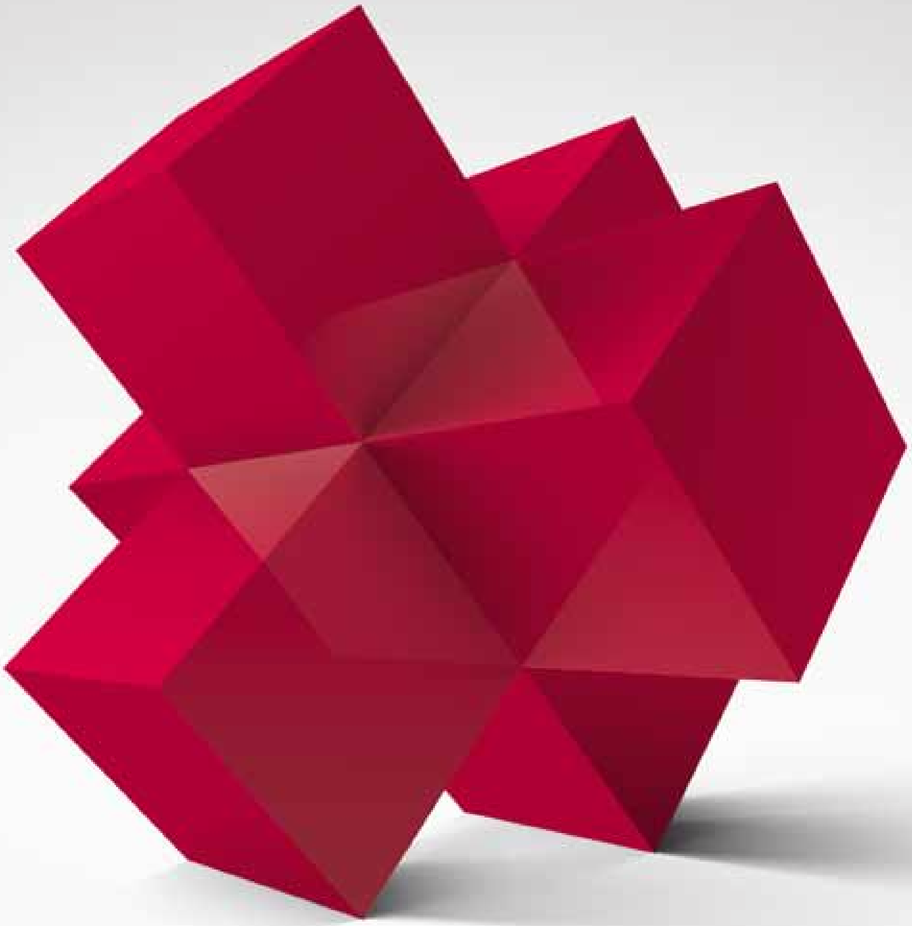


PERSPECTIVES CUBED

Group Annual Report 2014

talanx.

Insurance. Investments.

FINANCIAL HIGHLIGHTS OF 2014

GROSS WRITTEN PREMIUMS

EUR 29.0 BILLION

GROSS PREMIUM GROWTH (ADJUSTED FOR EXCHANGE RATE EFFECTS)

+3.6 %

PROPOSED DIVIDEND PER SHARE

EUR 1.25

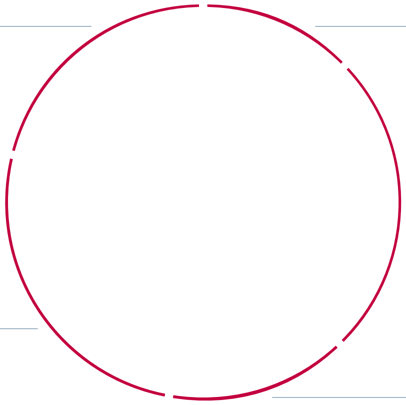
NET RETURN ON INVESTMENT

4.1%

OPERATING PROFIT (EBIT)

EUR 1.9 BILLION

SEGMENTAL BREAKDOWN OF GROSS PREMIUMS



22% Life/Health Reinsurance

14% Industrial Lines

24% Retail Germany

25% Non-Life Reinsurance

15% Retail International

THE TALANX GROUP AT A GLANCE

1 GROUP KEY FIGURES

	UNIT	2014	2013	2012
Gross written premiums	IN EUR MILLION	**28,994**	28,151	26,659
by region				
Germany	IN %	32	33	35
UK	IN %	9	10	11
Central and Eastern Europe (CEE), including Turkey	IN %	8	9	6
Rest of Europe	IN %	15	15	15
USA	IN %	12	13	13
Rest of North America	IN %	3	2	2
Latin America	IN %	7	7	7
Asia and Australia	IN %	12	9	9
Africa	IN %	2	2	2
Net premiums earned	IN EUR MILLION	**23,844**	23,113	21,999
Underwriting result	IN EUR MILLION	**–2,058**	–1,619[4]	–1,447
Net investment income	IN EUR MILLION	**4,144**	3,792	3,795
Net return on investment[1]	IN %	**4.1**	4.0	4.3
Operating profit (EBIT)	IN EUR MILLION	**1,892**	1,766[4]	1,748
Net income (after financing costs and taxes)	IN EUR MILLION	**1,368**	1,252[4]	1,144
of which attributable to shareholders of Talanx AG	IN EUR MILLION	769	732[4]	626
Return on equity[2]	IN %	**10.2**	10.2[4]	10.0
Earnings per share				
Basic earnings per share	IN EUR	3.04	2.90[4]	2.86
Diluted earnings per share	IN EUR	3.04	2.90[4]	2.86
Combined ratio in property/casualty primary insurance and Non-Life Reinsurance[3]	IN %	**97.9**	97.1[4]	96.4
Combined ratio of property/casualty primary insurers	IN %	101.7	99.7[4]	97.1
Combined ratio in Non-Life Reinsurance	IN %	94.7	94.9	95.8
Policyholders' surplus	IN EUR MILLION	**15,561**	14,231[4]	14,416
Equity attributable to shareholders of Talanx AG	IN EUR MILLION	7,998	7,127[4]	7,153
Non-controlling interests	IN EUR MILLION	4,902	3,997	4,156
Hybrid capital	IN EUR MILLION	2,661	3,107	3,107
Assets under own management	IN EUR MILLION	**96,410**	86,310	84,052
Total investments	IN EUR MILLION	**112,879**	100,962	98,948
Total assets	IN EUR MILLION	**147,298**	132,793[4]	130,350
Carrying amount per share	IN EUR	**31.64**	28.19[4]	28.31
Share price at year end	IN EUR	**25.27**	24.65	21.48
Market capitalisation of Talanx AG at year end	IN EUR MILLION	**6,388**	6,231	5,426
Employees	FULL-TIME EQUIVALENTS	**19,819**	20,004	20,887

1) Ratio of net investment income excluding interest income on funds withheld and contract deposits and profit on investment contracts to average assets under own management
2) Ratio of net income excluding non-controlling interests to average equity excluding non-controlling interests
3) Combined ratio adjusted for interest income on funds withheld and contract deposits, before elimination of intragroup cross-segment transactions
4) Adjusted to reflect IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes

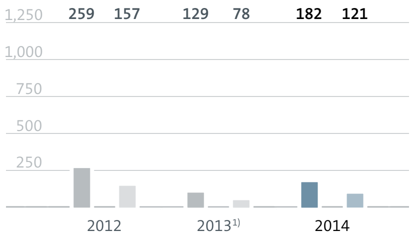
GROUP SEGMENTS AT A GLANCE

OPERATING PROFIT (EBIT)/GROUP NET INCOME
IN EUR MILLION
EBIT GROUP NET INCOME

2 INDUSTRIAL LINES

SEE MANAGEMENT REPORT PAGE 75

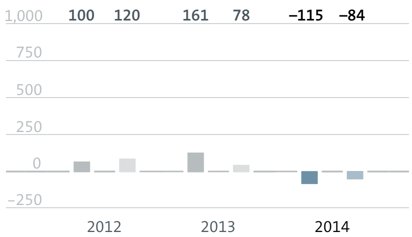
- Growth in premiums continues
- High claims levels due to single losses
- International business strengthened by new company in Brazil



3 RETAIL GERMANY

SEE MANAGEMENT REPORT PAGE 77

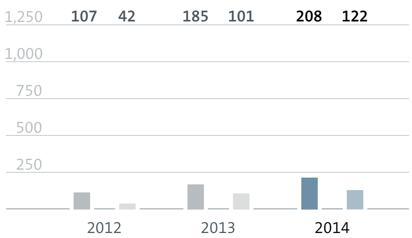
- Premium income close to prior-year level
- Higher reserves negatively impact combined ratio
- Further decline in interest rates leads to recognition of impairment losses on life insurance portfolios



4 RETAIL INTERNATIONAL

SEE MANAGEMENT REPORT PAGE 80

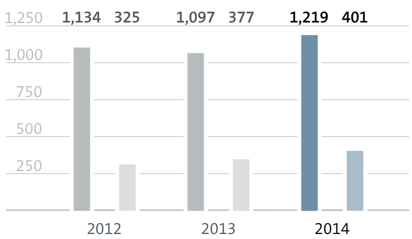
- Improved net loss ratio, particularly in Central and Eastern Europe
- Stable return on investment despite persistently low interest rates
- Acquisition in Chile strengthens Latin American business for 2015



5 NON-LIFE REINSURANCE

SEE MANAGEMENT REPORT PAGE 83

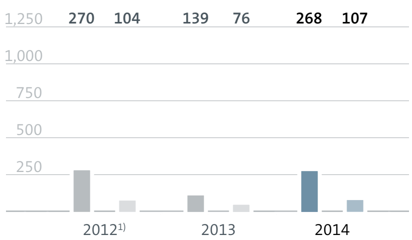
- Catastrophe losses well below forecast at EUR 426 million
- Encouraging combined ratio of 94.7%
- Premium growth adjusted for exchange rate effects on target at +1.2%



6 LIFE/HEALTH REINSURANCE

SEE MANAGEMENT REPORT PAGE 84

- Gross premium growth forecast adjusted for exchange rate effects achieved, at 4.9%
- First longevity risk transaction in France successfully concluded
- Results of Australian disability business in line with expectations



[1] Adjusted to reflect IAS 8, see "Accounting policies"

PERSPECTIVES CUBED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The insurance world is in a state of flux. The growing middle classes in the emerging markets offer new areas of activity. Complex phenomena such as climate change or the unstoppable march of digitisation in our society are altering the industry's context significantly. And customers' requirements have changed too: today's generation makes greater use of modern technologies and expects flexible service offerings.

The various dimensions of these three change processes present companies with substantial challenges. At the same time, however, they offer enormous potential and opportunities to those enterprises that can successfully master them.

Talanx is closely following this global shift and has systematically aligned the Group's strategic goals to take account of it. The Group views this as an opportunity to continue growing sustainably and profitably, backed by its strong brands in primary insurance and reinsurance.

CONTENT

TALANX AND ITS BRANDS

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Talanx is highly diversified and has a global presence thanks to its brands. The Group is continually extending its international network, enabling it to offer even more comprehensive services and tailor-made advice to the widest possible range of client groups.

The Talanx brand stands first of all for the Group as a whole – this is headed by Talanx AG, which performs management and financial holding functions at Group level but does not itself operate as an insurance company. Talanx Deutschland AG and Talanx International AG also both include the Talanx brand in their names; these bring together the operating companies for a number of different brands in and outside Germany respectively. Talanx Reinsurance Broker handles intragroup reinsurance, while a number of internal service companies also have Talanx as part of their name.
www.talanx.com

warta.

As the second-largest insurance group in Poland, the WARTA Group offers property, liability and personal insurance products as well as life insurance. By combining products and services from several different companies, WARTA is able to offer its customers a particularly broad, tailored range of products.
www.warta.pl

Europa

The TU Europa Group is Poland's leading bancassurance provider. Its products range from credit insurance and unit-linked life insurance to investment products.
www.tueuropa.pl

ampega.

Ampega is one of the major asset management companies in Germany that is not affiliated to a bank. It offers products and services across the entire asset management value chain, from funds through to asset management for private and institutional investors.
www.ampega.de

Posta Biztosító

Magyar Posta Biztosító is the high-growth partner for the Hungarian postal service in the bancassurance sales channel. Its easy-to-understand, transparent range of products offers excellent value for money and covers the life insurance and property/casualty lines.
www.mpb.hu

CiV Life

The Russian company OOO Strakhovaya Kompaniya "CIV Life", a bancassurance partnership with Citibank, trades under the CIV brand name. CIV Life is one of the most dynamically performing insurance companies in the Russian life insurance market.
www.civ-life.com

HDI-Gerling is responsible for the Industrial Lines business both in Germany and internationally. It offers a full range of business risk products, including property, liability, accident and motor insurance lines.
www.hdi-gerling.de

The Hannover Re Group is one of the largest reinsurers in the world and offers the whole range of property/casualty and life/health reinsurance lines. It is represented on every continent and takes a flexible, undogmatic approach to business. Its subsidiary E+S Rück focuses on the German market.
www.hannover-re.com
www.es-rueck.de

The HDI insurers operate under this brand name in Germany, offering property/casualty and life insurance products. Retail insurance companies outside Germany also operate under the HDI name. HDI offers comprehensive, tailor-made insurance cover worldwide.
www.hdi.de

In the bancassurance sales channel, the TARGO insurers operate exclusively for their partner TARGOBANK, offering its customers simple, convenient solutions for all their banking, finance and insurance needs.
www.targoversicherung.de

The PB insurers operate in the bancassurance sales channel exclusively for their partner Postbank. Sharing the latter's market profile, they design attractive insurance products at reasonable prices that are tailor-made to meet the needs of its customers, such as retirement provision and risk insurance products.
www.pb-versicherung.de

The neue leben insurers have positioned themselves within the bancassurance sales channel as the provision specialists for savings institutions, offering customers and sales partners innovative insurance products on attractive terms.
www.neueleben.de

“We will do everything we can in the current year to further increase the value of your Group and to ensure a profitable future”.

HERBERT K. HAAS
Chairman

Dear shareholders,
Ladies and Gentlemen,

Talanx's activities in financial year 2014 were shaped by the challenges and opportunities presented by the global economy. The Talanx Group was unable to escape the sustained low level of interest rates in the Eurozone and the USA, volatile exchange rates and the economic and political uncertainties around the world. Nevertheless, we took advantage of the resulting opportunities and successfully implemented our Group strategy.

At EUR 769 (732) million, Group net income was once again up on the previous year. Gross written premiums rose to a record EUR 29 billion and the net return on investment was 4.1%. In other words, 2014 was a challenging year – but one successfully navigated by the Talanx Group, with its focus on systematic internationalisation and diversification once again proving to be key.

The hard work and expertise of our employees played a major role in this success, and on behalf of the entire Board of Management, I would like to extend my sincere thanks to our entire workforce for their tireless dedication to our Group.

You – our valued shareholders – should also share in these positive results. The Board of Management and Supervisory Board of Talanx AG will be proposing a dividend of EUR 1.25 per share to the General Meeting, a year-on-year increase of 5 cents or approximately 4.2%. This translates to a very attractive dividend yield of 4.9% based on the year-end closing price of Talanx's shares.

There were no major natural disasters or man-made losses around the world in financial year 2014. Storm "Ela", which caused large losses in parts of Germany in June, cost the Talanx Group approximately EUR 106 million. However, it was the only major weather-related loss event to impact primary insurance. Instead, the past financial year was dominated by numerous major losses in the Industrial Lines Division, which significantly exceeded our expected budget for major losses. The Industrial Lines Division incurred a loss of approximately EUR 290 million from this spike in fire insurance cases in particular. Our internal analyses indicate that this unusually high level of major losses in the industrial fire insurance business is coincidental.

In the Reinsurance Division, losses from natural disasters declined from EUR 381 million in 2013 to EUR 204 million. Overall, the Group recorded catastrophe losses of EUR 782 million, down from EUR 838 million in the previous year, as a result of this lower burden in the Reinsurance Division. Continued internationalisation also helped us to diversify the burden of major losses. The Retail International Division also benefited from the decline in major losses.

The Talanx Group successfully drove forward its internationalisation policy. The Industrial Lines Division is now represented on the growing commercial risk market in Brazil with its own subsidiary. The Retail International Division acquired the Inversiones Magallanes insurance group in Chile. Based on the 2013 figures, the acquisition puts Talanx among the five largest insurers in Chile and makes it the second-largest motor insurer. These investments will have a positive impact on Group net income from financial year 2015 onwards. They strengthen the Group's primary insurance presence in Latin America, a market with enormous potential due to its still low insurance density.

Business developments in Poland and Turkey were also encouraging. We successfully completed the integration of the companies acquired in Poland in 2012 without impacting the pace of growth. In Turkey, the Talanx Group achieved a turnaround – its company there is turning a profit. The division now accounts for a growing share of gross written premiums and Group net income. The goal is still to generate half of primary insurance premiums outside of Germany by 2018 – and the acquisition in Chile will help make this easier to achieve. In 2014, the share generated outside of Germany was 45%, after 43% in the previous year.

On the whole, growth will continue to be driven by countries outside of Germany going forward. The emerging markets will play an increasing role in Talanx's retail business, as well as in industrial insurance. The Reinsurance Division also sees the greatest potential outside of Europe.

The European Central Bank is pursuing a cheap money policy in its efforts to stimulate economic growth and reduce government budget deficits. In doing so, it presents us – as an institutional investor – with the major challenge of achieving an adequate return on investment for our customers while still complying with our limits for capital market risk. Recent signs point towards persistent low interest rates over the medium term. We are compensating for the shrinking yields on government bonds by supplementing the latter with corporate bonds and infrastructure investments. To generate more momentum for alternative investments, we invested together with Nord LB and Bankhaus Lampe in a company that is designed to facilitate access to infrastructure projects, in particular on the financing side. Increased investment in countries outside of the Eurozone as part of our internationalisation strategy is another help.

The low interest rates throughout the sector in Germany are hitting the life insurance business particularly hard. The European Central Bank's policy takes little consideration of the retirement provision for millions of people in Europe. It is running the risk that the population of the Eurozone will stop saving because there is no incentive to do so, increasing the risk of old-age poverty. And it is forcing us, as a major investor, to enter into higher risks to generate adequate returns. Nevertheless, we are optimistic that retirement provision will remain a growth market going forward. Demographic trends and the successive cuts to government pensions mean that private retirement provision is imperative. However, the product landscape will change: classic endowment insurance will be replaced in the long run by products with lower guarantee costs, but that better exploit the opportunities offered by the financial markets. This is the path we will take with our German life insurers. We will also concentrate on biometric risk, in particular in occupational disability insurance.

In Germany, our focus continues to be on income growth. Our home market offers great opportunities for the property and casualty insurance business – the market is profitable and hence attractive for us. Further significant efforts to substantially improve process efficiency and service quality and hence to cut costs further are needed in Retail Germany Division. These cost savings are also vital in life insurance to compensate for the declining return on investment.

2015 will be one of the most challenging 12 months in recent years. Alongside the shrinking returns from the major capital markets, competitive pressure is increasing considerably, especially in reinsurance and industrial insurance. We will do everything we can in the current year to further increase the value of your Group and to ensure a profitable future. Thank you for your confidence in us and we look forward to your continued support.

Yours sincerely,

Herbert K. Haas

BOARD OF MANAGEMENT

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

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 Board of Management
HDI-Gerling Industrie Versicherung AG, Hannover

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

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

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

Dr Thomas Noth
(until 31 March 2014)
Hannover
Chairman of the Board of Management
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
(until 30 June 2014)
Gräfelfing
Chairman of the Board of Management
Talanx Deutschland AG, Hannover

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

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

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

Dr Jan Wicke
(since 1 May 2014)
Stuttgart
Chairman of the Board of Management
Talanx Deutschland AG, Hannover
(since 1 July 2014)

Responsible on the Talanx Board of Management for: (since 1 July 2014):
- Retail Germany Division
- Business Organisation

SUPERVISORY BOARD

COMPOSITION AS AT 31 DECEMBER 2014

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

Ralf Rieger*
Deputy Chairman
Raesfeld
Employee
HDI Vertriebs AG

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

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

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

Jutta Hammer*
Bergisch Gladbach
Employee
HDI Kundenservice AG

Gerald Herrmann*
Norderstedt
Trade union secretary
(until 8 May 2014)

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

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

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

Christoph Meister*
Hannover
Member of the ver.di National Executive Board
(since 8 May 2014)

Jutta Mück*
Oberhausen
Employee
HDI-Gerling Industrie Versicherung AG

Otto Müller*
Hannover
Employee
Hannover Rück SE

Katja Sachtleben-Reimann*
Hannover
Employee
Talanx Service AG

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

Prof Dr Jens Schubert*
Potsdam
Director of the Legal Department,
ver.di National Administration
(since 8 May 2014)

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

Prof Dr Ulrike Wendeling-Schröder*
Berlin
Professor at Leibniz University, Hannover
(until 8 May 2014)

* Staff representative

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

SUPERVISORY BOARD COMMITTEES

COMPOSITION AS AT 31 DECEMBER 2014

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

Finance and Audit Committee

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

Personnel Committee

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

Standing Committee

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

Nomination Committee

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

TASKS OF THE COMMITTEES

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

Finance and Audit Committee

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

Personnel Committee

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

Standing Committee

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

Nomination Committee

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

REPORT OF THE SUPERVISORY BOARD

Ladies and Gentlemen,

The Supervisory Board fulfilled its tasks and duties in accordance with statutory requirements, the Articles of Association and the Rules of Procedure without restriction in financial year 2014. We considered the economic situation, risk position and strategic development of Talanx AG and its major subsidiaries at length. We advised the Board of Management on all key matters for the Company, continuously monitored its management of the business and were directly involved in decisions of fundamental importance.

We held four ordinary meetings of the Supervisory Board in the year under review – on 19 March, 14 May, 12 August and 12 November 2014 – in addition to the constituting Supervisory Board meeting on 8 May 2014. As in the previous year, the Federal Financial Supervisory Authority (BaFin) exercised its statutory powers to send two representatives to attend one of these meetings. The Supervisory Board's Finance and Audit Committee held four ordinary meetings and one extraordinary meeting, and the Personnel Committee held two meetings. The Nomination Committee and the Standing Committee formed in accordance with the requirements of the German Co-determination Act (MitbestG) were not required to meet in 2014. The full Supervisory Board was briefed on the work of the various committees. In addition, we received written and oral reports from the Board of Management on business operations and the position of the Company and the Group, based on the quarterly financial statements. At no point during the year under review did we consider it necessary to perform inspections or investigations in accordance with section 111(2) sentence 1 of the German Stock Corporation Act (AktG). Where transactions requiring urgent approval arose between meetings, the Board of Management submitted these to us for a written resolution. The chairmen of the Supervisory Board and of the Board of Management regularly exchanged information and views on all material developments and transactions within the Company and the Talanx Group. Overall, we satisfied ourselves of the lawfulness, fitness for purpose, regularity and efficiency of the actions taken by the Board of Management in line with our statutory responsibilities and our terms of reference under the Articles of Association.

The Board of Management provided us with regular, timely and comprehensive information regarding the business situation and financial position, including the risk situation and risk management, major capital expenditure projects and fundamental issues of corporate policy. We were also informed of transactions that – although not subject to the approval of the Supervisory Board – need to be reported in accordance with the requirements of the Rules of Procedure, as well as of the impact of natural disasters and other major losses, the status of major lawsuits and other material developments within the Company and the Group, and in the regulatory environment (progress in implementing Solvency II, fit and proper requirements, Life Insurance Reform Act). At our meetings we considered at length the reports provided by the Board of Management and put forward suggestions and proposed improvements. All members of the Supervisory Board attended the meetings with the exception of the meetings in March, May and August, at which one member in each case took part in resolutions solely by means of a written vote. No member of the Supervisory Board or the committees attended less than half of the meetings.

KEY AREAS OF DISCUSSION FOR THE FULL SUPERVISORY BOARD

The following issues formed the primary focus of reporting and were discussed in detail at our meetings: the Company's business development and that of the individual Group segments; the situation of German life insurance and specifically the future positioning of HDI Lebensversicherung AG; potential acquisition projects in Germany and abroad; the strategic position of the Retail Germany Division; the termination of a strategic partnership; Talanx AG's secondary listing on the Warsaw Stock Exchange; and our planning for 2015. We were informed of, and developed an understanding of, the reasons for divergences between actual and planned business developments for the preceding quarters.

Risk management within the Group was another focus of our deliberations, as in past years. The risk reports by the Board of Management were discussed at each Supervisory Board meeting. In addition, we considered a number of refinancing measures, received reports on changes in borrowings within the Group and the cost situation compared with competitors – including the measures and projects derived from these – and discussed divestments in countries in which continued involvement raises doubts from an economic perspective.

As part of the planning of the structure and composition of the Company's Board of Management, the Supervisory Board discussed questions relating to the reappointment, non-reappointment and initial appointment of members of the Board of Management. The resolutions adopted are presented at the end of this report.

In keeping with section 87(1) of the AktG, the full Supervisory Board addressed the setting of divisional targets for 2015 and the determination of the bonuses for the members of the Board of Management, and also consulted external sources in its assessment of the appropriateness and structure of the remuneration of the Board of Management. The fixed remuneration of five members of the Board of Management was also reviewed as at 1 January 2014, with horizontal and vertical aspects of remuneration and remuneration concepts being used for comparison and guidance purposes. The appropriateness of the remuneration system for Group managers was discussed at the Supervisory Board meetings on 19 March 2014 and 14 May 2014.

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

WORK OF THE COMMITTEES

The Supervisory Board has set up various committees to enable it to perform its duties efficiently. These are the Finance and Audit Committee, which has six members, the Personnel Committee and the Standing Committee, each of which has four members, and the Nomination Committee, with three members. The proposal to appoint an extra member to the Finance and Audit Committee, bringing the number of members from five to six, was discussed by the full Supervisory Board and then resolved. The committees prepare discussions and the adoption of resolutions by the full Supervisory Board. They also have the authority to pass their own resolutions in specific areas. The minutes of the Finance and Audit Committee and Personnel Committee meetings are also made available to members of the Supervisory Board who do not belong to these committees. The composition of these committees can be found on page 12 of the Annual Report.

Along with preparing the discussions and resolutions by the full Supervisory Board, the Finance and Audit Committee also carried out in-depth reviews of the Company's and Group's quarterly financial statements. Furthermore, the Finance and Audit Committee received reports by the Board of Management on real estate management and pension liabilities in the Group, and discussed the findings of an external actuarial audit of the gross and net claims reserves for the Talanx Group's non-life insurance business, along with profitability trends at the individual Group companies as at 31 December 2013. In an extraordinary meeting, the Finance and Audit Committee dealt with issues concerning the expected business development and the measures to be taken as a result at companies in the Retail Germany Division, and adopted the corresponding resolutions. Otherwise, we reviewed information provided on the status of TU Europa as part of an investment follow-up audit and discussed the status of succession planning for KPMG's audit management. We also routinely address reports on the internal control system, the risk reports and the annual reports by the Audit and Compliance functions. The latter were prepared and presented to us by the responsible head of Internal Auditing and the Chief Compliance Officer.

Along with preparing the discussions and resolutions by the full Supervisory Board, in particular on reappointments, non-reappointments and new appointments, the Personnel Committee set interim personal targets for the individual members of the Board of Management for financial year 2015, received and developed an understanding of external calculations and an expert opinion on the comparability of defined benefit pension commitments and defined contribution pension commitments, and gave its permission for a company in which a member of the Supervisory Board holds a stake of 25.93% to provide advisory services to Talanx Group companies. Recommendations were also made to the full Supervisory Board in relation to setting bonuses for the Board of Management and reviewing its fixed remuneration.

CORPORATE GOVERNANCE AND DECLARATION OF CONFORMITY

In view of the fact that the Commission on the German Corporate Governance Code only made minor changes to the German Corporate Governance Code (DCGK) in 2014, examining the Code was not a major focus of the Supervisory Board's work. Nevertheless, the Supervisory Board requested and was provided with an explanation of the calculation method used for the vertical comparison of executive remuneration in accordance with section 4.2.2 of the Code. In addition, the Supervisory Board received reports on the policy adopted by the Board of Management for the internal control system (ICS) and on the structure of remuneration systems in accordance with section 3(5) of the Remuneration Regulation for Insurance Companies, as well as the risk reports and annual reports by Internal Auditing and the Chief Compliance Officer. In addition, an efficiency review of the Supervisory Board's activities conducted in April 2013 led to the questionnaire previously used being updated and to suggestions for optimizing its activities.

Although the Supervisory Board attaches great importance to the standards for good, responsible enterprise management as formulated in the German Corporate Governance Code, it has decided against complying with the recommendations of section 4.2.3(4) of the Code relating to a severance payment cap in Board of Management contracts, of section 5.2(2) regarding the chairmanship of the Audit Committee, and of section 4.2.3(2) regarding the potential need for a cap on the payment of Talanx share awards. The reasons for this are stated in the declaration of conformity in accordance with section 161 of the AktG on observance of the German Corporate Governance Code, which is published in the Group Annual Report as part of the declaration on corporate governance. Further information on corporate governance can be found on Talanx AG's website.

AUDIT OF THE ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

KPMG AG, Wirtschaftsprüfungsgesellschaft, Hannover, audited Talanx AG's annual financial statements submitted by the Board of Management, the Talanx Group's financial statements prepared in accordance with International Financial Reporting Standards (IFRSs), together with the corresponding management reports and accounting records. The auditors were appointed by the General Meeting. The Finance and Audit Committee issued the detailed audit mandate and determined that, in addition to the usual audit tasks, special attention should be given to an examination of the remuneration report in the annual financial statements, with an additional focus in the consolidated financial statements on examining the correctness of the settlement processes in the fronting and captive business, on reviewing the intercompany transactions process, and on the presentation of the tax treatment of the business conducted by the foreign branches of German (re)insurance companies. The areas of emphasis set out by the German Financial Reporting Enforcement Panel (FREP) were also included in the activities performed by the auditors.

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

The financial statement documents and the KPMG audit reports were circulated to all members of the Supervisory Board in good time. They were examined in detail at the Finance and Audit Committee meeting on 20 March 2015 and at the Supervisory Board meeting on 21 March 2015. The auditor took part in the discussions by the Finance and Audit Committee and the full Supervisory Board regarding the annual and consolidated financial statements, reported on the performance of the audits and was available to provide the Supervisory Board with additional information. On completion of our own examination of the annual financial statements, the consolidated financial statements, the corresponding management reports and the audit reports by the external auditors, we concurred with the opinion of the auditors in each case and approved the annual and consolidated financial statements prepared by the Board of Management.

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

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

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

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

COMPOSITION OF THE SUPERVISORY BOARD AND BOARD OF MANAGEMENT

The term of office of the employee representatives on the Supervisory Board expired at the end of the Annual General Meeting on 8 May 2014. Mr Faber, Ms Hammer, Ms Mück, Mr Müller, Mr Rieger and Ms Sachtleben-Reimann were confirmed in office by the employees. Mr Meister and Prof Dr Schubert were elected as new members of the Supervisory Board, while the appointments of Prof Dr Wendeling-Schröder and Mr Herrmann expired at the end of the Annual General Meeting on 8 May 2014. The Supervisory Board thanked Prof Dr Wendeling-Schröder and Mr Herrmann and expressed appreciation for their many years of valued and close cooperation. The current term of office of the employee representatives on the Supervisory Board expires at the end of the Annual General Meeting in 2019; that of the shareholder representatives expires at the end of the Annual General Meeting in 2018.

