Claims under insurance for pension commitments/surrender values	91	82
Prepaid insurance benefits	122	140
Deferred income	112	77
Other sundry assets	291	303
Total	**874**	**855**

NOTES ON THE CONSOLIDATED BALANCE SHEET — LIABILITIES

(17) SHAREHOLDERS' EQUITY

CHANGES IN SHAREHOLDER'S EQUITY AND NON-CONTROLLING INTERESTS

N105 **COMPOSITION OF SHAREHOLDERS' EQUITY**

FIGURES IN EUR MILLION

	31.12.2013	31.12.2012[1)]
Common shares	316	316
Additional paid-in capital	1,373	1,369
Retained earnings	4,575	4,204
Other reserves	188	638
Group net income	762	626
Non-controlling interests in shareholders' equity	3,997	4,156
Total	**11,211**	**11,309**

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

Additional paid-in capital amounts to EUR 1,373 (1,369) million. In the previous year, additional paid-in capital increased by EUR 761 million as a result the issue of new shares in connection with the IPO by Talanx AG. In the process, costs in connection with the new shares in the amount of EUR 31 million were netted directly against additional paid-in capital, taking into account associated tax effects of –EUR 9 million. The increase in additional paid-in capital in the year under review (EUR 4 million) is the result of the capital increase carried out for the purposes of the employee share programme.

Retained earnings include equalisation reserves of EUR 1,583 (1,609) million (after deferred taxes).

Other reserves include gains and losses from currency translation amounting to –EUR 209 (48) million.

N106 UNREALISED GAINS AND LOSSES INCLUDED IN OTHER RESERVES[1]

FIGURES IN EUR MILLION

	31.12.2013	31.12.2012[2]
Associated companies valued using the equity method	1,486	2,313
From invested assets, available for sale	33	87
From cash flow hedges	–421	–574
Other changes		
less/plus	–617	–1.056
Policyholder participation/shadow accounting[1]	–84	–180
Deferred taxes recognised directly in equity	169	540
Non-controlling interests in shareholders' equity	**566**	**1,130**

[1] Includes provisions recognised directly in equity for deferred premium refunds
[2] Adjusted on the basis of IAS 8, cf. "Accounting policies" section in the Notes, subsection "Changes in accounting policies and accounting errors"

"Non-controlling interests in shareholders' equity" refers principally to shares held by shareholders outside the Group in the shareholders' equity of the Hannover Re subgroup.

N107 RECONCILIATION ITEMS FOR NON-CONTROLLING INTERESTS IN SHAREHOLDERS' EQUITY

FIGURES IN EUR MILLION

	31.12.2013	31.12.2012[1]
Unrealised gains and losses from investments	380	667
Share of net income	520	518
Other shareholders' equity	3,097	2,971
Total	**3,997**	**4,156**

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

The changes in financial instruments that affected shareholders' equity – with such instruments being allocated to the category of "Financial assets available for sale" within the Group – before allowance for policyholders, non-controlling interests and deferred taxes were as follows:

N108 EFFECT OF FAIR VALUE MEASUREMENT ON OTHER COMPREHENSIVE INCOME

FIGURES IN EUR MILLION

	31.12.2013	31.12.2012
Allocation of gains/losses from the fair value measurement of "Financial assets available for sale" (unrealised gains and losses)	–696	2,417
Transfers of gains/losses from the fair value measurement of "Financial assets available for sale" to net income	–499	–78

COMMON SHARES

The share capital of Talanx AG amounts to EUR 315.997 (315.782) million and is divided into 252,797,634 (252,625,682) registered no-par value shares. The share capital is fully paid up.

OWN SHARES

On 26 November 2013, in connection with the launch of the employee share programme for employees of domestic companies (other than Hannover Rück SE), 171,952 registered no-par value shares – with a pro rata contribution to share capital of EUR 1.25 each – were issued from authorised capital at an issue price of EUR 17.59 per share, which price included a discount of EUR 7 per share. This led to an increase in share capital of EUR 0.2 million and briefly to a corresponding portfolio of own shares. The transaction gave rise to personnel expenses of EUR 1.2 million as well proceeds from the sale of own shares totalling EUR 0.2 million, which were recognised in retained earnings. With the start of the year, the issued shares are entitled to share in profit and are subject to a holding period that ends on 30 November 2017.

As at the balance sheet date, the Company no longer owned any own shares.

With regard to the composition of shareholders' equity, cf. "Consolidated statement of changes in shareholders' equity".

CONDITIONAL CAPITAL

On 15 May 2012, the General Meeting resolved to conditionally increase share capital by up to EUR 78 million through the issuance of up to 62,400,000 new no-par value shares (conditional capital II). The conditional capital increase is designed to grant no-par value shares to holders of bonds, which, on the basis of the authorisation conferred on the Board of Management by virtue of a resolution adopted by the General Meeting on the same date, Talanx AG or a subordinate Group company will issue by 14 May 2017 in exchange for cash in satisfaction of the conditional conversion obligation. The amendment to the Talanx AG Articles of Association took effect upon its entry in the commercial register on 4 June 2012.

On 28 August 2012, the Extraordinary General Meeting resolved to conditionally increase share capital by up to EUR 26 million through the issuance of up to 20,800,000 new no-par value shares with a pro rata amount of share capital of EUR 1.25 each (conditional capital III). The conditional capital increase is designed to grant no-par value shares to holders of convertible bonds, warrant bonds, participating bonds with conversion or warrant rights and profit-sharing rights with conversion or warrant rights as well as measures in connection with the employee share programme, which, on the basis of the aforementioned authorisation, Talanx AG or a subordinate Group company will issue by 27 August 2017 in exchange for cash in satisfaction of the conditional conversion obligation. The amendment to the Talanx AG Articles of Association took effect upon its entry in the commercial register on 5 September 2012.

AUTHORISED CAPITAL

On 29 September 2012, the Extraordinary General Meeting resolved to rescind the authorised capital under § 7 Para. 1 of the Talanx AG Articles of Association, as authorised by the General Meeting on 21 November 2011, and to replace it with a new § 7 Para. 1, which authorises the Board of Management, subject to the approval of the Supervisory Board, to increase share capital by 28 September 2017 in one or more tranches, but up to a total amount of EUR 146 million, through the issuance of new registered no-par value shares in exchange for cash or contribution in kind. Subject to the approval of the Supervisory Board, shareholders may be precluded from exercising subscription rights for certain enumerated purposes connected with cash capital increases, provided the pro rata amount of share capital attributable to the new shares does not exceed 10% of 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, the exercise of subscription rights may be precluded for contribution-in-kind capital increases if such exclusion is in the Company's predominant interest. The amendment took effect upon its entry in the commercial register on 1 October 2012.

When the Greenshoe option was exercised on 8 October 2012, 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 partial utilisation, authorised capital still amounts to EUR 142,307,260, of which EUR 785,060 continues to 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 shareholders' equity.

In this context, cf. the following remarks as well as the information contained in the Management Report regarding capital management, performance management and value-based management.

Preserving and continually strengthening its equity base is a key strategic objective for the Group. As part of its approach to capital management, the Group considers the policyholders' surplus over and above the shareholders' equity reported in the balance sheet.

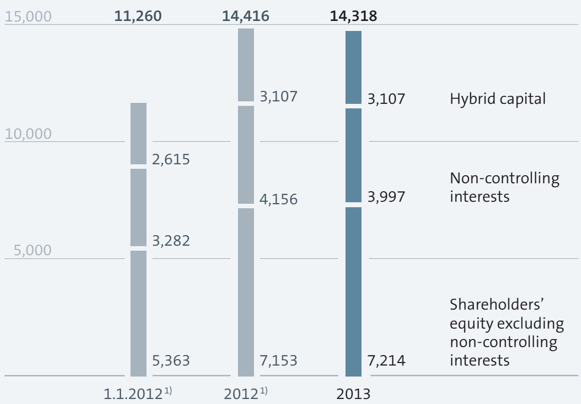
The policyholders' surplus is defined as the sum total of

- shareholders' equity excluding non-controlling interests, composed of common shares, additional paid-in capital, other reserves and retained earnings
- non-controlling interests in shareholders' equity
- hybrid capital used as debt supplementing shareholders' equity, which encompasses our subordinated liabilities

As at the balance sheet date, the policyholders' surplus totalled EUR 14.3 (14.4) billion.

N109 **CHANGE IN POLICYHOLDERS' SURPLUS**

FIGURES IN EUR MILLION



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

The Group uses intrinsic value creation (IVC) as its central indicator of sustainable, strategic value creation for measuring the value created by our Group companies and divisions. This concept as well as the objectives and principles in accordance with which we conduct our enterprise governance and capital management is described in our remarks on capital management and performance management in the relevant subsections of the Management Report.

In terms of its capital resources, the Talanx Group satisfies the expectations of the agencies rating it. Some Group companies are also subject to additional capital and solvency requirements.

All Group companies met the applicable local minimum capital requirements in the year under review.

In connection with 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.

N110 COMPOSITION OF LONG-TERM SUBORDINATED DEBT

FIGURES IN EUR MILLION

	Nominal amount	Coupon	Maturity	Rating[4]	Issue	31.12.2013	31.12.2012
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 partial exchange thereof. They may be called first on 1.6.2015 and at each coupon payment date thereafter.	493	489
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.	498	498
Hannover Finance (Luxembourg) S. A.	750	Fixed (5.75%), then floating rate	2004/ 2024	(a+; A)	These guaranteed subordinated bonds were issued on the European capital market. They were called in entire nominal amount on 17 January 2014 and repaid on 26 February 2014.	749	749
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 cannot be called for ten years.	497	497
HDI-Gerling Industrie Versicherung AG	142	Fixed (7%), then floating rate	2004/ 2024	(bbb+; A–)	These subordinated bonds are listed on the Euro MTF Market of the Luxembourg Stock Exchange and cannot be called until 2014.	144	149
HDI Lebensversicherung AG (vormals HDI-Gerling Lebensversicherung AG)[1]	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 cannot be called until 2015.	112	113
Talanx Finanz[2]	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	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 cannot be called for ten years.	500	500
Open Life Towarzystwo Ubezpieczeń Życie S. A.[3]	2	Fixed (2.5%), plus WIBOR 3M	2013/ 2018	(—; —)	This subordinated loan of EUR 2 million was concluded in 2013 and has a term that expires in 2018.	2	—
Total						3,107	3,107

[1] As at the balance sheet date, Group companies in addition held bonds with a nominal value of EUR 50 million (of these EUR 10 million are consolidated in the consolidated financial statements, with the remaining EUR 40 million being blocked)
[2] As at the balance sheet date, Group companies in addition held bonds with a nominal value of EUR 96 million (consolidated in the consolidated financial statement)
[3] Not included in the calculation of Group solvency
[4] (Debt rating A.M. Best; debt rating S&P)

N111 FAIR VALUES OF SUBORDINATED LIABILITIES MEASURED AT AMORTISED COST

FIGURES IN EUR MILLION

	31.12.2013	31.12.2012
Amortised cost	3,107	3,107
Unrealised gains/losses	249	351
Fair value	3,356	3,458

The fair value of the debt is generally based on quoted, active market prices. If such price information is not available, fair value is determined 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 interest-rate duration periods.

The net result of EUR 188 (177) million from subordinated liabilities in the year under review consisted of interest expenses in the amount of EUR 187 (177) million and income from amortisation (EUR 1 [0] million).

N112 SUBORDINATED LIABILITIES: MATURITIES

FIGURES IN EUR MILLION

	31.12.2013	31.12.2012
Due one year or sooner	—	—
Later than one year, up to five years	2	—
Later than five years, up to ten years	—	—
Later than ten years, up to 20 years	1,005	1,010
Later than 20 years	1,495	1,495
Without fixed maturity	605	602
Total	**3,107**	**3,107**

(19) UNEARNED PREMIUM RESERVE

N113 UNEARNED PREMIUM RESERVE

FIGURES IN EUR MILLION

	Gross	Re	Net	Gross	Re	Net
	2013			2012		
Balance as at 31.12 of the previous year	**5,440**	**521**	**4,919**	**4,677**	**389**	**4,288**
Change in scope of consolidation	—	—	—	482	35	447
Portfolio entries/withdrawals	2	—	2	—	−1	1
Allocations	1,923	154	1,769	1,406	190	1,216
Releases	1,416	16	1,400	1,090	82	1,008
Reclassification pursuant to IFRS 5	—	—	—	−1	—	−1
Other changes	—	—	—	−3	1	−4
Exchange rate fluctuations	−271	−24	−247	−31	−11	−20
Balance as at 31.12 of the financial year	**5,678**	**635**	**5,043**	**5,440**	**521**	**4,919**

The unearned premium reserve covers that portion of gross written premium that is to be attributed as income to the following financial year(s) for a certain period after the balance sheet date. Since the unearned premium reserve essentially does not involve future cash flows with effect on liquidity, we have elected to dispense with information about maturities.

(20) BENEFIT RESERVE

N114 BENEFIT RESERVE

FIGURES IN EUR MILLION

	2013			2012		
	Gross	Re	Net	Gross	Re	Net
Balance as at 31.12 of the previous year	**48,248**	**1,017**	**47,231**	**45,739**	**988**	**44,751**
Change in scope of consolidation	—	—	—	144	1	143
Portfolio entries/withdrawals	–191	–177	–14	138	66	72
Allocations	5,507	120	5,387	5,020	102	4,918
Releases	3,534	119	3,415	2,853	138	2,715
Reclassification pursuant to IFRS 5	—	—	—	–16	—	–16
Other changes	23	—	23	—	—	—
Exchange rate fluctutions	–286	–9	–277	76	–2	78
Balance as at 31.12 of the financial year	**49,767**	**832**	**48,935**	**48,248**	**1,017**	**47,231**

IFRS 4 requires disclosure that helps explain the amount and timing of future cash flows from insurance contracts. The following table shows the benefit reserve according to 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 to be attributed directly to cedants.

N115 BENEFIT RESERVE

FIGURES IN EUR MILLION

	2013			2012		
	Gross	Re	Net	Gross	Re	Net
Due one year or shorter	2,828	47	2,781	3,124	130	2,994
Longer than one year, up to five years	8,869	208	8,661	8,457	147	8,310
Longer than five years, up to ten years	9,709	281	9,428	8,953	155	8,798
Longer than ten years, up to 20 years	11,590	164	11,426	11,350	182	11,168
Longer than 20 years	9,498	126	9,372	8,973	133	8,840
Deposits	7,273	6	7,267	7,391	270	7,121
Total	**49,767**	**832**	**48,935**	**48,248**	**1,017**	**47,231**

(21) LOSS AND LOSS ADJUSTMENT EXPENSE RESERVE

N116 LOSS AND LOSS ADJUSTMENT EXPENSE RESERVE

FIGURES IN EUR MILLION

	Gross	Re	Net	Gross	Re	Net
	2013			2012		
Balance as at 31.12 of the previous year	**33,243**	**5,248**	**27,995**	**31,438**	**4,920**	**26,518**
Change in scope of consolidation	—	—	—	564	65	499
Portfolio entries/withdrawals	59	—	59	–3	5	–8
Plus claims and claims expenses incurred (net)						
Financial year	13,681	2,021	11,660	12,654	1,951	10,703
Previous years	2,135	280	1,855	2,170	143	2,027
Total	15,816	2,301	13,515	14,824	2,094	12,730
Less claims and claims expenses paid (net)						
Financial year	5,475	721	4,754	5,145	622	4,523
Previous years	8,655	1,777	6,878	8,300	1,177	7,123
Total	14,130	2,498	11,632	13,445	1,799	11,646
Other changes	–1	1	–2	1	4	–3
Exchange rate movements	–1,232	–166	–1,066	–136	–41	–95
Balance as at 31.12 of the financial year	**33,755**	**4,886**	**28,869**	**33,243**	**5,248**	**27,995**

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 terms of a net run-off result. In addition, in the case of reinsurance contracts whose terms do not correspond to a calendar year or that were concluded on an underwriting-year basis, it is often impossible to allocate claims expenses precisely to the financial year or the previous year.

In the current financial year, the loss run-off triangles returned by the reporting units were for the first time also 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 exchange rates prevailing as at the balance sheet date so as 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, efforts are taken to avoid a purely indexed run-off result being returned even after the figure has been translated into the Group reporting currency (euros).

The following tables depict the net loss reserves for the years 2003 to 2013 for our main property/casualty insurance companies in the primary insurance segments, including Corporate Operations, and in the Group's Non-Life Reinsurance segment (so-called run-off triangle). The charts show the run-off of the net loss reserves established as at each balance sheet date for the current and preceding occurrence years. Depicted in this regard is not the run-off of the reserve for individual occurrence years but rather the run-off of the reserve recognised annually as at the balance sheet date.

The net loss reserve and its run-off are depicted for primary insurance segments, including Corporate Operations, and the Non-Life Reinsurance segment after allowance for consolidation effects for each area depicted but before elimination of intra-Group relations between primary insurance segments, including Corporate Operations, and reinsurance. The values reported for the 2003 financial year also include previous-year values no longer shown separately in the run-off triangle. The published runoff results reflect the changes in the final losses for the individual run-off years that materialised in the 2013 financial year.

Net loss reserves in the Group amount to a total of EUR 28.9 billion. Of these, EUR 7.8 billion is attributable to our property/casualty insurance companies in the primary insurance area, including Corporate Operations, and EUR 17.7 billion to the Non-Life Reinsurance segment. The remaining EUR 3.4 billion is attributable to the Life/Health Reinsurance segment (EUR 2.6 billion) and life primary insurance business (EUR 0.8 billion).

NET LOSS RESERVE AND ITS RUN-OFF IN THE PRIMARY INSURANCE SEGMENTS, INCLUDING CORPORATE OPERATIONS

N117 NET LOSS RESERVE AND ITS RUN-OFF IN THE PRIMARY INSURANCE SEGMENTS, INCLUDING CORPORATE OPERATIONS

FIGURES IN EUR MILLION

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Loss and loss adjustment expense reserve	**4,294**	**4,984**	**5,944**	**6,011**	**6,365**	**6,268**	**6,354**	**6,884**	**6,956**	**7,104**	**7,846**
Cumulative payments for the year in question and previous years											
One year later	626	769	1,148	978	1,371	964	1,178	1,344	1,541	1,166	
Two years later	1,025	1,283	1,695	1,667	1,702	1,554	1,786	2,150	1,876		
Three years later	1,399	1,682	2,153	1,817	2,110	1,997	2,403	2,264			
Four years later	1,721	2,043	2,225	2,120	2,483	2,922	2,848				
Five years later	2,018	2,094	2,484	2,439	2,922	2,467					
Six years later	2,013	2,310	2,729	2,834	2,848						
Seven years later	2,197	2,532	3,039	2,740							
Eight years later	2,387	2,802	3,066								
Nine years later	2,641	2,827									
Ten years later	2,652										
Loss and loss adjustment expense reserve (net) for the year in question and previous years, plus payments made to date toward the original reserve											
At the end of the year	4,294	4,984	5,944	6,011	6,365	6,268	6,354	6,884	6,956	7,104	7,846
One year later	4,029	4,668	5,265	5,546	6,034	5,772	6,226	6,532	6,578	6,770	
Two years later	3,901	4,505	5,308	5,293	5,281	5,197	5,998	6,283	6,408		
Three years later	3,959	4,627	5,191	4,927	5,370	5,473	5,791	6,219			
Four years later	4,125	4,590	4,902	4,939	5,479	5,347	5,821				
Five years later	4,109	4,434	4,886	5,038	5,373	5,488					
Six years later	4,015	4,423	5,010	4,975	5,495						
Seven years later	4,037	4,570	4,991	5,012							
Eight years later	4,148	4,557	5,092								
Nine years later	4,140	4,641									
Ten years later	4,244										
Change over the previous year											
of the final loss reserve[1] = run-off result	**–104**	**20**	**–17**	**64**	**–85**	**–19**	**111**	**94**	**106**	**164**	
In %	**–2**	**—**	**—**	**1**	**–1**	**—**	**2**	**1**	**2**	**2**	

[1] Example: The difference in 2003 is to be calculated (EUR 4,140 million minus EUR 4,244 million = –EUR 104 million). This figure is recorded and then updated in each subsequent period, e.g. in 2004, with the change from, e.g. 2003 to 2004, being carried forward. Thus, in 2004, the first step involves calculating the difference between the two amounts for 2004 and then subtracting the result from the value for 2003 (calculation for 2004: EUR 4,557 million less EUR 4,641 million = –EUR 84 million, from which the amount of –EUR 104 million is subtracted, resulting in an amount of EUR 20 million for 2004). The process is then repeated for each subsequent year

In the year under review, the Group posted a positive run-off result in its primary insurance segments, including Corporate Operations, of EUR 334 million, of which EUR 232 million is attributable to the Industrial Lines business, particularly in the property, liability and motor areas.

NET LOSS RESERVE AND ITS RUN-OFF IN THE NON-LIFE REINSURANCE SEGMENT

N118 NET LOSS RESERVE AND RUN-OFF IN THE NON-LIFE REINSURANCE SEGMENT

FIGURES IN EUR MILLION

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Loss and loss adjustment expense reserve	**13,082**	**12,542**	**13,192**	**16,276**	**12,657**	**13,510**	**13,841**	**15,078**	**16,464**	**17,073**	**17,681**
Cumulative payments for the year in question and previous years											
One year later	3,360	4,150	1,595	2,536	2,481	2,943	2,765	2,444	3,105	2,910	
Two years later	6,863	5,314	3,591	4,266	4,268	4,576	3,995	4,074	4,828		
Three years later	7,599	6,280	4,729	5,583	5,383	5,337	4,816	5,067			
Four years later	8,328	7,052	5,838	6,382	5,935	5,925	5,464				
Five years later	8,915	7,837	6,463	6,781	6,371	6,408					
Six years later	9,551	8,294	6,781	7,121	6,736						
Seven years later	9,897	8,565	7,050	7,395							
Eight years later	10,117	8,772	7,279								
Nine years later	10,293	8,955									
Ten years later	10,442										
Loss and loss adjustment expense reserve (net) for the year in question and previous years, plus payments made to date toward the original reserve											
At the end of the year	13,082	12,542	13,192	16,276	12,657	13,510	13,841	15,078	16,464	17,073	17,681
One year later	13,504	14,895	14,828	12,512	12,949	14,619	13,352	14,527	16,149	16,649	
Two years later	14,748	15,788	11,259	12,077	12,874	13,348	12,684	13,939	15,801		
Three years later	15,483	12,985	10,716	11,988	12,384	12,570	12,110	13,505			
Four years later	13,279	12,524	10,707	11,558	11,613	12,074	11,683				
Five years later	13,009	12,550	10,338	10,859	11,262	11,735					
Six years later	13,104	12,246	9,700	10,586	10,959						
Seven years later	12,835	11,717	9,501	10,311							
Eight years later	12,371	11,588	9,290								
Nine years later	12,283	11,435									
Ten years later	12,146										
Change over the previous year											
of the final loss reserve[1] = run-off result	**137**	**16**	**58**	**64**	**28**	**36**	**88**	**7**	**–86**	**76**	
In %	1	—	—	—	—	—	1	—	–1	—	

[1] Example: The difference in 2003 is to be calculated (EUR 12,283 million minus EUR 12,146 million = EUR 137 million). This figure is recorded and then updated in each subsequent period, e.g. in 2004, with the change from, e.g. 2003 to 2004, being carried forward. Thus, in 2004, the first step involves calculating the difference between the two amounts for 2004 and then subtracting the result from the value for 2003 (calculation for 2004: EUR 11,588 million less EUR 11,435 million = EUR 153 million, from which the amount of EUR 137 million is subtracted, resulting in an amount of EUR 16 million for 2004). The process is then repeated for each subsequent year

As was the case in the previous year, the positive run-off result of EUR 424 million in the 2013 financial year was largely attributable to the positive run-off of reserves in the marine/aviation segments as well as in short-tail property business.

The carrying amount of the reinsurers' share of loss reserves amounts to EUR 4.9 (5.2) billion and includes cumulative individual impairments of EUR 1 (1) million. The total amount of the net reserves was EUR 28.9 (28.0) billion.

IFRS requires disclosure that helps explain the amount and timing of future cash flows from insurance contracts. The following table shows the loss reserve according to 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 to be attributed directly to cedants.

N119 RESERVE DURATIONS

FIGURES IN EUR MILLION

	31.12.2013 Gross	31.12.2013 Re	31.12.2013 Net	31.12.2012 Gross	31.12.2012 Re	31.12.2012 Net
One year or shorter	10,192	1,569	8,623	9,829	1,632	8,197
Longer than one year, up to five years	12,556	1,785	10,771	12,602	2,000	10,602
Longer than five years, up to ten years	4,968	671	4,297	4,992	806	4,186
Longer than ten years, up to 20 years	3,288	444	2,844	3,354	523	2,831
Longer than 20 years	1,971	282	1,689	1,700	140	1,560
Deposits	780	135	645	766	147	619
Total	**33,755**	**4,886**	**28,869**	**33,243**	**5,248**	**27,995**

(22) PROVISION FOR PREMIUM REFUNDS

N120 PROVISION FOR PREMIUM REFUNDS

FIGURES IN EUR MILLION

	2013 Gross	2013 Re	2013 Net	2012[1] Gross	2012[1] Re	2012[1] Net
Balance as at 31.12 of the previous year	**2,279**	**2**	**2,277**	**1,008**	**1**	**1,007**
Change in scope of consolidation	—	—	—	13	—	13
Portfolio entries/withdrawals	1	—	1	—	—	—
Allocations/releases (—)	609	—	609	1,956	1	1,955
Disposals						
Life insurance policies	696	—	696	701	—	701
Liability/accident policies with a premium refund	10	—	10	9	—	9
Other changes	–4	—	–4	11	—	11
Exchange rate fluctuations	–1	—	–1	1	—	1
Balance as at 31.12 of the financial year	**2,178**	**2**	**2,176**	**2,279**	**2**	**2,277**

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

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 balance sheet 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 valuation differences between national rules and IFRS that are allocated after allowing for deferred taxes, either to the statement of income as income or expenses or to shareholders' equity (under "Other comprehensive income") with no effect on income (e.g. unrealised investment income under "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 1,175 (1,024) million is attributable to obligations for participation of surplus and EUR 1,003 (1,255) 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 make pension commitments to their employees based on defined contributions or defined benefits. The type of pension commitment depends on the relevant pension plan. In terms of amounts paid, the majority of commitments are based on defined-benefit pension plans. Final salary plans that depend on length of service involve fully employer-financed commitments for retirement, disability and survivor benefits in the form of a monthly pension essentially 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 necessary, as an average over several years). In some cases, the relevant parts of income below the contribution assessment ceiling for statutory pension insurance (BBG-RV) are weighted differently than those above the ceiling.

Unless they relate to commitments for members of the Board of Management, these pension plans are closed to new employees. Some existing commitments are grandfathered with salary trends without increasing the benefit obligation beyond the current level of work performance, whereas others are maintained unchanged with continued growth depending on current work performance. To the greatest extent possible, the plans are not financed with plan assets.

The pension plans classified here are exposed to the following risks:

Mortality constitutes the risk that expected mortality contained in the calculation bases does not correspond to actual mortality, such that, e.g. annuity payments have to be made and financed for a longer period.

Pension progression under § 16 Para. 1 Act on the Improvement of Occupational Pensions (BetrAVG) constitutes the risk that assumptions about the trend in the consumer price index taken into account in progression assumptions were too low and that benefit obligations will increase due to the statutory requirement to adjust pensions.

Morbidity constitutes the risk that the assumed number of early retirements due to disability from the sub-portfolio of beneficiaries does not correspond to the actual trend and that benefit obligations will increase for this reason.

Trends in salary and BBG-RV constitutes the risk that increases in pensionable salaries taken concurrently into account in progression assumptions and, in some cases, increases in the BBG-RV do not adequately depict actual trends. In addition, with plans under which the relevant parts of income below the BBG-RV are, for the purposes of benefit calculation, weighted differently than those above the ceiling there is a risk that salary and BBG-RV will trend differently in the future.

Premature drawing of pensions (transitional allowances) constitutes the risk that benefits become due prematurely in accordance with contractual arrangements. In this case, benefits that have not yet been fully "financed" through provisions may have to be paid prior to the expected pension age.

Plans based on annual pension modules involve fully employer-financed 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 parts of income below the BBG-RV are weighted differently than those above the ceiling.

The pension plan is closed to new employees and is not financed with plan assets. However, reinsurance was obtained for a large sub-portfolio.

This plan is exposed to risks similar to those for final salary plans that depend on length of service. However, risks do not include "trends in benefits under statutory pension insurance" and "trends in net remuneration".

Defined-contribution plans with guarantees involve fully employer-financed commitments for retirement, disability and survivor benefits in the form of a monthly pension through the "HDI Unterstützungskasse". Instead of a retirement pension, lump-sum distribution of pension capital can be requested. This has to do with defined-contribution benefit commitments within the meaning of German labour law, which are classified economically as a defined-benefit plan. The pension amount given by the employer to the Unterstützungskasse is used by the latter as a contribution toward the obtaining of reinsurance that reflects the committed benefits spectrum (congruent reinsurance). The committed benefits result from the rate under the reinsurance policy.

The associated assets of the HDI Unterstützungskasse are recognised as plan assets.

In addition, there are pension commitments for a lump-sum benefit from lump-sum deferral of compensation by employees in the event of death or survival upon reaching the retirement age. Here, the waived amount is used as a lump-sum contribution toward the obtaining of reinsurance. There is no right to choose the type of annuity. These commitments are not allocated to any plan assets.

Commitments to the HDI Unterstützungskasse are exposed to the risk that for commitments made prior to 1999, the surplus participation under due and owing reinsurance policies is insufficient for meeting the adjustment requirements under § 16 Para. 1 BetrAVG. There is likewise the risk that for commitments made prior 2001, the claims to be ascertained upon retirement in accordance with the provisions of the BetrAVG are not covered by the achieved entitlement to benefits from the elements of compensation that have been deferred to that point.

Employees of the former Gerling Group also have the option of obtaining pension commitments through deferred compensation with Gerling Versorgungskasse VVaG. In economic terms, these are defined contribution plans for which provisions for pensions are not recognised.

N121 FINANCING STATUS OF PENSION PLANS

FIGURES IN EUR MILLION

Type of plan	2013	2012[1)]
Final salary plans that depend on length of service		
■ Plan assets	−128	−134
■ Present value of the defined-benefit obligation	1,720	1,825
■ Effect of upper asset limit surplus (net asset value) shortfall (net debt)	— −1 1,593	— — 1,691
Plan on the basis of pension modules		
■ Plan assets	—	—
■ Present value of the defined-benefit obligation	60	128
■ Effect of upper asset limit shortfall (net debt)	— 60	— 128
Defined-contribution plans with guarantees		
■ Plan assets	−41	−36
■ Present value of the defined-benefit obligation	78	82
■ Effect of upper asset limit shortfall (net debt)	6 43	4 50
Balance as at 31.12 of the financial year (net asset value)	−1	—
Balance as at 31.12 of the financial year (net debt)	**1,696**	1,869

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

The risks affecting the largest sub-portfolios of the defined-benefit obligation are summarised in the following table

N122 DEFINED BENEFIT OBLIGATION OF THE SUB-PORTFOLIO EXPOSED TO RISK

FIGURES IN EUR MILLION

Type of risk	Defined-benefit obligation of the partial portfolio exposed to risk
Mortality	1,296
Pension progression under § 16 Para. 1 BetrAVG	1,274
Morbidity	487
Trends in salary and BBG-RV	323
Differing trends in salary and BBG-RV	92

The risk associated with the premature drawing of pensions affects the entire portfolio of beneficiaries from commitments to the Board of Management in the amount of EUR 51 million.

The change in net debt and net asset value for the Group's various defined benefit pension plans is shown in the following table. In addition to the main components – projected benefit obligation and plan assets – the change in the asset value adjustment from the calculation of the upper limit of the asset value resulting from a plan surplus is also listed. Realisability of the economic benefit associated with a plan surplus is verified on the level of the individual pension plan, and this necessitated a curtailment of the carrying amount for the net asset value both as at 31 December 2013 and as at 31 December 2012.

N123 CHANGE IN NET DEBT AND NET ASSET VALUE FOR THE VARIOUS DEFINED BENEFIT PENSION PLANS

FIGURES IN EUR MILLION

	Defined benefit obligation		Fair value of plan assets		Asset value adjustment	
	2013	2012[1]	2013	2012[1]	2013	2012[1]
Balance as at 1.1 of the financial year	2,036	1,542	–171	–120	4	4
Changes recognised in net income						
Current service cost	20	19	—	—	—	—
Past service cost and plan curtailments	–11	–8	—	—	—	—
Net interest components	61	73	–6	–7	—	3
Result from settlements	1	—	—	—	—	—
	71	84	–6	–7	—	3
Income and expenses recognised in other comprehensive income						
Remeasurements						
Actuarial gains (–)/losses (+) from change in biometric assumptions	–14	2	—	—	—	—
Underwriting gains (–)/losses (+) from change in financial assumptions	–143	464	—	—	—	—
Experience adjustments	–15	1	—	—	—	—
Income from plan assets (less interest income)	—	—	10	–21	—	—
Change from asset value adjustment	—	—	—	—	2	–3
Changes in foreign exchange rates	–4	–1	3	—	—	—
	–176	466	13	–21	2	–3
Other changes						
Employer contributions	—	—	–9	–12	—	—
Contributions and deferred employee compensation	—	1	—	—	—	—
Pension benefits paid during the year	–74	–69	4	3	—	—
Business combinations and disposals	1	13	—	–8	—	—
Effect of plan settlements	—	–1	—	–6	—	—
	–73	–56	–5	–23	—	—
Balance as at 31.12 of the financial year	1,858	2,036	–169	–171	6	4

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

The structure of the investment portfolio underlying the plan assets was as follows:

N124 PORTFOLIO STRUCTURE OF PLAN ASSETS

IN %

	2013	2012
Cash and cash equivalents	2	1
Equity instruments	—	2
Fixed-income securities	11	11
Securities funds	17	23
Qualifying insurance contracts	70	63
Total	100	100

Since all equity instruments, fixed-income securities and securities funds are listed on 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.

Actual income from plan assets amounted to EUR 28 million in the previous year. In the year under review, losses of EUR 4 million were recognised.

Defined benefit obligations were measured on the basis of the following assumptions:

N125 ASSUMPTIONS FOR DEFINED-BENEFIT OBLIGATIONS

MEASUREMENT PARAMETERS/ASSUMPTIONS WEIGHTED IN %

	2013	2012
Discount rate	3.46	2.98
Expected rate of salary increase	2.75	2.73
Pension increase	2.12	2.09

The mortality tables "2005G" of Dr. Klaus Heubeck formed the basis for the biometric calculation of domestic pension commitments.

The weighted average duration of the defined-benefit obligation is 15 years.

SENSITIVITY ANALYSIS

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 2013:

N126 EFFECT OF THE CHANGE IN ACTUARIAL ASSUMPTIONS

FIGURES IN EUR MILLION

	Effect on the defined-benefit obligation	
	Parameter increase	Parameter decrease
Discount rate (+/–0.5%)	–123	144
Salary increase rate (+/–0.25%)	9	–9
Pension adjustment rate (+/–0.25%)	47	–45

Also conceivable is a change in the underlying mortality rates and life spans. For the purposes of calculating the longevity risk, the underlying mortality tables were adjusted by lowering mortalities by 10%. This extension of longevities would have led to the pension obligation being higher by EUR 56 million as at the end of the financial year.

Sensitivities are calculated by means of the difference between pension obligations under changed actuarial assumptions and those under unchanged actuarial assumptions. The calculation was carried out separately for key parameters.

The German Federal Labour Court judgment of 23 April 2013 on the split pension formula was taken into account in the recognition of pension obligations. With this ruling, the Court departed from its earlier case law on the treatment of split pension formulas that are oriented towards the contribution assessment ceiling for statutory pension insurance (BBG). If pension commitments contain formulas that rely on the BBG, the extraordinary increase of the BBG from 2003 is now once again taken into account. The increase tends to lead to a reduction in pension benefits.

For the 2014 financial year the Group anticipates employer contributions of EUR 11 (4) million, which are to 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, such that the beneficiary's claim is against such 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 14 (14) million, of which EUR 1 million was attributable to commitments to employees in key positions. In addition, contributions in the amount of EUR 56 (74) million were paid to state pension plans.

(24) PROVISIONS FOR TAXES

N127 BREAKDOWN OF PROVISIONS FOR TAXES

FIGURES IN EUR MILLION

	31.12.2013	31.12.2012
Provisions for income tax	534	495
Other tax provisions	177	137
Total	**711**	632

(25) SUNDRY PROVISIONS

N128 SUNDRY PROVISIONS IN THE AMOUNT OF ANTICIPATED USE

FIGURES IN EUR MILLION

	Restructuring	Assumption of third-party pension commitments in return for payment	Bonuses and incentives	Anniversary bonuses	Early retirement/ partial retirement[1]	Other personnel expenses	Outstanding invoices	Other	Total
2012									
Book value as at 1.1.2012	**87**	**75**	**67**	**26**	**32**	**67**	**114**	**204**	**672**
Change in scope of consolidation	—	—	3	1	—	10	—	10	**24**
Allocations	14	—	68	8	20	59	237	161	**567**
Compounding	4	—	—	3	8	—	—	1	**16**
Utilisations	4	7	47	4	21	57	178	143	**461**
Releases	10	—	4	—	—	1	23	20	**58**
Change in fair value of plan assets	—	—	—	—	–1	—	—	—	**–1**
Other changes	–20	—	1	—	22	—	1	–3	**1**
Exchange rate fluctuations	—	—	—	—	—	—	2	1	**3**
Book value as at 31.12.2012	**71**	**68**	**88**	**34**	**60**	**78**	**153**	**211**	**763**
2013									
Change in scope of consolidation	—	—	—	—	—	—	—	—	**—**
Allocations	13	—	70	1	13	69	182	120	**468**
Compounding	2	—	—	1	1	—	—	1	**5**
Utilisations	23	20	57	9	13	63	219	77	**481**
Releases	—	—	4	1	—	2	15	33	**55**
Change in fair value of plan assets	—	—	—	—	–5	—	—	—	**–5**
Other changes	10	—	–2	—	–10	3	—	—	**1**
Exchange rate fluctuations	—	—	–2	—	—	–2	–2	–2	**–8**
Book value as at 31.12.2013	**73**	**48**	**93**	**26**	**46**	**83**	**99**	**220**	**688**

[1] Adjusted on the basis of IAS 8, cf. “Accounting policies” section in the Notes, subsection “Changes in accounting policies and accounting errors”

Provisions for restructuring mainly relate to four items:

- Restructuring measures to implement the redirection of the Retail Germany division: The objective of the redirection is modernisation of the organisational and operational structure and a clear improvement in competitiveness through cost savings and increased efficiency. Implementation of the measures is expected to be finalised in 2016. The provision mainly contains personnel expenses for severance pay. In the year under review, no amounts were allocated to this provision. Compounding amounted to EUR 2 million and EUR 17 million was utilised. As at the balance sheet date, the provision amounted to EUR 55 (60) million.
- Restructuring measures in the Corporate Operations segment: The restructuring launched in the year under review aims at a change in the operating organisation that is intended to serve permanent quality improvement and cost-optimised, efficient provision of services. The project is scheduled to be completed by 2016. A restructuring provision was created for this purpose in the amount of EUR 8 million.

- Restructuring measures in connection with the integration of the Polish insurer Towarzystwo Ubezpieczeń na Życie WARTA S.A., Warsaw, in the Retail International segment: In connection with the merging of the WARTA companies with our existing Polish insurers, processes and IT are to be centralised and made uniform. Restructuring measures were started in 2012 and are expected to be largely completed in 2014. In the reporting period, no amounts were allocated to this provision and EUR 5 million was utilised. As at the balance sheet date, it amounted to EUR 5 (10) million.
- In the Non-Life Reinsurance segment, a restructuring provision in the amount of EUR 4 million was created during the year under review for measures concerning a reorganisation of the management of an affiliate in Great Britain.

Sundry provisions cover a variety of items that cannot be assigned to the aforementioned categories. They relate to, inter alia, outstanding contributions to the employers' liability insurance association, surcharges for non-employment of disabled persons, impending losses and interest components.