The newly elected Supervisory Board re-elected Mr Rieger as First Deputy Chairman of the Supervisory Board.

Furthermore, the Supervisory Board resolved to reappoint Mr Wallin to the Board of Management when his term of office expired in 2014, and to reappoint Mr Leue to the Board of Management when his term of office expires in 2015. It also resolved not to renew Dr Noth's and Dr Roß's appointments to the Company's Board of Management when their terms of office ended on 31 May and 30 June 2014. The Supervisory Board thanked both Dr Noth and Dr Roß. Dr Wicke was appointed to the Board of Management as Dr Roß's successor effective 1 May 2014.

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

The Supervisory Board would like to thank the members of the Board of Management and all employees worldwide. They have all successfully contributed to the results of the Company and the Group.

Hannover, 21 March 2015

For the Supervisory Board

Wolf-Dieter Baumgartl
(Chairman)

A CHANGING GLOBAL MARKET

ECONOMIC POWER STRUCTURES AROUND THE WORLD ARE UNDERGOING MASSIVE CHANGE – WHILE GDP IN THE G7 COUNTRIES IS NOW ONLY SEEING SLOW GROWTH, MANY EMERGING MARKETS HAVE MOVED INTO THE FAST LANE. THEIR NEW, GROWING MIDDLE CLASSES ARE BOOSTING DEMAND FOR INSURANCE. TALANX IS SYSTEMATICALLY EXPANDING ITS PRESENCE IN THE MARKETS OF THE FUTURE, WITH A PARTICULAR FOCUS ON LATIN AMERICA AND ON CENTRAL AND EASTERN EUROPE, INCLUDING TURKEY.

CRANES ON THE ISTANBUL SKYLINE – SYMBOLS OF A BOOMING CITY
Ceyhan Hancıoğlu, General Manager of HDI Sigorta

It's 6.30 a.m. and the city is slowly waking up. Ceyhan Hancıoğlu, 49, is already in his office, studying documents and writing e-mails. The HDI Sigorta general manager is often one of the first through the doors at the nine-storey headquarters of Talanx's Turkish subsidiary in Istanbul. "I deal with things that need peace and quiet in the mornings", says Hancıoğlu. Once those are out of the way, he is free to concentrate on other things. "My door is always open."

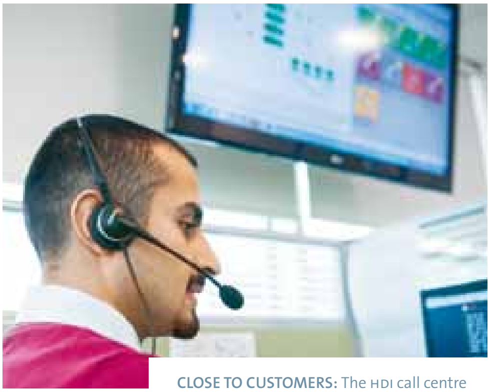
Communication on equal terms on the one hand, and a clear sense of direction on the other – the management style adopted by Ceyhan Hancıoğlu, who has been in charge of Talanx's Turkish subsidiary HDI Sigorta since 2013, is reminiscent of a football coach's approach. On his first day in office, Fenerbahçe Istanbul fan Hancıoğlu got all his employees together to fire them up to aim for success. "We are operating in a growing market", he told them. But that did not mean they could just sit back and wait for success to come to them. There was a lot of competition out there. Anyone hoping to succeed in this environment would need a clear profile, a disciplined attitude to work and, above all, a strong team. Every employee must be clear about the company's goals in order to contribute to its success. Even the service personnel have memorised the combined ratio. "If you want to make a profit you have to stop thinking about profit all the time", says Hancıoğlu. "You have to concentrate first and foremost on people – your customers, colleagues and business partners."

THE COACH AND HIS TEAM: Ceyhan Hancıoğlu brings his regional managers together at head office

Seven years after its acquisition by Talanx, HDI Sigorta is now securely positioned in the Turkish market – one of the fastest-growing and most fiercely competitive markets in the world. GDP in Turkey has grown by an average of 5% a year since 1980 – a trend that is forecast to continue in the next few years, according to the World Bank. "A growing middle class means that wealth is also growing, and with it the need for insurance", says Hancıoğlu. "That's our opportunity."

The emerging economies will generate an increasingly large share of global economic output over the coming decades, and many of them are on course for significant GDP growth, according to the OECD report "Looking to 2060: A Global Vision of Long-term Growth".

Increasing traffic on the streets of Istanbul is a further sign that Turkey's economy is booming



CLOSE TO CUSTOMERS: The HDI call centre

PROFESSIONAL SERVICE: The Fast Support Station in action

One of the reasons, according to the authors, is increased value creation in the emerging economies. Another is demographic change: "young" countries are becoming more important as the population ages in Japan and the important economies in the Eurozone.

This shift is both a challenge and an opportunity for Talanx. While the German insurance market is stagnating, the Group is recording growth abroad that still has potential for further expansion. In particular, Talanx sees Brazil, Mexico, Poland and Turkey as growth drivers for its retail division – four countries where the economy is expanding and the middle class is growing, but in which the insurance density is still relatively low. A number of Talanx subsidiaries already enjoy stable market positions in these countries. The task now is to build on that and at the same time to secure their long-term competitive advantage. "Whereas the insurance business in Germany is mainly subject to price and cost competition, our core markets are seeing much greater competition in terms of innovation – something that applies both to customer service and to pricing", explains Dr Jan Myszkowski, Head of the Best Practice Lab at Talanx International AG, a forum for sharing knowledge across Talanx's international companies.

"We are very proud that Turkey is one of Talanx's core markets", says Ceyhan Hancıoğlu. From private to industrial insurance – one million customers, around 260 employees and a premium volume of EUR 210 million in 2014 testify to the company's success. Its growth rate is significantly higher than that of the Turkish market. HDI Sigorta is the twelfth-largest property/casualty insurer in Turkey today. Hancıoğlu aims to grow the company so strongly that in five years' time it will be one of the top ten. Not an easy task, even in a growing market. The competition is fierce and customers are being courted by a number of the major insurers. From motor to marine insurance, from legal protection to home and contents policies – Hancıoğlu is convinced that, in the future, insurers must follow, and systematically implement, a clear strategy to be successful.

In 2011, HDI Sigorta made a strategic decision that was to prove key to its success. This was when the Turkish government repealed a statutory provision that fixed the premiums for motor third-party liability insurance. Since then, insurers have been able to set their own premiums. "We did not participate in the price war following deregulation. Instead, we focused on comprehensive insurance", says Ceyhan Hancıoğlu. Some customers left as a result. "This was a deliberate step", says Hancıoğlu, explaining that many insurers in Turkey sustain high losses from motor third-party liability insurance.

WHAT ARE THE CHARACTERISTICS OF THE GROUP'S STRATEGIC TARGET MARKETS?

Talanx is active in the growth regions of Latin America and Central and Eastern Europe, focusing on two of the larger economies in each region. In these countries, growth of the middle classes goes hand in hand with an increasing number of cars – one of the foundations on which the business of the international companies is built.

CORE MARKETS IN LATIN AMERICA

Mexico

- **Market:** increasing population and growing middle class
- **Potential:** over 70% of vehicles and 90% of households currently without insurance

Brazil

- **Market:** increasing population and fast-growing middle class
- **Potential:** over 60% of vehicles and 90% of households currently without insurance

THE FOUR CORE MARKETS CONTRIBUTE

64%

TO THE DIVISION'S GROSS PREMIUM INCOME

CORE MARKETS IN CENTRAL AND EASTERN EUROPE

Poland

- **Market:** largest population in the region after Russia and Turkey (38 million); highest number of cars per capita of population in the region (0.5)
- **Potential:** GDP growth of 1.6% in 2013 compared with 0.1% in the EU; per capita expenditure on insurance in 2012 was around 13% of that in G7 countries

Turkey

- **Market:** youngest and fastest-growing population in Europe; growing middle class
- **Potential:** GDP growth of 4% in 2013; per capita expenditure on insurance in 2012 was around 7% of that in G7 countries

In contrast, there is money to be made with comprehensive insurance, he says. The decision was the right one. The company's share of motor third-party liability insurance in HDI Sigorta's overall portfolio declined from 40% to 22%, but it won new customers in the lucrative comprehensive insurance business. "Overall, this means fewer policies but higher profitability", says Hancıoğlu. As a result, the company moved into profit in 2014.

HDI Sigorta's strategy could be described as "quality over quantity", and this can also be seen in the changes currently underway at the company. These include investments in claims management to speed up claims processing. The call centre was operated by an external service provider until a couple of years ago, but is now managed directly by HDI Sigorta's headquarters. "This means we are in direct contact with our customers and can ensure that they always receive fast and professional help", says Hancıoğlu. Experts from the Talanx Group's Polish company, WARTA, helped with the transition. Another innovation is the company's first service station, located in the direct vicinity of its headquarters. From qualified staff to a children's corner, Hancıoğlu says that "this Fast Support Station is totally tailored to customers' wishes". Further Fast Support Stations across the country are to follow. "People want insurers that make them feel looked after." Setting standards in claims service by means of adapting and enhancing models that have already been successful elsewhere: HDI Seguros in Mexico helped HDI Sigorta to create its support station. And, in turn, the Mexican company adopted and expanded the unique claims management system pioneered by its sister company in Brazil. HDI Seguros has established 45 "Bate Pronto" claims centres in Brazil, the seventh-largest economy in the world. In Mexico, the claims centres are known as "Auto Pronto". Currently, there are twelve

MURILO RIEDEL: Our Bate Pronto pioneer

COMPREHENSIVE SERVICE: The HDI Seguros Brazil call centre

Learning from each other: cross-border teams of experts enhance claims management and pricing

in operation. “We aim to establish another ten by the end of 2015”, says Jaime Calderón, Head of Sales and Marketing at HDI Seguros Mexico. The Talanx subsidiary is on the road to success: its 55th branch office opened in January 2015 and another 19 are to follow by the end of 2016. The company is consistently outpacing the market and – with over 365,000 customers and nearly 450,000 policies – is the ninth-largest motor insurer in the country, the world’s fourteenth-largest economy. HDI Seguros recently launched a number of special additional motor insurance components onto the market, targeted towards different customer segments. “We want our customers to feel they have protection and service at their fingertips, which is why we offer them a safety check for their car, for example”, says Calderón. “By offering a comprehensive range of motor insurance services we open up new ways of generating additional premium income.”

In Brazil, HDI Seguros recently made the news with an innovative service: three mobile Bate-Pronto service centres were rolled out in 2014. They were on the road near Rio de Janeiro during carnival for instance, a time of year that is associated with higher accident figures in many areas. And when the states of Santa Catarina and Paraná were hit by a hailstorm in May 2014, mobile service centre employees recorded the damage right where it had occurred. “This service is really appreciated by our customers”, says Murilo Riedel, a member of the Board of Management of HDI Seguros. HDI Seguros received the 2014 Brazilian Insurance Award for its prompt claims assistance. “But we are even more delighted with how satisfied our customers are”, says Riedel. In Brazil, the fourth-largest motor insurance market in the world, the company roughly doubled its premium volumes between 2009 and 2013, from approximately EUR 330 million to almost EUR 700 million.

EXPERT ASSISTANCE: An accident investigator from HDI Seguros Mexico

RELIABLE REPAIRS: An Auto Pronto mechanic in action

A CITY STRADDLING TWO CONTINENTS: The Bosporus Bridge linking Europe and Asia

Another Brazilian Talanx subsidiary, which was founded in 2014, is expected to provide further growth momentum in the coming years. HDI-Gerling Seguros Industriais S.A. meets the growing demand for industrial insurance in this emerging market with property, casual and marine insurance offerings, as well as engineering insurance for companies. It is the Talanx Group's third subsidiary in Brazil, after Hannover Re and HDI Seguros S.A. – a good example of how the divisions cooperate. "We aim to work closely together with the other Talanx subsidiaries in the future so that we can benefit from each other", says Guillermo León, General Manager of HDI-Gerling Seguros Industriais. The Best Practice Lab also helps here, emphasises Myszkowski: "It enables us to bring the best experts together to focus on developing competitive advantage in claims management and pricing. There is immense potential for growth in our core markets, but the decisive factor in our success will be our companies' internal abilities." More skills and competencies will be brought in by the Chilean company that joined the Group at the beginning of 2015.

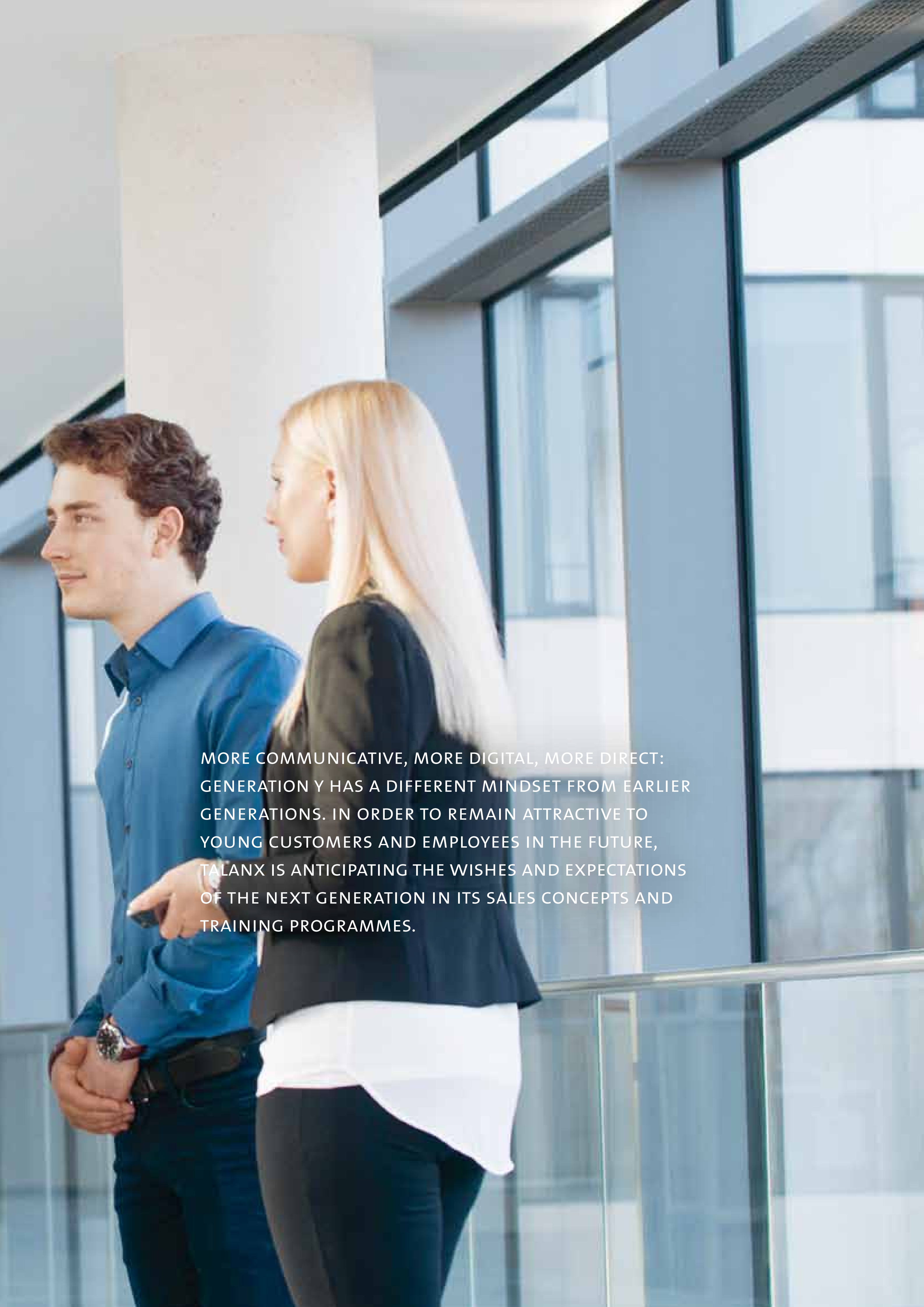
In Istanbul, the working day is coming to an end. The setting sun bathes the city in a golden light. Ceyhan Hancıoğlu looks down at the urban motorway, where the rush hour traffic is now trickling out of the city. He will soon join the traffic jam himself as he heads home. He is philosophical about being stuck in the congestion. Istanbul is now home to over three million cars and, yes, that does lead to jams sometimes. "But at the same time the traffic is a symptom of increasing prosperity", adds Ceyhan Hancıoğlu. "And that is good for us and for our country."

»People want insurers that make them feel looked after«.

APPS, NOT APPLICATION FORMS

UNDERSTANDING THE NEXT GENERATION: Torsten Kumm, Head of Vocational Training in Hannover

DOING SOMETHING MEANINGFUL: Sophie Schmidt, a former vocational trainee at Talanx Service AG



MORE COMMUNICATIVE, MORE DIGITAL, MORE DIRECT: GENERATION Y HAS A DIFFERENT MINDSET FROM EARLIER GENERATIONS. IN ORDER TO REMAIN ATTRACTIVE TO YOUNG CUSTOMERS AND EMPLOYEES IN THE FUTURE, TALANX IS ANTICIPATING THE WISHES AND EXPECTATIONS OF THE NEXT GENERATION IN ITS SALES CONCEPTS AND TRAINING PROGRAMMES.

RENÉ MANTIK: Generate interest, provide information, increase identification

Imagine that when you visit an insurance branch you are greeted by a barista instead of an adviser. A bit later you make yourself comfortable on a sofa in a cosy corner with a latte macchiato and enjoy the lounge music playing. On your smartphone you can check the tips the HDI insurance specialist gave you during your chat yesterday, and with a couple of clicks you can then choose the right product via a touchscreen. Liability insurance? Home contents insurance? Life insurance? An adviser will help you put your own personal package together.

The "Life Shop" – more like a bar than an office – does not actually exist yet. At the moment, this sales area is just an idea – but it's not as far-fetched as it may seem. "We designed a future branch where customers can feel comfortable", says Sophie Schmidt (23). She was one of four vocational trainees at Talanx Service AG who developed the Life Shop as their "InnoWard" project. This insurance industry training award is presented in recognition of innovative concepts – and in 2014 it was awarded to Sophie Schmidt's team. "We talked to other trainees first to find out more about their consumer behaviour and their values", explains Schmidt before summing up one of the survey's results: "Young people use digital media and are interested in holistic experiences".

Her findings confirm the picture that researchers have drawn up of today's 20- to 35-year-olds. Sociologists call this age group Generation Y, and it has a completely different mindset from that of its predecessors. They have grown up with digital media and to them the Internet is a normal part of life. They have different priorities, in terms of values, too. Status and prestige are less important to them, for example, than doing work they enjoy and achieving personal fulfilment.

This sounds fairly harmless at first, but it is fundamentally changing the market. When dealing with Generation Y, traditional human resources management approaches must adapt and cater to their

»This is a very focused generation«.

RENÉ MANTIK

DEVELOPING DIGITAL SOLUTIONS: Individual packages at a glance

preference for using the Internet, social networks and mobile devices. "Of course, not everyone in Generation Y is the same", says René Mantik, who as a human resources marketing officer at Talanx AG is also responsible for marketing in universities and colleges. You can't sum up a whole generation in just a handful of attributes. He comes across a wide range of students at recruitment fairs – from those looking for direction through to others who are very well informed. The important thing, in Mantik's view, is to provide information for those interested in working in the industry and to keep in touch. For example, former interns at Talanx and student temps are regularly invited to get-togethers where they also have the opportunity to form networks. Many young people have impressive CVs even at an early stage. They have completed internships and semesters abroad, and they speak several languages: "This is a very focused generation that has a vast pool of information constantly at their fingertips", says Mantik. Although flexible working hours or work-life balance are not often the main topics raised in interviews, it is clear that "this generation values opportunities for participation and self-fulfilment at least as much as a career and a high salary".

This is confirmed by Sophie Schmidt, who has now completed her traineeship: "Of course I want to be well paid, but I am also looking for personal fulfilment in my job". And many of the 400 vocational trainees and twelve graduate trainees that Talanx takes every year would give a similar response. "They are goal-oriented", says Thorsten Kumm, Sophie Schmidt's instructor. "Young people today want to do something meaningful", a desire that was much less noticeable in earlier generations of trainees. If Talanx wants its employees to identify closely with the Group, it must take account of this shift in values.

You can see how this works at the trainees' in-house insurance consultancy at Talanx's Hannover location. Shortened to "MAP",

WHAT ARE THE TRUE VALUES?

Individual members of a generation vary widely – particularly in today's individualistic society. Nevertheless, it is possible to discern trends and common features that differ to those seen in previous generations.

COMPANIES AND VALUES

Generation Y is attracted to companies with a good working environment. This includes:

- 70% – Fairness
- 52% – Appreciation and recognition
- 34% – Trust

Source: Consulting CUM LAUDE; Top performers

ON AVERAGE, GENERATION Y SPENDS MORE THAN

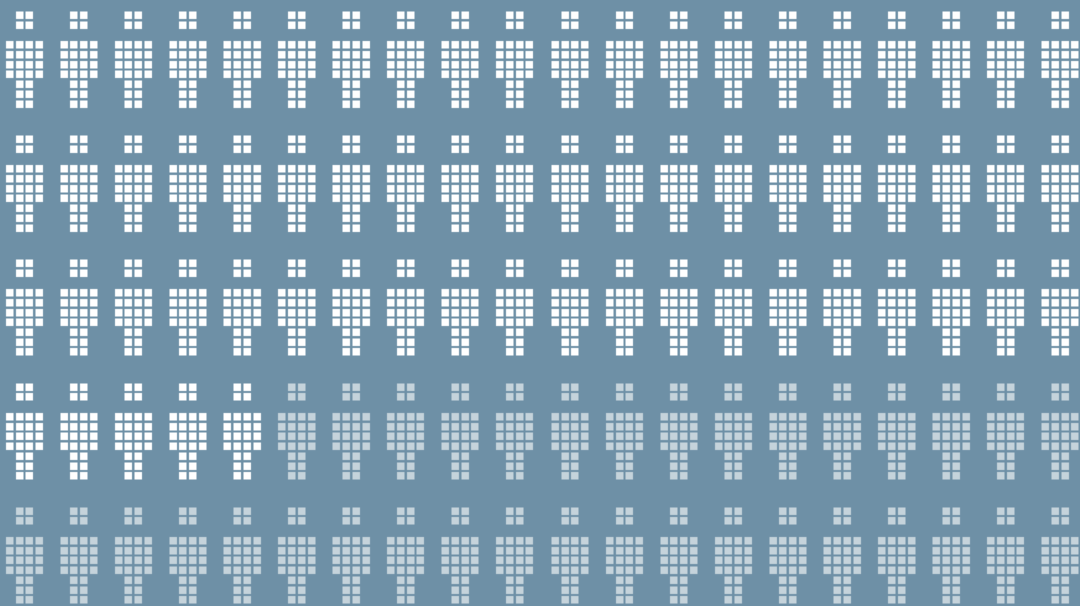
60

MINUTES A DAY IN SOCIAL NETWORKS

Source: Saatkorn; Generation Y international survey

HOW DO YOU SEE YOUR CAREER DEVELOPING?

65% Specialist



35% Generalist

Source: Saatkorn; Generation Y international survey

THE NUMBER OF GERMAN STUDENTS STUDYING ABROAD ROSE FROM 58 THOUSAND TO AROUND

139 THOUSAND

BETWEEN 2002 AND 2012

Source: Federal Statistical Office
German Students Abroad

SELF-IMAGE

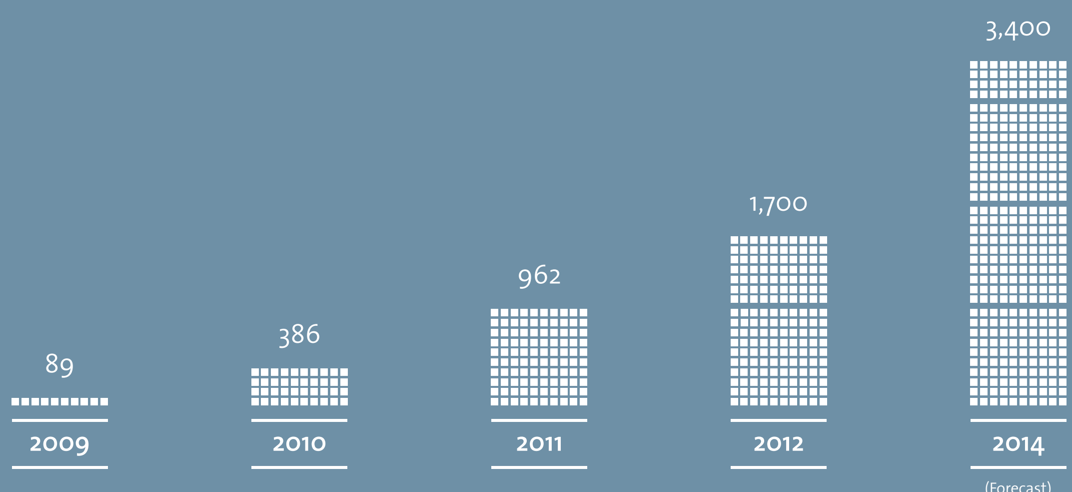
According to a survey by Pforzheim University of Applied Sciences, Generation Y respondents identified with the following characteristics:

- 85% – well networked
- 83% – mobile
- 50% – performance-driven
- 41% – goal-oriented

Source: Pforzheim University of Applied Sciences; Generation Y: implications for employers and human resources management

NUMBER OF MOBILE APPS DOWNLOADED IN GERMANY

IN MILLION



Source: Statista

PUTTING A PRICE ON FRIENDSHIP: The HDI app

based on its German name, this is a type of mini firm within the firm that is run by the trainees. At eight o'clock in the morning when the MAP branch opens, the trainees first check the e-mail inbox and before long their first customers, i.e. their colleagues, are at the door on most days. Sophie Schmidt also used to work here. Now she is in the human resources department supporting her successors. "We gain practical experience fast and it's fun to pass on our knowledge to the younger trainees", says Schmidt.

At Talanx's Polish subsidiary WARTA, they also have a special way of attracting the next generation. Every year in July and August, 50 university students learn about the group, work in different departments and have the opportunity to talk to experienced employees. Around half of the interns were taken on after completing their internship in 2014, as was Natalia Balcerzak in 2011. The 28-year-old joined WARTA straight from university. One of her first tasks as a human resources recruitment specialist was to revamp the summer internship programme itself. Today, participants are paid and get the opportunity to meet the CEO and ask him about things like his day-to-day work. Last year, they took part in a strategy simulation game. The interns role-played being members of the board of management of an insurance company, took management decisions and in the process learned about the special features of the insurance business. "This benefits both sides", says Balcerzak. WARTA also offers its managers a special mentor training programme. Here, they learn what makes young

ADVICE "TO GO": Arne Thomsen in the HDI cafeteria

»The app allows us to take an emotional approach to providing advice«.

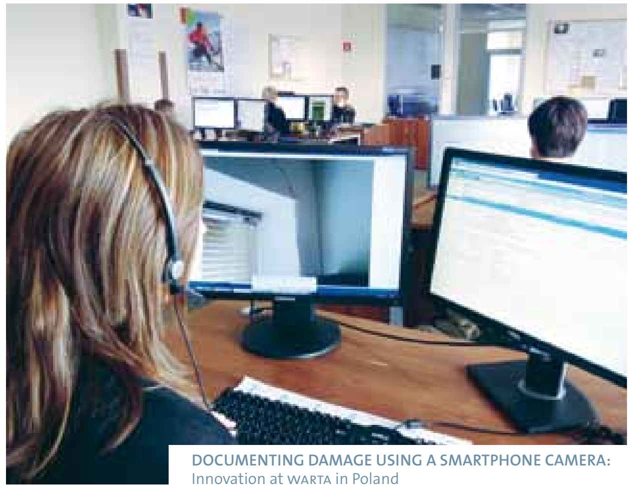
ARNE THOMSEN

employees tick, why they communicate their needs so openly and how to deal with this as a supervisor. The aim is to deepen mutual understanding across the generations and to strengthen relationships between them.

But human resources marketing is not the only department that needs to change its thinking – it is just as true for sales. Appointments are replaced by live chats, and application forms by apps: new solutions have to be found when traditional sales channels lose their appeal. The Talanx trainees used the Life Shop to demonstrate how the future might, indeed must, look. A study by IT industry association BITKOM found that some 94% of Internet users over the age of 14 in Germany today already shop online. Total purchases reached EUR 43 billion in 2014, according to the Center for Research in Retailing (IFH) in Cologne. This means that online sales accounted for 9.4% of total retail turnover. The market is dominated by fashion and accessories, but sales of financial products are also growing.

"To stay ahead in this market, you have to offer more than just an online form – you have to offer digital solutions", explains Arne Thomsen, 34, Head of Product Marketing, Property Insurance. He was involved in developing the "digital adviser" which the Company used in its "My Home" marketing campaign – an important step towards targeting Generation Y. "The app allows us to take an emotional approach to providing advice because the need to take out insurance shouldn't just be conveyed using bald facts – the feel-good factor is also important." This begins with the basic tools: instead of a thick file, agents take a tablet computer with them when they visit a customer. That way, they not only have all the relevant product information at their fingertips; they can also access helpful interactive features during the meeting. For example, they can use a slider tool to work out with the customer how much a friendship is worth. Is it EUR 90 – the cost of a friend's mobile phone that they accidentally dropped? Or EUR 2,000 – the cost of the TV set they accidentally knocked over when helping them move house? "We can use humorous approaches like this to get the message across that liability insurance is important", says Thomsen. Insurance companies have to try to reach an increasingly hybrid customer base: some prefer to be contacted by phone, others prefer to go online and yet others prefer a personal approach. Feedback from agents about the app has been positive. "But we know we have to be even more innovative and systematically continue going in this direction", adds Thomsen.