N129 DURATIONS OF SUNDRY PROVISIONS

FIGURES IN EUR MILLION

	One year or sooner	Longer than one year, up to five years	Longer than five years	No duration	Total
31.12.2012					
Restructuring	67	3	1	—	71
Assumption of third-party pension obligations in return for payment[1]	—	—	68	—	68
Bonuses and incentives	83	5	—	—	88
Anniversary bonuses[1]	—	—	34	—	34
Early retirement/partial retirement[1), 2)]	—	60	—	—	60
Other personnel expenses	53	20	1	4	78
Outstanding invoices	153	—	—	—	153
Other	111	82	18	—	211
Total	**467**	**170**	**122**	**4**	**763**
31.12.2013					
Restructuring	14	59	—	—	73
Assumption of third-party pension obligations in return for payment[1]	—	—	48	—	48
Bonuses and incentives	83	10	—	—	93
Anniversary bonuses[1]	—	—	26	—	26
Early retirement/partial retirement[1]	—	46	—	—	46
Other personnel expenses	53	29	1	—	83
Outstanding invoices	99	—	—	—	99
Other	102	112	6	—	220
Total	**351**	**256**	**81**	**—**	**688**

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

(26) NOTES PAYABLE AND LOANS

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

N130 NOTES PAYABLE AND LOANS

FIGURES IN EUR MILLION

	31.12.2013	31.12.2012
Talanx AG bank liability	150	500
Talanx AG notes payable	565	9
Mortgage loan of Hannover Re Real Estate Holdings, Inc., Orlando	150	168
Mortgage loan of HR GLL Central Europe GmbH & Co. KG, Munich	77	—
Total	**942**	**677**

The bank liability is the result of utilising EUR 150 million under two syndicated, floating-rate credit lines (nominal value: EUR 500 million and EUR 700 million, respectively). In addition, on 13 February 2013, Talanx AG placed senior unsecured bonds with a volume of EUR 750 million, of which EUR 185 million is held by Group companies. The issue price amounted to 99.958%. In connection with the placement of these bonds, bearer bonds in the amount of EUR 9 million and scheduled to mature in July 2013 were redeemed by the issuer in advance. Interest expenses of EUR 18 (6) million resulting from these liabilities are recognised under the item "Financing costs".

Net expenses from notes payable and loans total EUR 27 (16) million and consist of interest expenses and amortisation in the amount of –EUR 1 (3) million.

The book value of this item corresponds to amortised cost.

N132 FAIR VALUE OF NOTES PAYABLE AND LOANS

FIGURES IN EUR MILLION

	31.12.2013	31.12.2012
Amortised cost	942	677
Unrealised gains/losses	16	—
Fair value	958	677

N133 NOTES PAYABLE AND LOANS: MATURITIES

FIGURES IN EUR MILLION

	31.12.2013	31.12.2012
One year or sooner	150	9
Later than one year, up to five years	195	635
Later than five years, up to ten years	597	33
Later than ten years, up to 20 years	—	—
Later than 20 years	—	—
Total	**942**	**677**

N131 NOTES PAYABLE

FIGURES IN EUR MILLION

	Nominal amount	Coupon	Maturity	Rating[1]	Issue	31.12.2013	31.12.2012
Talanx AG	750	Fixed (3.125%)	2013/2023	(—; A–)	These senior unsecured bonds have a fixed term and may be called only for extraordinary reasons	565	—
Talanx AG	9	Fixed (5.43%)	2003/2013	(—; —)	These bearer bonds have a fixed term and may be called only for extraordinary reasons	—	9
Total						**565**	**9**

[1] (Debt rating A. M. Best; debt rating S&P)

(27) OTHER LIABILITIES

N134 OTHER LIABILITIES

FIGURES IN EUR MILLION

	2013	2012 [1]
Liabilities under direct written insurance business	2,309	2,336
thereof to policyholders	1,533	1,535
thereof to insurance intermediaries	776	801
Reinsurance payable	1,631	1,960
Trade accounts payable	56	101
Liabilities relating to investments	300	181
Liabilities relating to non-Group lead business	142	121
Liabilities from derivatives	191	142
thereof negative market values under derivative hedging instruments	7	—
Deferred income	38	35
Interest	122	96
Liabilities to social insurance institutions	24	21
Sundry liabilities	404	373
Total other liabilities (not including liabilities relating to investment contracts)	**5,217**	**5,366**
Other liabilities relating to investment contracts		
Other obligations measured at amortised cost	916	1,007
Financial assets classified at fair value through profit or loss	766	653
Derivatives	70	53
Total other liabilities relating to investment contracts	**1,752**	**1,713**
Book value as at 31.12 of the financial year	**6,969**	**7,079**

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

OTHER LIABILITIES (NOT INCLUDING LIABILITIES RELATING TO INVESTMENT CONTRACTS)

Liabilities relating to investments include interim distributions of EUR 94 (63) million relating to units in private equity funds that could not be recognised in income as at the balance sheet date.

Liabilities from derivatives in the amount of EUR 191 (142) million mainly consist of instruments to hedge interest rate, currency, equity and inflation risks as well as embedded derivatives separated from the underlying insurance contract and recognised at market value. Cf. our remarks in item 13 in the Notes, "Derivative financial instruments and hedge accounting".

In the following table, we depict 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 to be considered separately.

N135 OTHER LIABILITIES (NOT INCLUDING LIABILITIES RELATING TO INVESTMENT CONTRACTS)[1]: MATURITIES

FIGURES IN EUR MILLION

	31.12.2013	31.12.2012
One year or sooner	1,034	822
Later than one year, up to five years	156	108
Later than five years, up to ten years	87	84
Later than ten years, up to 20 years	—	1
Later than 20 years	—	—
Without fixed maturity	—	55
Total	**1,277**	**1,070**

[1] For reasons of materiality, undiscounted cash flow was not depicted for corresponding derivatives. Instead, fair values (negative market values) of derivative financial instruments were taken into account (maturity one year or sooner, EUR 20 (14) million; 1–5 years, EUR 107 (75) million; 5–10 years, EUR 64 (52) million; 10–20 years, EUR — (1) million

OTHER LIABILITIES RELATING TO INVESTMENT CONTRACTS

Other liabilities relating to investment contracts are recognised upon 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. In subsequent periods, these contracts are measured at amortised cost.

N136 **OTHER OBLIGATIONS MEASURED AT AMORTISED COST: MATURITIES**

FIGURES IN EUR MILLION

	Amortised Cost		Fair value	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
One year or sooner	126	351	126	351
Later than one year, up to five years	388	206	388	206
Later than five years, up to ten years	402	450	402	451
Total	**916**	**1,007**	**916**	**1,008**

The fair value of investment contracts is generally calculated using repurchase values for policyholders and their account balances. Cf. our remarks in the section "Accounting policies".

N137 **FINANCIAL ASSETS CLASSIFIED AT FAIR VALUE THROUGH PROFIT OR LOSS AND DERIVATIVES[1]: MATURITIES**

FIGURES IN EUR MILLION

	31.12.2013	31.12.2012
One year or sooner	156	347
Later than one year, up to five years	87	130
Later than five years, up to ten years	37	48
Later than ten years, up to 20 years	142	144
Later than 20 years	41	—
Without fixed maturity	373	37
Total	**836**	**706**

[1] For reasons of materiality, undiscounted cash flow was not depicted for corresponding derivatives. Instead, fair values (negative market values) of derivative financial instruments were taken into account (maturity one year or sooner, EUR 6 (3) million; 1–5 years, EUR 26 (15) million; 5–10 years, EUR 11 (35) million, later than ten years, EUR 27 (—) million

The change in fair value created by the changes in the credit risk of financial assets classified at fair value through profit or loss was insignificant.

(28) DEFERRED TAXES

N138 **BALANCE SHEET ITEMS DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES**

FIGURES IN EUR MILLION

	31.12.2013	31.12.2012[1]
Deferred tax assets		
Loss and loss adjustment expense reserve	472	432
Other technical provisions	210	233
Loss carry-forwards	320	347
Benefit reserve	87	65
Other provisions	232	269
Accounts receivable on insurance business	39	20
Investments	73	158
Funds withheld by ceding companies	382	168
Premium refunds	1	1
Impairments	–130	–110
Present value of future profits (PVFP) on acquired insurance portfolios	7	7
Deferred acquisition costs	135	141
Other	381	501
Total	**2,209**	**2,232**
Deferred tax liabilities		
Equalisation reserve	1,315	1,321
Deferred acquisition costs[2]	515	586
Funds withheld by ceding companies	184	28
Accounts receivable on insurance business	81	188
Present value of future profits (PVFP) on acquired insurance portfolios	172	224
Benefit reserve	188	168
Technical provisions:	81	55
Investments	389	585
Loss and loss adjustment expense reserve	102	84
Debt consolidation	27	22
Other provisions	8	3
Premium refunds	1	40
Other	363	383
Total	**3,426**	**3,687**
Deferred tax liabilities (net)	**1,217**	**1,455**

[1] Adjusted on the basis of IAS 8, cf. "Accounting policies" section in the Notes, subsection "Changes in accounting policies and accounting errors"
[2] Deferred taxes on deferred acquisition costs relate to the net amount, i.e. the amount after allowance for reinsurers' shares

N139 RECOGNITION OF DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

FIGURES IN EUR MILLION

	31.12.2013	31.12.2012[1]
Deferred tax assets	532	529
Deferred tax liabilities	1,749	1,984
Deferred tax liabilities (net)	**1,217**	**1,455**

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

Of the net change in deferred tax assets and liabilities, EUR 12 million was recognised in profit and loss, relating mainly to the balance sheet items "Funds withheld by ceding companies" and "Accounts receivable on insurance business", and EUR 226 million in "Other comprehensive income".

NOTES ON THE CONSOLIDATED STATEMENT OF INCOME

(29) NET PREMIUM EARNED

N140 NET PREMIUM EARNED

FIGURES IN EUR MILLION

	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
2013[1]							
Gross written premium, including premiums from unit-linked life and annuity insurance	3,770	6,891	4,220	7,309	5,961	—	**28,151**
Savings elements of premiums from unit-linked life and annuity insurance	—	946	185	—	—	—	**1,131**
Ceded written premium	1,650	166	241	771	702	9	**3,539**
Change in gross unearned premium	–111	–70	–174	–123	–28	—	**–506**
Change in ceded unearned premium	–85	–18	–27	–9	1	—	**–138**
Net premium earned	**2,094**	**5,727**	**3,647**	**6,424**	**5,230**	**–9**	**23,113**
2012[1]							
Gross written premium, including premiums from unit-linked life and annuity insurance	3,512	6,766	3,261	7,273	5,847	—	26,659
Savings elements of premiums from unit-linked life and annuity insurance	—	976	224	—	—	—	1,200
Ceded written premium	1,566	132	215	742	598	—	3,253
Change in gross unearned premium	–78	–40	–83	–148	18	—	–331
Change in ceded unearned premium	–47	–13	–8	–55	–1	—	–124
Net premium earned	1,915	5,631	2,747	6,438	5,268	—	21,999

[1] After elimination of internal transactions within the Group across segments

(30) NET INVESTMENT INCOME

N141 **NET INVESTMENT INCOME FOR REPORTING PERIOD**

FIGURES IN EUR MILLION

	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
2013[1]							
Income from real estate	6	68	1	72	—	—	**147**
Dividends[2]	9	9	4	12	2	8	**44**
Current interest income	190	1,532	252	672	226	3	**2,875**
Other income	5	10	1	56	9	—	**81**
Ordinary investment income	**210**	**1,619**	**258**	**812**	**237**	**11**	**3,147**
Appreciation	—	10	1	—	—	—	**11**
Realised gains on investments	59	365	63	134	40	81	**742**
Unrealised gains on investments	10	12	17	6	18	—	**63**
Investment income	**279**	**2,006**	**339**	**952**	**295**	**92**	**3,963**
Realised losses on investments	28	51	24	27	7	—	**137**
Unrealised losses on investments	2	10	21	44	7	1	**85**
Total	**30**	**61**	**45**	**71**	**14**	**1**	**222**
Impairments/depreciation on investment property							
scheduled	1	12	—	14	—	—	**27**
unscheduled	1	10	—	1	—	—	**12**
Impairments on equity securities	—	5	6	—	—	1	**12**
Impairments on fixed-income securities	3	3	—	1	—	—	**7**
Impairments on investments	—	—	—	—	—	—	**—**
Impairments on other investments	2	36	2	4	—	—	**44**
Expenses for the administration of investments	5	16	4	15	3	71	**114**
Other expenses	2	27	6	39	6	—	**80**
Other investment expenses/impairments	**14**	**109**	**18**	**74**	**9**	**72**	**296**
Investment expenses	**44**	**170**	**63**	**145**	**23**	**73**	**518**
Net income from investments under own management	**235**	**1,836**	**276**	**807**	**272**	**19**	**3,445**
Income/expense from investment contracts	**—**	**—**	**13**	**—**	**—**	**—**	**13**
Interest income from funds withheld and contract deposits	1	—	—	21	451	—	**473**
Interest expense from funds withheld and contract deposits	—	16	—	6	117	—	**139**
Net interest income from funds withheld and contract deposits	**1**	**–16**	**—**	**15**	**334**	**—**	**334**
Net investment income	**236**	**1,820**	**289**	**822**	**606**	**19**	**3,792**

[1] After elimination of internal transactions within the Group across segments

[2] Income from investments in associated companies and joint ventures amounts to EUR 13 million and is recognised under dividends

N141 NET INVESTMENT INCOME FOR PREVIOUS PERIOD

FIGURES IN EUR MILLION

	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
2012[1]							
Income from real estate	4	56	1	47	—	—	**108**
Dividends[2]	11	6	4	7	5	14	**47**
Current interest income	201	1,530	226	733	233	4	**2,927**
Other income	8	15	—	56	4	—	**83**
Ordinary investment income	**224**	**1,607**	**231**	**843**	**242**	**18**	**3,165**
Appreciation	2	6	8	3	—	—	**19**
Realised gains on investments	28	144	45	200	70	3	**490**
Unrealised gains on investments	6	68	33	46	55	—	**208**
Investment income	**260**	**1,825**	**317**	**1,092**	**367**	**21**	**3,882**
Realised losses on investments	9	45	22	36	6	—	**118**
Unrealised losses on investments	2	4	7	10	2	1	**26**
Total	**11**	**49**	**29**	**46**	**8**	**1**	**144**
Impairments/depreciation on investment property							
scheduled	1	12	—	10	—	—	**23**
unscheduled	—	8	—	1	—	—	**9**
Impairments on equity securities	—	4	4	—	2	—	**10**
Impairments on fixed-income securities	2	21	—	1	1	—	**25**
Impairments on investments	—	2	—	—	—	—	**2**
Impairments on other investments	1	17	—	7	—	—	**25**
Expenses for the administration of investments	4	15	3	20	2	60	**104**
Other expenses	2	28	4	34	4	4	**76**
Other investment expenses/impairments	**10**	**107**	**11**	**73**	**9**	**64**	**274**
Investment expenses	**21**	**156**	**40**	**119**	**17**	**65**	**418**
Net income from investments under own management	**239**	**1,669**	**277**	**973**	**350**	**–44**	**3,464**
Income/expense from investment contracts	**—**	**—**	**8**	**—**	**—**	**—**	**8**
Interest income from funds withheld and contract deposits	—	—	—	22	439	—	**461**
Interest expense from funds withheld and contract deposits	—	23	—	9	106	—	**138**
Net interest income from funds withheld and contract deposits	**—**	**–23**	**—**	**13**	**333**	**—**	**323**
Net investment income	**239**	**1,646**	**285**	**986**	**683**	**–44**	**3,795**

[1] After elimination of internal transactions within the Group across segments
[2] Income from investments in associated companies and joint ventures amounts to EUR 7 million and is recognised under dividends

Of the impairments totalling EUR 75 (71) million, an amount of EUR 12 (10) million was attributable to equities, EUR 27 (16) million to real estate funds and EUR 14 (7) to private equity capital. The impairment on investment property amounted to EUR 12 (9) million. On the other hand, there was appreciation of EUR 11 (19) million on investments that had been written down in previous periods. Appreciation on fixed-income securities amounted to EUR 5 (11) million. Appreciation of EUR 6 (6) million was recorded on investment property.

Net income from the disposal of securities amounted to EUR 605 (372) million. This is principally attributable to the disposal of portfolio securities, mostly of short duration, during the optimisation of yields and durations (more details on this are contained in the Management Report). In addition, Talanx AG sold part of its stake in Swiss Life Holding AG on the market.

In addition, as at the balance sheet date, the portfolio did not contain any other overdue, unadjusted securities, because overdue securities are written down immediately.

N142 **INTEREST INCOME FROM INVESTMENTS**

FIGURES IN EUR MILLION

	2013	2012
Loans and receivables	1,323	1,355
Financial instruments held to maturity	126	149
Financial instruments available for sale	1,309	1,291
Financial instruments at fair value through profit or loss		
Financial instruments classified at fair value through profit or loss	57	57
Financial instruments held for trading	1	1
Other	74	58
Loans and receivables – Investment contracts	27	17
Financial instruments classified at fair value through profit or loss – Investment contracts	32	17
Financial instruments available for sale – Investment contracts	1	—
Total	**2,950**	**2,945**

NET GAINS AND LOSSES FROM INVESTMENTS

The net gains and losses on investments shown in the following table are based largely on the classes established by the Group (see here “Classes of financial instruments” in section “Nature of risks associated with insurance contracts and financial instruments”, pages 189 et seqq.).

Making allowance for “Expenses for assets under own management” (EUR 114 [104] million) as well as for “Other expenses on assets under own management (EUR 80 [76] million), “Net investment income” as at the balance sheet date amounted to EUR 3,792 (3,795) million.

N143 NET GAINS AND LOSSES FROM INVESTMENTS — REPORTING PERIOD

FIGURES IN EUR MILLION

	Ordinary investment income	Amortisation	Gains on disposal	Losses on disposal	Impairments	Appreciation	Unrealised gains	Unrealised losses	**Total** [3]
2013 [1]									
Investments in affiliated companies and participating interests	5	—	1	1	2	—	—	—	**3**
Loans and receivables	1,241	82	177	1	4	—	—	—	**1,495**
Held to maturity	132	–6	1	—	—	—	—	—	**127**
Available for sale									
Fixed-income securities	1,362	–53	333	56	3	4	—	—	**1,587**
Variable-yield securities	39	—	141	5	40	—	1	1	**135**
At fair value through profit or loss									
Financial assets classified as fair value through profit or loss									
Fixed-income securities	57	—	8	12	—	—	18	19	**52**
Variable-yield securities	1	—	—	1	—	—	7	2	**5**
Financial assets held for trading									
Fixed-income securities	1	—	—	—	—	—	—	—	**1**
Variable-yield securities	1	—	10	6	—	—	4	1	**8**
Derivatives	5	—	46	53	—	—	14	20	**–8**
Other invested assets, insofar as they are financial assets	116	3	8	—	14	—	3	2	**114**
Other [2]	161	—	17	2	39	7	16	40	**120**
Investments under own management	**3,121**	**26**	**742**	**137**	**102**	**11**	**63**	**85**	**3,639**
Loans and receivables (assets)	25	2	—	—	—	—	—	—	**27**
Financial assets classified as fair value through profit or loss (assets)	32	—	23	60	—	—	157	175	**–23**
Financial assets available for sale (assets)	1	—	—	—	—	—	—	—	**1**
Financial assets held for trading (assets) – (derivatives)	—	—	1	3	—	—	14	32	**–20**
Other obligations measured at amortised cost (liabilities)	–33	–2	—	—	—	—	—	—	**–35**
Financial assets classified as fair value through profit or loss (liabilities)	–8	—	—	—	—	—	174	163	**3**
Liabilities held for trading – (derivatives)	—	—	—	—	—	—	32	15	**17**
Other [4]	52	–9	—	—	—	—	—	—	**43**
Income/expense from investment contracts	**69**	**–9**	**24**	**63**	**—**	**—**	**377**	**385**	**13**
Funds withheld by ceding companies/ funds withheld under reinsurance treaties	334	—	—	—	—	—	—	—	**334**
Total	**3,524**	**17**	**766**	**200**	**102**	**11**	**440**	**470**	**3,986**

[1] After elimination of internal transactions within the Group across segments

[2] For the purposes of reconciliation with the consolidated statement of income, the item "Other" combines the gains on investment property, associated companies and derivative financial instruments – insofar as the fair values are negative. Derivatives held for hedging purposes within the scope of hedge accounting (cf. Note 12) are not included in the list if they do not relate to hedges in the area of investments

[3] Without expenses for the administration of investments and other expenses

[4] "Other" includes income (EUR 83 million) and expenses (EUR 31 million) from the management of investment contracts. The amortisation of the PVFP amounted to EUR 9 million

N143 **NET GAINS AND LOSSES FROM INVESTMENTS — PREVIOUS YEAR**

FIGURES IN EUR MILLION

	Ordinary investment income	Amortisation	Gains on disposal	Losses on disposal	Impairments	Appreciation	Unrealised gains	Unrealised losses	Total[3]
2012[1]									
Investments in affiliated companies and participating interests	5	—	4	—	—	—	—	—	**9**
Loans and receivables	1,279	76	32	1	3	—	—	—	**1,383**
Held to maturity	155	–6	—	3	—	—	—	—	**146**
Available for sale									
Fixed-income securities	1,306	–15	285	60	21	11	—	—	**1,506**
Variable-yield securities	41	—	63	3	26	—	23	—	**98**
At fair value through profit or loss									
Financial assets classified as fair value through profit or loss									
Fixed-income securities	57	—	16	10	—	—	56	6	**113**
Variable-yield securities	1	—	—	—	—	—	5	1	**5**
Financial assets held for trading									
Fixed-income securities	1	—	—	—	—	—	—	—	**1**
Variable-yield securities	—	—	3	1	—	—	2	1	**3**
Derivatives	4	—	19	21	—	—	83	5	**80**
Other invested assets, insofar as they are financial assets	83	–2	6	3	25	6	3	—	**68**
Other[2]	176	4	62	16	19	2	36	13	**232**
Investments under own management	**3,108**	**57**	**490**	**118**	**94**	**19**	**208**	**26**	**3,644**
Loans and receivables (assets)	17	—	—	—	—	—	—	—	**17**
Financial assets classified as fair value through profit or loss (assets)	17	—	3	8	—	—	142	120	**34**
Financial assets held for trading (assets) – (derivatives)	1	—	2	2	—	—	7	10	**–2**
Other obligations measured at amortised cost (liabilities)	–19	—	—	—	—	—	—	—	**–19**
Financial assets classified as fair value through profit or loss (liabilities)	–4	—	—	—	—	—	8	41	**–37**
Liabilities held for trading – (derivatives)	1	—	—	—	—	—	—	7	**–6**
Other[4]	29	–8	—	—	—	—	—	—	**21**
Income/expense from investment contracts	**42**	**–8**	**5**	**10**	**—**	**—**	**157**	**178**	**8**
Funds withheld by ceding companies/funds withheld under reinsurance treaties	323	—	—	—	—	—	—	—	**323**
Total	**3,473**	**49**	**495**	**128**	**94**	**19**	**365**	**204**	**3,975**

1) After elimination of internal transactions within the Group across segments
2) For the purposes of reconciliation with the consolidated statement of income, the item "Other" combines the gains on investment property, associated companies and derivative financial instruments – insofar as the fair values are negative. Derivatives held for hedging purposes within the scope of hedge accounting (cf. Note 12) are not included in the list if they do not relate to hedges in the area of investments
3) Without expenses for the administration of investments and other expenses
4) "Other" contains income (EUR 41 million) and expenses (EUR 12 million) from the management of investment contracts. Amortisation on PVFP totalled EUR 8 million

(31) CLAIMS AND CLAIMS EXPENSES

N144 CLAIMS AND CLAIMS EXPENSES

FIGURES IN EUR MILLION

	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
2013[1]							
Gross							
Claims and claims expenses paid	2,454	3,843	1,947	3,951	4,855	—	**17,050**
Change in loss and loss adjustment expense reserve	351	131	212	975	17	—	**1,686**
Change in benefit reserve	—	1,298	466	—	203	—	**1,967**
Expenses for premium refunds	8	903	6	—	—	—	**917**
Total	**2,813**	**6,175**	**2,631**	**4,926**	**5,075**	**—**	**21,620**
Reinsurers' share							
Claims and claims expenses paid	1,326	139	92	472	567	—	**2,596**
Change in loss and loss adjustment expense reserve	–205	30	13	–55	20	1	**–196**
Change in benefit reserve	—	–23	–8	—	32	—	**1**
Expenses for premium refunds	1	—	3	—	—	—	**4**
Total	**1,122**	**146**	**100**	**417**	**619**	**1**	**2,405**
Net							
Claims and claims expenses paid	1,128	3,704	1,855	3,479	4,288	—	**14,454**
Change in loss and loss adjustment expense reserve	556	101	199	1,030	–3	–1	**1,882**
Change in benefit reserve	—	1,321	474	—	171	—	**1,966**
Expenses for premium refunds	7	903	3	—	—	—	**913**
Total	**1,691**	**6,029**	**2,531**	**4,509**	**4,456**	**–1**	**19,215**

[1] Presentation after elimination of cross-segment transactions

N144 CLAIMS AND CLAIMS EXPENSES

FIGURES IN EUR MILLION

	Industrial Lines[2]	Retail Germany[2]	Retail International	Non-Life Reinsurance	Life/Health Reinsurance[2]	Corporate Operations	Total
2012[1]							
Gross							
Claims and claims expenses paid	2,306	3,779	1,741	4,265	4,197	—	**16,288**
Change in loss and loss adjustment expense reserve	282	–10	155	681	273	—	**1,381**
Change in benefit reserve	–1	1,315	94	—	637	—	**2,045**
Expenses for premium refunds	6	821	12	—	—	—	**839**
Total	**2,593**	**5,905**	**2,002**	**4,946**	**5,107**	**—**	**20,553**
Reinsurers' share							
Claims and claims expenses paid	903	116	84	390	434	—	**1,927**
Change in loss and loss adjustment expense reserve	267	–4	–3	–12	48	—	**296**
Change in benefit reserve	—	–48	–4	—	16	—	**–36**
Expenses for premium refunds	1	—	9	—	—	—	**10**
Total	**1,171**	**64**	**86**	**378**	**498**	**—**	**2,197**
Net							
Claims and claims expenses paid	1,403	3,663	1,657	3,875	3,763	—	**14,361**
Change in loss and loss adjustment expense reserve	15	–6	158	693	225	—	**1,085**
Change in benefit reserve	–1	1,363	98	—	621	—	**2,081**
Expenses for premium refunds	5	821	3	—	—	—	**829**
Total	**1,422**	**5,841**	**1,916**	**4,568**	**4,609**	**—**	**18,356**

[1] Presentation after elimination of cross-segment transactions
[2] Adjusted on the basis of IAS 8, see section "Accounting policies", subsection "Changes in accounting policies and accounting errors" in the Notes

(32) ACQUISITION COSTS AND ADMINISTRATIVE EXPENSES

N145 ACQUISITION COSTS AND ADMINISTRATIVE EXPENSES

FIGURES IN EUR MILLION

	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Total
2013 [1]						
Gross						
Acquisition costs and reinsurance commissions	475	966	936	1,571	1,083	**5,031**
Changes in deferred acquisition costs and change in reserves for commissions	–12	–135	–87	–39	56	**–217**
Total acquisition costs	**463**	**831**	**849**	**1,532**	**1,139**	**4,814**
Administrative expenses	250	314	188	180	157	**1,089**
Total acquisition costs and administrative expenses	**713**	**1,145**	**1,037**	**1,712**	**1,296**	**5,903**
Reinsurers' share						
Acquisition costs and reinsurance commissions	273	18	46	121	103	**561**
Changes in deferred acquisition costs and change in reserves for commissions	–5	12	9	–8	–17	**–9**
Total acquisition costs	**268**	**30**	**55**	**113**	**86**	**552**
Net						
Acquisition costs and reinsurance commissions	202	948	890	1,450	980	**4,470**
Changes in deferred acquisition costs and change in reserves for commissions	–7	–147	–96	–31	73	**–208**
Total acquisition costs	**195**	**801**	**794**	**1,419**	**1,053**	**4,262**
Administrative expenses	250	314	188	180	157	**1,089**
Total acquisition costs and administrative expenses	**445**	**1,115**	**982**	**1,599**	**1,210**	**5,351**
2012 [1]						
Gross						
Acquisition costs and reinsurance commissions	434	1,012	664	1,582	1,018	**4,710**
Changes in deferred acquisition costs and change in reserves for commissions	–3	–254	–67	–30	–72	**–426**
Total acquisition costs	**431**	**758**	**597**	**1,552**	**946**	**4,284**
Administrative expenses	220	309	190	166	145	**1,030**
Total acquisition costs and administrative expenses	**651**	**1,067**	**787**	**1,718**	**1,091**	**5,314**
Reinsurers' share						
Acquisition costs and reinsurance commissions	260	16	36	101	61	**474**
Changes in deferred acquisition costs and change in reserves for commissions	–4	14	10	–14	–4	**2**
Total acquisition costs	**256**	**30**	**46**	**87**	**57**	**476**
Net						
Acquisition costs and reinsurance commissions	174	996	628	1,481	957	**4,236**
Changes in deferred acquisition costs and change in reserves for commissions	1	–268	–77	–16	–68	**–428**
Total acquisition costs	**175**	**728**	**551**	**1,465**	**889**	**3,808**
Administrative expenses	220	309	190	166	145	**1,030**
Total acquisition costs and administrative expenses	**395**	**1,037**	**741**	**1,631**	**1,034**	**4,838**

[1] Presentation after elimination of cross-segment transactions

(33) OTHER INCOME/EXPENSES

N146 COMPOSITION OF OTHER INCOME/EXPENSES

FIGURES IN EUR MILLION

	2013	2012[1]
Other income		
Foreign exchange gains	252	105
Income from services, rents and commissions	224	194
Reversals of impairments on receivables	22	18
Income from contracts recognised in accordance with the deposit accounting method	68	59
Income from the sale of property, plant and equipment	6	1
Income from the release of other non-technical provisions	28	41
Interest income	46	33
Income from the repurchase of own securities	6	9
Miscellaneous income	156	135
Total	**808**	**595**
Other expenses		
Foreign exchange losses	244	148
Other interest expenses	157	188
Depreciation and impairments	122	130
Expenses for the company as a whole	286	234
Expenses for personnel	30	45
Expenses for services and commissions	106	123
Other taxes	54	45
Expenses from the measurement of disposal groups	—	2
Allocation for restructuring provisions	13	14
Miscellaneous expenses	203	266
Total	**1,215**	**1,195**
Other income/expenses	**–407**	**–600**

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

"Other income/expenses" does not in general include personnel expenses of our insurance companies, insofar as these expenses are attributed according to functional units by means of cost object accounting and allocated to investment expenses, claims and claims expenses as well as acquisition costs and administrative expenses. In the same way, this also applies to depreciation/amortisation and impairments of intangible and other assets of our insurance companies.

"Other income/expenses" for the reporting period just ended does not contain any material income from the release of restructuring provisions. Cf. our explanatory remarks in the Notes, item 25 "Sundry provisions" regarding the allocation for restructuring provisions.

(34) FINANCING COSTS

The financing costs of EUR 206 (185) million consist exclusively of interest expenses from raising borrowed capital not directly connected with the operational insurance business. These interest expenses are attributable in an amount of EUR 188 (177) million to our issued subordinated liabilities, in an amount of EUR 16 (2) million to other interest expenses and in an amount of EUR 2 (6) million to bank liabilities of Talanx AG (cf. Notes, item 26 "Notes payable and loans").

(35) TAXES ON INCOME

This item includes both domestic income tax and comparable taxes on income incurred by foreign subsidiaries. Determination of the income tax includes the calculation of deferred taxes. The principles used to recognise deferred taxes are set out in section "Summary of major accounting policies". Deferred taxes are established on retained earnings of major affiliated companies in cases where a distribution is specifically planned.

N147 TAXES ON INCOME — ACTUAL AND DEFERRED

FIGURES IN EUR MILLION

	2013	2012[1]
Actual tax for the reporting year	332	399
Actual tax for other periods	–24	–17
Deferred taxes due to temporary differences	–49	124
Deferred taxes from loss carry forwards	44	–84
Change in deferred taxes due to changes in tax rates	–7	–3
Recognised tax expenditure	**296**	**419**

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

N148 DOMESTIC/FOREIGN BREAKDOWN OF RECOGNISED TAX EXPENDITURE/INCOME

FIGURES IN EUR MILLION

	2013	2012 [1]
Current taxes	308	382
Domestic	142	236
Foreign	166	146
Deferred taxes	–12	37
Domestic	8	–19
Foreign	–20	56
Total	**296**	**419**

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

Actual and deferred taxes recognised in the financial year under other comprehensive income and directly in equity – resulting from items charged or credited to other comprehensive income or directly to equity – amounted to EUR 234 (–224) million and EUR 0 (–9) million, respectively.

The following table presents a reconciliation of the expected expense for income taxes that would be incurred upon applying the German income tax rate to the pre-tax profit with the actual expense for taxes:

N149 RECONCILIATION OF EXPECTED AND RECOGNISED INCOME TAX EXPENSES

FIGURES IN EUR MILLION

	2013	2012 [1]
Profit before income taxes	1,578	1,563
Expected tax rate	31.6%	31.6%
Expected expense for income taxes	499	494
Change in deferred rates of taxation	–7	–3
Difference due to foreign tax rates	–99	–89
Non-deductible expenses	63	81
Tax-exempt income	–206	20
Value adjustment on deferred tax assets	27	–85
Tax expense not attributable to the reporting period	18	2
Other	1	–1
Recognised tax expenditure	**296**	**419**

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

The calculation of the expected expense for income taxes 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 German reunification charge and a mixed trade tax rate.

The tax ratio, i.e. the ratio of recognised tax expense to pre-tax profit, stood at 18.8 (26.9)% in the reporting year. The tax rate corresponds to the average income tax load borne by all Group companies.

No deferred taxes were established on taxable temporary differences under assets amounting to EUR 108 (112) million and under liabilities amounting to EUR 84 (130) million in connection with shares in Group companies as the Group is able to direct their reversal, and they will not reverse in the foreseeable future.

The unadjusted deferred tax assets on loss carry forwards totalling EUR 223 (250) million are likely to be realised in the amount of EUR 29 (17) million within a year and in the amount of EUR 194 (233) million after one year.

AVAILABILITY OF UNCAPITALISED LOSS CARRY FORWARDS

An impairment of deferred taxes was recorded on loss carry forwards of EUR 381 (376) million and deductible temporary differences of EUR 121 (54) million gross in the People's Republic of China, Turkey and Germany because their realisation is not sufficiently certain. In addition, in the reporting year there were impaired tax credits in the USA of EUR 13 (0) million gross. The impaired deferred tax assets for these items total EUR 130 (110) million, cf. table N150.

In the reporting year, actual corporate income tax fell by EUR 5 (—) million since loss carry forwards were used but no associated deferred tax claims were made.

The devaluation of deferred tax claims recognised in previous years led to a deferred tax expense of EUR 3 (4) million in the 2013 financial year. On the other hand, the correction of previous devaluations produced deferred taxes of EUR 9 (92) million.

In terms of losses in the reporting or the previous year, excess deferred tax claims are only recognised to the extent it is probable that the given company will generate sufficient taxable profits in the future. Such proof was provided for deferred tax claims amounting to EUR 212 (90) million.

N150 **IMPAIRED LOSS CARRY FORWARDS, TEMPORARY DIFFERENCES AND TAX CREDITS**

FIGURES IN EUR MILLION

	2013 1 year to 5 years	2013 6 years to 10 years	2013 >10 years	2013 Un-limited	2013 Total	2012 1 year to 5 years	2012 6 years to 10 years	2012 >10 years	2012 Un-limited	2012 Total
Loss carry forwards										
thereof domestic loss carry forwards										
Corporate tax	—	—	—	55	55	—	—	—	26	26
Trade tax	—	—	—	27	27	—	—	—	20	20
thereof foreign loss carry forwards										
Luxembourg	—	—	—	155	155	—	—	—	151	151
Turkey	28	—	—	—	28	63	—	—	—	63
Austria	—	—	—	51	51	—	—	—	51	51
Other	—	1	14	50	65	10	1	15	39	65
Total	28	1	14	338	381	73	1	15	287	376
Temporary differences	—	—	—	121	121	—	—	—	54	54
Tax credits	—	—	—	13	13	—	—	—	—	—
Total	28	1	14	472	515	73	1	15	341	430

OTHER INFORMATION

STAFF AND EXPENDITURES ON PERSONNEL

STAFF

N151 AVERAGE ANNUAL NUMBER OF STAFF EMPLOYED

	2013	2012
Industrial Lines	2,878	2,770
Retail Germany	5,092	5,335
Retail International	8,072	8,598
Reinsurance companies	2,376	2,263
Corporate Operations	2,792	2,588
Total excluding apprentices and student trainees	**21,210**	**21,554**
Apprentices and student trainees	509	493
Total	**21,719**	**22,047**

As at the balance sheet date, a total workforce of 21,529 (22,180) was employed by the Group.

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

EXPENSES FOR PERSONNEL

Expenses for personnel mainly comprise expenditures on insurance operations, claims management (loss adjustment) and the management of investments.

N152 BREAKDOWN OF EXPENSES FOR PERSONNEL

FIGURES IN EUR MILLION

	2013	2012
Wages and salaries	**1,087**	**1,005**
Social security contributions and expenditure on provisions and assistance		
Social security contributions	137	127
Expenditures for pension scheme	73	73
Expenditures for assistance	19	18
	229	**218**
Total	**1,316**	**1,223**

RELATED-PARTY DISCLOSURES

IAS 24 "Related Party Disclosures" defines related parties as e.g. parent companies and subsidiaries, subsidiaries of a common parent company, associated companies, legal entities under the influence of management and the management of the company itself.

Related entities within the Talanx Group consist of HDI Haftpflichtverband der Deutschen Industrie Versicherungsverein auf Gegenseitigkeit (HDI V. a. G.), which directly holds the majority of the shares of Talanx AG; all subsidiaries that are not consolidated on the grounds of materiality, as well as associated companies and joint ventures. In addition, there are the provident funds that pay benefits in favour of employees of Talanx AG or one of its related entities after termination of their employment.

A person or a close relative of said person is related to the reporting company if this person controls the reporting company or participates in its joint control, exerts significant influence on the reporting company or occupies a key position in the management of the reporting company or a parent company of the reporting company. Management in key positions comprises the members of the Board of Management and the Supervisory Board of Talanx AG and of HDI V. a. G.

Transactions between Talanx and its subsidiaries are eliminated on consolidation and hence not discussed in the Notes. On 10 May 2013, loans to HDI V. a. G. in the nominal amount of EUR 110 million were repaid early. In addition, HDI V. a. G. conducts primary insurance business in the form of co-insurance, with the lead insurance companies being HDI-Gerling Industrie Versicherung AG (HG-I) Hannover and HDI Versicherung AG (HV), Hannover. Pursuant to the Articles of Association of HDI V. a. G., insurance business is split in the ratio 0.1% (HDI V. a. G.) to 99.9% (HG-I/HV).

In connection with operating activity, there is a contractual relationship between Ampega Investment GmbH, Cologne, and C-QUADRAT Investment AG, Vienna (an associated company measured at equity in the consolidated financial statements), for outsourcing of the portfolio management of special investment funds. As at the balance sheet date, the transactions gave rise to expenses for portfolio management services provided in the amount EUR 10 million.

Furthermore, transactions for Group companies by subsidiaries HDI-Gerling Sicherheitstechnik GmbH and HDI Direkt Service GmbH (both Hannover), not consolidated on grounds of materiality, generated income of EUR 11 million and expenses of EUR 9 million; the latter primarily concerns HV in connection with the portfolio management of insurance contracts.

Business relations with unconsolidated companies and with associated companies and joint ventures are of minor importance overall.

In addition, there are service contracts with a company in which a member of the Supervisory Board participates. During the reporting period, the company generated revenues under these contracts in the amount of EUR 0.5 million with Group companies.

For details on the remuneration received by members of the Board of Management and Supervisory Board of Talanx AG, please see the remarks in the remuneration report on page 100 et seqq. and subsection "Remuneration of the parent company's management bodies".

SHARE-BASED REMUNERATION

The following share-based remuneration schemes were operating within the Group in the 2013 financial year:

- Stock appreciation rights scheme (SAR) of Hannover Rück SE (operating since 2000, being phased out in stages since 2011 and close to being wound up)
- share award scheme (share-based remuneration in the form of virtual shares, operating since 2011)

These schemes and their impact on the profit for the year and the Group's assets, financial position and net income are described below.

STOCK APPRECIATION RIGHTS SCHEME OF 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 (SAR) to certain managerial staff. The content of the stock option scheme is solely based on the Conditions for the Granting of Stock Appreciation Rights. All members of the Group's senior management are eligible for the award of stock appreciation rights. Exercising the 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.