MAP: A "firm within the firm"

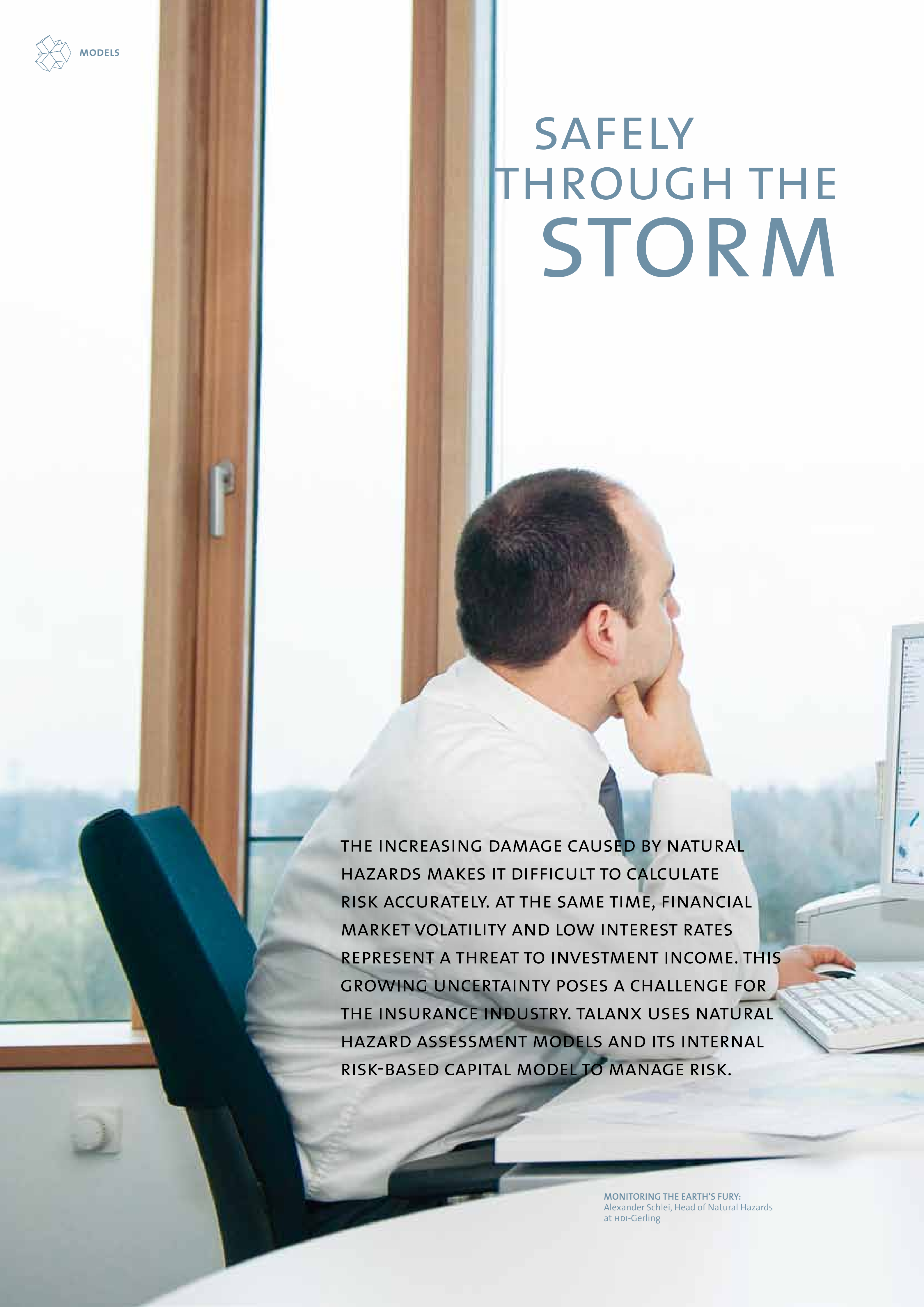


DOCUMENTING DAMAGE USING A SMARTPHONE CAMERA: Innovation at WARTA in Poland

The loss adjusters at WARTA in Poland go one step further: here, some loss events in houses or flats are already being documented via an app. In the past, an expert would have to be sent around to assess a claim, even for minor damage. Today, this can be done digitally – an app is used to make a remote inspection in the customer's home. A video link is established on their smartphone and the claims handler inspects the damage on a monitor in their office, zooms in on relevant areas and takes photos of any damage – water stains, for example. The app was launched last summer "and our customers are very happy with it", says Adam Fulneczek, Director of the Claims Handling Strategy Department. "It is one of our standard applications – we carried out 300 video inspections in 2014." Using the tool, his staff are able to process claims for refunds much more quickly, since the amount and extent of the damage can be calculated immediately after the video inspection. "We have also seen that young colleagues in particular – our "digital natives" – enjoy using digital tools", says Fulneczek. These are important steps for WARTA – and for Talanx as a whole. Because while companies are gradually taking on board Generation Y's values, Generation Z is already waiting in the wings.

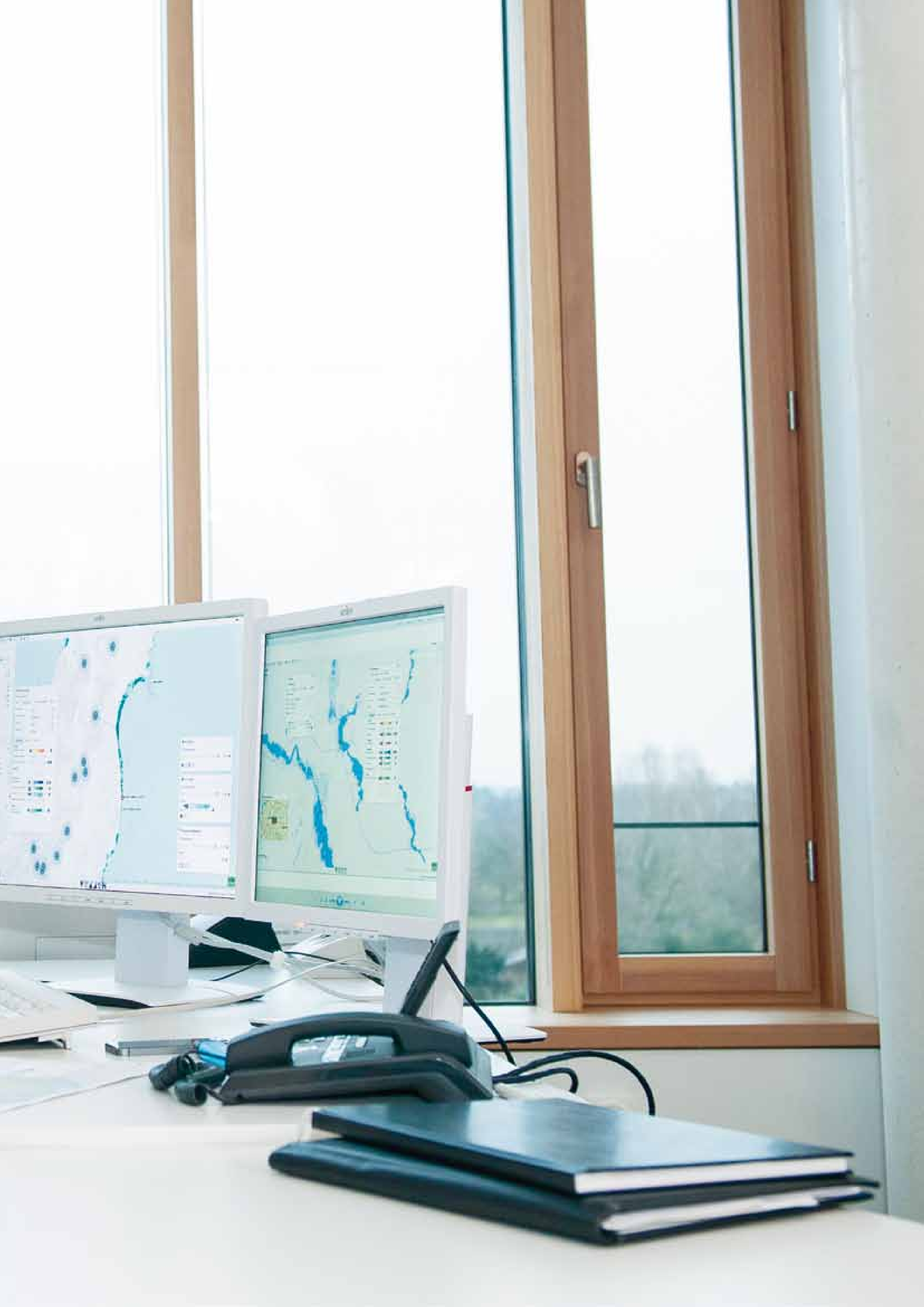
Generation Y: Doing work they enjoy and seeking personal fulfilment

SAFELY THROUGH THE STORM



THE INCREASING DAMAGE CAUSED BY NATURAL HAZARDS MAKES IT DIFFICULT TO CALCULATE RISK ACCURATELY. AT THE SAME TIME, FINANCIAL MARKET VOLATILITY AND LOW INTEREST RATES REPRESENT A THREAT TO INVESTMENT INCOME. THIS GROWING UNCERTAINTY POSES A CHALLENGE FOR THE INSURANCE INDUSTRY. TALANX USES NATURAL HAZARD ASSESSMENT MODELS AND ITS INTERNAL RISK-BASED CAPITAL MODEL TO MANAGE RISK.

MONITORING THE EARTH'S FURY:
Alexander Schlei, Head of Natural Hazards at HDI-Gerling



With a click of his mouse, Alexander Schlei opens a map of the world on his computer screen. More clicks bring up large colourful areas spanning continents and oceans. One of them looks as if someone had poured splodges of green paintbrush water from the Pacific Ocean westwards over the Caribbean and parts of the Atlantic. What looks like a yellowy-orange patchwork rug stretches picturesquely from south eastern Europe as far as eastern Asia. But the digital atlas has nothing to do with art; it is a display of the earth's fury. The coloured areas show which parts of the earth are at particular risk from natural hazards. "Regions visited by tropical storms are marked green. Yellow and orange indicate earthquake risk", explains Alexander Schlei. "The darker the colour, the greater the intensity or the probability of an event."

Alexander Schlei, 34, is Head of the Natural Hazards department at HDI-Gerling industrial insurance in Hannover. Storms, floods, earthquakes: his team assesses natural hazards right across the world. "We calculate the probability of catastrophes happening and work out what it would cost the company if they occurred", says Schlei. The system that he and his colleagues use was developed in-house. Accumulation Risk Geospacial Online System – or ARGOS for short – is the name of the software that consolidates data from numerous sources such as government departments, research institutes, weather stations and seismographs around the world into that colourful risk map that glows on Alexander Schlei's screen. "When a customer wants to build a factory in a particular location in Indonesia, we have a pretty accurate idea of the risks associated with it", says Schlei.

CALCULATING THE COST OF CATASTROPHES: Willi Weber and Alexander Schlei

CURRENT DEVELOPMENTS: ARGOS provides data on-screen

This type of knowledge is becoming increasingly important for industrial insurance companies because economic growth in the emerging markets brings new risks with it. "Many of the regions where these catastrophes tend to occur have made substantial economic progress in recent decades", says Schlei. But when sensitive industries establish sites in places where continental plates converge or that are regularly hit by tropical storms, the powers of nature don't just cause untold human suffering, but also increased costs for rebuilding the infrastructure that has been destroyed – costs which in most cases are borne by insurance companies.

Chemical factories in Turkey, high-tech firms in Thailand or car manufacturers in Mexico: "As an insurance company, we have to take natural hazards into account when calculating premiums", says Alexander Schlei. But that's not the whole story. With risk engineers operating around the world, HDI-Gerling also advises customers at an early stage when they are considering new locations or flood defences. "In earthquake zones, sometimes a few miles make all the difference to the size of potential losses", says Schlei. In regions at risk of flooding, the safety of a plant may depend on whether it is built on a hill or whether effective flood defences have been installed. "We aim to prevent losses before they occur", says Schlei. ARGOS is also used when a catastrophe does occur: "The system helps us to calculate an initial cost estimate."

When sensitive industries establish sites in high-risk regions, the powers of nature also cause increased costs for rebuilding the infrastructure destroyed.

WILL THE RAIN BECOME A DELUGE?

In an industry whose core business revolves around risks of all kinds, it is essential to assess these as comprehensively as possible and to make provisions ahead of time.

THE STARTING POINT

- Economic and product cycles are getting shorter and shorter
- Climate change is increasing the risk of natural catastrophes
- Population growth and increasing population density lead to higher loss risk and demand for insurance

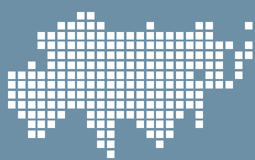
25%

ANTICIPATED INCREASE IN STORM DAMAGE IN THE SUMMER MONTHS IN GERMANY FROM 2011 TO 2040

Source: GDV; climate study

COUNTRIES AT GREATEST RISK FROM NATURAL CATASTROPHES

1 Vanuatu
2 The Philippines
3 Tonga
6 The Solomon Islands
10 Papua New Guinea



5 Bangladesh
9 Cambodia

4 Guatemala
7 Costa Rica
8 El Salvador

Source: Statista

approx.
USD 1 trillion

FINANCIAL LOSSES CAUSED BY CATASTROPHIC FLOODS IN 2050

Source: World Bank

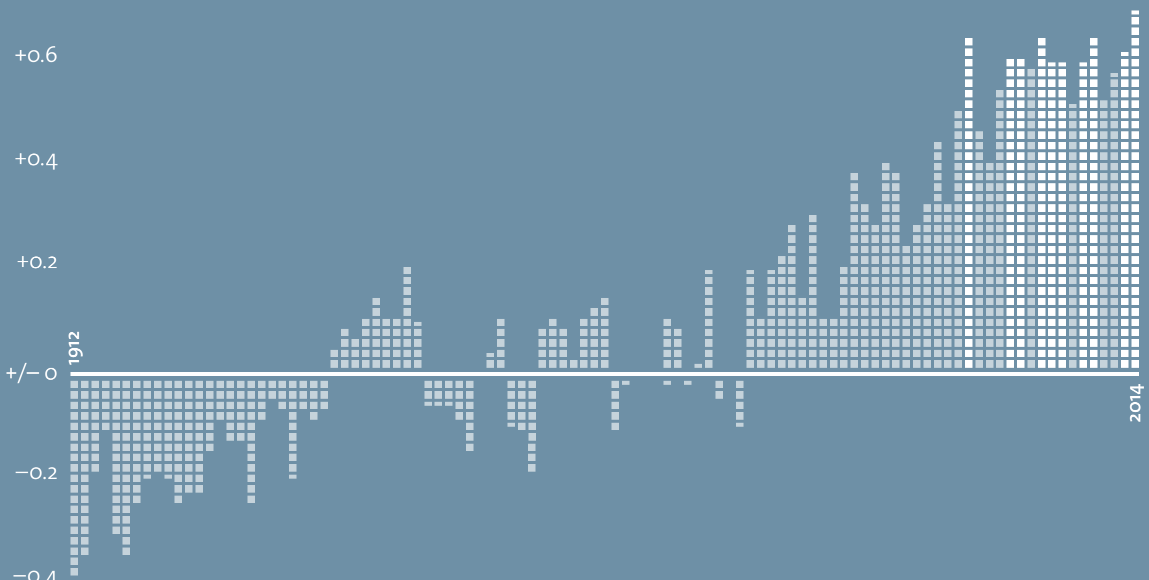
BY 2100, GLOBAL LOSSES FROM NATURAL CATASTROPHES COULD HAVE INCREASED

threefold

Source: World Bank

TEMPERATURE TRENDS AND THE TEN HOTTEST YEARS BETWEEN 1912 AND 2014

DEVIATIONS IN DEGREES CENTIGRADE (+/–) BASED ON AN AVERAGE TEMPERATURE OF 13.4 DEGREES CENTIGRADE



Source: Statista

A FORMULA FOR EXPRESSING RISK: Prof Dr Gerhard Stahl

"Systems like ARGOS are hugely important to us because they provide reliable information about risk situations", says Prof. Dr Gerhard Stahl, 57. As Talanx AG's Chief Risk Officer, he is responsible for risk management within the Group. His team prepares a solvency balance sheet detailing assets and liabilities. "Insurance companies must invest their capital securely and profitably", explains Stahl. "But at the same time they have to retain funds to ensure they are solvent if the worst comes to the worst." Supervisory standards for risk-based capital adequacy are governed by the EU's Solvency II Directive, which Gerhard Stahl is more than familiar with, having worked at Germany's Federal Financial Supervisory Authority (BaFin) for 13 years before he joined the Talanx Group in 2007. "I was part of the team that developed Solvency II", says Stahl, who in addition to working for Talanx also teaches stochastics at the University of Hannover and at Ulm University.

But the growing unpredictability of global events and their consequences pose a real challenge, even for a passionate mathematician like Gerhard Stahl. In particular, meteorological and financial risks are much harder to assess than before, in his view. The fluctuations in – i.e. the volatility of – phenomena and their costs are both increasing, he says. The tropical storms displayed on Alexander Schlei's screen, which destroy more infrastructure than in the past, are one example. The capital markets are another. Whereas economic cycles before the financial and debt crisis tended to resemble gentle rolling hills, nowadays they often look like the peaks in the Dolomites. And on top of the white-knuckle ride on the stock exchanges, there is also the matter of continuing low interest rates. Nowadays not even governments, who used to be the guarantors of currencies, are immune from insolvency any more. "Risks are increasing and investment opportunities are disappearing," says Stahl. "We are living in a period of turmoil."

TAKING STOCK: The risk model enhances planning certainty

Whereas economic cycles before the financial and debt crisis tended to resemble gentle rolling hills, nowadays they often look like the peaks in the Dolomites.

To help the Company navigate a safe passage through these turbulent waters, Gerhard Stahl and his colleagues in the Risk Management team have developed the Talanx Enterprise Risk Model (TERM), which has been used throughout the Group since 2010. The Talanx Group's internal risk capital model analyses and assesses the risks that the Group is exposed to. "Each time, it generates thousands of possible scenarios for the year ahead", explains Gerhard Stahl. In doing so, the model differentiates between the risks faced by individual divisions and those affecting the entire Group. What is more, it doesn't just add up existing risks but takes dependencies into account. A sharp drop in the euro and an earthquake in Chile might occur at the same time, but that would be a coincidence, according to Stahl, who says that stochastics teaches us that risks diversify. In the case of many unrelated events, the rule of thumb is: "Not everything can go wrong at the same time." The calculations obtained from TERM give the Company a more secure basis for planning. Rating agency Standard & Poor's agrees. It rated the Talanx Primary Group's risk management as "strong" in 2013. The Hannover Re Group was rated "very strong" in the same year.

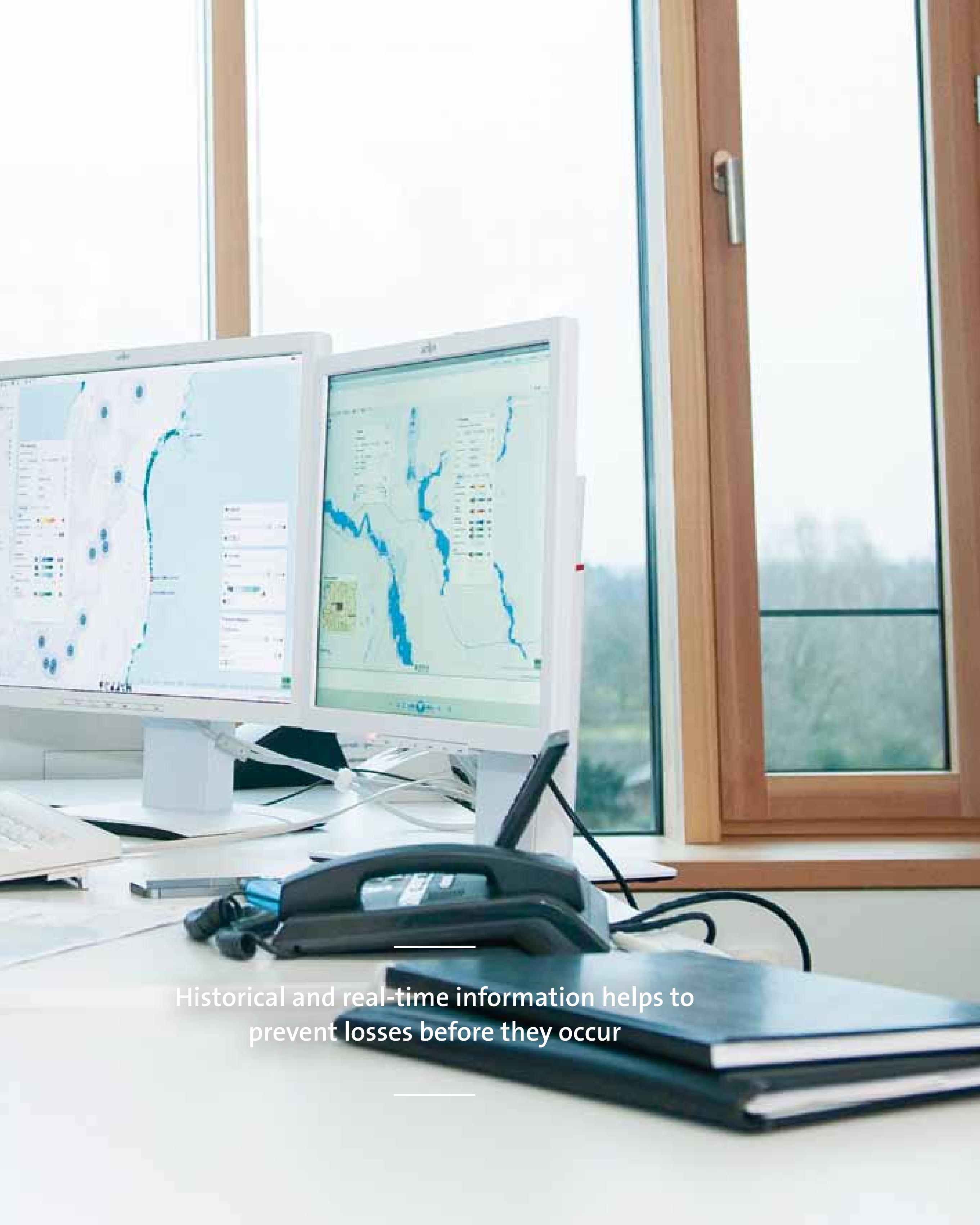
However, Gerhard Stahl can only make reliable calculations if he has access to reliable data and that is becoming increasingly difficult now, even in our own back yard. At the beginning of June 2014, for example, storm "Ela" wrought havoc in North Rhine-Westphalia in particular. And a few weeks later, heavy rain led to flooding in Münster. These clusters of extreme weather events are no coincidence. A study published in 2011 by the German Insurance Association (GDV) and climate researchers from the Potsdam Institute for Climate Impact Research (PIK), Freie Universität Berlin and the University of Cologne estimates that storm damage in Germany will grow by more than 50% by 2100. Flood damage could even increase threefold in the same period.

DRAWING UP FORECASTS: Stefanie Busch with her colleague Christopher Schneider

"We cannot predict extreme events only on the basis of historic losses caused by natural hazards such as hail or floods", says Stefanie Busch, 46. Since 2004, the geography graduate has played a leading role in developing mathematical models at E+S Rück in Hannover, which help the reinsurer to analyse the effects of hail and flood damage on their customers' portfolios. When our hailstorm model 'es | hagelt' was first developed there were no industrial strength commercial hail models on the market, explains Busch. "So we developed our own." The company has been using 'es | hagelt' together with its cedants since 2007, to calculate property and vehicle portfolios' exposure to hail risk.

"Analyses of radar data from the German Weather Service, numerous evaluations of claims by our cedants and academic studies were used to develop the model. As the largest vehicle reinsurer in Germany, E+S Rück has insights into a good 70% of the market. We expanded the model later to cover the residential property line", explains Busch. "On the basis of this data, we simulate 10,000 claims years for Germany." The scenarios also include rare phenomena ranging from those similar to the hail damage experienced in 2013 through to extreme events that occur less than once every 500 years. In June 2013, high water levels caused flooding in the drainage basins for the Danube and the Elbe, resulting in record damage. Soon after, summer thunderstorms, some with hailstones the size of tennis balls, caused severe damage in many places. According to the GDV, 635,000 cars were damaged at a total cost of EUR 1.5 billion.

The models help improve estimates of the anticipated amount of losses resulting from extreme events. This is especially true in periods in which extreme weather events are occurring more frequently. The flood model 'es | flutet' – a service for assessing customers' personalised flood risk and 'es | bebt', an earthquake model specially developed by E+S Rück for the German market based on findings from the Global Earthquake Model Foundation Initiative, are also used in estimates. "Our models are regularly benchmarked against the latest research, enabling us to continue making reliable forecasts", says Stefanie Busch.



Historical and real-time information helps to prevent losses before they occur

EN ROUTE TO THE DIGITAL FUTURE

IMPROVING FLEET EFFICIENCY:
Karl-Heinz Thiele, Fleet Consultant for HDI-Gerling

THE SHIFT IS OF A SIMILAR MAGNITUDE TO THE INDUSTRIAL REVOLUTION. DIGITISATION IS FUNDAMENTALLY ALTERING SOCIETIES AND MARKETS. IT IS TURNING TRADITIONAL BUSINESS MODELS ON THEIR HEADS AND OPENING UP NEW OPPORTUNITIES FOR COMPANIES – OPPORTUNITIES THAT TALANX AG IS ALREADY LEVERAGING. COMPUTERS IN BRAZIL CALCULATE INDIVIDUAL PREMIUMS IN A FEW SECONDS. MODERN DATABASES SPEED UP WORK IN MARINE INSURANCE AND FLEET MANAGEMENT. AND OUR INDUSTRIAL INSURANCE HAS ADDED A NEW CYBER POLICY TO ITS PORTFOLIO, WHICH PROTECTS CUSTOMERS FROM THE DANGERS LURKING IN THE DIGITAL UNIVERSE.

They didn't know each other when they first met in 2012 – Philipp Lienau, Head of E&O Underwriting, Financial Lines at HDI-Gerling industrial insurance and Andreas Walz, Head of Security for Talanx Systeme AG – an insurance expert and an IT professional. "I knew there was an IT security unit within the Group, but we had not worked together personally before", says Philipp Lienau (33). And for his part, Andreas Walz (48), who is responsible for ensuring and maintaining information security in the Talanx Group, knew very little about the business of an industrial insurance company. "The first step was to pool our experience", says Walz. The aim: to create a commercial cyber insurance product.

»Hack attacks are a growing threat for companies«.

PHILIPP LIENAU

The security aspect was an important element in the development of HDI-Gerling's first comprehensive Internet risk policy, Cyber+, which spanned multiple insurance lines. Risks covered range from software-related production facility stoppages, through data theft to industrial espionage. "Attacks by hackers are a growing threat for companies", says Philipp Lienau. Cyber+ insures companies both against their own internal losses and against losses for which they are held liable by third parties. The upper limit for cover is normally between EUR 5 million and EUR 25 million, but goes up to EUR 50 million in some cases. Stoppages, crisis communications and forensic investigations can quickly add up to large sums of money.

"The question for many companies is no longer whether they will be hacked, but when", says security expert Andreas Walz. That is why his work for risk takers begins long before any loss occurs. "We always start by conducting a risk analysis, which provides us with a basis from which to calculate the sensitivity of the information in question and to develop measures to ensure appropriate cover." The challenge lies in coming

PREVENTING SECURITY BREACHES: Andreas Walz up with realistic probability estimates for global cybercrime threats; this is where many years of experience coupled with constant monitoring of the topic come into play. The resulting measures mustn't be too extreme in terms of affordability and ease of use. "These are the areas where there is the greatest need for discussion", says Walz with a smile. "But given Talanx's high general understanding of risk management, we always manage to find a common solution in cooperation with the departments responsible." These range from standard services such as firewalls to protect against hack attacks through to raising staff awareness. This is because the danger doesn't only come from cyber criminals, according to Walz. "An unsafe password or a mislaid USB stick are also serious security breaches", which is why it is important to train staff to be on the alert. "In the end it's up to every single colleague in the Talanx Group to do their bit."

The task for Andreas Walz and his colleagues is to keep enhancing the chain of technical and organisational measures, employee awareness

INSURING AGAINST CYBER RISKS: Andreas Walz and Philipp Lienau

HOW DANGEROUS IS THE INTERNET?

Increasing use of data and the Internet on the part of the companies brings new risks, and the Talanx Group companies, like all others, must have robust defences in place. Digitisation can also open up new opportunities for insurers and their customers.

Internet usage in figures

- Global Internet usage in 2014: +6.6%
- Developing countries:
  - 2/3 of all Internet users and
  - 90% of all people with no Internet access

  live in these regions

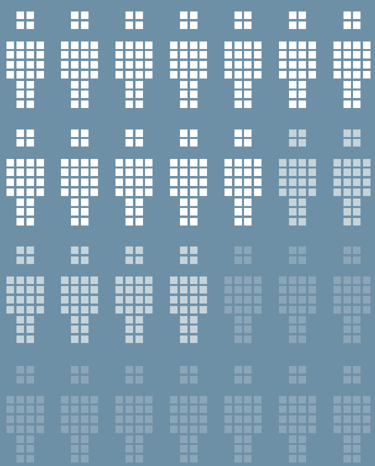
Source: ITU; Measuring the Information Society Report

30%

OF COMPANIES SURVEYED HAD EXPERIENCED IT SECURITY INCIDENTS IN THE LAST TWO YEARS

Source: Statista; survey of successful attacks on German companies' websites, online shops or internal computer networks

GLOBAL INTERNET ACCESS



- **Roughly 3 billion** people have access to the Internet
- A further **1.5 billion** users to be brought online (Connect 2020 Agenda)
- **Approx. 2.5 billion** people have no access to the Internet

Source: ITU; Measuring the Information Society Report

IN 2013, THE NUMBER OF ATTACKS WORLDWIDE INCREASED BY 48% TO 42.8 MILLION. THIS CORRESPONDS TO

177,330

ATTACKS PER DAY

Source: PWC; Global State of Information Security

Cybercrime: a definition

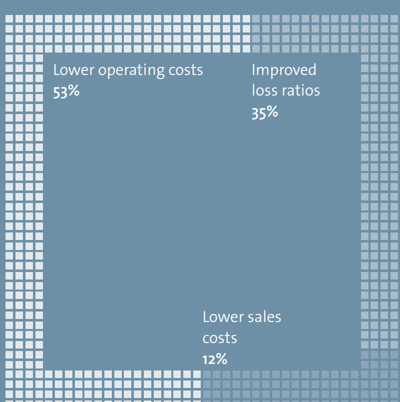
- Computer fraud
- Fraudulent use of authorisation to access communication services
- Falsification of evidentiary data, data processing fraud in legal relations
- Altering data/computer sabotage
- Data espionage and interception including preparatory measures

Source: Federal Criminal Police Office (BKA) Overview of Cybercrime in Germany

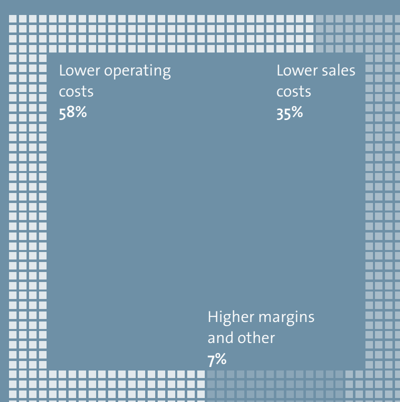
HOW DIGITISATION CAN HELP INCREASE INSURERS' PROFITABILITY

Insurance companies expect their digital initiatives to impact positively on their key performance indicators

Property/casualty insurers



Life insurance companies



Source: Accenture; Digital Innovation Survey

Digitisation is having an increasinly significant impact on all areas of our lives.

and appropriate risk management. Talanx belongs to a group of companies in Germany that the federal government has classified as being part of the "critical infrastructure". As a result, its information security management already meets the highest standards – and can also serve as a model for other companies. In December 2013, Germany's Technical Inspection Association TÜV awarded Talanx Systeme AG the digital accolade: certification under the ISO/IEC 27001:2005 information security management standard. "We had been working towards this for eight years", says Andreas Walz.

Prevention against hack attacks: what used to seem like science fiction a few years ago has now become a daily occurrence in the IT world – that's the downside of the global spread of digital information technologies. According to estimates by the United Nations International Telecommunication Union (ITU), there are now more than three billion people online out of a total world population of around 7.2 billion. The ITU anticipates that a further 1.5 billion will be connected to the Internet by 2020. From our leisure activities to the world of work, from politics to the economy, the digital explosion affects all areas of our lives.

Massive economic benefits such as easy data management, lower transaction costs or new value chains have all helped bring about this change. When new opportunities appear they have to be seized. A trend study published in 2013 by management and strategy consultants McKinsey & Company indicated that digitisation would revolutionise many traditional ways of working and doing business. This development is set to threaten around 30% of companies' current profits worldwide by 2018. Seen from this perspective, the digital boom can be compared to the Industrial Revolution with those who don't keep up left behind.

The shift also offers global companies like Talanx the opportunity to gain a competitive edge by adding distinguishing touches – in pricing, for example. For the hybrid customers of the future, having good IT systems with analytical capability is absolutely essential. Only those companies who have information and can use it to market products will survive. HDI Seguros in Brazil is one of them – back in 2009, the Brazilian insurer launched "HDI Digital", a pilot project designed to offer customised pricing for motor insurance products. "The idea is to always calculate the ideal price", explains Murilo Riedel, a member of the Board of Management of HDI Seguros. This is because in the Brazilian market, motor policies are sold by brokers, who have a degree of flexibility in setting prices. HDI Digital's "Power Pricing" system now allows them to make optimal use of this flexibility. The broker enters the customer's details in the system, and a few seconds later the computer has calculated an offer. The calculation is based on an in-depth analysis of HDI Seguros' own data, such as a breakdown of losses by postcode or car model, as well as information obtainable from public databases, such as credit quality. The system also analyses the findings from millions of quote calculations – 14 million in 2014 alone – and this increases

DOCUMENTING TRANSPORT DAMAGE WORLDWIDE: Kai Brüggemann und Cord Ruhe

the likelihood of a contract being signed. "The "Power Pricing" system calculated a discount in around 50% of cases", says Riedel. HDI Seguros then goes a step further to extract maximum benefit from its data: it analyses millions of quotes that did not lead to signed contracts and filters out potential customers who are then contacted directly. The system has proven to be a success – HDI Seguros' motor insurance line has generated above-market growth for a number of years now – and made a profit in the process. WARTA Digital in Poland is building on the experiences of its colleagues in Brazil and is about to launch a model in 2015 that also draws on findings from behavioural psychology.

The Global Cargo Program (GCP), a new type of model that has been developed jointly by HDI-Gerling Industrie Versicherung AG, DEKRA Claims Services GmbH and Daimler Insurances GmbH, demonstrates the benefits digitisation brings to claims management. The platform documents transport damage to Daimler vehicles all across the world. In 2014, Daimler delivered 1.65 million of its core-brand Mercedes vehicles worldwide. Since the beginning of 2014, any transport damage incurred during delivery has been processed in 41 countries on all five continents for the GCP. "Vehicles are frequently damaged when being loaded onto lorries, trains or ships as well as during transport", says Kai Brüggemann (43) who is responsible for international marine transport customers. However, calculating the total damage is not the problem for data processing. Developing a solution that factors all the specific local requirements and national insurance regulations into the platform is a much more complex task. "When a vehicle is damaged in Japan, the rules for reporting claims are completely different from those in Brazil or India", says Brüggemann. All damage claims worldwide are entered using a web-based, multilingual online tool. "In order to make the claims transparent internationally, the data entry process uses damage codes that were specially designed for the GCP", explains Dr Cord Ruhe (48) from Talanx Systeme AG, who led the team developing

KCONTROL: Optimal management of large vehicle fleets

the IT solutions for the GCP. “The location, type and extent of damage to a car are entered using a five-digit code.” This means that, thanks to the GCP, information that previously required laborious queries is now added automatically to a vast database. “The advantage of the new system is its speed”, says Kai Brüggemann. “And it also provides an accurate analysis of how the damage was caused.”

Providing a complete overview at the touch of a button: what GCP does for claims management at HDI-Gerling industrial insurance is handled by KControl, its counterpart at HDI-Gerling Sicherheitstechnik GmbH, for fleet management. The online application was launched in August 2014 and offers a comprehensive overview of recent cases of damage to vehicle fleets, together with vehicle and contract details. “Some fleets comprise several thousand vehicles”, says Karl-Heinz Thiele (41), Fleet Consultant at HDI-Gerling Sicherheitstechnik. “When a case of damage occurs, KControl shows the customer the next day which vehicle needs to be repaired and when it will be ready for use again.” The information documenting an accident, including photos and sketches, is also entered to enable the insurance company to process the case. KControl also shows which vehicles are due for roadworthiness inspections or which driver is permitted to drive which vehicle. “From e-bikes to articulated lorries, limousines to forklift trucks – KControl covers them all and helps increase fleet efficiency”, says Thiele.

Digital applications are already strengthening Talanx’s position on the market, but this only applies as long as data security is guaranteed. Andreas Walz from Talanx Systeme is quite clear: “Our firewalls are robust.”

Fleet management – delivers an overview at the touch of a button

HIGHLIGHTS OF 2014

The Talanx Group engaged in a wide variety of activities in 2014. Our strong brands won numerous prizes and actively developed innovative products. We continued to expand our locations in our international divisions.

JANUARY

AMPEGA AWARDED DEUTSCHER FOND-SPREIS

Talanx's investment company Ampega is awarded the Deutscher Fondspreis in the European Corporate Bond Funds category by "FONDS professionell" magazine for its outstanding investment results.

MARCH

HDI LIFE INSURANCE RATED BEST PROVIDER OF OCCUPATIONAL DISABILITY INSURANCE

For the seventh time in a row, HDI Lebensversicherung AG wins recognition for its occupational disability policies. Rating agency Franke und Bornberg awards the company its top rating of FFF (outstanding). The assessment criteria were customer orientation during the offer and application phase and during claims settlement, and the stability of the income protection business.

MARCH

ARGOS CAUTIONS AGAINST HIGH-RISK REGIONS

HDI-Gerling industrial Insurance launches ARGOS, a geographic information system for risk analysis and loss prevention. The system helps underwriters to calculate appropriate premiums, since its risk maps can be used to check whether insurance clients' locations are in particularly high-risk areas and hence more exposed to natural hazards.

APRIL

TALANX ON THE WARSAW STOCK EXCHANGE

The listing on the Warsaw stock exchange underlines the importance of the key Polish insurance market for the Talanx Group. Talanx shares start trading at PLN 120.

APRIL

GREEN OFFICE CERTIFICATE FOR HDI SIGORTA

HDI Sigorta is the first Turkish insurance company to be awarded WWF Green Office certification. The company slashed its electricity and water consumption as a result of extensive conversion work and a large number of voluntary measures by employees.

MAY

TALANX RATING UPGRADED

Rating agency A.M. Best upgrades Talanx AG's issuer credit rating to "a–" with a stable outlook. In addition, it increases the bond ratings for Talanx Finanz S. A. to "bbb+" and confirms its financial strength rating of "A" with a stable outlook for the rated primary insurance companies.

JUNE

DIVERSITY IN THE GROUP: TALANX HOSTS DIVERSITY ROADSHOW

HDI-Platz site hosts the "Diversity Parcours", a diversity roadshow, for three weeks, offering a programme of activities for employees to mark Diversity Day in Germany. Employees are able to explore the issue of diversity in the workplace at a total of five stations. The Group's goal is to raise awareness by its workforce of the diversity that exists among their fellow staff.

JUNE

HANNOVER RE TAKES OVER PORTFOLIO OF ANNUITY CONTRACTS

Hannover Re, in partnership with British insurer Pension Insurance Corporation, takes over pension liabilities worth the equivalent of around EUR 2 billion and reinsures the majority of them. The company generates total premium income of roughly EUR 1.9 billion from this transaction.

JULY

HANNOVER RE TRANSFERS US STORM RISKS TO THE CAPITAL MARKETS

Hannover Re completes a new transaction as part of its insurance-linked securities (ILS) activities. The company transfers named storm risks for the Texas Windstorm Insurance Association to the capital markets, generating low-risk business with stable margins.

AUGUST

HDI-GERLING INDUSTRIAL INSURANCE OPENS UNIT IN BRAZIL

HDI-Gerling Seguros Industriais S.A. in São Paulo is the third Talanx company in Brazil, where it will write local industrial insurance business directly. The Talanx Group already has a presence in Brazil thanks to HDI Seguros and the Hannover Re Group.

SEPTEMBER

HILDEN LOCATION GENERATES SOLAR POWER

Talanx companies have installed a solar power plant on the roofs of their buildings in Hilden. The solar panels are expected to produce around 112,000 kWh of electricity per year, equal to the average needs for around 35 private households.

OCTOBER

TALANX WINS INNOWARD 2014

The German Insurance Association for Vocational Education and Training (BWV) honours two Talanx projects: "Insurance Sales of the Future for Generation Y" and "Talanx Corporate Academy – A Group Grows Together". The InnoWard is awarded to beacon projects that are expected to lead to innovative new approaches to training in the insurance industry, and which have already proved their worth in practice.

OCTOBER

ASSEKURATA RATING: EXCELLENT PERFORMANCE BY NEUE LEBEN AND TARGO

neue leben Lebensversicherung AG is awarded an overall rating of "very good", as is TARGO Lebensversicherung AG.

NOVEMBER

TU EUROPA GROUP CELEBRATES 20TH ANNIVERSARY

The Polish TU Europa Group was founded in November 1994. In the space of 20 years, it has developed into one of the leading insurance companies in the bancassurance sector and now works with 25 banks in Poland, serving over one million customers. It has been part of the Talanx Group since 2012 and won the award "Friendly Insurance Company" in 2014.

DECEMBER

TALANX ACQUIRES COMPANY IN CHILE

In its strategic Latin America target region, Talanx acquires a majority interest in the Inversiones Magallanes insurance group in Chile, becoming one of the country's leading composite insurers. This acquisition strengthens Talanx's presence in the Latin American insurance business.

OUR SHARES

CAPITAL MARKET ENVIRONMENT

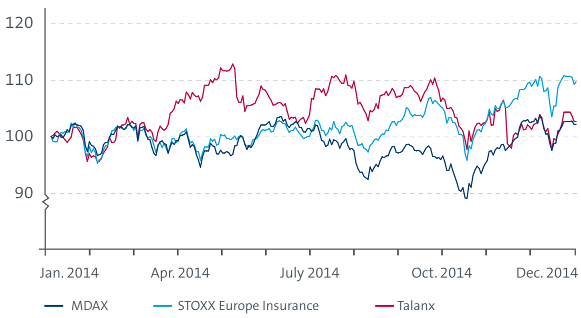
In the reporting period, the capital market environment was dominated on the one hand by political conflicts and continuing weak economic development in parts of the Eurozone, and on the other hand by the central banks' expansionary monetary policies. The significant decline in yields on government bonds was accompanied by a reduction in spreads on spread securities. Modest gains were achieved on the stock markets against a background of comparatively high volatility. The DAX closed 2014 up 2.7% and the MDAX closed 2.2% higher, buoyed in particular by the expectation that capital market interest rates would remain low. As in the previous year, share prices in the insurance sector saw above-average growth, with the STOXX Europe 600 Insurance Index gaining around 10.2% compared with year-end 2013.

OUR SHARE PRICE PERFORMANCE

The Talanx share price increased by 2.5%, in line with the performance of the DAX and the MDAX. Including the dividend of EUR 1.20 distributed in May 2014, overall performance for 2014 was 7.4% – ahead of the two best-known German indices on a comparable basis. The share price climbed steadily in the first quarter of the year and by the middle of the second quarter reached a new record high of EUR 27.85, based on the XETRA daily closing price. Talanx shares outperformed the DAX, the MDAX and the STOXX Europe 600 Insurance Index in the first half of the year. This could not be sustained, however, and the share prices declined slightly again in the fourth quarter.

7 TALANX SHARE PERFORMANCE INDEX COMPARISONS

1.1.2014 = 100



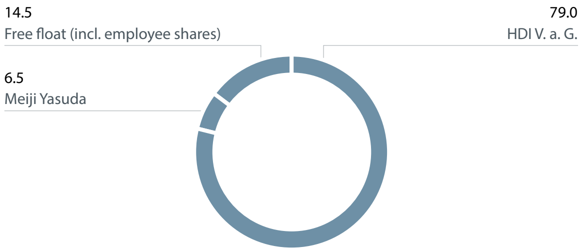
INDEX MEMBERSHIP AND LISTING IN WARSAW

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

Talanx shares have also been listed on the Warsaw Stock Exchange since April 2014. This listing reflects the significance of the Polish insurance market – Talanx's second core market – and has also allowed Polish investors, and Polish pension funds in particular, to trade Talanx AG shares on their national stock exchange. The listing was not accompanied by either a capital increase or a secondary placement of shares, so that the total number of shares did not change in the reporting period.

8 SHAREHOLDER STRUCTURE AS AT 31.12.2014

IN %



CAPITAL MARKET COMMUNICATION

The aim of our investor relations (IR) work in the second full calendar year following our IPO in 2012 was to further increase awareness of Talanx AG and its equity story in the capital markets and to strengthen our contacts with existing investors. As part of this, we also sought to successively attract new investors for our shares. Shareholders, potential investors and other parties with an interest in Talanx shares received regular reports on our corporate development.

In 2014, 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 other investor conferences and roadshows in Germany and around the world. A total of over 250 meetings with institutional investors were held in the reporting period. In addition, Investor Relations staff were actively involved in a number of major events with the aim of raising awareness of Talanx shares among retail clients.

In June 2014, Talanx hosted its Capital Markets Day in Warsaw, where the Talanx Group Board of Management, together with other members of senior management, presented detailed information about the Retail International segment in particular and explained, among others, the international strategy for this division and for the Talanx Group overall. The two-day event was attended by some 30 analysts and investors and was also broadcast live on our IR website (a recording of it is still available there). Talanx AG also organised an investment management workshop in London in mid-October 2014. This gave interested analysts and investors an opportunity to learn about Talanx Asset Management's capital investment strategy and to discuss topical issues with senior management.

In September 2015, Talanx AG will host another Capital Markets Day, this time in Hannover, focusing on Industrial Lines.

We are always available to answer enquiries from retail 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 expanding and updating.

Research reports issued by banks and brokerages constitute a valuable source of information for investors and increase transparency. Financial analysts are therefore a particular focus for us. In the year just ended, the number of analysts producing published, independent earnings estimates and share recommendations for our stock increased once again. At the end of the reporting period, 21 (previous year: 19) analysts gave an investment assessment for Talanx shares.

DIVIDEND POLICY

Dividend continuity is one of Talanx AG's goals. This means that the aim of achieving the payout rate announced during the IPO of 35% to 45% of consolidated net income, as defined by International Financial Reporting Standards (IFRSs), after tax and minority interests still holds good. Talanx distributed a dividend of EUR 1.20 in financial year 2013; this represents a payout rate of 41.5%*.

The Board of Management and Supervisory Board will propose a dividend of EUR 1.25 per share at Talanx AG's General Meeting. Based on the year-end closing price of EUR 25.27, this results in a dividend yield of 4.9%. The payout rate, based on IFRS earnings per share, is approximately 41.1%.

The Annual General Meeting will be held on Thursday, 7 May 2015 in the Kuppelsaal of the Hannover Congress Centrum (HCC).

9 **GENERAL INFORMATION ON TALANX SHARES**

German securities identification number (WKN)	TLX100
ISIN	DE000TLX1005
Trading symbol	TLX
Share class	No-par value ordinary registered shares
Number of shares	252,797,634
Year-end closing price	EUR 25.27
Annual high [1]	EUR 27.85
Annual low [1]	EUR 23.51
Stock exchanges	XETRA, Frankfurt, Hannover, Warsaw
Trading segment	Prime Standard of the Frankfurt Stock Exchange

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

* Due to IAS8 effects, the payout rate has increased compared with the figure of 39.8% reported in the previous year

COMBINED MANAGEMENT REPORT

FOUNDATIONS OF THE GROUP

THE TALANX GROUP

BUSINESS MODEL

The Talanx Group operates as a multi-brand provider in the insurance and financial services sector. It employed 21,371 people worldwide at the end of 2014. The Group parent is Hannover-based financial and management holding company Talanx AG, which has been listed since 2012. HDI V.a.G., a mutual insurance company formed over 100 years ago, is the majority shareholder in Talanx AG and holds an interest of 79.0%. The largest minority shareholder is strategic partner Meiji Yasuda Life Insurance Company, Japan, which holds an interest of 6.5%. The remaining 14.5% of shares (including employee shares, which account for 0.1%) are in free float.

The Group companies operate the insurance lines and classes specified in the Regulation on Reporting by Insurance Undertakings to the Federal Financial Supervisory Authority, partly in the direct written insurance business and partly in the reinsurance business, focusing on various areas: life insurance, 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. Its retail business focuses on Germany and, outside of Germany, in particular on the growth markets of Central and Eastern Europe (including Turkey) and Latin America. The Group has business relationships with primary insurance and reinsurance customers in around 150 countries in total.

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

LEGAL AND REGULATORY ENVIRONMENT

The insurance business of the Talanx Group companies and the investment services business of Ampega Investment GmbH, the Group's investment management company, are subject to a large number of supervisory rules and requirements across the world. The insurance regulators in the countries in which the Group operates consistently have far-reaching competencies and powers of intervention. The Talanx Group devotes an increasing amount of attention to complying with the supervisory legal framework, and to continually adapting and developing the Group's business and products to any changes.

The trend towards developing and consistently increasing the prudential requirements for insurance companies seen in recent years is continuing. There is a particular focus on "systemically important insurance groups" ("too big to fail"), which will in future face much stricter supervisory requirements, especially with regard to their capitalisation. To date, the Talanx Group has not been classified as global systemically important.

At an international level, the efforts by the International Association of Insurance Supervision (IAIS) to develop a globally applicable capital standard are continuing unabated. As a first step, the final draft of the Basic Capital Requirements was submitted. The next step aims to develop insurance capital standards for all international insurance groups.

In Germany, the implementation of Solvency II, which has been postponed several times, is now starting to take shape. The German government submitted a draft law modernising financial supervision of insurance undertakings in September of the reporting period. Germany's upper and lower houses, the Bundestag and the Bundesrat, have considered the draft in their first readings. The plan is for the Solvency II regulations to be implemented in the new Insurance Supervision Act by 31 March 2015, and for them to be applicable from 1 January 2016. The European Commission's delegated acts were published in the Official Journal of the European Union on 17 January 2015.

In recent years, the Talanx Group has successfully developed an internal Group model in close consultation with the Federal Financial Supervisory Authority (BaFin) in the course of a pre-application process; Talanx is currently preparing the official application for authorisation by BaFin. The Group uses the internal risk model instead of the standard formula 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.

The European Insurance and Occupational Pensions Authority (EIOPA) has published additional consultative documents for guidelines and for implementing technical standards. The scope of these publications and their level of detail are resulting in a substantial and in some cases barely manageable proliferation of supervisory rules and regulations across the whole sector. The guidelines are aimed at the national supervisory authorities, who then decide using a "comply or explain" procedure which guidelines they want to implement at national level. The technical and regulatory implementing standards are proposed by EIOPA, formally adopted by the European Commission and enacted by way of a regulation or decision. As a result, they are directly binding.

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

GROUP STRUCTURE

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

The Group has three primary insurance segments, each of which span the various lines of business: Industrial Lines, Retail Germany and Retail International. One member of the Talanx Board of Management is responsible for each of these divisions. Industrial Lines operates worldwide; Brazil was included as a new location in the year under review. It is largely independent of third parties and has the resources to lead international consortia. Companies offering insurance to retail clients and small and medium-sized companies in Germany are consolidated in the Retail Germany segment. The Retail International segment mainly focuses on the strategic core markets of Latin America – in Chile, the division is expanding its business with the acquisition of Inversiones Magallanes – and Central and Eastern Europe including Turkey and Russia.

The Non-Life Reinsurance and Life/Health Reinsurance segments make up the Reinsurance Division; they are operated by Hannover Rück SE. 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 financial solutions and risk solutions, which includes longevity, mortality and morbidity.

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

M1 GROUP STRUCTURE

Talanx AG

Geschäftsbereich Industrieversicherung
Industrial Lines Division

- HDI-Gerling Industrie Versicherung AG
- HDI Versicherung AG (Austria)
- HDI-Gerling Seguros Industrials S.A. (Brazil)
- 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-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*: 31.12.2014

STRATEGY

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

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

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

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

TALANX'S STRATEGIC OBJECTIVES

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

Our human resources strategy is described in detail in the "Other success factors" section on pages 107ff. and our risk management approach is described in the risk report on pages 139ff. These two aspects are therefore not discussed further at this point.

PROFIT TARGET

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

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

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

CAPITAL MANAGEMENT

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

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

Capital resources are generally allocated to those areas that promise the highest risk-adjusted profit after tax over the medium term. In this context, we take into consideration the desired portfolio diversification, the required risk capital and the supervisory framework. Allocation is based on the expected intrinsic value creation (IVC), which is calculated using agreed business plans.

GROWTH TARGET

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

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

We are already recognised as a leading industrial insurer in Europe, and are expanding our global presence. Our efforts to expand activities in international retail insurance focus primarily on the markets in Central and Eastern Europe, including Turkey, and Latin America. In Retail Germany, we aim to improve our profitability and achieve targeted growth. As a long-term majority shareholder in Hannover Rück SE, our goal is to consolidate and selectively expand that company's position as a global player.

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

ENTERPRISE MANAGEMENT

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

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

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

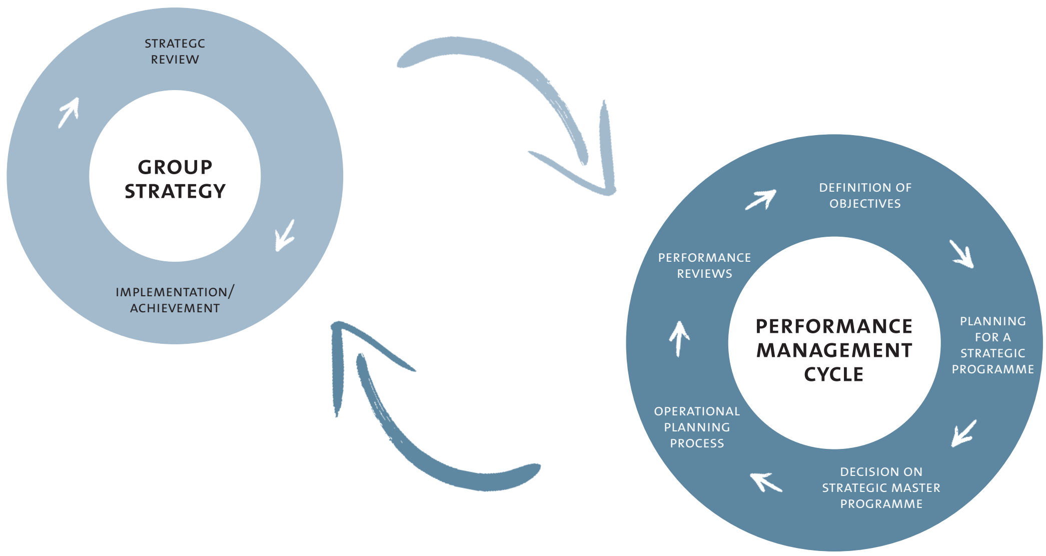
The dominant strategic goal of sustainable economic value creation is measured in the Group using the intrinsic value creation (IVC) strategic management metric, which we analyse as a five-year average over a multiyear period. This ensures that management decisions are not based on results for just one year, which could be too volatile. IVC measures the economic net income less the cost of capital (see figure M3 for calculation). In addition to net income for the year under IFRSs, economic net income takes into account other fair value adjustments both in investments and in technical provisions such as the change in the loss reserve discount in non-life insurance and the change in non-capitalised value of in-force business in life insurance. Cost of capital in non-life insurance includes costs associated with the maintenance of 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 risk margin of 4%. The cost rates apply on the basis of a value at risk of 99.5%, which corresponds to the confidence level required under supervisory law. In life insurance business, we take into account the roll forward (i.e. the excess return over the risk free rate) as cost of capital when calculating MCEV; this reflects expected changes in the value of in-force business.

PERFORMANCE MANAGEMENT

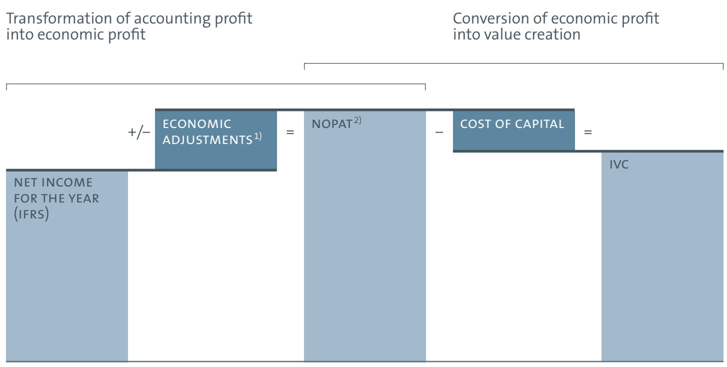
Performance management is at the heart of our central management system. Our systematic approach sets out a clear strategy for ensuring the Group's long-term viability and its implementation. This is key to efficient enterprise and group management. Since mismanagement is very often due to inadequate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

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

M2 PERFORMANCE MANAGEMENT CYCLE



M3 RECONCILING NET INCOME FOR THE YEAR UNDER IFRS WITH IVC



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

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

After these indicative objectives have been set, each division establishes a strategic programme as a further important step in implementing the strategy. In it, the strategic objectives are broken down into subgoals that are underpinned by concrete measures and action programmes. The strategic programmes supplied are critically examined in light of the Group strategy in discussions between the Board of Management of the holding company and the divisional boards of management. The divisions' agreed strategic planning is then aggregated to produce the strategic programme for the entire Group, which is adopted by the holding company.

The Group and the divisions mainly use the performance metric to strategically manage the business. This is based on indicators that signal sustainable target achievement in the future. In addition to the financial perspective, it addresses other dimensions such as the market/client perspective, the internal process perspective and the employee perspective. This means that the interests of various stakeholder groups have an influence on management. By following the steps of the process in performance management using the performance metric, we have created a holistic, Group-wide management system. All areas of the Group are aligned with the strategic objectives and presented in a transparent and balanced manner with the help of measurable metrics. For operational management, we translate the strategic objectives into operational value drivers that are consistent with the strategy. This is done by the divisions using the operational management metrics shown in table M4.

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

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

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

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

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

Retention
Net written premiums/gross written premiums

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

Value of new business (life)
The present value of future net income generated from the new business portfolios for the current year. It is calculated on the basis of the same operational assumptions as are used to determine the embedded value as at the end of the financial year.

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

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

EBIT margin
Operating profit (EBIT)/net premiums earned

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

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

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

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

RESEARCH AND DEVELOPMENT

As a holding company, Talanx AG does not conduct any product research and development of its own. However, within the Company we continuously work to refine the methods and processes necessary to fulfil our business purpose, especially in the area of risk management. Talanx is currently preparing the application for its internal risk model in accordance with Solvency II (see also pages 62ff. in the section "The Talanx Group, Legal and Regulatory Environment" and pages 139ff. of the risk report). Our divisions analyse developments such as demographic trends, climate change and technical innovation, e.g. nanotechnology, and develop products tailored to our markets and clients.

REPORT ON ECONOMIC POSITION

MARKETS AND BUSINESS CLIMATE

MACROECONOMIC DEVELOPMENT

2014 was dominated by very mixed economic trends – a development that was also reflected within the various regions. While the US economy continued to recover, the sluggish upturn in the Eurozone levelled off. Economic concerns in the emerging markets had a negative impact on global recovery. The US economy benefitted from the recovery in real terms in the labour and housing market. Growth in China eased due to negative effects from the overheated real estate market and high debt levels.

The Eurozone continued to suffer from reform fatigue in France and Italy, where growth is being held back in particular by inflexible labour markets. The economy in the Eurozone grew by a mere 0.2% in the third quarter compared with the previous quarter. Germany's GDP increased moderately in the third quarter, by 0.1%. Italy fell back into recession, while France generated unexpectedly positive results in the third quarter, with growth of 0.3%. The newsflow from countries that have implemented tough reform programmes is increasingly positive. For example, growth in Spain accelerated by 0.5% in both the second and third quarters. In Portugal, the unemployment rate declined to 13% in September 2014. Leading Eurozone indicators pointed to stabilisation at the end of the year. In Germany, the ifo index improved to 105.5 in December, the second monthly increase in a row, following six successive months of decline in the course of the year (annual low: 103.2 in October 2014). Individual indicators also point to a mixed picture in the future. While in December the French industrial purchasing managers' index recorded a new annual low of 47.5, the equivalent sentiment indicator in Spain firmed over the course of the year, climbing to 53.8 in December.

M5 CHANGE IN REAL GROSS DOMESTIC PRODUCT

% CHANGE RELATIVE TO PREVIOUS YEAR

	2014[1]	2013
USA	+2.4	+2.2
Eurozone	+0.8	–0.4
Germany	+1.5	+0.4
United Kingdom	+3.0	+1.7
Japan	+0.2	+1.6

[1] Bloomberg consensus forecasts, as at 15 January 2015; 2014: provisional figures

The US economy bounced back after its weather-related slump at the beginning of the year. Growth accelerated to 5.0% (annualised) in the third quarter – the strongest figure for 11 years. The unemployment rate dropped to 5.6% in December 2014 (a six-year low), with the strongest increase in the number of jobs since January 2012 being recorded in November. The housing market, which is important for US consumer confidence, continued its recovery. The United Kingdom also saw an upturn in economic growth. Growth there accelerated to 0.7% in the third quarter. Economic growth in China continued to ease. At 7.3% year-on-year, growth rates for the third quarter again suggest a slowdown, particularly as economic data deteriorated further.

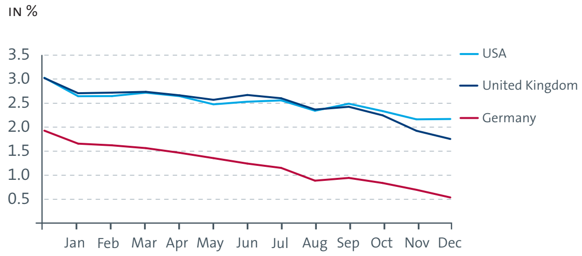
The major central banks continued to pursue expansionary monetary policies. However, the US Federal Reserve (Fed) ended its monthly bond purchases in October and indicated at its meeting in December a cautious turnaround in interest rates for 2015. In contrast the European Central Bank unveiled a comprehensive package of measures in the Eurozone in the summer of 2014. In the second half of the year, it further reduced its refinancing rate from 0.15% to 0.05%. As a result of declining long-term inflation forecasts, the ECB announced plans to substantially expand its balance sheet in November.

Low inflation rates at the beginning of the year under review reinforced deflationary trends in the Eurozone over the course of the year. The annual inflation rate dropped to –0.2% at the end of the year. US inflation data were also slightly lower in the fourth quarter compared with the rest of the year. The US inflation rate decreased to 1.7% in the third quarter of 2014, before declining further to 1.3% in November on the back of falling prices in the energy sector. In the UK, the inflation rate of 1.9% seen in the middle of the year dropped to 0.5% in December.