A resolution passed by the Supervisory Board on 8 November 2010 revoked the Conditions for the Granting of Stock Appreciation Rights for 2011 in respect of any stock appreciation rights that could have been granted to the Board of Management members on the basis of those Conditions (partial termination). For the reporting year, the resolution passed by the Board of Management on 14 March 2011 also revoked the Conditions for the Granting of Stock Appreciation Rights for other eligible managerial staff. Stock appreciation rights that have already been assigned may be exercised up to the time of their expiry.

Stock appreciation rights were first granted for the 2000 financial year and until the termination of the scheme are awarded separately for each subsequent financial year (allocation year), provided that the performance criteria defined in the Conditions for the Granting of Stock Appreciation Rights are satisfied.

The term of the stock appreciation rights is ten years, commencing at the end of the year in which they are awarded. Stock appreciation rights which are not exercised by the end of the 10-year period lapse. Stock appreciation rights may only be exercised after a waiting period and then only within four exercise periods each year. Upon expiry of a four-year waiting period a maximum of 60% of the stock appreciation rights awarded for any allocation year may be exercised. The waiting period for each further 20% of the stock appreciation rights awarded to a member of managerial staff for that allocation year is one year. 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 party exercising a stock appreciation right is the difference between the baseline price and the current market price of the Hannover Rück SE share at the time when exercised. In this context, the baseline 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 market price of the Hannover Rück SE share at the time when stock appreciation rights are exercised is the arithmetic mean of the closing prices of the Hannover Rück SE share 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 as the quotient of the total volume of remuneration to be granted in the allocation year and the total number of stock appreciation rights awarded in that year.

If the holder's contract with the company is terminated by either party or by mutual agreement or ends upon expiry of a fixed term, a holder of stock appreciation rights is entitled to exercise all such rights in the first exercise period thereafter. Any stock appreciation rights not exercised within this period and any whose waiting period has not yet expired will lapse. Retirement, incapacity or death of the member of management does not constitute termination for the purpose of exercising stock appreciation rights.

The allocations for the years 2006, 2007 and 2009 to 2011 gave rise to the commitments in the 2013 financial year outlined in the following table. No allocations were made for the years 2005 and 2008.

N153 HANNOVER RÜCK SE STOCK APPRECIATION RIGHTS

	Allocation year					
	2011	2010	2009	2007	2006	2004
Award date	15.3.2012	8.3.2011	15.3.2010	28.3.2008	13.3.2007	24.3.2005
Term	10 years	10 years	10 years	10 years	10 years	10 years
Waiting period	4 years	4 years	2 years	2 years	2 years	2 years
Baseline price (figures in EUR)	40.87	33.05	22.70	34.97	30.89	27.49
Participants in year of issue	143	129	137	110	106	109
Number of rights granted	263,515	1,681,205	1,569,855	926,565	817,788	211,171
Fair value as at 31.12.2012 (figures in EUR)	19.62	8.38	8.76	10.79	10.32	24.62
Maximum value (figures in EUR)	32.21	8.92	8.76	10.79	10.32	24.62
Weighted exercise price (figures in EUR)	—	—	8.76	10.79	10.32	24.62
Number of rights as at 31.12.2012	259,005	1,640,070	639,295	48,340	8,269	—
Provisions as at 31.12.2012 (figures in EUR million)	2.12	7.81	5.02	0.52	0.85	—
Amounts paid out in the 2012 financial year (figures in EUR million)	—	—	2.50	2.08	0.19	0.08
Expense in the 2012 financial year (figures in EUR million)	1.18	2.73	1.32	—	—	—

The accumulated stock appreciation rights are valued on the basis of the Black/Scholes option pricing model.

The calculations were based on the year-end closing price of Hannover Re shares of EUR 58.97 as at 13 December 2013, an expected volatility of 31.33% (historical volatility on a five-year basis), an expected dividend yield of 4.49% and a risk-free interest rate of 0.39% for the 2006 allocation year, 0.60% for the 2007 allocation year, 1.08% for the 2009 allocation year, 1.32% for the 2010 allocation year and 1.55% for the 2011 allocation year.

In the 2013 financial year, the waiting period expired for 100% of the stock appreciation rights granted for the years 2003, 2004, 2006 and 2007 as well as 60% of those for 2009.

3,354 stock appreciation rights from the 2004 allocation year, 18,222 stock appreciation rights from the 2006 allocation year, 192,512 stock appreciation rights from the 2007 allocation year and 284,959 stock appreciation rights from the 2009 allocation year were exercised. The total amount paid out was EUR 4.85 million.

On this basis the aggregate provisions, which are recognised in the sundry non-technical provisions, amounted to EUR 16 (15) million for the 2013 financial year. Total expenditure amounted to EUR 5 (12) million.

SHARE AWARD SCHEME

For Talanx AG and the major Group companies including Hannover Rück SE, it was resolved to introduce a share award scheme initially for the members of the Boards of Management and then for certain managerial staff, with effect from the 2011 financial year, that grants stock appreciation rights in the form of virtual shares, known as "share awards". This share award scheme comes in two versions:

- Talanx share awards (for members of the Talanx Board of Management and the major Group companies and certain managerial staff, other than Hannover Rück SE)
- Hannover Re share awards (for members of the Board of Management of Hannover Rück SE and from the 2012 financial year also for certain managerial staff of Hannover Rück SE. This share award scheme replaces the terminated stock appreciation rights scheme of Hannover Re. Please refer to our remarks in section "Stock appreciation rights scheme of Hannover Rück SE"

The share awards do not entitle participants to demand actual shares, 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 whose service or employment relationship 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 waiting period.

Share awards will first be issued for the 2011 financial year 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. The conditions for participants prescribe for the calculation 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 the managerial staff of Hannover Rück SE the period is 20 trading days before to 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 entitled participant by the value per share, rounded up to the next full share. For Board of Management members of Talanx and major Group companies as well as Hannover Rück SE 20% of the individual's defined variable remuneration is allocated in share awards, while for the managerial staff of Hannover Rück SE the figure is 40% or 35% according to the management levels.

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 disbursement date is paid out after a waiting period of four years. The value per share is calculated using the procedure described in the previous paragraph.

The amount payable to each entitled participant is the total value – calculated at the time of disbursement – of the share awards for which the four-year waiting period has expired. 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.

Together with payment of the value of the share awards, an amount equal to the dividend – if dividends were distributed to shareholders – is paid. The amount of the dividend is the sum of all dividends paid per share during the term of the share awards multiplied by the number of share awards paid out to each entitled participant at the time of disbursement. 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 pay-out will be paid. Proportionate shares in dividends not yet distributed are not taken into account.

If the entitled participant's period of office as a member of the Board or the service contract with the member of the Board or the employment contract with the participant ends, the participant remains entitled to payment of the value of any share awards already granted at the time of expiry of the respective waiting period, unless said termination is based on resignation of the participant, or resignation/dismissal for good cause. In the event of death of the participant, entitlement to share awards already allocated or still to be allocated passes to the heirs. All share awards are calculated based on the value per share determined on the disbursement date.

No share awards may essentially be allocated after the participant has left the company, except if the participant has left the company due to non-reappointment, retirement or death, and then only in respect of entitlements to variable remuneration earned by the participant in the last year – or part thereof – of activity on behalf of the company.

The share award scheme is accounted for within the Group as share-based remuneration with a cash settlement governed by the requirements of 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 below:

TALANX SHARE AWARDS

N154 DETAILS ON THE TALANX SHARE AWARDS

	2013	2012	
	Anticipated allocation in 2014 for 2013	Final allocation in 2013 for 2012	Anticipated allocation
Measurement date	30.12.2013	20.3.2013	30.12.2012
Value per share award (figures in EUR)	24.65	23.59	21.48
Total number of share awards	**379,076**	**271,884**	**279,475**
Number allocated in given year	107,192	162,406	169,997
Board of Management Talanx AG[1]	41,197	108,716	112,033
Other Boards of Management	61,329	50,086	54,360
Other eligible participants[2]	4,666	3,604	3,604
Personnel expenses[2] (figures in EUR million)	2.5	2.1	1.5
Dividend payments considered[3] (figures in EUR million)	0.3	0.3	—
Total amount of provisions (figures in EUR million)	**4.5**	**2.6**	**2**

1) For the Management Board members of Talanx AG the number of existing Talanx share awards was adjusted in 2012 due to the capital increase associated with the initial public offering of the company (dilution protection) based on a fair value of EUR 18.30 per share award (issue price of Talanx shares)

2) The personnel expenditure in respect of the share award scheme for the Board of Management is distributed over the term of the share awards or the shorter term of the service contracts. Allocations for other eligible participants are based on a slightly different scheme (primarily different rules upon termination of employment). These were not presented separately on grounds of materiality

3) Distributed dividends and anticipated dividend payments were not considered for the allocation year; the dividend claims are discounted before recognition

HANNOVER RE SHARE AWARDS

N155 DETAILS ON THE HANNOVER RE SHARE AWARDS

	2013	2012	
	Anticipated allocation in 2014 for 2013	Final allocation in 2013 for 2012	Anticipated allocation
Measurement date	30.12.2013	21.3.2013	28.12.2012
Value per share award (figures in EUR)	62.38	59.86	58.96
Total number of share awards	**246,662**	**140,584**	**138,816**
Number allocated in given year	106,078	118,352	116,584
Board of Management	14,418	15,554	16,053
Other Boards of Management	91,660	103,798	100,531
Other adjustments	—	–1,000	—
Personnel expenses[1] (figures in EUR million)	3.2	4.1	2.2
Dividend payments considered[2] (figures in EUR million)	0.1	0.2	—
Total amount of provisions (figures in EUR million)	**5.7**	**4.3**	**2.5**

[1] The personnel expenditure in respect of the share award scheme for the Board of Management is distributed over the term of the share awards or the shorter term of the service contracts, and for managerial staff over the four-year term of the share awards
[2] Distributed dividends and anticipated dividend payments were not considered for the allocation year; the dividend claims are discounted before recognition

LAWSUITS

With the exception of proceedings in connection with the standard insurance and reinsurance business there were no significant court cases during the reporting year or as at the balance sheet date.

EARNINGS PER SHARE

Earnings per share are calculated by dividing the Group profit attributable to the shareholders of Talanx AG by the average number of outstanding shares. Dilutive effects, which have to be recognised separately when calculating earnings per share, were not present either as at the balance sheet date or in the previous year. In the future, earnings per share may be diluted as a result of the issuance of shares or subscription rights from conditional or authorised capital.

N156 EARNINGS PER SHARE

	2013	2012[1]
Net income attributable to shareholders of Talanx AG for calculating earnings per share (figures in EUR million)	762	626
Weighted average number of ordinary shares outstanding (in units)	252,638,402	219,156,421
Basic earnings per share (figures in EUR)	3.02	2.86
Diluted earnings per share (figures in EUR)	3.02	2.86

[1] Adjusted on the basis of IAS 8, cf. section “Accounting policies”, subsection “Changes in accounting policies and accounting errors” in the Notes

During the capital increase carried out for the employee share scheme the number of ordinary shares issued rose from 252,625,682 to a total of 252,797,634 registered no-par value shares. The new number of shares is included in the calculation for the weighted average on a pro rata temporis basis. The weighted average of shares does not include 171,952 treasury shares for the period of 26 November 2013 to 5 December 2013. Cf. our remarks under Note 17 “Shareholders’ equity” for further details.

DIVIDEND PER SHARE

In the year under review a dividend for the 2012 financial year in the amount of EUR 1.05 per share was paid, resulting in a total distribution of EUR 265 million. On 8 May 2014, it will be proposed to the General Meeting to distribute a dividend for the 2013 financial year in the amount of EUR 1.20 per share, resulting in a total distribution of EUR 303 million. The distribution recommendation is not part of the consolidated financial statements.

CONTINGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS

As at the balance sheet date, there were the following contingent liabilities and other financial commitments derived from contracts and memberships that had been entered into as well as from taxes:

N157 CONTINGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS FROM CONTRACTS, MEMBERSHIPS AND TAXES

FIGURES IN EUR MILLION

	2013	2012
Trust accounts in the United States (Master Trust Funds, Supplement Trust Funds and Single Trust Funds) as security for technical liabilities to US cedants[1]	3,335	3,417
Sureties in the form of letters of credit furnished by various financial institutions as security for technical liabilities	2,946	3,407
Guarantees for subordinated bonds issued: the guarantees cover the relevant bond volumes as well as interest due	2,862	2,862
Blocked custody accounts and other trust accounts as collateral in favour of reinsurers and cedants; generally outside the USA[1]	2,538	2,392
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	1,558	1,010
Commitments arising out of rental/lease agreements[2]	464	488
Funding commitments and contribution payments pursuant to §§124 et seq. Insurance Supervision Act (VAG) as a member of the Security Fund for Life Insurers	447	409
Collateral for liabilities to various financial institutions in connection with participating interests in real estate companies and real estate transactions	460	288
Commitments based on service agreements – primarily in connection with IT outsourcing contracts	165	270
Assets in blocked custody accounts as collateral for existing derivative transactions: We have received collateral with a fair value of EUR 60 (9) million for existing derivative transactions[3]	92	84
Other commitments	53	60
Total	**14,920**	**14,687**

[1] Securities held in the trust accounts are predominantly recognised as "Financial assets available for sale" in the portfolio of investments. The amount stated refers primarily to fair value/carrying amount

[2] Fresh data is collected only at year-end

[3] The amount stated refers primarily to fair value/carrying amount

The amounts stated in the table are nominal amounts.

As guarantor institutions for Gerling Versorgungskasse VVaG, various Group companies are liable pro rata for any deficits that may be incurred by Gerling Versorgungskasse.

Several Group companies are members of the association for the reinsurance of pharmaceutical risks, the association for the insurance of German nuclear reactors and the traffic accident pool Verkehrsopferhilfe e. V. In the event of one of the other pool members failing to meet its liabilities, an obligation exists to take over such other member's share within the framework of the quota participation.

Within the scope of its regular activities, our subsidiary Hannover Rück SE enters into contingent commitments. A number of reinsurance contracts between Group companies and external third parties contain letters of comfort, guarantees or novation agreements under which, if certain sets of 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 regulations may be unresolved when the tax items are brought to account. In calculating tax refund claims and tax liabilities, we have adopted the application that we believe to be most probable. However, the revenue authorities may come to different views, which could give rise to additional tax liabilities in the future.

RENTS AND LEASING

LEASES UNDER WHICH GROUP COMPANIES ARE THE LESSEE

Outstanding commitments from non-cancellable contractual relationships amounted to EUR 464 (488) million as at the balance sheet date.

N158 FUTURE LEASING COMMITMENTS

FIGURES IN EUR MILLION

	2014	2015	2016	2017	2018	Subsequent years
Payments	56	52	47	43	40	226

Operating leasing contracts produced expenditures of EUR 51 (46) million in the reporting year.

Expenditures from financing leases as at the balance sheet date were minimal at EUR 0.3 (0.2) million.

LEASES UNDER WHICH GROUP COMPANIES ARE THE LESSOR

The total amount of rental income due under non-cancellable contracts in subsequent years is EUR 560 (492) million.

N159 FUTURE RENTAL INCOME

FIGURES IN EUR MILLION

	2014	2015	2016	2017	2018	Subsequent years
Payments to be received	93	92	90	82	76	127

Rental income in the reporting year totalled EUR 115 (88) million. This resulted principally from the renting out of properties in the Non-Life Reinsurance segment as well as from the renting out of properties in Germany by primary insurance companies (mainly in the Retail Germany segment).

REMUNERATION OF THE MANAGEMENT BOARDS OF THE PARENT COMPANY

The Board of Management comprised 7 (7) active members as at the balance sheet date.

The total remuneration of the Board of Management amounted to EUR 10,439 (12,425) thousand. In the context of the share-based remuneration system newly implemented in 2011 the Board of Management has entitlements to virtual shares with a fair value of EUR 1,036 (2,449) thousand for the year under review, which corresponds to 41,197 (112,033) shares under the Talanx Share Award Plan, and a fair value of EUR 188 (205) thousand, which corresponds to 3,012 (3,474) shares under the Hannover Re Share Award Plan.

Former members of the Board of Management and their surviving dependants received total remuneration of EUR 741 (839) thousand. An amount of EUR 14,101 (14,197) 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 2,235 (2,105) 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 management boards in the reporting year. As at the balance sheet date, there was one mortgage loan to a member of the Supervisory Board amounting to EUR 34 (49) thousand with a remaining term of two years and three months. An amount of EUR 15 (15) thousand was repaid in the reporting year, 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 from page 100 onwards. 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.

FEE PAID TO THE AUDITOR

The appointed auditor of the Talanx Group's consolidated financial statements is KPMG AG Wirtschaftsprüfungsgesellschaft (KPMG AG). The audit fee only comprises the legal independent entity of the appointed auditor.

The fees expensed by KPMG AG in the financial year within the meaning of § 318 German Commercial Code (HGB) amounted to EUR 10.0 (11.7) million. The amount includes a fee of EUR 5.5 (6.0) million for auditing the financial statements, EUR 0.6 (0.5) million for other appraisals and valuations, EUR 0.3 (0.2) million for tax consultancy services and EUR 3.6 (5.0) million for other services.

DECLARATION OF CONFORMITY PURSUANT TO § 161 GERMAN STOCK CORPORATION ACT (AKTG)

The declaration of conformity with the German Corporate Governance Code pursuant to § 161 of the German Stock Corporation Act (AktG) has been submitted and is permanently available to investors on the website of Talanx AG as described in the Board of Management's declaration on enterprise management in the Group Management Report (section: "Corporate Governance").

On 4 November 2013 the Board of Management and Supervisory Board of our listed subsidiary Hannover Rück SE submitted the declaration of conformity regarding the recommendations made by the Government Commission on the German Corporate Governance Code that is required pursuant to § 161 AktG and made this declaration available to the shareholders by publishing it in its annual report. The present and all previous Declarations of Conformity of the company are published on Hannover Rück SE's website (http://www.hannover-re.com/about/corporate/declaration/index.html).

EVENTS AFTER THE BALANCE SHEET DATE

On 23 January 2014 Talanx AG concluded a new syndicated credit line. This credit line has a volume of EUR 550 million, a term of five years and is the early replacement of the EUR 500 million credit line taken out in 2011.

The subordinate bond issued on 26 February 2004 through Hannover Finance (Luxembourg) S. A. amounting to EUR 750 million was called by the issuer on 17 January 2014 as at the first regular redemption date in the amount of the entire nominal sum. The redemption date is 26 February 2014.

Talanx AG intends to admit all its shares to the regulated market of the Warsaw Stock Exchange in the second quarter of 2014. No new shares shall be issued in connection with this admission for trading.