CAPITAL MARKETS

Despite the positive trends – the economic situation in the Eurozone which continues to be uncertain and in particular very mixed – a range of geopolitical risks and the ECB's continuing expansionary monetary policy were the main factors influencing activity in the euro bond markets. The declining trend in government bond yields continued until the end of the year, with only minor corrections.

M6 YIELDS ON 10-YEAR GOVERNMENT BONDS 2014



Following the generally unspectacular stress test performed on banks in the Eurozone (with the exception of Italy), the geopolitical market focus in the fourth quarter was on the unresolved Russia–Ukraine crisis and the unsuccessful presidential elections in Greece. As announced, the ECB began its ABS and covered bond purchase programmes in mid-October, whereas the Fed ended its purchase programme.

Yields for German government bonds retreated further quarter-on-quarter in the closing quarter of 2014, reaching new historic lows at the end of the year. Yields were slightly negative in the maturity range up to four years. Two-year bonds recorded a yield of –0,122%, five-year bonds fell to 0,001% and yields for ten-year German government bonds dropped significantly again to 0,509% at the end of the year. The flight to quality continued at the end of the year; investments in high-risk bonds saw a significant increase in 2014, while sectors with strong ratings (AAA to A) outperformed the BBB segment, especially in the closing quarter. Insurance bonds and subordinated bonds also recorded above-average performance. Oil and gas securities recorded losses in the fourth quarter.

The primary market – where securities are first issued – saw a considerable number of new issues in the period up to the end of July 2014, significantly exceeding the prior-year level. A high level of activity was also seen in the second half of the year through to December. Demand for yield remained strong, with corporate bonds with longer maturities, issuers from the higher interest-bearing segment and subordinate bank issues doing particularly well. Covered bonds saw an average level of new issues. As in the previous year, however, net issuance in this area was slightly negative.

In the fourth quarter, the stock markets were dominated by higher volatility. After a sharp correction in the first half of October, speculation in particular about ECB bond purchases and robust US economic data led to a strong rally. The slump in oil prices, the crisis in Russia and the failed presidential elections in Greece led to significant volatility again at the end of the year. The DAX rose by 2.7% compared with the beginning of the year, the EUROSTOXX 50 recorded a 1.2% gain and the S&P 500 climbed 11.4%. In Japan, the Nikkei recorded a 7.1% rise over the course of the year.

INTERNATIONAL INSURANCE MARKETS

The absence of major natural catastrophes means that adverse effects on the international insurance industry are likely to be below average. The ongoing government debt crisis in the Eurozone, geopolitical crises such as in Ukraine and the subdued recovery of the global economy continue to represent a challenging environment for insurance companies. Emerging market economies gained momentum again overall, although the trend in the different regions was mixed.

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

PROPERTY AND CASUALTY INSURANCE

As a whole, premium growth in international property and casualty insurance in 2014 saw a slowdown. In the developed insurance markets, real growth was slightly below the prior-year level. Growth in the emerging markets remained considerably stronger, but declined significantly compared with the previous year.

Despite a succession of natural disasters, loss expenditure was lower for insurers than in 2013, and was also significantly below the average for the past ten years. The persistently low interest rates continued to put strong pressure on insurers' net income. As a result, overall profitability in international property and casualty insurance deteriorated compared with the previous year.

In Central and Eastern Europe, property and casualty insurance premiums saw an overall decline in the reporting period. This was mainly caused by the ongoing conflict between Russia and Ukraine and continuing competition on price, in particular in motor insurance. In contrast to Poland, where premiums in this insurance line have been falling for several years, motor insurance premiums are expected to have risen in the Czech Republic, Hungary and Slovakia in the year under review.

The declining economic momentum in Latin America led to a significant slowdown in premium growth. As in other countries in the region, premium income stagnated in Mexico, while growth in Brazil and Argentina declined noticeably. The motor business in Brazil is an exception, with premium growth remaining stable despite a sharp decline in vehicle sales figures.

Overall, premium growth in the emerging markets was mainly generated in Asia. China, India and South East Asia – with the exception of Thailand – showed solid growth rates.

A strong underwriting result is expected in reinsurance, which will compensate for falling investment income due to continuing low interest rates. The hurricane season in the North Atlantic was comparatively calm in the year under review. The most expensive natural catastrophe of the year was Cyclone "Hudhud" in India; however, due to the low insurance density this did not drive up the claims burden for the insurance sector.

LIFE INSURANCE

Despite the tightened low interest rate environment, premium income in the international life insurance markets saw a strong increase compared with 2013. Significant real premium growth is expected both in the developed insurance markets and – to an even greater extent – in the emerging markets. Profitability in international life insurance also improved somewhat in the year under review. This development was driven by positive momentum on the stock markets and stronger premium growth coupled with cost restraint.

In Central and Eastern Europe, premium income was down compared with 2013. The main reason for this was a drop in sales of single-premium savings products in Poland, which was caused by regulatory changes and new guidelines for bancassurance – the sale of insurance products via banks.

In Latin America, premium growth slowed compared with 2013. This change partially reflected the expected return to normal growth in Brazil, where high profits were achieved in previous years, but also falling sales in other countries in the region such as Chile.

The higher premium income recorded for the emerging markets overall mainly stems from Asia. After years of stagnation and contraction, Asian countries recorded the highest growth rates in the reporting period.

Premium income in traditional life and health reinsurance rose slightly compared with 2013, with an increase in accident and health insurance business being offset by a decline in block transactions and enhanced annuities with immediate payment. Growth was higher in the developed markets than in the emerging markets, where virtual stagnation is expected.

GERMAN INSURANCE INDUSTRY

PROPERTY AND CASUALTY INSURANCE

After strong premium growth in the previous year, the German insurance industry saw a repeat of this development in 2014, albeit at a somewhat lower level. Growth in motor insurance made a particularly strong contribution to the increase in premiums.

Property insurers' payments for the consequences of natural disasters improved significantly on the previous year, at approximately EUR 2 billion. However, a good quarter of this sum was attributable to two events alone: insurers paid out around EUR 400 million for the consequences of Storm "Ela", making it the second-most expensive summer storm in the past 15 years. Heavy rain in the Münsterland area at the end of July – resulting in one of the highest figures for litres of rain per square metre ever recorded in Germany – caused insured losses of approximately EUR 140 million. Overall, 2014 was one of the five worst years in terms of the consequences of storms and hail since 1998. Nevertheless, after a relatively moderate number of losses, the net combined ratio for property and casualty insurance improved compared with the previous year.

LIFE INSURANCE

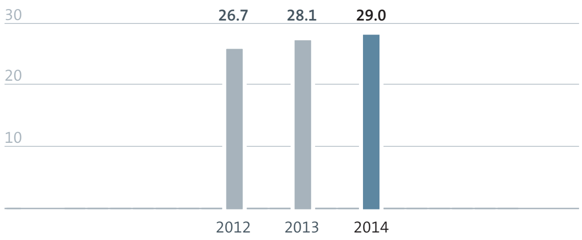
After the positive trend in the previous year, premium income increased again in the year under review. Although real premium growth improved year-on-year, Germany only achieved below-average growth rates compared with other developed markets. Despite interest rates that declined for some time, the German insurance industry again achieved a total accounting return that exceeded guaranteed returns in 2014.

BUSINESS DEVELOPMENT

The Talanx Group performed well overall in 2014: we further improved on the previous year's results and saw an increase in both gross premiums and operating profit. Group net income also remained at a high level thanks to the good results of the Reinsurance Division and the extraordinary income from the sale of a block of shares, among other factors.

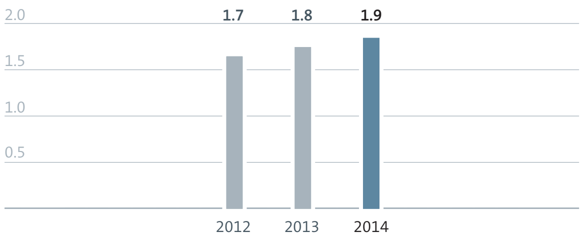
M7 GROSS WRITTEN PREMIUMS

IN EUR BILLION



M8 OPERATING PROFIT (EBIT)

IN EUR BILLION



SECONDARY LISTING OF TALANX SHARES IN OUR CORE MARKET OF POLAND

Talanx AG's shares have been listed on the Warsaw stock exchange since April of the year under review. The share was initially listed at PLN 120. Poland is one of the Talanx Group's key strategic markets. Measured in terms of gross premiums, the Group ranks second in this important insurance market.

INTERNATIONAL BUSINESS FURTHER EXPANDED

The business has continued to expand internationally. HDI-Gerling Seguros Industriais has been offering industrial insurance lines in Brazil since August and the Retail International Division will strengthen its international business in 2015 thanks to the purchase of Inversiones Magallanes in Chile. Latin America is a target region for Talanx. The aim is for gross premiums from international business to account for half of all primary insurance premiums in the long term.

TALANX BOND PLACEMENT

Talanx AG issued a senior unsecured bond with a volume of EUR 500 million. The bond was primarily issued to institutional investors in Germany and abroad and matures on 23 July 2026. The issue has secured favourable refinancing over the long term and allows for the early repayment of existing bonds.

PERFORMANCE OF THE GROUP

- Group net income up 5%
- Net investment income rises further
- Payout rate in the target range

M9 **GROUP KEY FIGURES**

IN EUR MILLION

	2014	2013[1]	2012
Gross written premiums	28,994	28,151	26,659
Net premiums earned	23,844	23,113	21,999
Underwriting result	–2,058	–1,619	–1,447
Net investment income	4,144	3,792	3,795
Operating profit (EBIT)	1,892	1,766	1,748
Combined ratio (net, property/casualty only) in %	97.9	97.1	96.4

[1] Adjusted to reflect IAS 8. See the "Accounting Policies" section in the Notes

M10 **MANAGEMENT METRICS**

IN %

	2014	2013[1]	2012
Gross premium growth (adjusted for exchange rate effects)	3.6	7.8	10.4
Group net income in EUR million	769	732	626
Return on equity	10.2	10.2	10.0
Payout rate[2]	41.1	41.5	42.4
Net return on investment	4.1	4.0	4.3

[1] Adjusted to reflect IAS 8. See the "Accounting Policies" section in the Notes
[2] In relation to the proposal on the appropriation of distributable profit, see page 105

PREMIUM VOLUME

The Group's gross written premiums grew to EUR 29.0 billion, compared with EUR 28.1 billion in the previous year. This 3.0% growth (3.6% adjusted for exchange rate effects) was largely attributable to the 5.5% growth in the Retail International Division, which benefited significantly from the single-premium business of its Italian subsidiary. The Group's retention ratio rose slightly to 87.1% (86.9%). As a result of this and other factors, net premiums earned also rose by 3.2% to EUR 23.8 (23.1) billion.

UNDERWRITING RESULT

There was an unusual cluster of medium-sized and major losses in the Industrial Lines Division in the year under review. This contributed to the high level of major losses in the Group, which totalled EUR 782 million. This fact, coupled in particular with one-off effects in the Retail Germany Division led to a decline in the underwriting result, which fell by 27.1% to EUR –2.1 (–1.6) billion. The better result from reinsurance was unable to offset the result from primary insurance. The Group's combined ratio rose only slightly to 97.9% (97.1%) in the year under review, despite the exceptionally high expenses for major losses in the Industrial Lines segment.

NET INVESTMENT INCOME

The Group increased its net investment income by 9.3% to EUR 4,144 (3,792) million in the year under review. This was due in large part to the improved extraordinary net investment income, which increased as a result of the disposal of the remaining shares in Swiss Life and the realisation of unrealised gains in the Retail Germany Division, among others. At 4.1%, the net return on investment was up slightly on the previous year's figure of 4.0%.

OPERATING PROFIT AND GROUP NET INCOME

Operating profit (EBIT) rose by 7.1% year-on-year to EUR 1,892 (1,766) million, primarily due to the increase in other net income from foreign exchange gains and the higher net investment income. Group net income was up by around 5.0% year-on-year to EUR 769 (732) million. The return on equity remained on a level with the previous year at 10.2% (10.2%). The payout rate is 41.1% of Group net income based on the proposal to the General Meeting.

COMPARISON OF ACTUAL BUSINESS DEVELOPMENT WITH THE FORECAST FOR 2014

M11 MANAGEMENT METRICS FOR THE GROUP

IN %

	Actual figures for 2014	Forecast for 2014
Gross premium growth (adjusted for exchange rate effects)	3.6	2 – 3
Group net income in EUR million	769	> 700
Return on equity	10.2	approx. 10.0
Payout rate[1]	41.1	35 – 45
Net return on investment	4.1	approx. 3.4

[1] In relation to the proposal on the appropriation of distributable profit, see page 105

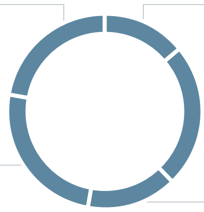
The gross premium growth achieved by the Group in the year under review amounted to 3.6% after adjustment for exchange rate effects, well above the minimum target of 2% to 3% set for 2014. This was mainly due to the earnings contribution made by the Retail International Division. At EUR 769 million, we clearly achieved our target of generating Group net income of at least EUR 700 million. The net income generated by the Reinsurance Division, in particular, made a significant contribution to this. The Group's forecast return on equity for 2014 was around 10%. At 10.2%, we slightly exceeded this forecast. This is in line with our strategy of ensuring that the sum of the individual divisions' profit targets at least equals the target return on equity defined for the Group. A dividend of EUR 1.25 per share will be proposed to the General Meeting; at 41.1%, the payout rate was again within the target range (35 – 45%) in the third full year after our IPO. The reported net return on investment of 4.1% is well above the forecast for 2014 of approximately 3.4%.

DEVELOPMENT OF THE DIVISIONS WITHIN THE GROUP

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

M12 GROSS PREMIUMS BY SEGMENT

IN %



INDUSTRIAL LINES

- Growth in premiums continues
- High claims levels due to single losses
- International business strengthened by new company in Brazil

M13 KEY FIGURES FOR THE INDUSTRIAL LINES SEGMENT

IN EUR MILLION

	2014	2013[1]	2012
Gross written premiums	4,031	3,835	3,572
Net premiums earned	2,022	1,744	1,608
Underwriting result	–61	–42	79
Net investment income	268	240	247
Operating profit (EBIT)	182	129	259

[1] Adjusted to reflect IAS 8. See the "Accounting Policies" section in the Notes

M14 MANAGEMENT METRICS

IN %

	2014	2013 [1]	2012
Gross premium growth (adjusted for exchange rate effects)	5.9	8.6	12.7
Retention	50.9	44.5	45.6
Combined ratio (net) [2]	103.0	102.4	95.1
EBIT margin [3]	9.0	7.4	16.0
Return on equity [4]	6.3	4.2	8.8

1) Adjusted to reflect IAS 8. See the "Accounting Policies" section in the Notes
2) Including net interest income on funds withheld and contract deposits
3) Operating profit (EBIT)/net premiums earned
4) Ratio of net income excluding non-controlling interests to average equity excluding non-controlling interests

MARKET DEVELOPMENT

The market environment for the Industrial Lines segment in our core market, Germany, is highly competitive. In spite of the significant competition, HDI-Gerling Industrie Versicherung AG further increased its premium volume both in Germany and abroad in the year under review. The ongoing government debt crisis in the Eurozone and the subdued development of the global economy continue to represent a challenging environment for insurance companies. Added to this is the persistent low level of interest rates. Economic momentum is slowing in the emerging markets, although growth is still significantly higher there than in the developed economies. As market penetration in Germany is already high, growth is primarily generated in our overseas branches and subsidiaries, including HDI-Gerling America Insurance Company.

PREMIUM VOLUME

Gross written premiums for the division amounted to EUR 4.0 (3.8) billion as at 31 December 2014, an increase of 5.1% (5.9% after adjustment for exchange rate effects). The international branches of HDI-Gerling industrial insurance and HDI-Gerling America Insurance Company, in particular, recorded a significant increase in premiums. The continuing growth trend was most pronounced in the liability and marine insurance lines.

The segment's retention ratio rose clearly year-on-year from 44.5% to 50.9%. The prior-year figure was affected by a change in accounting for reinsurance receivables at HDI-Gerling industrial insurance that negatively impacted net written premiums. Net premiums earned in the segment rose by 15.9% to EUR 2.0 (1.7) billion, driven by the growth in gross premiums and the increased retention.

UNDERWRITING RESULT

The segment's underwriting result amounted to EUR –61 (–42) million. This was lower than in the previous year due to significant catastrophe losses affecting HDI-Gerling industrial insurance. At 21.7% (20.6%), the net expense ratio was slightly higher year-on-year and was influenced by the higher reinstatement premiums recognised in the year under review, which negatively impacted net premiums. The net loss ratio remained broadly on a level with the previous year at 81.2% (81.8%). The combined ratio for the Industrial Lines segment amounted to 103.0% (102.4%).

As the most significant company, HDI-Gerling industrial insurance generated a net underwriting result of EUR –48 (–50) million. Whereas the previous year was dominated by major losses due to natural hazards (floods in southern and eastern Germany and hailstorms in Germany and abroad), there were numerous single losses in 2014, particularly in the fire insurance business. In addition, the Dutch subsidiary saw its result decline significantly to EUR –24 (–8) million, largely due to the allocation of additional provisions.

NET INVESTMENT INCOME

Net investment income increased despite persistently low interest rates, rising 11.7% to EUR 268 (240) million. Gains realised from the disposal of investments rose significantly at HDI-Gerling industrial insurance. Use was made of the positive capital market trend at the beginning of the year to generate additional income and, at the same time, reduce portfolio risk. In addition, the write-down on Greek bonds was reversed in the amount of around EUR 7 million.

OPERATING PROFIT AND GROUP NET INCOME

The segment's operating profit rose to EUR 182 (129) million due to the developments described above and, in particular, to the improved net investment income. Group net income – i.e. income attributable to shareholders of Talanx AG – increased to EUR 121 (78) million. The segment's EBIT margin and return on equity rose to 9.0% (7.4%) and 6.3% (4.2%) respectively, due to the increase in operating profit.

COMPARISON OF ACTUAL BUSINESS DEVELOPMENT WITH THE FORECAST FOR 2014

M15 MANAGEMENT METRICS FOR THE INDUSTRIAL LINES SEGMENT

IN %

	Actual figures for 2014	Forecast for 2014
Gross premium growth (adjusted for exchange rate effects)	5.9	3–5
Retention	50.9	~50
Combined ratio (net) [1]	103.0	96–98
EBIT margin [2]	9.0	≥10
Return on equity [3]	6.3	~9.0

1) Including net interest income on funds withheld and contract deposits
2) Operating profit (EBIT)/net premiums earned
3) Ratio of net income excluding non-controlling interests to average equity excluding non-controlling interests

At 5.1% (5.9% after adjustment for exchange rate effects), gross premium growth slightly exceeded the forecast for 2014, mainly due to the positive performance by HDI Gerling industrial insurance and the US subsidiary. The increase in the retention ratio to 50.9% was in line with expectations.

The combined ratio was considerably higher than forecast in 2014 due to unexpectedly high losses, particularly as a result of single losses. The high loss expenditure is also responsible for the fact that the EBIT margin and return on equity failed to meet our forecasts in the year under review, despite the increase recorded.

RETAIL GERMANY

- Premium income close to prior-year level
- Higher reserves negatively impact combined ratio
- Further decline in interest rates leads to recognition of impairment losses on life insurance portfolios

M16 KEY FIGURES FOR THE RETAIL GERMANY SEGMENT

IN EUR MILLION

	2014	2013	2012
Gross written premiums	6,890	6,954	6,829
Net premiums earned	5,630	5,605	5,501
Underwriting result	–1,953	–1,515	–1,425
Net investment income	1,899	1,786	1,621
Operating profit/loss (EBIT)	–115	161	100

M17 MANAGEMENT METRICS

IN %

	2014	2013	2012
Gross premium growth	–0.9	1.8	1.8
New business margin (life) [1]	≥2.0	2.5	1.8
Combined ratio (net, property/casualty only) [2]	108.6	102.4	100.6
EBIT margin [3]	–2.0	2.9	1.8
Return on equity [4]	–2.9	3.0	4.8

1) 2014: estimated figure, the final figure will be published in the 2015 Annual Report
2) Including net interest income on funds withheld and contract deposits
3) Operating profit (EBIT)/net premiums earned
4) Ratio of net income excluding non-controlling interests to average equity excluding non-controlling interests

MARKET DEVELOPMENT

Low interest rates continued to dominate the market environment in life insurance, leading customers to be wary of long-term savings commitments. In property/casualty insurance, premium income rose in the motor insurance and comprehensive homeowners insurance lines.

MEASURES TO SECURE THE DIVISION'S FUTURE

In the year under review, the Retail Germany Division initiated measures to stabilise business operations and improve its long-term competitiveness. We have earmarked a significant sum for the required investments. We are initially focusing on optimising business processes to improve service quality for customers and sales partners. As part of this, we also need to modernise our IT and enhance the transparency of portfolio data and costs.

PREMIUM VOLUME AND NEW BUSINESS

Gross written premiums for the Retail Germany segment – including the savings elements of premiums from unit-linked life insurance – were down slightly year-on-year at EUR 6.9 (7.0) billion.

Premium income at our property/casualty insurers remained unchanged at EUR 1.5 billion. In the direct written insurance business it remained almost level year-on-year. Although the ongoing measures to improve profitability led to a decline in the number of contracts, this was offset by an increase in the average premium per contract. The overall share of the entire segment accounted for by property/casualty insurers remained virtually unchanged at 22.3% (22.0%).

Gross written premiums for our life insurers – including savings elements of premiums from unit-linked life insurance – remained unchanged at EUR 5.4 (5.4) billion.

The division's retention ratio increased slightly to 95.3% (94.2%) due to the termination of reinsurance contracts in the life and property/casualty insurance business. Allowing for savings elements under our unit-linked products and the change in the unearned premium reserve, the net premium earned remained unchanged at EUR 5.6 (5.6) billion.

New business in life insurance products – measured using the annual premium equivalent (APE), the international standard – was up slightly year-on-year at EUR 470 (464) million.

UNDERWRITING RESULT

The underwriting result amounted to EUR –2.0 (–1.5) billion. This item largely reflects policyholder participation in net investment income and the unwinding of discounts on technical provisions at the life insurance companies. These expenses are offset by investment income, which is not recognised in the underwriting result. The further decline in interest rates on the capital market resulted in the need to recognise impairment losses, particularly on insurance portfolios acquired in the past (PVFP).

The underwriting result for our property insurance business was significantly impacted by an increase in reserves as a precautionary measure in the area of non-life insurance and the termination of reinsurance contracts at HDI Versicherung AG. This led to a rise of 6.2 percentage points in the net combined ratio to 108.6%. After adjustment for these measures to strengthen our asset base, the combined ratio was on a level with the previous year.

NET INVESTMENT INCOME

The division's net investment income rose by 6.3% to EUR 1.9 (1.8) billion, 95% of which is attributable to the life insurance companies. 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 (until entry into force of the German Life Insurance Reform Act). This led to an increase in extraordinary investment income.

OPERATING PROFIT AND GROUP NET INCOME

The financial year was dominated by a further decline in interest rates on the capital market, which resulted in the need to recognise impairment losses, particularly on insurance portfolios acquired in the past (PVFP). The results of the property business were also negatively impacted by the measures to strengthen our asset base described above; this resulted overall in a clear decline in operating profit to EUR –115 (161) million and a reduction in the EBIT margin to –2.0% (3.0%). After adjustment for taxes on income and financing costs, Group net income attributable to shareholders of Talanx AG decreased to EUR –84 (78) million, causing the return on equity to decline to –2.9% (3.0%).

COMPARISON OF ACTUAL BUSINESS DEVELOPMENT WITH THE FORECAST FOR 2014

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

IN %

	Actual figures for 2014	Forecast for 2014
Gross premium growth	–0.9	–1 to –2
New business margin (life) [1]	≥ 2.0	≥ 2.0
Combined ratio (net, property/casualty only) [2]	108.6	< 100.0
EBIT margin [3]	–2.0	≥ 3.0
Return on equity [4]	–2.9	~ 4.0

1) 2014: estimated figure, the final figure will be published in the 2015 Annual Report
2) Including net interest income on funds withheld and contract deposits
3) Operating profit (EBIT)/net premiums earned
4) Ratio of net income excluding non-controlling interests to average equity excluding non-controlling interests

In line with our forecast, gross premium income in the Retail Germany segment declined slightly in 2014, although by less than expected. The reported new business margin corresponds to an estimate made in mid-2014. The final actual figure reflecting the updated inputs as at the end of 2014 will be presented in the Market Consistent Embedded Value Report. The property insurance business was dominated by risk provisions – increased reserves and the termination of insurance contracts, which had a significant negative impact on the combined ratio. In addition, the further decline in interest rates resulted in the need to recognise impairment losses at the life insurance companies on insurance portfolios acquired in the past, which will reduce future losses. As a result of the associated sharp decline in results, both the EBIT margin and the return on equity fell short of the forecast figures.

ADDITIONAL KEY FIGURES

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

IN EUR MILLION

	2014	2013	2012
Gross written premiums	**6,890**	**6,954**	**6,829**
Property/casualty	1,539	1,529	1,530
Life	5,351	5,425	5,299
Net premiums earned	**5,630**	**5,605**	**5,501**
Property/casualty	1,459	1,431	1,437
Life	4,171	4,174	4,064
Underwriting result	**–1,953**	**–1,515**	**–1,425**
Property/casualty	–125	–34	–6
Life	–1,828	–1,481	–1,419
Other	—	—	—
Net investment income	**1,899**	**1,786**	**1,621**
Property/casualty	106	112	102
Life	1,795	1,675	1,525
Other	–2	–1	–6
New business measured in annual premium equivalent (life)	**470**	**464**	**500**
Single premiums	1,618	1,491	1,391
Regular premiums	308	315	361
New business by product in annual premium equivalent (life)	**470**	**464**	**500**
Unit-linked life and annuity insurance	138	149	173
Traditional life and annuity insurance	241	230	242
Term life products	83	81	80
Other life products	8	4	5

RETAIL INTERNATIONAL

- Improved net loss ratio, particularly in Central and Eastern Europe
- Stable return on investment despite persistently low interest rates
- Acquisition in Chile strengthens Latin American business for 2015

M20 KEY FIGURES FOR THE RETAIL INTERNATIONAL SEGMENT

IN EUR MILLION

	2014	2013	2012
Gross written premiums	4,454	4,220	3,261
Net premiums earned	3,735	3,513	2,621
Underwriting result	–11	32	3
Net investment income	321	284	281
Operating profit (EBIT)	208	185	107

M21 MANAGEMENT METRICS

IN %

	2014	2013	2012
Gross premium growth (adjusted for exchange rate effects)	9.5	35.4	35.0
Growth in value of new business (life) [1]	55.8	45.8	n. a.
Combined ratio (net, property/casualty only) [2]	96.4	95.8	96.2
EBIT margin [3]	5.6	5.3	4.1
Return on equity [4]	7.0	5.9	3.5

1) Excluding non-controlling interests; 2014: estimated figure, the final figure will be published in the 2015 Annual Report
2) Including net interest income on funds withheld and contract deposits
3) Operating profit (EBIT)/net premiums earned
4) Ratio of net income excluding non-controlling interests to average equity excluding non-controlling interests

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

The reporting period was dominated by the successful operational integration and consolidation of the Polish WARTA Group, which was acquired in financial year 2012. This followed the legal merger of the WARTA and HDI companies, which was implemented in the preceding years. The comparability of financial years 2014 and 2013 with financial year 2012 is limited, since in 2012 the WARTA companies were only included for six months and the TU Europa companies, which are also Polish, for seven months.

The acquisition of a majority interest in the Chilean Magallanes insurance group in the first quarter of 2015 will significantly enhance the division's market position in Chile, particularly in the area of motor insurance.

MARKET DEVELOPMENT

The performance of the property insurance market in the division's two target regions was mixed in 2014. Premium growth in the Latin American property insurance market is expected to have amounted to 2.4% (7.5%) in 2014, while a decline of 5.2% (previous year: growth of 3.1%) is anticipated for Eastern Europe. The life insurance market is expected to have declined by around 1.7% (–3%) in Central and Eastern Europe in 2014. Compared with the previous year, premium income development in both target regions was influenced by the widespread economic slowdown. This real GDP growth is expected to have slowed year-on-year to 1.2% in Latin America in 2014 (previous year: 2.4%) and to have declined from 1.4% to 0.9% in Central and Eastern Europe.

In Latin America, the lower growth in premium income from property insurance compared with the prior-year period was driven by developments in Brazil, among other factors. Brazil's real GDP growth declined to 0.1% in 2014, while inflation rose to 6.4%. Despite significantly lower motor vehicle sales, premiums from motor insurance were up by 10.1% on the prior-year period at the end of the third quarter of 2014, mainly due to tariff increases as a result of inflation. In line with this, premium income from other property insurance increased by 11.1% in the same period. In Mexico, the presidential elections in 2013 triggered an extensive political reform process, which initially led to consumer uncertainty. The first positive effects of the economic recovery in the neighbouring USA started to filter through to the Mexican economy in the third quarter of 2014. Overall, premium income from property insurance was down by 1.2% as at 30 September 2014. In contrast, premiums from motor insurance were up by 2.2%.

In Central and Eastern Europe, however, premium income development reflected the decline in both domestic demand and investment activity as a result of slower economic growth. Poland saw intensified price competition in motor insurance and sales of single-premium life insurance products declined due to the discontinuation of the tax advantage for endowment policies; in addition, the first effects of "Recommendation U", which details best practices in bancassurance were apparent in sales via banks. Property insurance premiums on the Polish market were down 2.5% year-on-year as at 30 September 2014, while life insurance premiums had fallen by 8.7%. Premium income from motor insurance was down 3.4% at the end of the third quarter of 2014. At that date, the Talanx Group was the second-largest operator in the Polish insurance market measured in terms of premium income. The Turkish insurance market stagnated. Property insurance premiums were up 9.0% year-on-year as at 31 December

2014, due solely to higher premiums resulting from inflation, while premiums from motor insurance increased by 2.0% on the prior-year period. This was attributable to increasing price competition in addition to the 9.6% decline in new car sales.

PREMIUM VOLUME

The division's gross written premiums (including premiums from unit-linked life and annuity insurance) rose by 5.5% year-on-year (9.5% after adjustment for exchange rate effects) to EUR 4.5 (4.2) billion.

Gross written premium growth was influenced by positive developments in the property business, where premiums rose by 4.0% to EUR 2.9 billion. The Brazilian company HDI Seguros and Polish company TUiR Europa made a particularly significant contribution to this increase. Growth was also recorded in the life insurance business, which increased by 8.7% to EUR 1.5 billion, primarily due to premium growth at Italian company HDI Assicurazioni. The increase in the value of new business (life) for financial year 2014 represents a preliminary figure based on the premium growth at HDI Assicurazioni and the improved new business margin at Polish company TUnŻ WARTA S. A.

Around three-quarters of total premium income was generated by the Brazilian company HDI Seguros S. A., which is mainly active in motor insurance. The company's written premiums increased by 4.1% year-on-year to EUR 901 million, including exchange rate effects. After adjustment for these effects, premium income rose by 13.1%, partly due to higher premiums in the motor insurance business. At the same time, the company's motor policy portfolio grew by 12.2% to a total of 1.6 million policies; this was mainly due to a large number of new contracts. The Mexican company HDI Seguros increased its gross written premiums from EUR 178 million to EUR 191 million. This was mainly achieved by increasing its new business in the area of motor insurance.

The division's Polish companies accounted for 35.1% of its total written premiums, compared with 39.3% in the prior-year period. This was mainly attributable to the decline in sales of single-premium life insurance products. The discontinuation of the tax advantage for endowment policies mentioned above had a particularly significant impact here. The gross written premiums of life insurer TUnŻ WARTA S. A. amounted to EUR 325 (332) million. TUiR WARTA S. A.'s premium volume from property insurance declined by 1.0% to EUR 792 million, primarily due to price competition in motor insurance. However, the company performed better than the Polish property insurance market as a whole. Combined premium income from life and property insurance at the TU Europa Group amounted to EUR 448 (523) million; the decline in premiums from life insurance was partly offset by the introduction of innovative new products in the other property insurance business.

The gross written premiums of Turkish property insurer HDI Sigorta rose by 7.8% to EUR 201 million including exchange rate effects; after adjustment for exchange rate effects, premiums rose by 22.5%. Written premiums in other property insurance increased by 37.7% in local currency, while the number of contracts increased by 5.1%. Premium income in motor insurance increased by 11.3% in local currency. The 32.1% increase in the number of motor insurance policies more than compensated for the 15.8% decline in the average premium per policy due to the change in risk selection.

The Italian company HDI Assicurazioni held its ground well in a competitive and generally declining property insurance market. While premium income from property insurance was down by 3.1% year on year for the market as a whole as at 30 September 2014, the company increased its gross written premiums by 0.8%, with the 9.1% increase in the number of contracts compensating for the 9.0% decline in the average premium per policy. By contrast, life insurance premiums rose by 58.6% year-on-year, largely due to higher sales of single-premium products via banks.

UNDERWRITING RESULT

The combined ratio in international property insurance declined by 0.6 percentage points year-on-year to 96.4%. This development was largely driven by the increase in the acquisition cost ratio by 1.8 percentage points to 24.9% resulting from the diversification strategy and the resulting general increase in the commissions paid to brokers. The 0.4 percentage point reduction in the administrative expense ratio to 6.2% was unable to fully compensate for this effect. The loss ratio declined by 1.0 percentage points to 65.3%, which was mainly attributable to HDI Assicurazioni and Turkish company HDI Sigorta, as well as TU Europa. In contrast, motor insurance losses in Brazil and Mexico increased year-on-year due to inflation-driven price rises and the increased frequency of claims.

Overall, the division's underwriting result amounted to EUR –11 million compared with EUR 32 million in the prior-year period. This was primarily attributable to the EUR 32 million decline in the underwriting result from life insurance. The growth in net investment income due to the significantly higher technical provisions more than compensated for this effect.

NET INVESTMENT INCOME

The division's net investment income amounted to EUR 321 million as at the end of financial year 2014, a year-on-year rise of 13.0%. The division's ordinary investment income rose by 10.4% compared with the previous year, mainly due to the larger investment portfolio. With the exception of Brazil and Turkey, the average interest rate declined in most markets. The average return on assets under own management remained stable at 4.7 percentage points. Net investment income includes EUR 10 (13) million in net income from investment contracts. These are policies that provide too little risk cover to be classified as insurance contracts in accordance with IFRSs.

OPERATING PROFIT AND GROUP NET INCOME

In financial year 2014, operating profit (EBIT) in the Retail International Division increased by 12.4% compared with the previous year to EUR 208 million, largely thanks to the higher net investment income. As a result, the EBIT margin rose by 0.3 percentage points to 5.6%. Group net income after minority interests rose by 20.8% to EUR 122 (101) million. The return on equity increased by 1.1 percentage points year-on-year to 7.0%.

COMPARISON OF ACTUAL BUSINESS DEVELOPMENT WITH THE FORECAST FOR 2014

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

IN %

	Actual figures for 2014	Forecast for 2014
Gross premium growth (adjusted for exchange rate effects)	9.5	4–8
Growth in value of new business (life) [1]	55.8	5–10
Combined ratio (net, property/casualty only) [2]	96.4	< 96.0
EBIT margin [3]	5.6	min. 5.0
Return on equity [4]	7.0	> 6.0

1) Excluding non-controlling interests; 2014: estimated figure, the final figure will be published in the 2015 Annual Report
2) Including net interest income on funds withheld and contract deposits
3) Operating profit (EBIT)/net premiums earned
4) Ratio of net income excluding non-controlling interests to average equity excluding non-controlling interests

The Retail International Division achieved gross premium growth of 9.5% (after adjustment for exchange rate effects) in financial year 2014, exceeding the range of 4% to 8% published in the previous year's report on expected developments. This was largely due to the fact that gross premiums in life insurance in Italy were higher than expected, following the expansion of sales via banks. The increase in the value of new business (life) also significantly exceeded expectations due to the premium growth at Italian company HDI Assicurazioni and the improved new business margin of Polish company TUnŻ WARTA S. A. The combined ratio for the international property insurance companies fell short of the forecast, particularly due to the higher level of motor insurance claims in Brazil caused by inflation. At 5.6%, the EBIT margin was 0.6 percentage points above the medium-term forecast due to the positive investment income trend. As Group net income was also higher than forecast, the return on equity was above the predicted range.

ADDITIONAL KEY FIGURES

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

IN EUR MILLION

	2014	2013	2012
Gross written premiums	**4,454**	**4,220**	**3,261**
Property/casualty	2,915	2,804	2,308
Life	1,539	1,416	953
Net premiums earned	**3,735**	**3,513**	**2,621**
Property/casualty	2,367	2,332	1,967
Life	1,368	1,181	654
Underwriting result	**–11**	**32**	**3**
Property/casualty	86	97	76
Life	–97	–65	–73
Other	—	—	—
Net investment income	**321**	**284**	**281**
Property/casualty	187	161	151
Life	136	122	130
Other	–2	1	—
New business measured in annual premium equivalent (life)	**195**	**192**	**115**
Single premiums	1,313	1,152	624
Regular premiums	64	77	53
New business by product in annual premium equivalent (life)	**195**	**192**	**115**
Unit-linked life and annuity insurance	15	26	23
Traditional life and annuity insurance	52	52	30
Term life products	68	77	40
Other life products	60	37	22

NON-LIFE REINSURANCE

- Catastrophe losses well below forecast at EUR 426 million
- Encouraging combined ratio of 94.7%
- Premium growth adjusted for exchange rate effects on target at 1.2%

M24 KEY FIGURES FOR THE NON-LIFE REINSURANCE SEGMENT

IN EUR MILLION

	2014	2013	2012
Gross written premiums	7,903	7,818	7,717
Net premiums earned	7,011	6,866	6,854
Underwriting result	349	332	273
Net investment income	867	811	982
Operating profit (EBIT)	1,219	1,097	1,133

M25 MANAGEMENT METRICS

IN %

	2014	2013	2012
Gross premium growth (adjusted for exchange rate effects)	1.2	3.5	9.3
Combined ratio (net) [1]	94.7	94.9	95.8
EBIT margin [2]	17.4	16.0	16.5

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

M26 RETURN ON EQUITY FOR THE REINSURANCE DIVISION OVERALL

IN %

	2014	2013	2012
Return on equity [1]	15.8	15.9	16.5

1) Ratio of net income excluding non-controlling interests to average equity excluding non-controlling interests

BUSINESS DEVELOPMENT

Competition further intensified in many of the Non-Life Reinsurance segment's markets. This was driven by the renewed absence of market-changing major losses, as well as the fact that cedants retained more risks due to their healthy capitalisation levels. Additional capacities from the catastrophe bond market (ILS) and alternative capacities – particularly in the US catastrophe business – also led to significant price erosion.

We have adopted a profit-oriented underwriting policy to enable us to withstand the fiercely competitive conditions and are thus well placed to meet the market challenges. We have systematically reduced our market share in regions and business lines where prices are insufficient to meet our profitability requirements. At the same time, we have expanded our business where margins are risk appropriate. This active cycle management strategy means that we are able to maintain the high quality of our portfolio, despite the soft market conditions.

We are largely satisfied with the results of the treaty renewals in the year under review. The highest volume was recorded in the first round of renewals on 1 January 2014, when almost two-thirds of our treaties in traditional reinsurance were renegotiated. Thanks to our underwriting discipline, we achieved adequate margins in most cases. Rate increases mainly related to programmes affected by claims. This applied in particularly to catastrophe cover in Germany and Canada, as well as to the marine insurance business, where there was a high level of claims in 2012 and 2013. We took advantage of growth opportunities in the Asian, Latin American, and Central and Eastern European markets.

However, rate reductions were accepted in the property catastrophe business in the USA and the aviation business due to the very good underwriting results in the previous year. Although the Non-Life Reinsurance business experienced soft market conditions and rate erosion overall, we saw some positive signals in the second half of the year.

PREMIUM DEVELOPMENT

Not least thanks to new business opportunities, the Non-Life Reinsurance segment's gross premium volume rose slightly overall in the reporting period, up 1.1% to EUR 7.9 (7.8) billion; at constant exchange rates, growth would have amounted to 1.2%. We had expected the premium volume adjusted for exchange rate effects to remain largely stable. Retention rose to 90.6% (89.9%). Net premiums earned increased by 2.1% to EUR 7.0 (6.9) billion; at constant exchange rates, growth would have remained the same (2.1%).

EARNINGS DEVELOPMENT

As in the previous year, major losses had a moderate impact in 2014. However, the reporting period saw significant claims in the aviation business. Several passenger aircraft crashed, leading to the death of hundreds of people. In addition, a number of aircraft were destroyed at Tripoli airport. By contrast, the hurricane season in North America and the Caribbean was very uneventful, although there were still several natural disasters during the reporting period. In Western Europe, storm "Ela" led to significant losses. This resulted in net charges of EUR 49 million for the segment. Together with other major losses, these had a net impact of EUR 426 (578) million, well below the forecast figure of EUR 670 million.

The already good combined ratio improved from 94.9% in the previous year to 94.7% in the year under review, once again clearly below the target of 96%. The underwriting result including administrative expenses saw another slight improvement to EUR 349 (332) million.

OPERATING PROFIT AND NET INVESTMENT INCOME

Net investment income in Non-Life Reinsurance rose by a very encouraging 6.9% in the year under review to EUR 867 (811) million. The 11.1% rise in operating profit (EBIT) to EUR 1,219 million demonstrated that it is possible to maintain profitability at a high level despite the fiercely competitive environment. Group net income in the Non-Life Reinsurance segment, which was influenced by positive tax effects in the previous year, again exceeded the target at EUR 401 (377) million.

COMPARISON OF ACTUAL BUSINESS DEVELOPMENT WITH THE FORECAST FOR 2014

M27 MANAGEMENT METRICS FOR THE NON-LIFE REINSURANCE SEGMENT

IN %

	Actual figures for 2014	Forecast for 2014
Gross premium growth (adjusted for exchange rate effects)	1.2	stable
Combined ratio (net)[1]	94.7	<96.0
EBIT margin[2]	17.4	≥10.0

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

M28 RETURN ON EQUITY FOR THE REINSURANCE DIVISION OVERALL

IN %

	Actual figures for 2014	Forecast for 2014
Return on equity[1]	15.8	~15.0

1) Ratio of net income excluding non-controlling interests to average equity excluding non-controlling interests

The Non-Life Reinsurance segment generated gross premium growth adjusted for exchange rate effects of 1.2%, which is in line with the forecast published in the previous year ("stable"). Due to the lower burden of major losses, the combined ratio trend was encouraging, and the figure remained clearly below the level forecast for 2014. At 17.4%, the EBIT margin significantly exceeded the expected 10.0% due to the positive business development. The return on equity for the whole Reinsurance Division exceeded the forecast for 2014 by around 0.8 percentage points.

LIFE/HEALTH REINSURANCE

- Gross premium growth forecast adjusted for exchange rate effects achieved, at 4.9%
- First longevity risk transaction in France successfully concluded
- Results of Australian disability business in line with expectations

M29 KEY FIGURES FOR THE LIFE/HEALTH REINSURANCE SEGMENT

IN EUR MILLION

	2014	2013	2012
Gross written premiums	6,459	6,145	6,058
Net premiums earned	5,411	5,359	5,426
Underwriting result	–384	–422	–377
Net investment income	613	611	684
Operating profit (EBIT)	268	139	270

M30 MANAGEMENT METRICS

IN %

	2014	2013	2012
Gross premium growth (adjusted for exchange rate effects)	4.9	5.1	9.8
Value of new business[1] in EUR million	224	155	157
EBIT margin[2] financial solutions/longevity	5.0	5.2	5.0
EBIT margin[2] mortality/morbidity	4.8	1.2	5.2

1) Excluding non-controlling interests; 2014: estimated figure, the final figure will be published in the 2015 Annual Report
2) Operating profit (EBIT)/net premiums earned

M31 RETURN ON EQUITY FOR THE REINSURANCE DIVISION OVERALL

IN %

	2014	2013	2012
Return on equity[1]	15.8	15.9	16.5

1) Ratio of net income excluding non-controlling interests to average equity excluding non-controlling interests

BUSINESS DEVELOPMENT

The international life and health reinsurance market was influenced by various effects in the year under review. Consolidation pressure increased for companies in developed insurance markets like the USA, Germany, the UK, France and Scandinavia. The tense situation on the capital and financial markets also contributed to the generally moderate growth of standard business in these markets. With regard to the major emerging and growth markets, new regulatory requirements have been and are increasingly being implemented, which is opening up new opportunities. This is particularly true in Asia. The increasingly large number of regulatory changes means that the whole international insurance industry is continually facing new challenges. In many cases, it is necessary to adapt or completely replace existing product solutions to meet the new requirements for all parties involved. In view of this, the Life/Health Reinsurance segment has performed very well.

PREMIUM DEVELOPMENT

Our gross premium income in the year under review totalled EUR 6.5 (6.1) billion, representing growth of 5.1%. Adjusted for exchange rate fluctuations, growth would have been 4.9%. We therefore almost met our strategic target of achieving gross premium growth adjusted for exchange rate effects of between 5% and 7%. Retention developed in line with planning and amounted to 83.9% (87.7%) in the reporting period. Net premium volume improved slightly by 1.0% to EUR 5.4 (5.4) billion. Adjusted for exchange rate effects, net premiums would have increased by 0.7%.

OPERATING PROFIT AND NET INVESTMENT INCOME

Net investment income in Life and Health Reinsurance is composed of two income components: assets under own management and funds withheld by ceding companies. In the year under review, net income of EUR 257 (268) million was generated from assets under own management and EUR 356 (343) million from funds withheld by ceding companies. Overall, net investment income in Life and Health Reinsurance rose slightly by 0.3% to EUR 613 (611) million. This is particularly encouraging, given the persistently low interest rates and the correspondingly tense situation on the capital markets.

Operating profit (EBIT) normalised in the reporting period and reached EUR 268 (139) million. The sharp 92.8% year-on-year increase is primarily due to lower additions to reserves and the lower level of claims from the Australian disability business. In line with this, the EBIT margin in the mortality and morbidity business increased in the year under review compared with the prior-year period, although it remained below the target level of 6% at 4.8%. In contrast, the EBIT margins in the financial solutions and longevity business clearly exceeded the target of 2%, at 6.5% and 2.9% respectively, reflecting the healthy profitability of the underlying business.

The normalised and generally positive business performance in Life and Health Reinsurance led to a considerable year-on-year improvement in Group net income, which amounted to EUR 107 (76) million in the year under review.

COMPARISON OF ACTUAL BUSINESS DEVELOPMENT WITH THE FORECAST FOR 2014

M32 MANAGEMENT METRICS FOR THE LIFE/HEALTH REINSURANCE SEGMENT

IN %

	Actual figures for 2014	Forecast for 2014
Gross premium growth (adjusted for exchange rate effects)	4.9	low to middle single-digit percentage range
Value of new business [1] in EUR million	224	>90
EBIT margin [2] financial solutions/longevity	5.0	2.0
EBIT margin [2] mortality/morbidity	4.8	6.0

1) Excluding non-controlling interests; 2014: estimated figure, the final figure will be published in the 2015 Annual Report
2) Operating profit (EBIT)/net premiums earned

M33 RETURN ON EQUITY FOR THE REINSURANCE DIVISION OVERALL

IN %

	Actual figures for 2014	Forecast for 2014
Return on equity [1]	15.8	~15.0

1) Ratio of net income excluding non-controlling interests to average equity excluding non-controlling interests

We generated gross premium growth adjusted for currency effects of 4.9% in Life and Health Reinsurance in the year under review, meeting the target of achieving growth in the low to middle single-digit percentage range. Thanks to our cooperative relationships with our customers and our global presence, we were able to take advantage of sufficient opportunities for sustainable growth. The value of new business (excluding non-controlling interests) should exceed EUR 90 million in 2014; the preliminary value for 2014 was significantly higher at EUR 224 million. At 5.0%, the EBIT margin for the financial solutions/longevity business substantially exceeded the target of 2.0% due to the profitability of the underlying business, whereas the EBIT margin for the mortality/morbidity business fell short of the target figure of 6.0%, at 4.8%. The return on equity for the whole Reinsurance Division exceeded the forecast for 2014 by around 0.8 percentage points.

CORPORATE OPERATIONS

- Group assets under own management up 11.7%
- One-off disposal gain of EUR 214 million in fourth quarter
- Operating profit of EUR 213 million due to one-off effects

The Talanx Group sold its remaining shares in Swiss Life Holding AG in November 2014. The sale of this 5.03% interest at a price of CHF 217 per share resulted in a disposal gain of EUR 214 million. The proceeds were allocated to the risk provisions recognised in the balance sheet.

Talanx AG successfully placed a senior unsecured bond with a volume of EUR 500 million in July 2014. The bond was primarily issued to institutional investors in Germany and abroad. It carries a fixed coupon of 2.50% and matures on 23 July 2026. The issue has secured favourable refinancing over the long term. The aim is to use the cash inflows to reduce credit lines and make it possible to repay existing bonds early.

THE GROUP'S REINSURANCE SPECIALISTS

Underwriting business written via our subsidiary Talanx Reinsurance (Ireland) Ltd. has been reported in the Corporate Operations segment since 2013. The aim of this in-house reinsurer is to increase retention and optimise capital utilisation. The in-house business written by Talanx Re (Ireland) is partly reallocated to the ceding segments in order to leverage diversification benefits there. Business including additional cross-segment diversification benefits is also reported in the Corporate Operations segment. Gross written premiums in this business amounted to EUR 50 (40) million in the year under review. They resulted from reinsurance cessions in the Industrial Lines, Retail Germany and Retail International segments. After start-up losses in the previous year, Talanx Re (Ireland) posted an operating result of EUR 4 (–1) million for this business in the Corporate Operations segment in 2014.

Talanx Reinsurance Broker GmbH is wholly owned by Talanx AG and handles all aspects of the reinsurance business process for Group cedants. In 2014, it 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 financial year 2014 was EUR 17 (16) million, a significant portion of which is reallocated to the ceding segments. EUR 2 (2) million of the company's earnings remained in the Corporate Operations segment.

THE GROUP'S INVESTMENT SPECIALISTS

In cooperation with its subsidiary Ampega Investment GmbH, Talanx Asset Management GmbH is chiefly responsible for handling the management and administration of the Group companies' investments and provides related services such as investment accounting and reporting. The total contribution to the segment's operating profit made by the two companies and Talanx Immobilien Management GmbH amounted to EUR 40 (36) million in financial year 2014.

As an investment company, Ampega Investment GmbH manages retail and special funds and provides financial portfolio management services for institutional clients. It focuses on portfolio management and the administration of investments for clients outside the Group. In 2014, the German fund sector recorded the highest net cash inflows for the retail funds under its management since 2007. The sector is therefore gradually recovering from the negative impact of the financial market crisis on fund sales. Risk aversion and caution continue to dominate the investment behaviour of German savers, who still favour highly liquid assets (bank deposits) for their new investments despite the increasingly severe consequences of the extended period of low interest rates. However, given that the return on term and savings deposits is becoming less and less attractive, consumers are increasingly turning to investment funds, particularly mixed funds, which offer investors broad risk diversification and the chance to participate in opportunities on different securities markets.

The total volume of assets managed by Ampega rose by 7.7% to EUR 16.7 (15.5) billion in financial year 2014. At EUR 9.4 (8.3) billion, over half of this total was managed on behalf of Group companies using special funds and direct investment mandates. Of the remainder, EUR 3.1 (3.5) billion was attributable to institutional third-party clients and EUR 4.2 (3.8) billion to retail business. The latter is offered both through the Group's own distribution channels and products such as unit-linked life insurance and through external asset managers and banks. The decline in the volume of institutional third-party client business was due to the expected loss of one client. However, the financial impact was significantly reduced through the acquisition of new clients.

OPERATING PROFIT

The Corporate Operations segment generated an operating profit of EUR 213 (83) million in financial year 2014, largely due to Talanx AG's sale of its remaining shares in Swiss Life Holding AG. This transaction resulted in a pre-tax profit of EUR 214 (110) million.

Group net income attributable to shareholders of Talanx AG for this segment amounted to EUR 132 (12) million in financial year 2014.

NET ASSETS AND FINANCIAL POSITION

NET ASSETS

- Total assets up EUR 14.5 billion to EUR 147.3 billion
- Investments account for 77% of total assets

AMOUNT AND COMPOSITION OF ASSETS

The EUR 14.5 billion increase in our total assets to EUR 147.3 billion is primarily attributable to growth of +EUR 13.0 billion in our investment portfolio, including investments for the benefit of life insurance policyholders who bear the investment risk. The growth in investments was largely the result of an increase in the portfolio of "Financial assets available for sale" (+EUR 11.3 billion). In contrast, holdings in the "Financial assets held to maturity" category decreased (–EUR 0.5 billion). Further information can be found in the section entitled "Changes in investments" below. The increase of EUR 1.1 billion in investments for the benefit of life insurance policyholders who bear the investment risk was primarily attributable to the Retail Germany segment.

Recognised intangible assets of EUR 2.1 (2.6) billion include EUR 1.0 (1.5) billion of other intangible assets (including PVFP). They also include recognised goodwill of EUR 1.1 (1.1) billion. Insurance-related intangible assets (PVFP) fell by EUR 0.4 million in the year under review, in particular due to changes in assumptions regarding long-term interest rate levels. Other intangible assets are recognised in their entirety in the Group. Other intangible assets that are economically attributable to Group shareholders – excluding non-controlling interests and the policyholder's portion – are calculated as follows:

M35 NON-CONTROLLING INTERESTS AND POLICYHOLDERS' PORTION

IN EUR MILLION

	31.12.2014	31.12.2013
Other intangible assets before deducting non-controlling interests and the policyholders' portion, including deferred taxes	**1,006**	**1,446**
of which attributable to: non-controlling interests	132	159
of which attributable to: policyholders' portion	334	513
of which attributable to: deferred taxes	84	148
Other intangible assets after deducting non-controlling interests and the policyholders' portion, net of deferred taxes	**455**	**626**

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

M34 ASSET STRUCTURE OVER A MULTI-YEAR PERIOD

IN EUR MILLION

	2014		2013[1]		2012	
Intangible assets	2,096	1%	2,551	2%	2,793	2%
Investments	112,879	77%	100,962	76%	98,948	76%
Investments for the benefit of life insurance policyholders who bear the investment risk	9,426	6%	8,325	6%	7,451	6%
Reinsurance recoverables on technical provisions	7,370	5%	6,604	5%	6,989	5%
Accounts receivable on insurance business	5,252	4%	5,039	4%	5,081	4%
Deferred acquisition costs	4,645	3%	4,513	3%	4,378	3%
Cash at banks, cheques and cash-in-hand	2,145	2%	1,864	1%	2,119	2%
Deferred tax assets	764	< 1%	485	< 1%	529	< 1%
Other assets	2,699	2%	2,202	2%	2,006	2%
Non-current assets and assets of disposal groups classified as held for sale	22	< 1%	248	< 1%	56	< 1%
Total assets	**147,298**	**100%**	**132,793**	**100%**	**130,350**	**100%**

[1] Adjusted to reflect IAS 8. See the "Accounting Policies" section in the Notes

"Non-current assets and assets of disposal groups classified as held for sale" comprise the subsidiary HDI STRAKHUVANNYA, Kiev, Ukraine, and individual properties as at the reporting date. The previous year included, among other things, planned sales of insurance portfolios in the Retail International segment, which were recorded as disposals in the year under review. Further details of individual transactions can be found in "Non-current assets held for sale and disposal groups" in the Notes.

ASSET MANAGEMENT AND OBJECTIVES

The past financial year was again shaped by the low interest rate environment. In 2014, the key rate in the Eurozone was cut to a historical low of 0.05% in two steps. The life insurers' portfolio management activities in the past financial year mainly focused on optimising returns on new investments and reinvestments, taking into account duration matching. Investment policies remained conservative. Risk measurement and control are a very important part of our asset management. A robust and highly efficient interface between these core functions and portfolio management enables us to monitor portfolios continuously as part of our asset management activities and thus manage risks efficiently. Various risk measurement and control instruments already in place were adapted to suit current market conditions.

In the fixed-income securities asset category, 80% of the securities are rated A or better. A broad-based system designed to limit accumulation risks resulted in a balanced mix of assets, which also helped reduce risk in the Eurozone crisis.

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

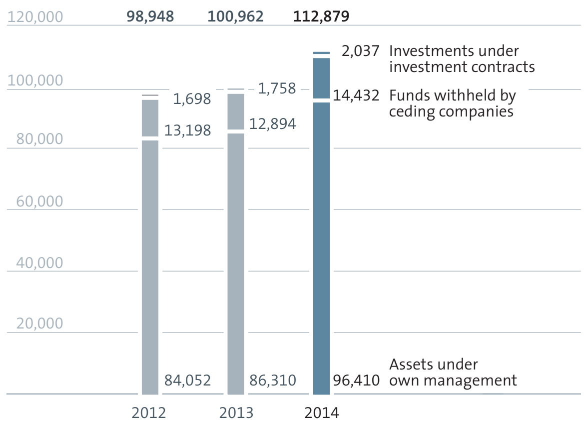
A further element are the investment guidelines at Group, segment and company level, which are subject to annual review and amended if necessary with regard to their appropriateness in light of regulatory and market restrictions.

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

CHANGES IN INVESTMENTS

M36 **BREAKDOWN OF THE INVESTMENT PORTFOLIO**

IN EUR MILLION



The total investment portfolio increased by 11.8% over the financial year to EUR 112.9 billion. The increase is distributed almost evenly among the individual components. Investments under investment contracts totalled EUR 2.0 billion at the year-end and funds withheld by ceding companies amounted to EUR 14.4 billion. Growth in the portfolio of assets under own management was largely due to cash inflows from underwriting business, which were reinvested in accordance with the respective corporate guidelines.

Market interest rates fell overall in 2014. A continuous decline in the already low levels was seen across all maturities over the course of the year. Yields fell significantly year-on-year in Germany: two-year government bonds declined by around 30 basis points to 0.12%, five-year bonds by a good 96 basis points to 0.00%, and ten-year bonds likewise by over 145 basis points to 0.51%.

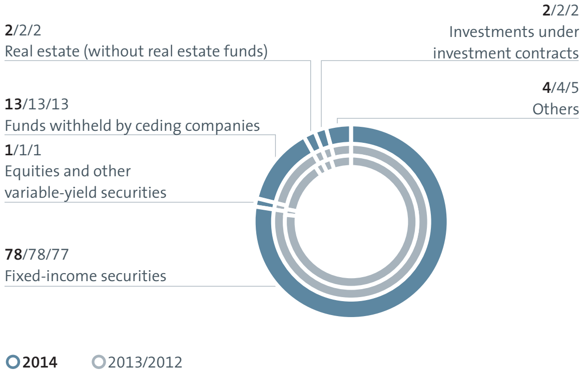
In addition to interest rate factors, movements in the US dollar exchange rate had a direct effect on our US dollar-denominated investments. At 31 December 2013, the US dollar was at 1.38 to the euro. After rates increased slightly in the first quarter, a decline in the euro against the US dollar was seen for the rest of the year. At the end of the year, the US dollar was at 1.21 to the euro. Exchange rate fluctuations alone resulted in an increase in value of almost 12% in our holdings in US dollars after translation into euros. At the end of the year, the US dollar-denominated investment portfolio amounted to EUR 16.3 billion and accounted for 17% of total assets under own management.

Fixed-income investments were again the most significant asset class in 2014. Most reinvestments were made in this class, reflecting the existing investment structure. Fixed-income securities accounted for 78% of the total investment portfolio and contributed EUR 3.2 billion to earnings, which was reinvested as far as possible in the year under review.

Equity exposures remained fairly low over financial year 2014. The equity allocation ratio after derivatives (equity ratio) was 0.8% at the end of the year.

M37 **BREAKDOWN OF THE INVESTMENT PORTFOLIO**

IN %



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

IN EUR MILLION

	2014		2013		2012	
Investment property	1,873	2%	1,623	2%	1,297	2%
Shares in affiliated companies and participating interests	112	< 1%	92	< 1%	80	< 1%
Investments in associates and joint ventures	262	< 1%	247	< 1%	237	< 1%
Loans and receivables						
Loans incl. mortgage loans	880	1%	1,041	1%	1,182	1%
Loans and receivables due from government or quasi-governmental entities, together with fixed-income securities	29,673	31%	31,190	36%	30,919	37%
Financial assets held to maturity	2,454	3%	2,984	3%	3,857	5%
Financial assets available for sale						
Fixed-income securities	54,900	57%	43,531	50%	40,080	48%
Variable-yield securities	1,283	1%	1,391	2%	1,257	1%
Financial assets at fair value through profit or loss						
Financial assets classified at fair value through profit or loss						
Fixed-income securities	850	1%	797	1%	1,346	1%
Variable-yield securities	95	< 1%	87	< 1%	83	< 1%
Financial assets held for trading						
Fixed-income securities	6	< 1%	4	< 1%	16	< 1%
Variable-yield securities	108	< 1%	120	< 1%	123	< 1%
Derivatives[1]	80	< 1%	82	< 1%	74	< 1%
Other investments	3,834	4%	3,121	4%	3,501	4%
Total investments under own management	**96,410**	**100%**	**86,310**	**100%**	**84,052**	**100%**

[1] Only derivatives with positive fair values

FIXED-INCOME SECURITIES

The capital market was again dominated by the central banks in financial year 2014. In addition, geopolitical risks became a key focus for the bond markets. Concerns about growth in the emerging markets increasingly had a negative effect. These factors had a decisive impact on developments on the bond markets over the entire year. Central banks continued to provide significant funds to alleviate the lack of confidence with regard to refinancing and liquidity; this led in turn to lower spreads for financial and corporate bonds.

Fixed-income investments mainly comprised the traditional asset classes of government bonds, corporate bonds and Pfandbriefe. The Retail Germany segment sold low-yield bonds with a short maturity to realise gains, which were used to strengthen the mandatory additional interest reserve required by the HGB, and the policyholders' participation in the valuation reserves. The funds that were released were increasingly invested in long-term bonds. In particular, secured bonds with a good rating and government bonds were used to implement this strategy, which helped to increase the duration of the portfolio.