LIST OF SHAREHOLDINGS FOR THE CONSOLIDATED FINANCIAL STATEMENTS OF TALANX AG PURSUANT TO § 313 PARA. 2 GERMAN COMMERCIAL CODE (HGB)

N160 SHAREHOLDINGS

1. Subsidiaries Companies included in the consolidated financial statements	Share of capital[1] in %		Equity capital[2] in TEUR		Earnings before profit transfer[2] in TEUR
Industrial Lines					
HDI Gerling Insurance of South Africa Ltd., Johannesburg, South Africa[18]	100.00	ZAR	43,108	ZAR	2,272
HDI HANNOVER International España, Cía de Seguros y Reaseguros S. A., Madrid, Spain[18]	100.00		52,829		8,635
HDI Versicherung AG, Vienna, Austria[18]	100.00		40,937		6,295
HDI-Gerling America Insurance Company, Chicago, USA[18]	100.00	USD	132,209	USD	12,017
HDI-Gerling Assurances S. A., Brussels, Belgium[18]	100.00		36,630		5,325
HDI-Gerling Assurances S. A., Luxembourg, Luxembourg, Luxembourg[18]	100.00		7,414		1,531
HDI-Gerling de Mexico Seguros S. A., Mexico City, Mexico[18]	100.00	MXN	89,632	MXN	–6,531
HDI-Gerling Industrie Versicherung AG, Hannover, Germany[18, 28]	100.00		406,536		81,637
HDI-Gerling Verzekeringen N. V., Rotterdam, Netherlands[18]	100.00		127,422		–1,584
HDI-Gerling Welt Service AG, Hannover, Germany[18, 28]	100.00		91,378		–74
HG-I AI USD Beteiligungs-GmbH & Co. KG, Cologne, Germany[15]	100.00		—		—
HG-I Alternative Investments Beteiligungs-GmbH & Co. KG, Cologne, Germany[18]	100.00		104,786		7,756
IVEC Institutional Venture and Equity Capital AG, Cologne, Germany[18]	100.00		131,633		5,766
Riethorst Grundstückgesellschaft AG & Co. KG, Hannover, Germany[4, 6, 18]	100.00		173,325		4,886
Retail Germany					
Alstertor Zweite Beteiligungs- und Investitionssteuerungs-GmbH & Co. KG, Hamburg[18]	100.00		28,202		—
CiV Grundstücksgesellschaft mbH & Co. KG, Hilden[4, 18]	100.00		24,878		–229
Credit Life International Lebensversicherung AG, Hilden[24, 28]	100.00		7,496		–185
Credit Life International Versicherung AG, Hilden[24, 28]	100.00		4,944		–227
GERLING Pensionsenthaftungs- und Rentenmanagement GmbH, Cologne[18]	100.00		3,803		–827
HDI Kundenservice AG, Cologne[3, 18, 28]	100.00		149		5
HDI Lebensversicherung AG, Cologne[24]	100.00		401,547		6,000
HDI Pensionsfonds AG, Cologne[24]	100.00		5,601		74
HDI Pensionskasse AG, Cologne[18]	100.00		29,448		1,200
HDI Versicherung AG, Hannover[18, 28]	100.00		321,907		–17,293
HDI Vertriebs AG, Hannover[3, 18, 28]	100.00		4,083		138
HDI-Gerling Friedrich Wilhelm Rückversicherung AG, Cologne[24]	100.00		858,709		71,722
HNG Hannover National Grundstücksverwaltung GmbH & Co KG, Hannover[4, 18]	100.00		46,296		–554
neue leben Holding AG, Hamburg[18]	67.50		76,022		20,401
neue leben Lebensversicherung AG, Hamburg[24, 28]	100.00		51,527		18,210
neue leben Unfallversicherung AG, Hamburg[24, 28]	100.00		3,596		3,867
PB Lebensversicherung AG, Hilden[24, 28]	100.00		57,715		24,800
PB Pensionsfonds AG, Hilden[24, 28]	100.00		5,038		582
PB Pensionskasse AG, Hilden[24]	100.00		6,457		74
PB Versicherung AG, Hilden[24]	100.00		10,977		4,507
Talanx Deutschland AG, Hannover[3, 18, 28]	100.00		2,386,981		15,690
Talanx Deutschland Bancassurance Communication Center GmbH, Hilden[3, 18, 28]	100.00		630		750
Talanx Deutschland Bancassurance GmbH, Hilden[3, 18, 28]	100.00		1,089,419		84,239
Talanx Deutschland Bancassurance Kundenservice GmbH, Hilden[3, 18, 28]	100.00		75		–286
Talanx Pensionsmanagement AG, Cologne[3, 18, 28]	100.00		6,414		–340
TARGO Lebensversicherung AG, Hilden[24, 28]	100.00		76,249		42,594
TARGO Versicherung AG, Hilden[24, 28]	100.00		9,492		14,505
TD Real Assets GmbH & Co. KG, Cologne[18]	100.00		90		–9
TD-BA Private Equity GmbH & Co. KG, Cologne[18]	100.00		11,607		–24
TD-BA Private Equity Sub GmbH, Cologne[18]	100.00		9,107		–48
TD-Sach Private Equity GmbH & Co. KG, Cologne[18]	100.00		9,109		7,792

N160 SHAREHOLDINGS

1. Subsidiaries Companies included in the consolidated financial statements	Share of capital[1] in %		Equity capital[2] in TEUR		Earnings before profit transfer[2] in TEUR
Retail International					
ASPECTA Assurance International Luxembourg S. A., Luxembourg, Luxembourg[18]	100.00		8,772		247
CiV Hayat Sigorta A. Ş., Istanbul, Turkey[18]	100.00	TRY	14,495	TRY	1,215
Gente Compañia de Soluciones Profesionales de México, S. A. de C. V., León, Mexico[18]	100.00	MXN	22,101	MXN	4,492
HDI Assicurazioni S. p. A., Rome, Italy[18]	100.00		168,199		28,758
HDI Immobiliare S. r. L., Rome, Italy[18]	100.00		66,106		285
HDI Seguros S. A. de C. V., León, Mexico[18]	99.76	MXN	556,683	MXN	113,757
HDI Seguros S. A., Montevideo, Uruguay[18]	100.00	UYU	111,920	UYU	10,317
HDI Seguros S. A., Santiago, Chile[18]	100.00	CLP	7,652,730	CLP	717,903
HDI Seguros S. A., Buenos Aires, Argentina[18]	100.00	ARS	117,619	ARS	20,508
HDI Seguros S. A., São Paulo, Brazil[18]	100.00	BRL	743,842	BRL	68,996
HDI Sigorta A. Ş., Istanbul, Turkey[18]	100.00	TRY	50,830	TRY	–45,914
HDI STRAKHUVANNYA (Ukraine), Kiev, Ukraine[18]	99.29	UAH	95,302	UAH	–196
HDI Zastrahovane AD, Sofia, Bulgaria[18]	94.00	BGL	7,303	BGL	327
InChiaro Assicurazioni S. p. A., Rome, Italy[18]	51.00		6,110		391
InLinea S. p. A., Rome, Italy[18]	70.00		889		106
Inversiones HDI Limitada, Santiago, Chile[18]	100.00	CLP	13,100,687	CLP	406,200
Joint-stock Company Towarzystwo Ubezpieczeń EUROPA.UA, Lviv, Ukraine[18]	100.00	UAH	9,658	UAH	–1,224
Joint-stock Company Towarzystwo Ubezpieczeń EUROPA.UA Życie, Lviv, Ukraine[18]	100.00	UAH	17,615	UAH	1,292
Magyar Posta Biztosító Részvénytársaság, Budapest, Hungary[18]	66.93	HUF	1,847,518	HUF	85,413
Magyar Posta Életbiztosító Részvénytársaság, Budapest, Hungary[18]	66.93	HUF	3,998,108	HUF	710,658
OOO Strakhovaya Kompaniya “HDI Strakhovanie”, Moscow, Russia[18]	100.00	RUB	177,622	RUB	10,038
OOO Strakhovaya Kompaniya CiV Life, Moscow, Russia[18]	100.00	RUB	601,017	RUB	309,495
Open Life Towarzystwo Ubezpieczeń Życie S. A., Warsaw, Poland[18]	51.00	PLN	97,580	PLN	22,894
Protecciones Esenciales S. A., Buenos Aires, Argentina[17]	100.00	ARS	107,870	ARS	13,735
Saint Honoré Iberia S. L., Madrid, Spain[18]	100.00		142		–43
Talanx International AG, Hannover, Germany[3), 24), 28]	100.00		1,668,846		50,907
Towarzystwo Ubezpieczeń i Reasekuracji WARTA S. A., Warsaw, Poland[18]	75.74	PLN	1,933,761	PLN	262,735
Towarzystwo Ubezpieczeń na Życie “WARTA” S. A., Warsaw, Poland[18]	100.00	PLN	41,051	PLN	–3,940
Towarzystwo Ubezpieczeń Europa S. A., Wroclaw, Poland[18]	50.00	PLN	664,711	PLN	66,923
Towarzystwo Ubezpieczeń na Życie Europa S. A., Wroclaw, Poland[18]	100.00	PLN	625,216	PLN	59,988
Non-Life Reinsurance					
11 Stanwix, LLC, Wilmington, USA[12), 23), 25]	100.00	USD	35,616	USD	2,976
1225 West Washington, LLC, Washington, USA[12), 23), 25]	100.00	USD	23,430	USD	1,628
300 South Orange Avenue, LLC, Wilmington, USA[12), 23), 25]	100.00	USD	55,550	USD	646
402 Santa Monica Blvd, LLC, Wilmington, USA[12), 23), 25]	100.00	USD	29,353	USD	–5
5115 Sedge Corporation, Chicago, USA[9), 12), 23), 25]	100.00	USD	723	USD	1,108
975 Carroll Square, LLC, Washington, USA[12), 23), 25]	100.00	USD	58,424	USD	1,904
Akvamarin Beta, s. r. o., Prague, Czech Republic[14), 24]	100.00	CZK	80,092	CZK	–28,786
Atlantic Capital Corporation, Wilmington, USA[9), 11), 23), 25), 27]	100.00	USD	–111,867	USD	—
Broadway 101, LLC, Orlando, USA[12), 23), 25]	100.00	USD	28,777	USD	506
Cargo Transit Insurance (Pty) Ltd., Helderkruin, South Africa[13), 23]	80.00	ZAR	–4,499	ZAR	—
Compass Insurance Company Ltd., Johannesburg, South Africa[13), 23]	100.00	ZAR	125,761	ZAR	–33,816
Construction Guarantee (Pty.) Ltd., Parktown, South Africa[9), 13), 23]	60.00	ZAR	—	ZAR	—
E+S Rückversicherung AG, Hannover, Germany[24]	63.69		645,413		72,000
Envirosure Underwriting Managers (Pty.) Ltd., Durban, South Africa[13), 23]	60.00	ZAR	40	ZAR	455
Film & Entertainment Underwriters S. A. (Pty). Ltd., Northcliff, South Africa[13), 23]	51.00	ZAR	–1,992	ZAR	–548

N160 **SHAREHOLDINGS**

1. Subsidiaries Companies included in the consolidated financial statements	Share of capital[1)] in %		Equity capital[2)] in TEUR		Earnings before profit transfer[2)] in TEUR
FUNIS GmbH & Co. KG, Hannover, Germany[21)]	100.00		25,955		1,603
Garagesure Consultants and Acceptances (Pty) Ltd., Johannesburg, South Africa[13), 23)]	70.00	ZAR	1,468	ZAR	1,689
Gem & Jewel Acceptances (Pty) Ltd., Johannesburg, South Africa[13), 23)]	60.00	ZAR	914	ZAR	–60
Glencar Underwriting Managers, Inc., Chicago, USA[18)]	49.00	USD	3,013	USD	1,224
GLL HRE Core Properties LP, Wilmington, USA[12), 23), 25)]	99.90	USD	221,729	USD	22,920
GLL Terry Francois Blvd, LLC, Wilmington, USA[9), 12), 23), 25)]	50.95	USD	—	USD	—
Hannover America Private Equity Partners II GmbH & Co. KG, Hannover, Germany[24)]	100.00		193,624		23,068
Hannover Euro Private Equity Partners II GmbH & Co. KG, Cologne, Germany[6), 24)]	100.00		7,809		4,510
Hannover Euro Private Equity Partners III GmbH & Co. KG, Cologne, Germany[5), 6), 24)]	100.00		37,688		2,790
Hannover Euro Private Equity Partners IV GmbH & Co. KG, Cologne, Germany[5), 6), 24)]	100.00		58,021		2,945
Hannover Finance (Luxembourg) S. A., Luxembourg, Luxembourg[24)]	100.00		25,524		–4,891
Hannover Finance (UK) Limited, Virginia Water, Great Britain[24)]	100.00	GBP	110,825	GBP	–15
Hannover Finance, Inc., Wilmington, USA[10), 23), 25)]	100.00	USD	506,686	USD	9,104
Hannover Insurance-Linked Securities GmbH & Co. KG, Hannover, Germany[21)]	100.00		5,935		2,924
Hannover Life Reassurance Africa Ltd., Johannesburg, South Africa[13), 23)]	100.00	ZAR	530,616	ZAR	203,310
Hannover Re (Bermuda) Ltd., Hamilton, Bermuda[24)]	100.00		1,029,006		170,196
Hannover Re Euro PE Holdings GmbH & Co. KG, Hannover, Germany[24)]	100.00		134,474		2,909
Hannover Re Euro RE Holdings GmbH, Hannover, Germany[24)]	100.00		633,815		6,170
Hannover Re Real Estate Holdings, Inc., Orlando, USA[10), 24), 25)]	100.00	USD	426,139	USD	18,920
Hannover Reinsurance Africa Ltd., Johannesburg, South Africa[13), 23)]	100.00	ZAR	752,920	ZAR	96,423
Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg, South Africa[10), 23)]	100.00	ZAR	209,906	ZAR	129,888
Hannover Reinsurance Mauritius Ltd., Port Louis, Mauritius[13), 23)]	100.00	MUR	48,048	MUR	–2,130
Hannover ReTakaful B. S. C. (c), Manama, Bahrain[24)]	100.00	BHD	45,880	BHD	4,810
Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover, Germany[24), 28)]	100.00		2,071,855		210,032
Hannover Rück SE (formerly: Hannover Rückversicherung AG), Hannover, Germany[24)]	50.22		1,837,716		367,162
Hannover Services (UK) Ltd., Virginia Water, Great Britain[24)]	100.00	GBP	603	GBP	–63
HAPEP II Holding GmbH, Hannover, Germany[24)]	100.00		13,834		4,373
HAPEP II Komplementär GmbH, Hannover, Germany[24)]	100.00		28		3
HEPEP II Holding GmbH, Cologne, Germany[24)]	100.00		3,605		526
HEPEP III Holding GmbH, Cologne, Germany[24)]	100.00		7,672		579
HILSP Komplementär GmbH, Hannover, Germany[21)]	100.00		25		–1
Hospitality Industrial and Commercial Underwriting Managers (Pty) Ltd., Johannesburg, South Africa[13), 23)]	90.00	ZAR	1,534	ZAR	1,860
HR GLL Central Europe GmbH & Co. KG, Munich, Germany[10), 24)]	99.99		175,644		538
HR GLL Central Europe Holding GmbH, Munich, Germany[14), 24)]	100.00		61,950		–75
HR GLL CDG Plaza S. r. L., Bucharest, Romania[14), 24)]	100.00	RON	171,895	RON	–3,605
HR GLL Europe Holding S. à r. l., Luxembourg, Luxembourg[14), 24)]	100.00		38,877		–3
HR GLL Griffin House Sp. z. o. o., Warsaw, Poland[14), 24)]	100.00	PLN	43,289	PLN	–293
HR GLL Liberty Corner Sp. z. o. o., Warsaw, Poland[14), 24)]	100.00	PLN	51,946	PLN	214
HR GLL Roosevelt Kft, Budapest, Hungary[14), 24)]	100.00	HUF	547,772	HUF	547,722
Integra Insurance Solutions Limited, Bradford, Great Britain[18)]	74.99	GBP	1,984	GBP	975
Inter Hannover (No. 1) Ltd., London, Great Britain[18)]	100.00	GBP	–29	GBP	–26
International Insurance Company of Hannover Plc (formerly: International Insurance Company of Hannover Ltd.), London, Great Britain[24)]	100.00	GBP	143,427	GBP	–6,005
Landmark Underwriting Agency (Pty) Ltd., Bloemfontein, South Africa[13), 23)]	75.50	ZAR	1,096	ZAR	–1,450
Leine Investment General Partner S. à r. l., Luxembourg, Luxembourg[24), 25)]	100.00		38		17
Leine Investment SICAV-SIF, Luxembourg, Luxembourg[24), 25)]	100.00	USD	15,547	USD	847
Lireas Holdings (Pty) Ltd., Johannesburg, South Africa[13), 23)]	51.00	ZAR	176,476	ZAR	18,990

N160 SHAREHOLDINGS

1. Subsidiaries Companies included in the consolidated financial statements	Share of capital[1] in %		Equity capital[2] in TEUR		Earnings before profit transfer[2] in TEUR
Micawber 185 (Pty) Ltd., Johannesburg, South Africa[13), 23)]	100.00	ZAR	20,955	ZAR	2,979
MUA Insurance Acceptances (Pty) Ltd., Cape Town, South Africa[13), 23)]	80.00	ZAR	10,142	ZAR	11,934
MUA Insurance Company Ltd., Cape Town, South Africa[13), 23)]	100.00	ZAR	7,043	ZAR	–3,289
Nashville (Tennessee) West, LLC, Wilmington, USA[12), 23), 25)]	100.00	USD	32,558	USD	3,446
One Winthrop Square, LLC, Wilmington, USA[9), 12), 23), 25)]	100.00	USD	–1,280	USD	11,979
Oval Office Grundstücks GmbH, Hannover, Germany[6), 24)]	100.00		59,411		1,554
Peachtree (Pty) Ltd., Parktown, South Africa[9), 13), 23)]	100.00	ZAR	—	ZAR	—
River Terrace Parking, LLC, New York, USA[12), 23), 25)]	100.00	USD	23,118	USD	94
SUM Holdings (Pty) Ltd., Johannesburg, South Africa[13), 23)]	72.20	ZAR	16,377	ZAR	3,484
Svedea AB, Stockholm, Sweden[18)]	53.00	SEK	4,639	SEK	–44,881
Thatch Risk Acceptances (Pty) Ltd., Cape Town, South Africa[13), 23)]	90.00	ZAR	1,082	ZAR	815
Transit Underwriting Managers (Pty) Ltd., Cape Town, South Africa[13), 23)]	90.00	ZAR	880	ZAR	–111
Woodworking Risk Acceptances (Pty) Ltd., Pietermaritzburg, South Africa[13), 23)]	60.00	ZAR	1,790	ZAR	2,249
Life/Health Reinsurance					
Hannover Life Re AG, Hannover, Germany[24), 28)]	100.00		1,705,385		90,038
Hannover Life Re of Australasia Ltd., Sydney, Australia[24)]	100.00	AUD	451,097	AUD	37,827
Hannover Life Reassurance Bermuda Ltd., Hamilton, Bermuda[24)]	100.00		283,004		35,439
Hannover Life Reassurance Company of America, Orlando, USA[24)]	100.00	USD	196,874	USD	23,228
Hannover Re (Ireland) Ltd. (formerly: Hannover Re [Ireland] Public Limited Company), Dublin, Ireland[24)]	100.00		1,361,245		67,638
Corporate Operations					
Alstertor Erste Beteiligungs- und Investitionssteuerungs-GmbH & Co. KG, Hamburg, Germany[18)]	100.00		4,178		578
Ampega Investment GmbH (formerly: AmpegaGerling Investment GmbH), Cologne, Germany[18), 28)]	100.00		7,936		10,112
Hannover Beteiligungsgesellschaft mbH, Hannover, Germany[18)]	100.00		3,557		–2,145
HEPEP II Komplementär GmbH, Cologne, Germany[24)]	100.00		37		1
HEPEP IV Komplementär GmbH, Cologne, Germany[24)]	100.00		20		1
Talanx Asset Management GmbH, Cologne, Germany[3), 18), 28)]	100.00		83,600		40,495
Talanx Beteiligungs-GmbH & Co. KG, Hannover, Germany[4), 18)]	100.00		90,885		10,897
Talanx Finanz (Luxemburg) S. A., Luxembourg, Luxembourg[18)]	100.00		9,223		2,392
Talanx Immobilien Management GmbH, Cologne, Germany[3), 18), 28)]	100.00		2,837		650
Talanx Reinsurance (Ireland) Ltd., Dublin, Ireland[5), 6), 7), 18)]	100.00		117		2
Talanx Reinsurance Broker GmbH (formerly: Talanx Reinsurance Broker AG), Hannover, Germany[3), 5), 6), 7), 18), 28)]	100.00		402		15,628
Talanx Service AG, Hannover, Germany[3), 18), 28)]	100.00		1,746		–690
Talanx Systeme AG, Hannover, Germany[3), 18), 28)]	100.00		140		–50
TAM AI Komplementär GmbH, Cologne, Germany[18)]	100.00		24		–1