To increase yields, the Retail Germany and Industrial Lines segments invested selectively in subordinated bonds from financial institutions and insurers with good credit ratings. In addition, the Retail Germany segment made cautious investments in government bonds in Italy and Spain to further increase yields. At the end of the year, the Group had only moderate exposure to government bonds from the GIIPS countries. In light of risk considerations, we had sold the Greek government bonds in our portfolio back in 2011 with the exception of a small residual holding. Impairment losses on Greek government bonds of EUR 6 million were reversed in the year under review. In this context, please see our disclosures in the risk report.

The portfolio of fixed-income investments (excluding mortgage and policy loans) rose by EUR 9.4 billion in 2014, totalling EUR 87.9 billion at the end of the year. At 78% of total investments, this asset class continues to represent the most significant share of our investments by volume. Fixed-income investments were primarily divided into the investment categories of "Loans and receivables" and "Financial assets available for sale". "Fixed-income securities available for sale", whose volatility impacts equity, increased significantly (+EUR 11.4 billion) to EUR 54.9 billion or 62% of total investments in the fixed income portfolio. Pfandbriefe and corporate bonds accounted for the majority of these investments. Valuation reserves – i.e. the balance of unrealised gains and losses – have risen from EUR 1.3 billion to EUR 4.6 billion since the end of 2013 due to the slight rise in interest rates.

In the "Loans and receivables" category, investments were primarily made in government securities or securities with a similar level of security over the financial year. Our portfolio of government securities or securities with a similar credit quality in this portfolio category amounted to EUR 9.8 billion. Pfandbriefe still represent the largest item in the portfolio. Total holdings in the "Loans and receivables" category amounted to EUR 30.6 (32.2) billion at year-end, which represents 34% of total holdings in this asset class. Off-balance sheet valuation reserves rose significantly from EUR 2.8 billion to EUR 5.9 billion.

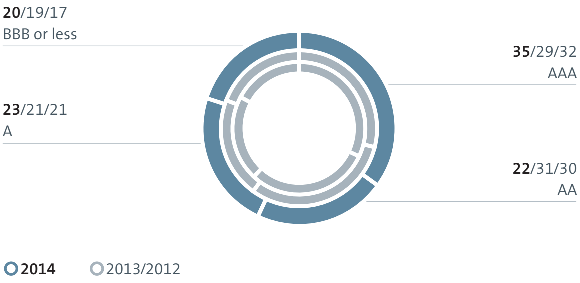
At the end of the year, the fair value of our investment exposure to GIIPS countries was EUR 2.7 billion, corresponding to 2.8% of total assets under own management. Our exposure to Italian government bonds (fair value of EUR 1,564 million) is due to the Group's presence in this country. Of this amount, EUR 800 million is attributable to our Group company HDI Assicurazioni S.p.A.

Group holdings in the "Financial assets held to maturity" category in 2014 totalled EUR 2.5 billion. After expanding our holdings in this category in 2011 through restructuring, particularly in the reinsurance segment, we did not increase this further in the past financial year. The intention and ability to hold these investments until maturity enables the companies to reduce volatility in their balance sheets caused by interest rate movements.

Investment in fixed-income securities continued to focus on government bonds with good ratings or securities from issuers with a similar credit quality in 2014. At the reporting date, holdings of AAA-rated bonds amounted to EUR 31.1 billion. This represents 35% of the total portfolio of fixed-income securities and loans.

M39 RATING OF FIXED-INCOME SECURITIES

IN %



The Talanx Group pursues a conservative investment policy. As a result, 80% of instruments in the fixed-income securities asset category have a minimum A rating.

The Macaulay duration of the Talanx Group's total fixed-income securities investment portfolio was 7.7 years as at 31 December 2014 (previous year: 7.2 years).

As far as matching currency cover is concerned, US dollar-denominated investments continue to account for the largest share (17%) of the Talanx Group's foreign currency portfolio. The total share of assets under own management in foreign currencies remained almost constant as at 31 December 2014, at 29%.

The Group continues to pursue a conservative investment policy. For further information on the credit quality of our investments, please refer to the risk report in the Group management report.

Funds withheld by ceding companies in respect of collateral provided for cedants' technical provisions in the Reinsurance Division rose in the current financial year, from EUR 12.9 billion to EUR 14.4 billion. Allowing for increased investment portfolios, this corresponds to a constant ratio of 12.8%.

EQUITIES AND EQUITY FUNDS

The European stock markets performed well in 2014. Sideways movement was observed at the beginning of the year. This trend was followed in the second quarter by a significant rise due to the ECB's expansionary monetary policy. Weak economic data in Europe and geopolitical risks impacted the stock markets in the following months before a renewed share price recovery was seen at the end of the year. The DAX closed at 9,806 points – an increase of 2.7% since the beginning of the year. The EURO STOXX 50 reached 3,146 points on 31 December, up 1.2% compared with the beginning of the year.

The net balance of unrealised gains and losses on holdings within the Group (excluding "Other Investments") decreased by EUR 167 million to EUR 98 (265) million. This decline is mainly attributable to the sale of the shares in Swiss Life, which led to the realisation of unrealised gains.

REAL ESTATE INCLUDING SHARES IN REAL ESTATE FUNDS

Investment property totalled EUR 1.9 billion at the reporting date. An additional EUR 624 million is held in real estate funds, which are recognised as "Financial assets available for sale". Portfolio increases largely occurred in the Reinsurance and Retail Germany segments.

Over the course of 2014, transaction volumes for real estate investments increased by approximately EUR 250 million. Six modern, high-quality commercial properties with an investment volume of EUR 225 million were purchased in Munich, Frankfurt, Nuremberg and Düsseldorf. In contrast, five properties in smaller German cities with a total volume of EUR 11 million were sold.

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

As a result, selective additions to the fund portfolios were made in 2014. Investment activity included investments in value added and opportunistic fund products with a diversified regional focus spanning Europe, Asia and the USA.

Depreciation of EUR 34 million and impairment losses of EUR 7 million were recognised on investment property in the reporting period. This was partially offset by reversals of impairment losses amounting to EUR 11 million.

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

ALTERNATIVE INVESTMENTS (INVESTMENT PORTFOLIOS UNDER OWN MANAGEMENT)

Holdings of alternative investments are still at a low level and serve to diversify the portfolio.

However, a 45% interest in Caplantic Alternative Assets GmbH was acquired at the beginning of financial year 2015, which is jointly managed with Nord/LB Norddeutsche Landesbank and Bankhaus Lampe. The aim of the investment is to develop the company into a leading provider of alternative asset management and financial solutions, giving it access to infrastructure loans and other alternative asset categories offered by the Nord/LB Group.

In addition, increased direct investments were made in infrastructure in 2014, for example with the acquisition of several wind farms in Germany. For information on the performance of the technical property, plant and equipment from these infrastructure investments, see our disclosures in the Notes to the consolidated balance sheet, Note 10 "Other investments". The "alternative investments" category helps improve returns and diversify the portfolio.

NET INVESTMENT INCOME

M40 CHANGES IN NET INVESTMENT INCOME

IN EUR MILLION

	2014	2013	2012
Ordinary investment income	3,202	3,147	3,165
of which current income from interest	2,888	2,875	2,927
of which gain/loss on investments in associates	9	13	7
Realised net gains on disposal of investments	851	605	372
Write-downs/reversals of write-downs of investments	–66	–91	–75
Unrealised net gains/losses on investments	–4	–22	182
Other investment expenses	207	194	180
Income from investments under own management	3,776	3,445	3,464
Interest income on funds withheld and contract deposits	358	334	323
Income from investment contracts	10	13	8
Total	**4,144**	**3,792**	**3,795**

Net investment income for the year under review was EUR 4.1 billion, up on the previous year. Current interest income rose slightly, and at EUR 2.9 billion still accounted for the majority of investment income. Gains realised on the disposal of investments were offset by lower write-downs and slightly higher unrealised gains (EUR –4 (–22) million).

Ordinary investment income at year-end totalled EUR 3,202 (3,147) million. Falling interest rates on the capital markets led to an average coupon in the fixed-income securities portfolio of 3.6%, down slightly on the previous year (3.8%). The impact of the downward trend in interest rates was cushioned by increasing reinvestment in products selected in accordance with our high-quality investment procedures, which have a correspondingly higher yield. Derivative financial instruments (including forward purchases) were used to hedge reinvestment risk, in particular in the case of life insurers in our Retail Germany segment. Further information on the financial implications can be found in the Notes to the consolidated balance sheet, Note 13 "Derivative financial instruments and hedge accounting".

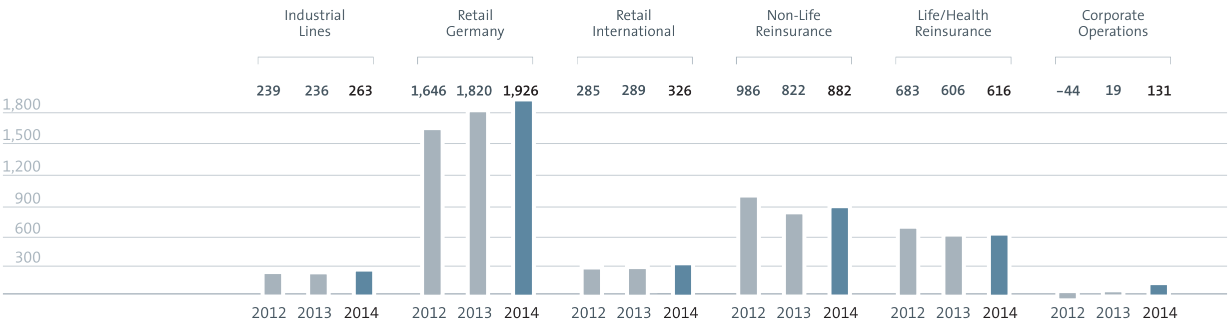
Overall, total realised net gains on the disposal of investments in the financial year were well above the already high prior-year figure, at EUR 851 (605) million. The positive net gains resulted from regular portfolio turnover in all segments, as well as from realising unrealised gains in order to contribute to the additional interest reserve for life insurance and occupational pension plans required by the HGB. In addition, the sale of the shares in Swiss Life led to a one-time increase of positive net gains in the amount of EUR 214 million (of which EUR 19 million was due to foreign exchange gains, which are recognised in other income/expenses).

On balance, write-downs required in the past financial year were lower than in 2013, totalling EUR 66 million net of reversals of write-downs. Across the Group as a whole, write-downs of fixed-income securities rose from EUR 7 million to EUR 16 million, whereas write-downs of other investments decreased from EUR 44 million to EUR 17 million. These write-downs were offset by reversals of impairment losses amounting to EUR 20 million. Those include EUR 11 million for real estate and EUR 6 million for Greek government bonds.

Unrealised net gains/losses improved from a net loss of EUR 22 million to one of EUR 4 million. The unrealised gain in the Retail Germany segment rose from EUR 2 million to EUR 17 million due to both changes in interest rates and the performance of derivatives (swaptions used to hedge interest rates). In contrast, the net unrealised loss in the two reinsurance segments decreased slightly from EUR 27 million to EUR 33 million. Of this amount, EUR –7 (+7) million was attributable to ModCo derivatives and EUR –29 (–41) million to inflation swaps.

M41 BREAKDOWN OF NET INVESTMENT INCOME BY GROUP SEGMENT[1]

IN EUR MILLION



[1] After elimination of intragroup transactions between the segments

Net interest income from funds withheld and contract deposits totalled EUR 358 (334) million.

Net investment income in 2014 is broken down by Group segment below. Increased contributions to earnings were recorded across all segments. The increase in Retail Germany is mainly due to the realisation of unrealised gains on investments.

Net investment income reported by the Corporate Operations segment mainly comprises asset management costs. It also includes realised gains from the sale of shares.

Further information can be found in the Notes to the consolidated balance sheet, Note 30 "Net investment income".

FINANCIAL POSITION

ANALYSIS OF CAPITAL STRUCTURE

- Equity increases by EUR 1.8 billion to EUR 12.9 billion
- Subordinated liabilities down EUR 446 million
- Technical provisions up EUR 9.4 billion to EUR 101.1 billion
- Within the liabilities item, notes payable and loans rise by EUR 407 million

M42 CAPITAL STRUCTURE OVER A MULTI-YEAR PERIOD

IN EUR MILLION

	2014		2013[1]		2012	
Equity	12,900	9%	11,124	9%	11,309	9%
Subordinated liabilities	2,661	2%	3,107	2%	3,107	2%
Technical provisions	101,109	69%	91,717	69%	89,484	69%
Technical provisions for life insurance policies where the investment risk is borne by the policyholders	9,426	6%	8,325	6%	7,451	6%
Other provisions	3,708	2%	3,087	2%	3,264	2%
Liabilities	15,228	10%	13,446	11%	13,731	10%
Deferred tax liabilities	2,262	2%	1,754	1%	1,984	2%
Liabilities included in disposal groups classified as held for sale	4	< 1%	233	< 1%	20	< 1%
Total equity and liabilities	**147,298**	**100%**	**132,793**	**100%**	**130,350**	**100%**

[1] Adjusted to reflect IAS 8. See the "Accounting Policies" section in the Notes

CURRENCY EFFECTS

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

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

CHANGES IN KEY ITEMS

The ratio of net provisions in the insurance business to total investments – including funds withheld by ceding companies but excluding investments under investment contracts – was 84.8% (86.8%) at the reporting date. Investments thus exceed provisions by EUR 16.8 (13.9) billion.

M43 COMPOSITION OF GROSS PROVISIONS[1] IN THE INSURANCE BUSINESS (AFTER CONSOLIDATION)

IN EUR BILLION

	2014	2013[2]	2012
Unearned premium reserve	6.3	5.7	5.5
Benefit reserve	52.7	49.8	48.2
Loss and loss adjustment expense reserve	37.2	33.7	33.2
Provision for premium refunds	4.5	2.2	2.3
Other technical provisions	0.4	0.3	0.3
Total	**101.1**	**91.7**	**89.5**

1) For information on the presentation of the net provisions in the insurance business, see our disclosures in the Notes to the consolidated balance sheet, Notes 19–22
2) Adjusted to reflect IAS 8. See the "Accounting Policies" section in the Notes

Provisions remain at the Group's disposal for the remaining maturities in each case. Further information can be found in the Notes to the consolidated balance sheet, Note 20 "Benefit reserve" and Note 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. At the reporting date, 52% (54%) of total technical provisions were attributable to the benefit reserve.

PROVISIONS

M44 GROSS PROVISIONS BY SEGMENT (AFTER CONSOLIDATION)

IN EUR MILLION

	Benefit reserve			Loss and loss adjustment expense reserve		
	2014	2013	2012	2014	2013[1]	2012
Industrial Lines	—	1	1	9,098	8,412	8,149
Retail Germany	37,863	36,765	35,548	2,883	2,701	2,573
Retail International	3,233	2,554	2,073	2,347	2,142	2,040
Non-Life Reinsurance	—	—	—	19,659	17,748	17,511
Life/Health Reinsurance	11,583	10,447	10,626	3,269	2,772	2,970
Corporate Operations	—	—	—	—	—	—
Total	**52,679**	**49,767**	**48,248**	**37,256**	**33,775**	**33,243**

1) Adjusted to reflect IAS 8. See the "Accounting Policies" section in the Notes

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

Overall, gross technical provisions rose by 10.2% or EUR 9.4 billion year-on-year. EUR 0.6 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 the benefit reserve (+6% or EUR 2.9 billion) and in the loss and loss adjustment expense reserve (+10% or EUR 3.5 billion).

The increase in the gross benefit reserve was due to the life insurance business in the Life/Health Reinsurance (+EUR 1,136 million), Retail Germany (+EUR 1,097 million) and Retail International (+EUR 679 million) segments. The change seen in the Retail Germany segment was largely attributable to neue leben Lebensversicherung AG (+EUR 546 million), PB Lebensversicherung AG (+EUR 471 million) and TARGO Lebensversicherung AG (+EUR 261 million); these were partially offset by HDI Lebensversicherung AG (EUR –317 million). The increase in the Retail International segment was primarily attributable to HDI Assicurazioni S.p.A. (+EUR 491 million).

The increase in the loss and loss adjustment expense reserve related mainly to the Non-Life Reinsurance segment (EUR 1.9 billion) and to the Industrial Lines segment (EUR 0.7 billion). The increase in the Non-Life Reinsurance segment was primarily attributable to Hannover Rück SE; in the Industrial Lines segment, it was largely attributable to HDI-Gerling Industrie Versicherung AG (+EUR 497 million).

Of the EUR 2.3 billion increase in the reserve for premium refunds, which essentially represents the policyholders' participation in net investment income, EUR 2.2 billion was attributable to the Retail Germany segment and is mainly due to higher other income from investments in which the policyholder participates.

OTHER PROVISIONS

Other provisions rose in the financial year from EUR 3,087 million to EUR 3,708 million. The discount rate used to assess provisions for pensions decreased significantly year-on-year due to the ongoing low interest rate situation. As a result, provisions for pensions and other post-employment benefits increased significantly by EUR 555 million; further information can be found in the Notes (Note 23 "Provisions for pensions and other post-employment benefits"). In addition, provisions for taxes rose by EUR 19 million.

OFF-BALANCE-SHEET TRANSACTIONS

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

ASSET/LIABILITY MANAGEMENT

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

To this end, we mirror the key features of our liabilities such as maturity and currency structure, as well as sensitivity to inflation, by investing where possible in assets that behave in a similar way. In this context, please see our disclosures in the risk report on page 136ff.

The Macaulay duration of the Group's total fixed-income securities investment portfolio was 7.7 (7.2) across all segments in the year under review, up on the previous year. Duration management within the individual segments is guided by the requirements of the respective underwriting business, as described above. For example, the modified asset duration of 10.7 years in the Retail Germany Division is relatively long compared with that of the Industrial Lines Division (4.4 years), reflecting the length of the capital commitment period, especially in the case of life insurance products. Asset-side duration and liabilities-side requirements are coordinated by the insurance providers and Talanx Asset Management GmbH on a regular basis.

As far as matching currency cover is concerned, US dollar-denominated investments continue to account for the largest share (17%) of the Talanx Group's foreign currency portfolio. Sizeable positions are also held in sterling and Australian dollars, although in total they do not account for more than 5% of all assets.

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

CAPITAL MANAGEMENT

M45 **CAPITAL MANAGEMENT PROCESS**

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

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

Effective and efficient capital management is a core component of the 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 equity under IFRSs and what is known as "soft capital". Soft capital comprises unrealised gains and losses on assets or liabilities after taxes; this includes the loss reserve discount, an amount of loss reserves 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, for example.

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 company's capital less the risk-based capital; it thus consists of capital that is not at risk. Since it is not required for covering business risks and in this respect cannot also 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. Since 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 repayment of excess capital both from a legal and supervisory perspective and with respect to rating requirements.

The overall objective of capital management in the Talanx Group – an optimised capital structure for the Group that is appropriate to the risks – is explicitly anchored in our strategy (page 65ff.). Except in those cases in which the legal requirements and the rating agencies' capital requirements that must also be satisfied have been met, the Group therefore systematically allocates capital in accordance with risk/return considerations and Talanx's target portfolio. To this end, and in the interests of diversification, investments are channelled into preferred growth markets and business segments.

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

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

By optimising the Group's capital structure, capital management safeguards the adequacy of our capital resources, both from a ratings standpoint and with regard to solvency and economic considerations. At the same time, it ensures that returns on invested capital are generated for shareholders on a sustainable basis in accordance with Talanx's strategy. Our capital structure must continue to enable us to respond to organic and external growth opportunities at both Group and company level, and it must provide the certainty that volatility on capital markets and in the insurance business can be absorbed without falling below the target confidence level. The fact that Talanx manages its capital resources effectively is a strong indicator for existing and potential investors that it utilises available capital responsibly and efficiently.

The Group capital management steering function thus enables us to:

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

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

EQUITY

EQUITY RATIO AND RETURN ON EQUITY

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

M46 EQUITY RATIO

IN EUR MILLION

	2014	2013 [1]	2012
Total equity	12,900	11,124	11,309
of which non-controlling interests	4,902	3,997	4,156
Total assets	147,298	132,793	130,350
Equity ratio	8.8%	8.4%	8.7%

[1] Adjusted to reflect IAS 8. See the "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:

M47 OTHER EQUITY COMPONENTS AND MODIFIED EQUITY RATIO

IN EUR MILLION

	2014	2013 [1]	2012
Other equity components	1,228	1,332	1,289
Modified equity ratio	9.6%	9.4%	9.7%

[1] Adjusted to reflect IAS 8. See the "Accounting Policies" section in the Notes

M48 RETURN ON EQUITY

IN EUR MILLION

	2014	2013 [1]	2012
Group net income [2]	769	732	626
Return on equity [3]	10.2%	10.2%	10.0%

[1] Adjusted to reflect IAS 8. See the "Accounting Policies" section in the Notes
[2] Net income after non-controlling interests
[3] Ratio of net income excluding non-controlling interests to average equity excluding non-controlling interests

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

CHANGES IN EQUITY

Equity rose by EUR 1,776 million – an increase of 16.0% – to EUR 12,900 (11,124) million in the reporting period just ended.

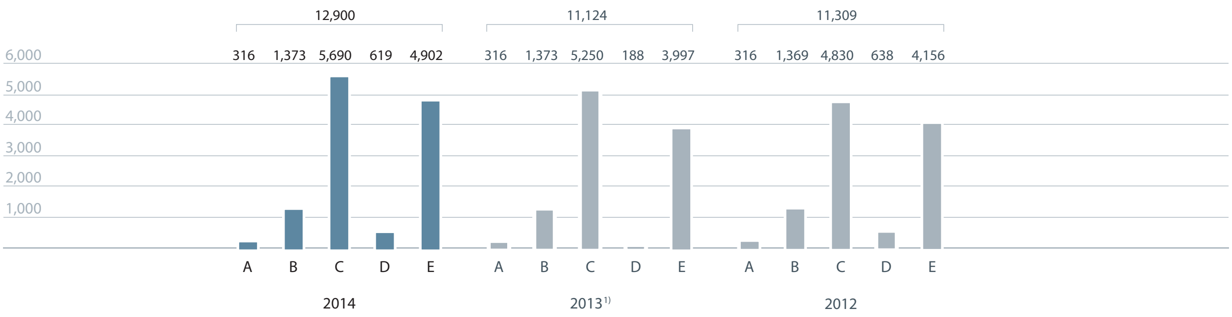
The Group's portion (equity excluding non-controlling interests) amounted to EUR 7,998 (7,127) million. On the one hand, the increase relates to the net profit for the period, EUR 769 million of which is attributable to our shareholders and was allocated in full to retained earnings. On the other, it relates to "accumulated other comprehensive income and other reserves", which increased by EUR 431 million compared with 31 December 2013 to EUR 619 million. The payment of a dividend to Talanx AG shareholders in May of the year under review led to a decline in Group equity of EUR 303 (265) million.

The change in "Other reserves" (+EUR 431 million) mainly results from the EUR 2,269 million increase in unrealised gains on investments to EUR 3,538 (1,269) million, which was due in particular to gains in the prices of corporate and government bonds as a result of the decline in interest rates. The increase was offset by other changes to equity, which fell by EUR 2,348 million to EUR –3,254 (–906) million. EUR –1,973 million of this change was attributable to policyholder participations/shadow accounting (in particular policyholder participations in gains on investments) and EUR –381 million attributable to technical gains or losses from provisions for pensions (mainly caused by a decline in interest rates). Accumulated currency translation gains/losses improved by a significant +EUR 176 million from EUR –209 million to EUR –33 million due to exchange rate changes for foreign currencies against the euro in the year under review. The increase resulted primarily from the decline of the euro against the US dollar. The cash flow hedge reserve increased to EUR 368 (34) million, in particular due to changes in interest rates.

Non-controlling interests rose by EUR 905 million – or 22.6% – to EUR 4.9 billion. Non-controlling interests in net income for the year under review were EUR 599 (520) million. The dividend payment to non-Group shareholders totalling EUR 246 (258) million was mainly from the Hannover Re Group. Non-controlling interests shared in the higher other income in the amount of EUR 574 million.

M49 CHANGES IN EQUITY

IN EUR MILLION



A) Subscribed capital
B) Capital reserves
C) Retained earnings
D) Accumulated other comprehensive income and other reserves
E) Non-controlling interests

[1] Adjusted to reflect IAS 8. See the "Accounting Policies" section in the Notes

M50 EQUITY BY SEGMENT[1] INCLUDING NON-CONTROLLING INTERESTS

IN EUR MILLION

	2014	2013[2]	2012
Segment			
Industrial Lines	1,959	1,870	1,906
of which non-controlling interests	—	—	—
Retail Germany	3,231	2,596	2,675
of which non-controlling interests	67	61	63
Retail International	2,037	1,948	1,998
of which non-controlling interests	249	237	285
Reinsurance	8,240	6,519	6,707
of which non-controlling interests	4,604	3,717	3,849
Corporate Operations	–2,531	–1,799	–1,950
of which non-controlling interests	—	—	—
Consolidation	–36	–10	–27
of which non-controlling interests	–18	–18	–41
Total equity	**12,900**	**11,124**	**11,309**
Group equity	7,998	7,127	7,153
Non-controlling interest in equity	4,902	3,997	4,156

[1] Equity per segment is defined as the difference between the assets and liabilities of each segment
[2] Adjusted to reflect IAS 8. See the "Accounting Policies" section in the Notes

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

The Corporate Operations segment reports a negative value that reflects Talanx AG's debt leverage. As the Group's holding company, Talanx AG performs a financing function for the Group in the primary insurance sector and for the companies in Corporate Operations. The liabilities mainly relate to retirement pension provisions (EUR 1,239 [939] million), notes payable (EUR 1,065 [565] million), provisions for taxes (EUR 147 [145] million), and liabilities from the utilisation of credit lines (EUR 0 [150] million). These liabilities are offset on Talanx AG's balance sheet by liquid assets and, above all, by the carrying amounts of its investments in subsidiaries, which are eliminated against the proportionate equity of the subsidiaries in the consolidated financial statements.

UNRECOGNISED VALUATION RESERVES

The unrecognised valuation reserves shown in the following table do not take technical liabilities into account. Valuation reserves amount to EUR 5,869 (2,779) million and are primarily attributable to loans and receivables. Further information can be found in the Notes to the consolidated balance sheet relating to "Investment property", "Loans and receivables", "Financial assets held to maturity", "Other Investments", "Other assets", "Subordinated liabilities", "Notes payable and loans" and "Investments and liabilities under investment contracts".

M51 EQUITY AND UNRECOGNISED VALUATION RESERVES NOT RECOGNISED IN THE BALANCE SHEET

IN EUR BILLION

	2014	2013 [1]	2012
Group equity	12.9	11.1	11.3
Unrecognised valuation reserves before taxes including shares of policyholders and non-controlling interests	5.8	2.9	4.5

[1] Adjusted to reflect IAS 8. See the "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 shaped by the business model, which is typical for primary insurance and reinsurance undertakings. We normally receive premiums in advance for risks we have taken on, but only make payments at a later date in the event of a claim. Funds are invested until required in interest-bearing investments so as to earn regular income. We therefore neither regard the cash flow statement as a substitute for liquidity planning or financial planning, nor use it as a management tool.

M52 SUMMARY OF CASH FLOWS

IN EUR MILLION

	2014	2013	2012
Cash flow from ongoing operating activities	5,827	5,897	5,669
Cash flow from investment activities	–4,733	–5,633	–5,980
Cash flows from financing activities	–856	–433	808
Net change in cash and cash equivalents	238	–169	497

Cash inflows from operating activities, which also include inflows from investment income, fell only slightly year on year from EUR 5,897 million to EUR 5,827 million. The calculation adjusts net income (EUR 1,368 [1,252] million) to reflect the decline in "Changes in technical provisions" of EUR 0.4 billion and the decrease in "Changes in funds withheld and in accounts receivable and payable" of EUR 0.5 billion.

Cash outflows from investing activities reflect the payments made for investments. As in the previous year, outflows from the purchase of investments exceeded inflows from sales and maturities by EUR 2,941 (4,302) million. Cash outflows for new investments also exceeded cash inflows from property sales. Net cash outflow from property sales and new investments (including property companies) was EUR 237 (393) million. Cash outflows from investing activities totalled EUR–4,733 (–5,633) million in the reporting period, lower than the previous year.

Cash flows from financing activities in the period under review were dominated by dividend payments. These rose by EUR 26 million to EUR 549 (523) million; EUR 303 million related to Talanx AG, EUR 180 million to Hannover Rück SE and EUR 40 million to E+S Rückversicherung AG. The "Net changes attributable to other financing activities" of EUR –307 (86) million in the previous year were mainly the result of a senior unsecured bond issued by Talanx AG in the amount of EUR 565 million (after eliminating intragroup purchases). Cash outflows in the year under review were largely attributable to the bond issued by Hannover Rück SE in the financial year (nominal amount within the Group of EUR 450 million) and the repayment of a bond issued by Hannover Finance (Luxembourg) S.A. (nominal amount of EUR 750 million) and the bond issued by HDI-Gerling Industrie Versicherung AG (outstanding nominal amount of EUR 142 million) within subordinated liabilities. Cash inflows of EUR 371 million for notes payable and loans were mainly attributable to a senior unsecured bond issued by Talanx AG (volume of EUR 500 million) and the repayment of syndicated credit lines. Further information can be found in the Notes to the consolidated balance sheet, Note 18 "Subordinated liabilities" and Note 26 "Notes payable and loans", as well as in the information provided under "Analysis of debt" in this section. This item also includes interest payments in the amount of EUR 213 (188) million. The net cash outflows from financing activities increased by EUR 423 million year-on-year to EUR 856 (433) million.

Compared with the previous year, cash and cash equivalents decreased by EUR 281 million in total to EUR 2.1 billion. EUR 12 (2) million was increased from cash and cash equivalents through reclassification in the reporting period for disposal groups in accordance with IFRS 5.

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

FINANCING

In addition to the funds from the changes in 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 "Financial position – Changes in key items" subsection in this section.

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

ANALYSIS OF DEBT

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

The bond issued on 26 February 2004 via Hannover Finance (Luxembourg) S.A. in the nominal amount of EUR 750 million was called by the issuer effective as of the first regular redemption date in the entire principal amount and repaid on 26 February 2014. In addition, the subordinated bond issued on 12 August 2004 by HDI-Gerling Industrie Versicherung AG was repaid by the issuer ahead of schedule at the first possible redemption date on 12 August 2014 in the outstanding nominal amount of EUR 142 million. As at 15 September 2014, the Group issued an additional subordinated bond on the European capital market via Hannover Rück SE, Hannover, in the amount of EUR 500 million. Of this figure, a nominal amount of EUR 50 million was subscribed for within the Group. Overall subordinated liabilities thus amounted to EUR 2.7 (3.1) billion as at the reporting date. Further information can be found in the Notes to the consolidated balance sheet in the section "Notes on individual items of the consolidated balance sheet", and Note 18 "Subordinated liabilities".

The Group has two syndicated variable-rate credit lines with a nominal value of EUR 1.25 billion as at 30 September 2014. These were not drawn down as at the reporting date (previous year: EUR 150 million). The existing syndicated credit lines can be terminated by the lenders if there is a change of control, i.e. if a person or persons acting in concert, other than HDI Haftpflichtverband der Deutschen Industrie V. a. G., gains direct or indirect control over more than 50% of the voting rights or share capital of Talanx AG.