N160 SHAREHOLDINGS

2. Special purpose entities and special funds a) Special funds included in the consolidated financial statements pursuant to IAS 27/SIC-12	Share of fund assets[1] in %		Fund assets[2] in TEUR		Change in fund assets, incl. cash inflows and outflows[2] in TEUR
Industrial Lines					
Ampega-Vienna-Bonds-Fonds, Vienna, Austria[17]	100.00		293,631		23,055
EURO RENT 3 Master (formerly: GERLING EURO-RENT[3]), Cologne, Germany[17]	100.00		876,268		201,258
HG-I Aktien VC Dynamic, Cologne, Germany[15]	100.00		—		—
HG-I Aktien VC Strategie, Cologne, Germany[17]	100.00		42,512		42,512
HG-I Commodity Strategie, Cologne, Germany[17]	100.00		38,569		38,569
HG-I Real Estate EURO, Cologne, Germany[17]	100.00		4		4
Retail Germany					
Ampega-nl-Euro-DIM-Fonds, Cologne[17]	100.00		486,898		47,870
Ampega-nl-Global-Fonds, Cologne[17]	100.00		41,256		315
Ampega-nl-Rent-Fonds, Cologne[17]	100.00		555,352		38,836
Gerling Immo Spezial 1, Cologne[17]	100.00		267,536		4,645
GKL SPEZIAL RENTEN, Cologne[17]	100.00		704,055		103,124
HDI-Gerling Sach Industrials, Cologne[17]	100.00		251,060		15,652
HGLV-Financial, Cologne[17]	100.00		1,244,050		177,961
HLV 1, Cologne[15]	100.00		—		—
HLV 2 Master, Cologne[15]	100.00		—		—
HPK 1, Cologne[15]	100.00		—		—
HV 1, Cologne[15]	100.00		—		—
NL Master, Cologne[15]	100.00		—		—
PBL 1, Cologne[15]	100.00		—		—
PBL 2 Master, Cologne[15]	100.00		—		—
PBVL-Corporate, Cologne[17]	100.00		122,625		9,869
Tal 1, Cologne[15]	100.00		—		—
Tal 2 Master, Cologne[15]	100.00		—		—
Talanx Deutschland Real Estate Value, Cologne[17]	100.00		4		4
TAL-Corp (formerly: TAL-Corp Rentenspezial), Cologne[17]	100.00		34,443		2,800
Retail International					
BNP-HDI Credit FI Renda Fixa Crédito Privado, São Paulo, Brazil[17]	100.00	BRL	105,390	BRL	22,434
Credit Suisse HDI RF Crédito, São Paulo, Brazil[17]	100.00	BRL	114,682	BRL	56,723
Fundo Invest Cotas Fundos Invest Multimercado Cred Priv HDI Estrategia, São Paulo, Brazil[17]	100.00	BRL	28,572	BRL	28,572
Fundo Invest Renda Fixa Crédito Privado JPM HDI BRASIL, São Paulo, Brazil[17]	100.00	BRL	30,089	BRL	30,089
HSBC FI Renda Fixa Hannover, São Paulo, Brazil[17]	100.00	BRL	165,526	BRL	35,805
HSBC Performance HDI RF Crédito, São Paulo, Brazil[17]	100.00	BRL	85,515	BRL	6,837
KBC ALFA Specjalistyczny Fundusz Inwestycyjny Otwarty, Warsaw, Poland[17]	100.00	PLN	1,437,230	PLN	12,417
TORONY Ingatlan Befektetési Alap, Budapest, Hungary[15]	70.00	HUF	—	HUF	—
UBS Pactual HDI RF Crédito, São Paulo, Brazil[17]	100.00	BRL	89,309	BRL	7,337
Non-Life Reinsurance					
FRACOM FCP, Paris, France[22]	100.00		1,039,751		26,314
Corporate Operations					
Ampega Real Estate Value 3, Cologne, Germany[17]	100.00		4		4

N160 SHAREHOLDINGS

2. Special purpose entities and special funds b) Special purpose entities included in the consolidated financial statements pursuant to IAS 27/SIC-12	Share of capital[1] in %		Equity capital[2] in TEUR		Earnings before profit transfe[2] in TEUR
Non-Life Reinsurance					
Hannover Re (Guernsey) PCC Ltd., St. Peter Port, Guernsey[24]	100.00		181		–37
Kaith Re Ltd., Hamilton, Bermuda[24]	88.00	USD	739	USD	–356

N160 SHAREHOLDINGS

3. Associated companies recognised using equity method in the consolidated financial statements	Share of capital[1] in %		Equity capital[2] in TEUR		Earnings before profit transfer[2] in TEUR
ASPECTA Assurance International AG, Vaduz, Liechtenstein[18]	30.00	CHF	17,594	CHF	7,177
Camargue Underwriting Managers (Pty) Ltd., Parktown, South Africa[13), 24]	26.00	ZAR	11,026	ZAR	7,615
Clarendon Transport Underwriting Managers (Pty) Ltd., Johannesburg, South Africa[13), 24]	32.66	ZAR	16,593	ZAR	27,567
Commercial & Industrial Acceptances (Pty) Ltd., Johannesburg, South Africa[13), 24]	40.00	ZAR	3,894	ZAR	14,934
C-QUADRAT Investment AG, Vienna, Austria[18]	25.10		28,549		239
Firedart & Construction Guarantee Underwriting Managers (Pty) Ltd., Johannesburg, South Africa[13), 24]	49.90	ZAR	9,403	ZAR	3,082
HANNOVER Finanz GmbH, Hannover, Germany[18]	27.78		69,697		6,281
ITAS Vita S. p. A., Trient, Italy[18]	34.88		80,468		4,114
neue leben Pensionsverwaltung AG, Hamburg, Germany[18]	49.00		15,913		–73
Petro Vietnam Insurance Holdings, Hanoi, Vietnam[18]	31.82	VND	5,999,892,009	VND	396,980,645
Synergy Targeted Risk Solutions (Pty) Ltd., Johannesburg, South Africa[13), 24]	20.00	ZAR	941	ZAR	–165
transparo AG, Augsburg, Germany[20]	22.50		25,790		–6,450
WeHaCo Unternehmensbeteiligungs-GmbH, Hannover, Germany[18]	40.00		76,483		10,358

N160 SHAREHOLDINGS

4. Associated companies not recognised using equity method in the consolidated financial statements	Share of capital[1] in %		Equity capital[2] in TEUR		Earnings before profit transfer[2] in TEUR
Energi, Inc., Peabody, USA[18]	28.50	USD	6,773	USD	–205
Hannoversch-Kölnische Beteiligungsgesellschaft mbH, Hannover, Germany[18]	50.00		26		—
Hannoversch-Kölnische Handels-Beteiligungsgesellschaft mbH & Co. KG, Hannover, Germany[18]	50.00		28,329		1,070
Iconica Business Services Limited, Bradford, Great Britain[17]	25.01	GBP	–1	GBP	–2
VOV Verwaltungsorganisation für Vermögensschadenhaftpflicht-Versicherungen für Mitglieder von Organen juristischer Personen GmbH, Cologne, Germany[18]	35.25		1,547		218
WetterProtect GmbH, Hildesheim, Germany[18]	41.86		—		–45
XS Direct Holding Ltd., Dublin, Ireland[18]	25.00		2.398		657

N160 **SHAREHOLDINGS**

5. Joint ventures included in the consolidated financial statements using equity method	Share of capital[1] in %		Equity capital[2] in TEUR		Earnings before profit transfer[2] in TEUR
Magma HDI General Insurance Company Limited, Calcutta, India[18]	25.50	INR	2,065	INR	–16

N160 **SHAREHOLDINGS**

6. Joint ventures not included in the consolidated financial statements owing to subordinate importance	Share of capital[1] in %		Equity capital[2] in TEUR		Earnings before profit transfer[2] in TEUR
Ampega C-QUADRAT Fondsmarketing GmbH, Frankfurt, Germany[18]	50.00		303		13
C-QUADRAT Ampega Asset Management Armenia LLC, Yerevan, Armenia[15]	25.10		—		—
Credit Life International Services GmbH, Neuss, Germany[18]	50.00		61		1
nl-PS Betriebliche Vorsorge GmbH, Erlangen, Germany[18]	50.00		–1,018		–987

N160 **SHAREHOLDINGS**

7. Affiliated companies not included in the consolidated financial statements pursuant to IFRS owing to subordinate importance	Share of capital[1] in %		Equity capital[2] in TEUR		Earnings before profit transfer[2] in TEUR
Bureau für Versicherungswesen Robert Gerling & Co. GmbH, Cologne, Germany[18], [28]	100.00		26		–18
CiV Immobilien GmbH, Hilden, Germany[18]	100.00		30		—
Desarollo de Consultores Profesionales en Seguros S.A. de CV, León, Mexico[18]	100.00	MXN	146	MXN	47
Gerling Insurance Agency, Inc., Chicago, USA[8]	100.00	USD	—	USD	—
Gerling Norge A/S, Oslo, Norway[18]	100.00	NOK	258	NOK	10
GERLING Sustainable Development Project-GmbH i.L., Cologne, Germany[9], [18]	100.00		52		–5
H.J. Roelofs Assuradeuren B.V., Rotterdam, Netherlands[18]	100.00		917		44
Hannover Life Re Consultants, Inc., Orlando, USA[24]	100.00	USD	205	USD	—
Hannover Re Consulting Services India Private Limited, Mumbai, India[19]	100.00	INR	68,929	INR	10,309
Hannover Re Risk Management Services India Private Limited, New Delhi, India[15]	100.00	INR	—	INR	—
Hannover Re Services Italy S.r.L., Milan, Italy[23]	100.00	EUR	651	EUR	133
Hannover Re Services Japan, Tokyo, Japan[24]	100.00	JPY	96,577	JPY	2,231
Hannover Re Services USA, Inc., Itasca, USA[23]	100.00	USD	898	USD	24
Hannover Risk Consultants B.V., Rotterdam, Netherlands[18]	100.00		–686		55
Hannover Rück SE Escritório de Representação no Brasil Ltda., Rio de Janeiro, Brazil[18]	100.00	BRL	1,234	BRL	260
Hannover Services (Mexico) S.A. de C.V., Mexico City, Mexico[18]	100.00	MXN	9,321	MXN	–1,456
HDI Direkt Service GmbH, Hannover, Germany[18], [28]	100.00		51		–307
HDI-Gerling Participações Ltda., São Paulo, Brazil[15]	100.00	BRL	—	BRL	—
HDI-Gerling Schadenregulierung GmbH, Hannover, Germany[18], [28]	100.00		25		–4
HDI-Gerling Services S.A., Brussels, Belgium[16]	100.00		170		57
HDI-Gerling Sicherheitstechnik GmbH, Hannover, Germany[18], [28]	100.00		2,892		—
HDI-Gerling Welt Service AG Escritório de Representação no Brasil Ltda., São Paulo, Brazil[18]	100.00	BRL	324	BRL	–180
HEPEP III Komplementär GmbH, Cologne, Germany[24]	100.00		18		1
HR Hannover Re Correduria de Reaseguros S.A., Madrid, Spain[24]	100.00		301		35
International Hannover Holding AG, Hannover, Germany[24]	100.00		42		–3
International Mining Industry Underwriters Ltd., London, Great Britain[24]	100.00	GBP	552	GBP	63
L&E Holdings Limited, London, Great Britain[18]	100.00	GBP	5	GBP	82

N160 SHAREHOLDINGS

7. Affiliated companies not included in the consolidated financial statements pursuant to IFRS owing to subordinate importance	Share of capital[1] in %		Equity capital[2] in TEUR		Earnings before profit transfer[2] in TEUR
London & European Title Insurance Services Limited, London, Great Britain[18]	100.00	GBP	79	GBP	–248
LRA Superannuation Plan Pty Ltd., Sydney, Australia[8]	100.00	AUD	—	AUD	—
Mediterranean Reinsurance Services Ltd., Hong Kong, China[9, 23, 26]	100.00	USD	125	USD	—
Nassau Assekuranzkontor GmbH, Cologne, Germany[18, 28]	100.00		–7		–32
Scandinavian Marine Agency A/S, Oslo, Norway[18]	52.00	NOK	7,190	NOK	2,011
Shamrock Marine-Insurance Agency GmbH, Hamburg, Germany[18, 28]	100.00		25		–67
SSV Schadenschutzverband GmbH, Hannover, Germany[18, 28]	100.00		200		508
Talanx Direct Infrastructure 1 GmbH, Cologne, Germany[15]	100.00		—		—
VES Gesellschaft f. Mathematik, Verwaltung und EDV mbH, Gevelsberg, Germany[18, 28]	100.00		195		–1,332

N160 SHAREHOLDINGS

8. Participating interests	Share of capital[1] in %		Equity capital[2] in TEUR		Earnings before profit transfer[2] in TEUR
DFA Capital Management, Inc., Wilmington, USA[16]	25.37	USD	494	USD	–1,060
IGEPA Gewerbepark GmbH & Co. Vermietungs KG, Munich, Germany[18]	37.50		20,550		8,156
Secquaero ILS Fund Ltd., Georgetown, Cayman Islands[18, 25]	21.04	USD	73,651	USD	2,884
Secquaero Re Vinyard IC Ltd., St. Peter Port, Guernsey[24]	100.00	USD	35,116	USD	3,612

N160 SHAREHOLDINGS

9. Participating interests in large public limited companies in respect of which the participation exceeds 5% of the voting rights	Share of capital[1] in %		Equity capital[2] in TEUR		Earnings before profit transfer[2] in TEUR
Acte Vie S.A. Compagnie d'Assurances sur la Vie et de Capitalisation, Strasbourg, France[18]	9.38		8,482		168
Extremus Versicherungs-AG, Cologne, Germany[18]	13.00		67,240		6,000
MLP AG, Wiesloch, Germany[18]	9.48		400,015		48,691
Swiss Life Holding AG, Zurich, Switzerland[18]	5.03	CHF	4,712,000	CHF	106,000

[1] The share of capital is determined by adding up all directly and indirectly held interests pursuant to § 16 Para. 2 and 4 Stock Corporation Act (AktG)
[2] The figures correspond to the annual financial statements of the companies according to applicable local law or international accounting; diverging currencies are indicated
[3] The relief afforded by § 264 Para. 3 German Commercial Code (HGB) was utilised
[4] The exemption afforded by § 264b German Commercial Code (HGB) was utilised
[5] Also allocated to the Industrial Lines segment
[6] Also allocated to the Retail Germany segment
[7] Also allocated to the Retail International segment
[8] Company is inactive and does not compile an annual report
[9] Company is in liquidation
[10] Company prepares its own subgroup accounts
[11] Included in the subgroup accounts of Hannover Finance, Inc.
[12] Included in the subgroup accounts of Hannover Re Real Estate Holdings Inc.
[13] Included in the subgroup accounts of Hannover Reinsurance Group Africa (Pty.) Ltd.
[14] Included in the subgroup accounts of HR GLL Central Europe GmbH & Co. KG
[15] Company was founded in reporting year – no annual report/accounts yet available
[16] Figures as at 2011 financial year-end
[17] Figures as at 2012 financial year-end
[18] Figures as at 31 December 2012
[19] Figures as at 31 March 2013
[20] Figures as at 30 June 2013
[21] Figures as at 30 September 2013
[22] Figures as at 31 October 2013
[23] Figures as at 2013 financial year-end
[24] Figures as at 2013 financial year-end, provisional/unaudited
[25] Figures pursuant to IFRS
[26] Last annual financial statements produced as at 31 December 1997
[27] Certain elements of shareholders' equity are not included under IFRS, which means the size of equity capital could be negative here. The company has sufficient capital pursuant to local accounting standards relevant for supervisory authority
[28] A profit/loss transfer agreement is in force

Drawn up and released for publication in
Hannover, 25 February 2014.

Hannover, 25 February 2014

Board of Management

Herbert K. Haas, Chairman

Dr. Christian Hinsch, Deputy Chairman

Torsten Leue

Dr. Thomas Noth

Dr. Immo Querner

Dr. Heinz-Peter Roß

Ulrich Wallin

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable accounting principles, the consolidated financial statements present a true and accurate view of the assets, financial position and net income of the Group, and the Group Management Report presents a true and accurate view of the Group's performance, results and position, together with a description of the material opportunities and risks associated with the expected development of the Group.

Hannover, 25 February 2014

Board of Management

Herbert K. Haas,
Chairman

Dr. Christian Hinsch,
Deputy Chairman

Torsten Leue

Dr. Thomas Noth

Dr. Immo Querner

Dr. Heinz-Peter Roß

Ulrich Wallin

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 shareholders' equity, the cash flow statement and the notes to the consolidated financial statements, together with the management report on the company and the Group for the financial year 1 January to 31 December 2013. The preparation of the consolidated financial statements and the Group management report in accordance with IFRS, as adopted by the EU, as well as the additional requirements of German commercial law pursuant to § 315a, para. 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 on the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 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 assets, financial position and net income in the consolidated financial statements in accordance with the applicable accounting rules and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to 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 Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the delineation of the scope of consolidation, the accounting and consolidation principles used, and the material estimates made by the Board of Management as well as evaluating the overall presentation of the consolidated financial statements and Group 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 IFRS, as adopted by the EU, as well as the additional requirements of German commercial law pursuant to § 315a, Para. 1 HGB and the additional provisions of the articles of association and present a true and accurate view of the assets, financial position and net income of the Group in accordance with those requirements. The Group management report is consistent with the consolidated financial statements and as a whole presents a true and accurate view of the Group's position and the opportunities and risks of future development.

Hannover, 14 March 2014

KPMG AG
Wirtschaftsprüfungsgesellschaft

Dr. Ellenbürger	Husch
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

FURTHER INFORMATION

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GLOSSARY AND DEFINITION OF KEY FIGURES

ACCUMULATION RISK
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 (LIFE) AS A PERCENTAGE OF PREMIUM INCOME FROM NEW BUSINESS
(Net) cost of acquiring new business in proportion to the premium income obtained from that business.

ACQUISITION COSTS, DEFERRED (ALSO: ACQUISITION EXPENSES)
Costs/expenses incurred by an insurance company when insurance policies are taken out or renewed (e.g. new business commission, costs of proposal assessment or underwriting). The capitalisation of acquisition costs causes costs to be distributed over the policy period.

ACQUISITION COST RATIO
a) gross: cost (gross) of acquiring new business in proportion to the gross premium earned, including savings elements under unit-linked life/annuity insurance.
b) net: cost (net) of acquiring new business in proportion to the net premium earned, not including savings elements under unit-inked life/annuity insurance.

ACQUISITION EXPENSES
> Acquisition costs, deferred

ADMINISTRATIVE EXPENSES
Costs of current administration connected with the production of insurance coverage.

ADMINISTRATIVE EXPENSE RATIO
a) gross: cost (gross) of running in-force business in proportion to the premium earned, including savings elements under unit-linked life/annuity insurance.
b) net: cost (net) of running in-force business in proportion to the premium earned, not including savings elements under unit-linked life/annuity insurance.

ANNUAL PREMIUM EQUIVALENT – APE
Industry standard for measuring new business income in life insurance.

ASSET CLASS
The capital market is divided into different classes of financial instruments, which are subject to similar risk factors. These include, for example, shares, bonds, real estate, energy and commodities.

ASSET MANAGEMENT
Supervision and management of investments according to risk and return considerations.

ASSETS UNDER OWN MANAGEMENT
Investments that do not come from either investment contracts or funds withheld by ceding companies in 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.

ASSOCIATED COMPANY
Company included in the consolidated financial statements not through full or proportionate consolidation but normally using the > equity method and over whose business or company policy a company included in the consolidated financial statements exerts a significant influence.

B2B
Exchange of goods, services and information between companies.

BANCASSURANCE
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 participation or a long-term strategic cooperation between the two partners.

BENEFIT RESERVE
Value arrived at using mathematical methods for future liabilities (present value of future liabilities minus present value of future incoming premiums), especially in life and health insurance.

CARRYING AMOUNT PER SHARE
This key figure states the amount of equity per share attributable to shareholders.

CASH FLOW
Surplus of cash and cash equivalents generated by a company in a certain period, contrasting income and expenses and used to assess the company's financial structure.

CASH FLOW STATEMENT
Statement on the origin and utilisation of cash and cash equivalents during the accounting period. It shows the changes in assets and capital. > Cash flow

CATASTROPHE BOND (ALSO: CAT BOND)
Instrument used to transfer catastrophe risks of a (re)insurer to the capital market.

CEDANT (ALSO: CEDING COMPANY)
Primary insurer or reinsurer that passes on (cedes) shares of its insured risks to a reinsurer in exchange for a premium.

CESSIONARY
Reinsurer of the primary insurer.

COINSURANCE FUNDS WITHHELD TREATY
Type of coinsurance contract where the ceding company retains a portion of the original premium 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
Sum of the > loss ratio and > expense ratio (net) after allowance for interest income on funds withheld and contract deposits, as a proportion of net premium earned. In the calculation of the adjusted combined ratio, the interest income on funds withheld and contract deposits is offset against the losses and loss adjustment expenses. This ratio is used by both property/casualty insurers and non-life reinsurers.

COMMISSION
Remuneration paid by a primary insurer to agents, brokers and other professional intermediaries.

COMPLIANCE
Statutory regulations and undertaking-specific rules governing the responsible and lawful actions of an undertaking and its employees.

CONSOLIDATION
In accounting practice: combining of the individual financial statements of several companies belonging to one group into consolidated financial statements. In so doing, internal transactions within the group are eliminated.

CORPORATE GOVERNANCE
System that serves to ensure responsible management and supervision of enterprises and is intended to foster the trust of investors, clients, employees and the general public in companies.

CREDIT STATUS
Creditworthiness. Ability of a debtor to meet its payment commitments.

DEFERRED TAXES
Term denoting the difference between the taxes calculated on the profit reported according to the commercial balance sheet/IFRS reporting standards and those carried in the tax balance sheet, which then evens out subsequently. Deferred taxes are recognised in order to offset this difference in those cases where it is evident that it will be eliminated over time.

DEPOSIT ACCOUNTING
An accounting method for the recognition of short-term and multi-year insurance and reinsurance contracts with no significant underwriting risk transfer.

DERIVATIVE
Financial products derived from underlying primary instruments such as equities, fixed-income securities and foreign exchange instruments, the fair value of which is determined inter alia on the basis of the underlying security or reference asset. Derivatives include > swaps, options and futures.

DIRECT INSURER
> Primary insurer

DISPOSABLE PROFIT
Net income for the financial year less contribution to other revenue reserves plus retained profits brought forward.

DIVIDEND YIELD
Percentage of interest payable on the capital bound up in a share. This yield indicator is calculated by dividing the dividend by the current share price and multiplying the result by 100.

DUE DILIGENCE AUDIT
Auditing of a participating interest in the run-up to an acquisition or merger. It encompasses, in particular, a systematic analysis of the strengths and weaknesses of the proposition, analysis of the risks associated with the acquisition and a well-founded valuation of the item in question.

DURATION
Ratio in investment mathematics that shows the average capital commitment period of an investment in bonds respectively its interest rate sensitivity. The “Macaulay duration” is the capital-weighted average number of years in which a bond will provide 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 PREMIUM
Proportion of written premium attributable to the insurance protection in the financial year.

EARNINGS PER SHARE, DILUTED
Ratio calculated by dividing the Group net income attributable to shareholders of Talanx AG by the average weighted number of shares in circulation. Diluted earnings per share take into account subscription rights that have been exercised or that have not yet been exercised when calculating the number of shares.

EBIT
Earnings before interest and tax; at the Talanx Group identical to > operating profit/loss.

EMBEDDED VALUE
Refers to the value of an insurance portfolio. The term comprises the present value of future net income for shareholders from the insurance portfolio including capital gains and the value of shareholders’ equity after deduction of cost of capital.

EQUALISATION RESERVE
Provision constituted to offset significant fluctuations in the loss experience of individual lines over a number of years. Under IFRS, this is recognised within shareholders‘ equity.

EQUITY
> Shareholders’ equity

EQUITY METHOD
Method of accounting used to measure a participating interest (> associated company) in the consolidated financial statements, in which the carrying amount of the participating interest is carried on the consolidated balance sheet in line with the development of the pro rata amount of equity in the participation.

EXPENDITURES ON INSURANCE BUSINESS (ACQUISITION COSTS AND ADMINISTRATIVE EXPENSES)
Sum total of commissions, sales, personnel and material costs as well as regular administrative expenses.

EXPENSE RATIO
Ratio of acquisition costs and administrative expenses (net) to net premium earned.

EXPOSURE
Level of danger inherent in a risk or portfolio of risks.

EXTRAORDINARY INVESTMENT INCOME
Income from realised and unrealised gains and losses including write-ups and impairments/write-downs.

EXTRAORDINARY RESULT
Balance of expenses and income that are not allocable to ordinary activities, including for example adjustments to the provisions for pensions in accordance with the German Accounting Law Modernisation Act (BilMoG).

FACULTATIVE REINSURANCE
Participation on the part of the reinsurer in a particular individual risk assumed by the primary insurer. Opposite: > 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.

FREE FLOAT
Shareholdings distributed among several, usually smaller, investors.

FUNDS HELD BY CEDING COMPANIES/ FUNDS HELD UNDER REINSURANCE TREATIES
Collateral provided to cover insurance liabilities which an insurer retains from the liquid funds which it is to pay to a reinsurer under a reinsurance treaty. In this case, the insurer shows funds held under a reinsurance treaty, while the reinsurer shows funds held by a ceding company. Interest is payable on such funds held.

GIIPS COUNTRIES
Acronym that refers to the five Euro countries Greece, Italy, Ireland, Portugal and Spain.

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
Market phase during which premium levels are typically high. Opposite: > soft market

HYBRID CAPITAL
Capital in the form of subordinated debt and surplus debenture that exhibits a hybrid character of equity and debt.

IMPAIRMENT
Unscheduled write-down taken if the present value of the estimated future cash flows of an asset falls below the carrying amount.

INCURRED BUT NOT REPORTED (IBNR)
Provisions 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 nominal value is dependent upon the occurrence and magnitude of an insured event.

INTERNATIONAL FINANCIAL REPORTING STANDARDS – IFRS
International accounting standards formerly known as IAS (International Accounting Standards), applied at Talanx since 2004.

INVESTMENT GRADE
Rating of BBB or better awarded to an entity on account of its low risk of default. > Credit status

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 the provisions of IAS 39 "Financial Instruments: Recognition and Measurement".

ISSUER
Public entity or private enterprise that issues securities, e.g. a joint-stock corporation in the case of shares or the federal government in the case of German government bonds.

LAPSE RATE FOR LIFE INSURANCE PRODUCTS
Sum of cancelled policies and other premature withdrawals in relation to the average business in force (GDV index).

LETTER OF CREDIT – LOC
Bank guarantee. In the USA, for example, a common way of furnishing collateral in reinsurance business.

LIFE INSURANCE
Collective term covering those types of insurance which are concerned in a broader sense with risks associated with the uncertainties of life expectancy and life planning. These include death and disability, retirement provision as well as marriage and education.

LIFE/HEALTH INSURANCE (ALSO: PERSONAL LINES)
Lines of business concerned with the insurance of persons, i.e. life, annuity, health and personal accident.

LONG-TERM FINANCIAL ASSETS
Shares in affiliated companies, loans to affiliated companies, other long-term equity investments and long-term securities.

LOSS RATIO
Net loss ratio shown in the balance sheet: percentage ratio of claims expenditure (net) including other technical income (net) – including amortisation of the shareholders' portion of the PVFP – to net premium earned. > PVFP

LOSS RATIO FOR PROPERTY/ CASUALTY INSURANCE PRODUCTS
a) Gross: sum of the (gross) losses and loss adjustment expenses and the (gross) other technical result as a proportion of gross premium earned.
b) Net: sum of the (net) losses and loss adjustment expenses and the (net) other technical result as a proportion of net premium earned.

MAJOR CLAIM (ALSO: MAJOR LOSS)
Claim that reaches an exceptional amount compared with the average claim for the risk group in question and exceeds a defined claims amount. Until 2011, this was defined as natural catastrophes and other major losses over EUR 5 million gross (reinsurance, industrial liability insurance, industrial fire insurance), over EUR 2.5 million gross (industrial marine insurance, industrial engineering insurance) and over EUR 1 million gross (all other lines) for the portion of the Talanx Group. Since 2012, a major claim has been defined as natural catastrophes and other major losses over EUR 10 million gross for the portion of the Talanx Group.

MARKET CONSISTENT EMBEDDED VALUE – MCEV
A special method of valuing life insurance companies or life/health insurance portfolios, which can be used to show the long-term nature of life insurance business and the associated risks. In particular, the use of calculation methods that are consistent with the market aims to ensure better comparability. A valuation that is consistent with the market is obtained by using risk-neutral assumptions with regard to expected capital gains and the discounting method. The swap curve is also introduced as a risk-neutral interest structure

MATCHING CURRENCY COVER
Coverage of technical liabilities in foreign currencies by means of corresponding investments in the same currency in order to avoid exchange-rate risks.

MODIFIED COINSURANCE (MODCO) TREATY
Type of reinsurance treaty where the ceding company retains the assets supporting the reinsured reserves by withholding a fund, thereby creating an obligation to render payments to the reinsurer at a later date. The payments include a proportionate share of the gross premium and income from securities.

MORBIDITY
Incidence rate of disease relative to a given population group.

MORTALITY
Proportion of the total population dying within a given time interval.

NET
In insurance: after deduction of > passive reinsurance.

NET EXPENDITURE ON INSURANCE CLAIMS
Total of claims paid and provisions for loss events that have occurred during the financial year, plus the result from processing provisions for loss events from previous years, in each case after deduction of own reinsurance figures.

NET INCOME FOR THE FINANCIAL YEAR
Result from ordinary activities plus the extraordinary result less taxes.

NET INCOME FROM PARTICIPATIONS
Income from long-term equity investments and profit transfers less expenses from losses absorbed from subsidiaries.

NET INTEREST INCOME
Balance of interest income and interest expenses.

NET RETURN ON INVESTMENTS
Net investment income, not including interest income on funds withheld and contract deposits and not including income from > investments under investment contracts, in relation to the average investments under own management.

NET TECHNICAL EXPENSES
Claims and claims expenses, acquisition costs and administrative expenses and other technical expenses, each after taking into account reinsurance recoverables.

NON-PROPORTIONAL REINSURANCE
Reinsurance treaty under which the reinsurer assumes the loss expenditure or sum insured in excess of a defined amount. Opposite: > proportional reinsurance

OBLIGATORY REINSURANCE
Reinsurance treaty under which the reinsurer participates in a total, precisely defined insurance portfolio of a > cedant. Opposite: > facultative reinsurance.

OPERATING PROFIT/LOSS (EBIT)
Sum of the net investment income, underwriting result and other income and expenses before interest for other debt capital borrowed for financing purposes (financing costs) and before tax (taxes on income).

OTC
Over the counter. In the case of securities: not traded on a stock exchange.

OTHER OPERATING EXPENSES AND WRITE-DOWNS
Expenses for ordinary activities, e.g. personnel and material expenses, amortisation, depreciation and write-downs, realised losses on investments, foreign exchange losses, expenses for services.

PASSIVE REINSURANCE
Existing reinsurance programmes of > primary insurers for their own protection against underwriting risks.

PAYOUT RATE
The percentage of net income for the year paid out by stock corporations to their shareholders in the form of dividends.

PERSONAL LINES
> Life/health insurance

POLICYHOLDERS' SURPLUS
Total amount of
a) shareholders' equity excluding non-controlling interests, which is comprised of the common shares, additional paid-in capital, retained earnings and cumulative other comprehensive income,
b) the non-controlling interests in shareholders' equity and
c) so-called hybrid capital, as equity-replacing debt capital that encompasses the subordinated liabilities.

PORTFOLIO
a) All risks assumed by a > primary insurer or > reinsurer as a totality or in a defined segment.
b) Group of investments categorised according to specific criteria.

PREMIUM
Agreed compensation for the risks accepted by the insurer.

PRESENT VALUE OF FUTURE PROFITS – PVFP
Intangible asset primarily arising from the purchase of life and health insurance companies or individual portfolios. The present value of expected future profits from the portfolio assumed is capitalised and amortised according to schedule. Impairments are taken on the basis of annual impairment tests.

PRIMARY (ALSO: DIRECT) INSURER
Company which accepts risks in exchange for an insurance premium and which has a direct contractual relationship with the policyholder (private individual, company, organisation).

PRIVATE EQUITY
Investment capital raised by private investors.

PROJECTED BENEFIT OBLIGATION
The present value of the earned portion of commitments from a defined benefit obligation.

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, but rather the incurred loss is reimbursed.

PROPORTIONAL REINSURANCE
Reinsurance treaties on the basis of which shares in a risk or portfolio are reinsured under the prevailing original conditions. Premiums and losses are shared proportionately on a pro-rata basis. Opposite: > non-proportional reinsurance.

PROVISION
Liability item as at the balance sheet date to discharge obligations which exist but whose extent and/or due date is/are not known. Technical provisions, for example, are for claims which have already occurred but which have not yet been settled, or have only been partially settled (= provision for outstanding claims, abbreviated to: loss reserve).

PURCHASE COST, AMORTISED
Cost of acquiring an asset item including all ancillary and incidental purchasing costs; in the case of wasting assets less scheduled and/or unscheduled amortisation.

QUOTA SHARE REINSURANCE
Form of reinsurance under which the percentage share of the written risk and the premium are contractually agreed.

RATE
Percentage (normally applied to the subject premium) of a reinsured portfolio which under a > non-proportional reinsurance treaty produces the reinsurance premium payable to the reinsurer.

RATING
Systematic evaluation of securities issuers by an independent specialist agency with respect to their > credit status.

REINSURER
Company that accepts risks or portfolio segments from a > primary insurer or another reinsurer in exchange for an agreed premium.

RENEWAL
Contractual relationships with insurers are maintained over long periods of time. The treaty terms and conditions are normally modified annually in so-called renewal negotiations, and the treaties are renewed accordingly.

RESULT FROM ORDINARY ACTIVITIES
Profit or loss for the period before the extraordinary result and before taxes.

RETAIL BUSINESS
a) In general: business with private customers.
b) Ampega: business involving investment funds that are designed essentially for private, non-institutional investors, although such funds are also open for investments of Group companies.

RETENTION
The part of the accepted risks which an insurer/a reinsurer does not reinsure, i.e. carries > net. Net written premium in relation to gross written premium (excluding savings elements of premiums under unit-linked life and annuity insurance policies).

RETROCESSION
Ceding by a reinsurer of its risks or shares in its risks to other reinsurers.

RISK MANAGEMENT SYSTEM
The complete set of rules and measures used to monitor and protect against risks.

SHAREHOLDERS' EQUITY (ALSO: EQUITY)
Funds provided by the owners of an enterprise for its internal financing or left within the company as earned profit (realised/unrealised). The capital providers are entitled to a share of the profit, e.g. in the form of a dividend, in return for making the shareholders' equity available. Shareholders' equity is liable for debts at a corporation.

SOFT MARKET
Market phase with oversupply of insurance, resulting in premiums that are not commensurate with the risk. Opposite: > hard market

SOLVENCY
Level of available unencumbered capital and reserves required to ensure that contracts can be fulfilled at all times.

SOLVENCY II
Project of the European Commission to reform and harmonise European insurance regulations, particularly solvency regulations for equity resources of insurance companies.

SPECIALTY LINES
Specialty insurance for niche business such as non-standard motor covers, fine arts insurance etc.

STRESS TEST
Form of scenario analysis used to be able to make quantitative statements about the loss potential of > portfolios in the event of extreme market fluctuations.

SURPLUS PARTICIPATION
Legally required, annually determined participation of policyholders in the surpluses generated by life insurers.

SURVIVAL RATIO
Reflects the ratio of loss reserves to claims paid under a policy or several policies in a financial year.

SWAP
Agreement between two counterparties to swap payments at contractually defined conditions and times. Virtually any type of cash flow can be exchanged. This makes it possible to systematically hedge financial risks associated with a portfolio or to add new risks to a portfolio in order to optimise returns.

TECHNICAL RESULT
> underwriting result

UNDERLYING TRANSACTION
Underlying instrument of a forward transaction, futures contract or option contract that serves as the basis for settlement and measurement of the contract.

UNDERWRITING
Process of examining and assessing (re)insurance risks in order to determine a commensurate 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 (ALSO: TECHNICAL) RESULT
Balance of income and expenditure allocated to the insurance business: balance of > net premium earned and claims and claims expenses (net), acquisition costs and administrative expenses (net) and other technical result (net), including amortisation of the shareholders' portion of the > PVFP but excluding consolidation differences from debt consolidation (technical). > PVFP

UNEARNED PREMIUM RESERVE
Premium written in a financial year which is to be allocated to the following period on an accrual basis.

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
Risk measure to determine potential losses that with a certain probability will not be exceeded in a given period.

VOLATILITY
Measure of variability with respect to stock/bond prices, exchange rates and interest rates, and also insurance lines that can have a sharply fluctuating claims experience.

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FINANCIAL CALENDAR 2014

8 May
Annual General Meeting

15 May
Interim Report as at 31 March 2014

26/27 June
Capital Markets Day

14 August
Interim Report as at 30 June 2014

13 November
Interim Report as at 30 September 2014

ClimatePartner
climate neutral
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OUR WORLDWIDE NETWORK

AFRICA

SOUTH AFRICA
Compass Insurance Company, Johannesburg
Hannover Life Re Africa, Johannesburg
Hannover Re Africa, Johannesburg
HDI-Gerling Insurance South Africa, Johannesburg

AMERICA

ARGENTINA
HDI Seguros, Buenos Aires

BERMUDA
Hannover Life Re Bermuda, Hamilton
Hannover Re Bermuda, Hamilton

BRAZIL
Hannover Re (Representative Office), Rio de Janeiro
HDI Seguros, São Paulo

CANADA
Hannover Re (Branch), Toronto
HDI-Gerling industrial insurance (Branch), Toronto

CHILE
HDI Seguros, Santiago

COLOMBIA
Hannover Re (Representative Office), Bogotá

MEXICO
Hannover Services (México), Mexico-City
HDI-Gerling de México Seguros, Mexico-City
HDI Seguros, León

URUGUAY
HDI Seguros, Montevideo

USA
Hannover Life Re America, Orlando
Hannover Re Services USA, Itasca/Chicago
HDI-Gerling America Insurance Company, Chicago

ASIA/PACIFIK

BAHRAIN
Hannover ReTakaful, Manama
Hannover Re (Branch), Manama
HDI-Gerling industrial insurance (Branch), Manama

CHINA
Hannover Re (Branch), Hong Kong
Hannover Re (Branch), Shanghai
HDI-Gerling industrial insurance (Branch), Hong Kong

INDIA
Hannover Re Consulting Services, Mumbai
Magma HDI General Insurance, Kolkata

JAPAN
Hannover Re Services Japan, Tokyo
HDI-Gerling industrial insurance (Branch), Tokyo

KOREA
Hannover Re (Branch), Seoul

MALAYSIA
Hannover Re (Branch), Kuala Lumpur

RUSSIA
CiV Life, Moscow
HDI Strakhovanie, Moscow

SINGAPORE
HDI-Gerling industrial insurance (Branch), Singapore

TAIWAN
Hannover Re (Representative Office), Taipei

AUSTRALIA

AUSTRALIA
Hannover Life Re Australasia, Sydney
Hannover Re (Branch), Sydney
HDI-Gerling industrial insurance (Branch), Sydney

EUROPE

AUSTRIA
HDI life insurance, Vienna
HDI insurance, Vienna

BELGIUM
HDI-Gerling Assurances/Verzekeringen, Brussels

BULGARIA
HDI Zastrahovane, Sofia

CZECH REPUBLIC
HDI insurance (Branch), Prague

DENMARK
HDI-Gerling Verzekeringen, Copenhagen

FRANCE
Hannover Re (Branch), Paris
HDI-Gerling industrial insurance (Branch), Paris

GREECE
HDI-Gerling industrial insurance (Branch), Athens

GERMANY
Ampega, Cologne
E+S Rück, Hannover
Hannover Re, Hannover
HDI insurers, Hannover
HDI-Gerling, Hannover/Cologne
neue leben, Hamburg
PB insurers, Hilden
Talanx, Hannover/Cologne
TARGO insurers, Hilden

HUNGARY
HDI insurance (Branch), Budapest
Magyar Posta Biztosító, Budapest
Magyar Posta Életbiztosító, Budapest

IRELAND
Hannover Re (Ireland), Dublin
HDI-Gerling industrial insurance (Branch), Dublin
Talanx Reinsurance, Dublin

ITALY
Hannover Re Services Italy, Milan
HDI Assicurazioni, Rome
HDI-Gerling industrial insurance (Branch), Milan

LUXEMBOURG
HDI-Gerling Assurance, Luxembourg
Talanx Finanz, Luxembourg

NETHERLANDS
HDI-Gerling industrial insurance, Rotterdam/Amsterdam

NORWAY
HDI-Gerling industrial insurance (Branch), Oslo

POLAND
TU Europa Group, Wrocław
WARTA, Warsaw

SCHWITZERLAND
HDI-Gerling industrial insurance (Branch), Zürich

SLOVAK REPUBLIC
HDI insurance (Branch), Bratislava

SPAIN
HDI Hannover International, Madrid/Barcelona
HR Hannover Re, Madrid

SWEDEN
Hannover Re (Branch), Stockholm

TURKEY
HDI Sigorta, Istanbul

UKRAINE
HDI Strakhuvannya, Kiev

UNITED KINGDOM
Hannover Re UK (Life Branch), Virginia Water
Hannover Services UK, London
HDI-Gerling industrial insurance (Branch), London
International Insurance Company of Hannover, London

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