Talanx AG issued a senior unsecured bond with a volume of EUR 500 million on the Luxembourg Stock Exchange on 23 July 2014. Overall, Talanx AG has two senior unsecured bonds with a total volume of EUR 1.25 (0.75) billion – of which EUR 185 million is held by Group companies – and long-term loans (primarily mortgage loans) amounting to EUR 284 (227) million.

M53 CHANGES IN STRATEGIC DEBT

IN EUR MILLION

	2014	2013	2012
Subordinated bonds of Hannover Finance (Luxembourg) S.A.	1,493	2,237	2,233
Subordinated bonds of HDI-Gerling Industrie Versicherung AG	—	144	149
Subordinated bonds of HDI Lebensversicherung AG	110	112	113
Subordinated bonds of Talanx Finanz (Luxemburg) S.A.	612	612	612
Subordinated bonds of Talanx AG	444	—	—
Bank borrowings of Talanx AG	—	150	500
Mortgage loans of Hannover Re Real Estate Holdings, Inc., Orlando	183	150	168
Mortgage loans of HR GLL Central Europe GmbH & Co. KG, Munich	101	77	—
Notes payable of Talanx AG	1,065	565	9
Other	2	2	—
Total	**4,010**	**4,049**	**3,784**

Further information can be found in the Notes to the consolidated balance sheet, Note 17, "Equity", Note 18, "Subordinated liabilities", Note 26, "Notes payable and loans" and Note 27, "Other liabilities", and in the "Other disclosures – Contingent liabilities and other financial commitments".

GROUP SOLVENCY

As an insurance holding company, Talanx AG is subject to the supervisory provisions of section 1b of the Insurance Supervision Act (VAG). The Talanx Group is supervised at Group level by the Federal Financial Supervisory Authority (BaFin). The parent company HDI V. a. G. supplies supplementary information to BaFin for this purpose in accordance with the adjusted solvency rules.

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

M54 DERIVED SOLVENCY [1]

IN EUR MILLION

	2014	2013	2012
Eligible Group capital	9,328	8,167	8,358
Solvency ratio	228.2%	210.2%	225.1%

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

The increase in the adjusted solvency ratio from 210.2% to 228.2% in 2014 is partly due to the rise in eligible capital of EUR 1,161 million, and partly to an increase in the solvency margin by EUR 202 million. The increase in Group capital is largely due to the rise in Group equity, taking into account Group net income (EUR 769 million) and other comprehensive income (EUR 429 million), as well as dividend payments, which had an offsetting effect (EUR 303 million). In addition, the increase in unrealised gains from loans and receivables and the decline in deductions for intangible assets had a positive effect on eligible capital.

RATINGS OF THE GROUP AND ITS SIGNIFICANT SUBSIDIARIES

In the year under review, the Talanx Group and its companies were again awarded very good ratings from the international rating agencies Standard & Poor's (S&P) and A.M. Best. Generally, two different ratings are awarded – the insurer financial strength rating, which primarily assesses the ability to meet obligations to policyholders, and the issuer credit rating or counterparty credit rating, which provides investors with an assessment of a company's credit quality in general.

M55 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) Definition used by A.M. Best: "HDI V.a.G., the ultimate mutual parent company of Talanx AG, and various subsidiaries"
2) The subgroup of primary insurers (Industrial Lines, Retail Germany and Retail International Divisions) and its major core companies
3) Hannover Rück SE and its major core companies; corresponds to the Talanx Group Reinsurance Division

S&P maintained its rating for the Hannover Re subgroup and the Talanx primary insurance group, and continued to assess the outlook for both as stable. The financial strength rating of A+ for the primary insurance group was confirmed, thereby attesting to the group's particularly good financial risk profile. S&P also confirmed Hannover Re's rating of AA–, which is an extremely strong assessment when compared to competitors. In the components of the results, the business risk profile was noted as particularly outstanding. It is particularly encouraging that risk management was assessed as "strong" for primary insurance and "very strong" for Hannover Re.

A.M. Best awarded the primary insurance companies in the Talanx Group a financial strength rating of A (excellent) with a stable outlook, and assessed Hannover Re's financial stability as A+ (superior), likewise with a stable outlook. It justified the continuing high ratings for the subgroups on the grounds of their healthy earnings situation, excellent capitalisation and very good risk management culture.

FINANCIAL STRENGTH RATINGS IN PRIMARY INSURANCE

M56 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	—	—
TUiR WARTA S.A., Poland	A+	Stable	—	—
HDI-Gerling Verzekeringen N.V. (Nederland), Netherlands	A	Stable	—	—
HDI Versicherung AG, Austria	A	Stable	—	—
PB Lebensversicherung AG, Germany	A	Stable	—	—
Talanx Reinsurance (Ireland) Ltd., Ireland	—	—	A	Stable

The financial strength ratings of all five companies assessed by A.M. Best were confirmed in the year under review. Ratings provided by S&P saw a positive change in June, with TUiR WARTA S.A. becoming the first foreign unit to achieve core status and see its rating upgraded from A to an A+. S&P defines the first eight companies in the table as "core companies" of the Talanx primary group, and awarded them the same rating of A+ as the Talanx primary insurance group. The remaining three companies are classified by S&P as strategically significant investments and are therefore rated one notch (an increment within a single rating category) lower. PB Lebensversicherung AG was rated as "highly strategic" for the first time in the year under review, bringing it more closely in line with the core status companies. However, its financial strength rating (A with a stable outlook) did not change.

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

M57 **ISSUER CREDIT RATINGS**

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

S&P continues to rate Talanx AG's ability to pay as A– (strong with a stable outlook), the third-best rating category on the issuer credit rating scale. Meanwhile, A.M. Best raised Talanx AG's Issuer Credit Rating by one notch to a– with a stable outlook, assessing its ability to pay as "strong". According to the agency, the background to the decision was the Group's significantly improved financial flexibility resulting from Talanx AG's successful IPO in 2012.

In comparison to the financial strength ratings awarded to the subsidiaries, Talanx AG's rating was slightly lower; this is due to the customary "rating markdown" that is applied to holding companies. As a result, in accordance with the general analytical criteria used by rating agencies, companies that exercise a purely holding function with no operational activities of their own receive a lower financial strength rating than a comparable insurance undertaking.

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

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

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

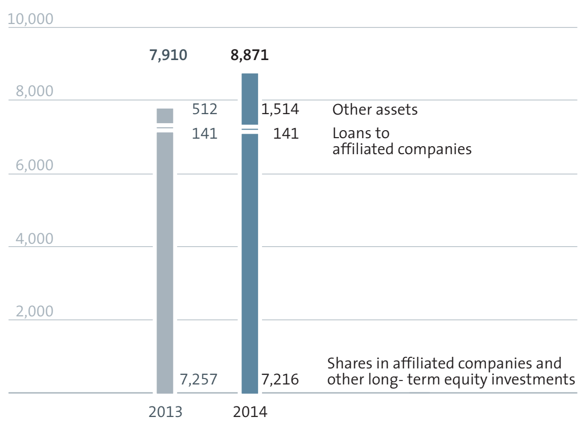
In contrast to the consolidated financial statements, which are prepared in accordance with International Financial Reporting Standards (IFRSs), as adopted by the European Union as at 31 December 2014, Talanx AG's annual financial statements are prepared in accordance with German GAAP as set out in the German Commercial Code (HGB).

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

NET ASSETS

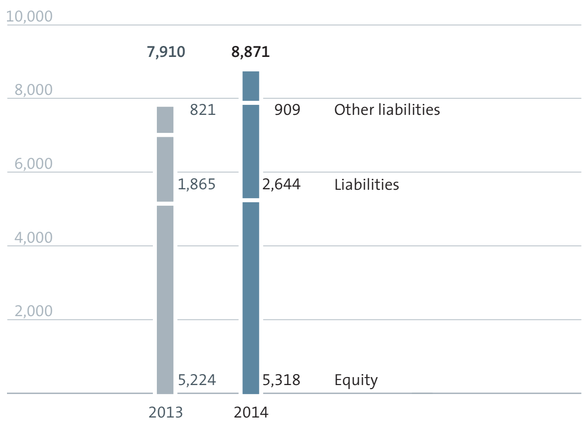
M58 **BALANCE SHEET STRUCTURE — ASSETS**

IN EUR MILLION



M59 BALANCE SHEET STRUCTURE – LIABILITIES

IN EUR MILLION



As in past years, Talanx AG's balance sheet continues to be shaped by its function as a holding company: on the assets side, it is dominated by its euro-denominated investments in subsidiaries. Total assets increased by 12.2% to EUR 8.9 (7.9) billion. Although the carrying amount of shares in affiliated companies declined by 0.5% to EUR 7.2 (7.2) billion and the carrying amount of equity investments decreased by 10.9% to EUR 20 (22) million, receivables from affiliated companies rose by 166.8% to EUR 694 (260) million and bank balances increased by 134.7% to EUR 380 (162) million. Other assets increased by 394.3% to EUR 440 (89) million due to the reinvestment of the proceeds from the sale of an interest in fixed-income securities, among other things. The proportion of total assets attributable to shares in affiliated companies declined to 81% (91%).

Receivables from affiliated companies were higher than in the previous year, at EUR 694 (260) million. This was due in particular to a withdrawal from Talanx Deutschland AG's capital reserves.

At the reporting date, Talanx AG had entered into firm agreements with two banking syndicates, in each case for a floating-rate euro-denominated syndicated line of credit that can be drawn down as required. Neither of these had been drawn down as at 31 December 2014. The nominal amounts of the credit lines available at the reporting date were EUR 550 million and EUR 700 million respectively, meaning that a total of EUR 1,250 million was unused. The floating rate is linked to Euribor plus a premium.

Talanx AG's capital structure and the composition of its liabilities are shaped by the fact that it is a holding company. Equity increased by EUR 95 million year-on-year and now amounts to EUR 5.3 billion (60.0% of total equity and liabilities). The increase is attributable to net income.

Liabilities totalled EUR 2.6 billion (29.8% of total equity and liabilities), and are composed of liabilities to affiliated companies (58.9%) and bonds and liabilities to banks (40.3%).

Liabilities to affiliated companies rose by 37.4% to EUR 1,557 (1,133) million. The main reason for this was the liabilities of EUR 483 million from subsidiaries under profit and loss transfer agreements.

The 10.2% increase in other liabilities to EUR 909 (821) million was primarily due to an increase in provisions for pensions to EUR 649 (600) million.

FINANCIAL POSITION

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

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

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

RESULTS OF OPERATIONS

M60 **STATEMENT OF INCOME (GERMAN GAAP)**

IN EUR MILLION

	2014	2013
Net income from long-term equity investments and other operating income	**637**	615
Depreciation, amortisation and write-downs	8	3
Other operating expenses	105	75
Operating result	**524**	537
Net interest income	–125	–131
Result from ordinary activities	**399**	406
Extraordinary result	–14	–14
Taxes on income (– = income)	–13	23
Net income for the financial year	**398**	369

With net income for the year of EUR 398 (369) million, Talanx AG's results of operations recorded a year-on-year improvement. We analyse the development of our business performance in a summary presentation that reflects our role as a holding company. Talanx AG's annual financial statements are prepared in euros. As the income received from subsidiaries also includes income from long-term equity investments denominated in foreign currencies, its results are indirectly affected by exchange rate fluctuations. A weaker euro tends to lead to higher net income from long-term equity investments. A change in interest rates can also affect Talanx AG's result. Because lines of credit usually have floating interest rates, rising interest rates tend to result in higher interest expenses.

Net income from long-term equity investments, which consists of income from long-term equity investments and income and expenses relating to profits transferred by our subsidiaries and the absorption of any losses of subsidiaries, amounted to EUR –4 (594) million in the financial year. One of the main reasons for the sharp decline was the absorption of the loss incurred by Talanx Deutschland AG on write-downs of the carrying amounts of long-term equity investments. In addition, the sale of a participating interest by Talanx Finanz (Luxemburg) S.A. generated income from investments, albeit somewhat lower than in the previous year.

Net interest income improved slightly year-on-year to EUR –125 (–131) million. Income from other securities and loans declined slightly to EUR 10 (12) million. This was due to the absence of income from HDI-Gerling Industrie Versicherung AG's bonds, which were sold in 2013. Other interest and similar income increased to EUR 18 (4) million. The principal reason for this was interest income on tax credits.

Interest and similar expenses rose year-on-year to EUR 153 (146) million. This increase resulted primarily from the early repayment of internal Talanx bearer bonds due to a new senior bond issued internally. In addition, the issuance of a senior benchmark bond with a volume of EUR 500 million on 16 July 2014 led to higher interest expenses. Equally, the senior bond issued in 2013 with a nominal value of EUR 750 million, which was recognised for an entire financial year, led to a slight increase in interest expenses compared with the previous year.

Other operating income rose to EUR 641 (21) million, in particular due to disposal gains on shares in affiliated companies (EUR 600 million) and a refund from an affiliated company (EUR 20 million). In addition, this item includes in particular income from intragroup services, which was somewhat higher than in the previous year.

The total amount of all other expenses in the financial year (personnel expenses, other operating expenses, depreciation, amortisation and write-downs) was EUR 113 (78) million; post-employment benefit expenses in particular increased for interest rate reasons.

The result from ordinary activities was slightly below the prior-year level, at EUR 399 (406) million.

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

Tax income in the reporting period amounted to EUR –13 (23) million, in particular as a result of external tax audits for the year 2002 and 2005. The tax expense in 2013 partially included additions to the provision for tax risks.

Net income for the financial year rose by 7.9% year-on-year to EUR 398 (369) million. After addition of retained profits brought forward from the previous year of EUR 308 (242) million, distributable profit totalled EUR 706 (611) million.

APPROPRIATION OF DISTRIBUTABLE PROFIT

The Board of Management and Supervisory Board will propose to the General Meeting that Talanx AG's distributable profit of EUR 706,315,758.64, as reported as at 31 December 2014, should be appropriated as follows:

- Distribution of a dividend of EUR 1.25 for each no-par value share bearing dividend rights: EUR 315,997,042.50
- Carried forward: EUR 390,318,716.14

REMUNERATION REPORT

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

RISK REPORT

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

REPORT ON EXPECTED DEVELOPMENTS AND ON OPPORTUNITIES

As Talanx AG is closely integrated with the Group companies and occupies a correspondingly important position in the Group as its holding company, the statements made in the Group's report on expected developments and on opportunities also reflect expectations for the parent company, Talanx AG. We expect that Talanx AG's net income for 2015 will be significantly lower than the result for the reporting period, as the high disposal gains in 2014 were attributable to the sale of the shares of Swiss Life Holding AG.

OVERALL ASSESSMENT OF THE ECONOMIC SITUATION

Considering 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. Once again, gross premiums, EBIT, Group net income and Group equity were all above the prior-year figures. The Group's divisions contributed to the result in different ways.

Except for the Retail Germany Division, all divisions contributed to gross premium growth, albeit to different degrees. Operating profit increased significantly in some divisions, but an operating loss was recorded in the Retail Germany Division. The expense ratio remained close to the expected range despite a high claims burden, particularly in the Industrial Lines Division. The Group return on equity slightly exceeded our minimum target, although there were differences between the individual divisions as to how the target was met.

The Group is financially robust, and its solvency ratio remains significantly above the level required by law. As at the preparation date of the management report, the Board of Management rates the Group's economic situation as sound. However, the consolidation of the low interest rate environment –which is also motivated by the policies of the central banks – is increasingly having a negative impact, in particular on life insurance activities in Germany.

OTHER SUCCESS FACTORS

EMPLOYEES

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

THE TALANX VALUES — THE BASIS OF OUR CORPORATE CULTURE

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

M61 THE TALANX GROUP'S VALUES

Entrepreneurial mindset and action within the Group context

Results and performance orientation

Mutual trust and open communication

Comprehensive customer orientation

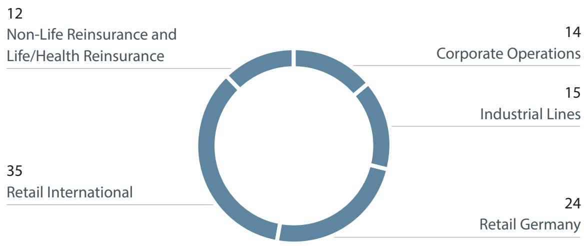
A Group-wide discussion of what the Talanx Values mean, how to raise awareness of them among our employees and how to anchor them more strongly in our day-to-day activities was launched in the reporting period. Employees from all divisions and all levels in the hierarchy are taking part in workshops on these issues. These activities are making a considerable contribution to improving the quality of teamwork within the Group, by effectively promoting mutual understanding and a team spirit.

KEY HUMAN RESOURCES FIGURES

At the end of 2014, 21,371 (previous year: 21,529) people were employed by the Talanx Group, 7,588 (7,720) of them in the Retail International Division. At 35% (36%), this division accounted for the largest proportion of employees in the Group. Conversely, efficiency improvement measures drove down the number of employees in the Retail Germany Division.

M62 EMPLOYEES BY DIVISION

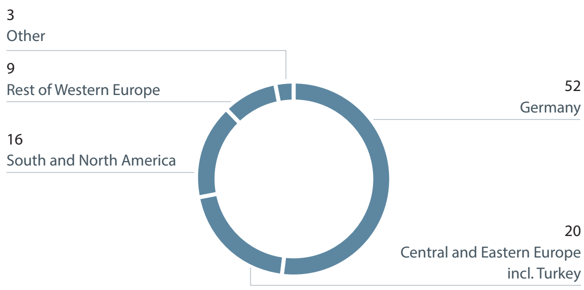
IN %



Our employees are located in over 40 countries and on five continents across the world. A good three-quarters of our 11,142 (11,302) staff in Germany work in the federal states of North Rhine-Westphalia and Lower Saxony; in addition, the Talanx Group has 10,229 (10,227) employees in other countries.

M63 EMPLOYEES BY REGION

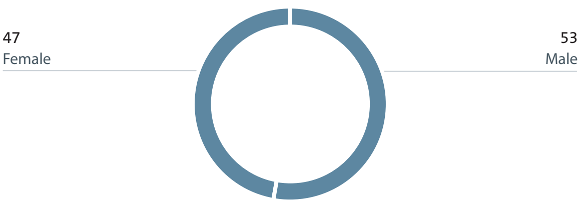
IN %



The proportion of female employees in Germany was 47% (48%), while 17% (17%) of employees worked part-time. Both these figures remained at the same level as in previous years. 32% (31%) of employees in Germany not subject to collective wage agreements were women. Women accounted for 18% (19%) of positions at senior executive level.

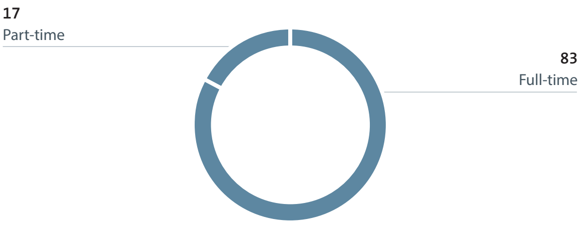
M64 MALE/FEMALE EMPLOYEES IN GERMANY

IN %



M65 FULL-TIME/PART-TIME EMPLOYEES IN GERMANY

IN %



MAKING CONSCIOUS USE OF DIVERSITY

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

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

Therefore, for us diversity management means consciously promoting employee diversity in order to release its full power. It also means creating conditions that enable everyone to fully develop their individual potential, talents and abilities, irrespective of their different characteristics. Within this, we pay particular attention to the areas of demographics, gender and migration.

WOMEN AT TALANX

Further increasing the proportion of women in management positions is a key concern for the Talanx Group. To achieve this, we aim to appoint female employees to at least 25% of vacant management positions in Germany in future. The Frauen@Talanx network was launched in the reporting period as a forum with the aim of actively promoting a corporate culture that supports women in their professional and personal development. In addition, a Group-wide mentoring programme is used to support female employees with management potential in their personal development.

EMPLOYEE DEVELOPMENT AT TALANX – GROWING TALENT FROM WITHIN

INITIAL PROFESSIONAL TRAINING

Initial professional training is particularly important for securing new talent. This is particularly reflected in the number of vocational trainees who are taken on permanently after completing their courses, which has consistently remained at over 90% for years. The Talanx Group had 405 (419) vocational trainees in the primary insurance area in Germany as at 31 December 2014. The Group views vocational training leading to commercial qualifications in insurance and finance as particularly important. Factors such as practical orientation and self-reliant work as part of a team are a key part of this training, which spans all Group companies. Trainees have a wide range of career options after completing their courses.

In addition to these vocational qualifications in insurance and finance, an alternative route to successfully attracting new talent is the dual-track degree programs. A Bachelor of Arts course covers business studies with a specialism in insurance, while a Bachelor of Science covers business computing. The business studies degree offers the option of specialising in either industrial insurance or retail insurance sales. The cooperation agreements with the universities of applied science that offer these courses were extended in line with this. To support the Group's internationalisation, students were again offered the option of work experience placements at foreign subsidiaries or branches in 2014.

Talanx's vocational 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, and these have often concerned projects supporting social welfare organisations. Our training focuses not only on professional and methodological expertise, but also to a large extent on social skills.

HUMAN RESOURCES MARKETING

The aim of human resources marketing is to recruit qualified, motivated employees for the Group by presenting Talanx as an attractive employer. We continue to take part in careers fairs and events for students and graduates that attract our target group. In addition, we maintain contact with students by holding special days for participants in the Talanx Talent Network and for recipients of our Talanx Foundation and "Deutschlandstipendien" scholarships.

CAREER DEVELOPMENT FOR MANAGEMENT TRAINEES AND MANAGERS

Our strategic employee development activities also continued successfully. Employees and managers are systematically trained to equip them for their current and future responsibilities through various training courses and employee development programmes. As part of our management training activities, we offer a programme that allows top performers and talented individuals to develop their potential, and in 2013 we introduced a development programme for specific divisions. Building on this, when employees first assume a management role, they receive support in the form of programmes that focus on leadership and teamwork. Development programmes for new managers and for specialist staff, as well as the development programme leading to project manager qualifications, are all recognised, sought-after options that attract large numbers of participants.

Managers with the potential to take on additional duties can participate in the management development programme. This programme was successfully implemented in 2013 and was repeated in the reporting period with participants from Germany and other countries. The measures emphasise and support the Talanx Group's strategy of filling the majority of management positions internally. This in turn demonstrates the importance of ongoing internal employee development to ensure over the long term that the necessary skills and expertise are available in times of change.

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

TALANX CORPORATE ACADEMY – A KEY STRATEGY DEVELOPMENT TOOL

The Talanx Corporate Academy has been successfully established as a key tool in implementing strategy and developing corporate culture within the Group. It provides information on strategically relevant topics through a programme for top-level managers in all Group divisions that offers high-quality content with a practical focus. As a catalyst for change and a platform for exchanging knowledge and experience, and involving a large number of participants, the Talanx Corporate Academy played an important role in promoting cooperation between the divisions and Corporate Operations in the year under review. Among other things, the Talanx Corporate Academy formulated the Talanx Values as a result of discussions with senior management around the world. The Talanx Corporate Academy also won the InnoWard from the German Insurance Association for Vocational Education and Training (BWV) in 2014. The award was made for two reasons: firstly because the Talanx Corporate Academy ensures that top managers worldwide take part in regular, systematic discussions on key strategic issues and secondly because of its format, which is unique within the German insurance industry.

360° FEEDBACK FOR MANAGERS

A distinct, constructive feedback culture raises individual and team performance, improves the quality of management and teamwork and strengthens the Group's competitiveness overall. One component of this feedback culture is the 360° feedback system, a tool that gives managers feedback about their management style from their superiors, management peers and employees. It is designed to help the person receiving feedback to develop by giving concrete pointers as to how they can improve the way in which they interact with colleagues. Specific, targeted development steps are then identified in discussion with the recipient on the basis of the feedback. As a result, this method offers the people giving feedback an opportunity to actively influence the quality of management and teamwork.

EMPLOYEE DEVELOPMENT IN THE DIVISIONS

As part of our systematic support for young talent, the Industrial Lines Division continued to run its established trainee programmes for account managers and underwriters in the various industrial lines. These courses, which usually last one year, convey a solid understanding of the various fields of work involved in industrial insurance. We hope that this will ensure the continued future success of our Industrial Lines Division despite the retirement of experienced specialists.

We continued to run the "management workshop" as a support tool for all managers during our realignment of the Retail Germany Division. This annual cycle of events discusses strategic issues and develops specific measures to be implemented based on these discussions. The Retail Germany Division's goal with the "management workshop" was to firmly establish continuous and systematic support during the process of change and to provide a collective understanding of how managers should behave while this was going on. In 2014, this programme for managers again focused, among other things, on encouraging managers to contemplate their own roles.

The Reinsurance Division continued to extend its diversity management activities, particularly those aimed at empowering women, and launched a pilot mentoring programme for women. Advancing women's careers was also top of the agenda at a management meeting in January 2014. Keynote speeches addressed the issues of "The Glass Ceiling" and "Gender-Specific Communication". Following on from this event, two training courses on gender-specific communication were held in the reporting period and were well received. Another focus of our human resources work was on preparing for the introduction of an appropriate learning management system to support the Company's successful blended learning processes, among other things. Employee development measures in the form of specific training options for experienced staff were also added. Other training programmes cover health-related topics and offer special support for employees approaching the end of their working life.

THANKS TO GROUP EMPLOYEES AND REPRESENTATIVE BODIES

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

SUSTAINABILITY AND CORPORATE SOCIAL RESPONSIBILITY

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

Talanx developed a sustainability strategy and a sustainability management system in the reporting period. These are derived from the Group's overarching strategy and are also closely linked to its mission statement and its values. They also take into account the requirements and interests of our stakeholders. Among these, our market partners – our customers, business partners, investors and employees – are particularly important. In addition to raising the level of sustainability within the enterprise, these steps also serve to develop our sustainability reporting process, which is based on the Global Reporting Initiative's (GRI) recognised guidelines. Important milestones during the reporting period included a comprehensive initial survey within the Group and a survey of stakeholders. This year, we plan to make our sustainability goals more specific and to continue preparations for sustainability reporting. We will report on our strategy, our areas of activity and our goals on our corporate website.

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

SUSTAINABILITY OF INVESTMENT

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

Ampega Investment, our investment company for third-party clients, offers retail investment funds for which sustainability is also an important investment criterion. It offers various sustainable investments, including the Ampega Responsibility Fund and the terrAssisi Renten I AMI and terrAssisi Aktien I AMI investment funds. These funds invest in target funds or enterprises and issuers that incorporate not only economic but also environmental and social criteria into their long-term corporate strategies, and that are considered pioneers in assuming responsibility for a sustainable future. The classification used is specified by the independent research agencies FOCUS ASset Management GmbH and oekom research AG.

SOCIAL RESPONSIBILITY

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

Talanx also supports the Enactus international student network in various ways. Enactus is a non-profit organisation active at over 1,800 universities in more than 40 countries worldwide. Through practical projects of their own choosing, students help both disadvantaged people and organisations to improve their situation and to achieve lasting stability through their own efforts. The students independently plan and implement social, ecological, charitable and cultural projects. Goal orientation, budget planning and measuring success are integral components of all Enactus projects. Enactus named Talanx AG as its Partner of the Year in the year under review. In addition to financial assistance, Talanx offers students professional support with their work. Employees are involved in projects as "business advisors" and enhance the quality of the work through their expert knowledge, experience and contacts.

MARKETING AND ADVERTISING, SALES

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

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

OTHER REPORTS AND DECLARATIONS

CORPORATE GOVERNANCE

DECLARATION ON CORPORATE GOVERNANCE AND CORPORATE GOVERNANCE REPORT

DECLARATION ON CORPORATE GOVERNANCE IN ACCORDANCE WITH SECTION 289A OF THE GERMAN COMMERCIAL CODE (HGB)

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

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

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

I German Corporate Governance Code 2014

The Board of Management and Supervisory Board declare in accordance with section 161 of the AktG that Talanx AG, in its implementation of the German Corporate Governance Code in the version dated 24 June 2014, departed from the recommendations of the Code for three items.

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

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

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

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

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

Early termination of the contract of service without cause is only possible by mutual agreement. Even if the Supervisory Board sets a severance cap when signing or renewing a Board of Management contract, this does not rule out the possibility of negotiations extending to the severance cap if a member of the Board of Management leaves. In addition, the scope for negotiations on such a departure could be restricted if a severance cap was agreed, which can be particularly disadvantageous in cases where there is ambiguity about the existence of a cause for dismissal. In the opinion of Talanx AG, it is therefore in the interest of the Company to depart from the recommendation in section 4.2.3(4) of the Code.

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

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

II German Corporate Governance Code 2013

Additionally, the Board of Management and Supervisory Board declare in accordance with section 161 of the AKtG that, since the last declaration of conformity dated 25 February 2014 was issued, Talanx AG has continued to depart from the following recommendations in the version of the Code dated 13 May 2013:

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

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

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

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

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

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

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

Hannover, 25 February 2015

For the Board of Management For the Supervisory Board

The declaration of conformity and further information on corporate governance at Talanx can be found on our website at http://www.talanx.com/investor-relations/corporate-governance.

You will also find the report on the “Code of Best Practice for Warsaw Stock Exchange Listed Companies”, required as a result of Talanx AG’s secondary listing on the Warsaw Stock Exchange there.

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

HOW WE DEFINE CORPORATE GOVERNANCE

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

CORPORATE GOVERNANCE AT TALANX

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

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

BOARD OF MANAGEMENT

The Board of Management is directly responsible for managing the Company and defines its goals and corporate strategy. Article 8(1) of the Articles of Association sets out that the Board of Management shall comprise at least two persons. Beyond that, the Supervisory Board determines the number of members. The Supervisory Board's Rules of Procedure stipulate that the Supervisory Board should only appoint persons under the age of 65 to the Board of Management. The terms of appointment of the individual members should be chosen so that they end no later than the month in which the member concerned turns 65.

The current members of the Board of Management and their areas of responsibility are set out on page 10 of this Annual Report.

The activities of the Board of Management are governed by Rules of Procedure for the Board of Management of Talanx AG adopted by the Supervisory Board. These define the areas of responsibility of the individual members of the Board of Management. Notwithstanding their collective responsibility, each member of the Board is individually responsible for the area(s) assigned to them, subject to the resolutions passed by the full Board of Management. However, all members of the Board of Management are obliged by the Rules of Procedure to inform the other members of the Board of Management of major undertakings and proposals, transactions and developments in their areas of responsibility.

In addition, the Rules of Procedure set out the matters reserved for the full Board of Management and the required voting majorities. The full Board of Management resolves on all cases in which a resolution by the full Board of Management is required by law, the Articles of Association or the Rules of Procedure.

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

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

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

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

SUPERVISORY BOARD

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

The Supervisory Board consists of 16 members. Half of these are elected by the shareholders and half by the Company's staff. The composition of the Supervisory Board and its committees is set out on page 11f. of this Annual Report.

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

The Supervisory Board is quorate when all members have been invited to the meeting or called upon to vote and at least half of the total number of members of which the Supervisory Board is required to be composed take part in the resolution. All decisions are passed by a simple majority, unless another majority is prescribed by law. If a vote is tied and a further vote is held on the same subject; the Chairman shall have the casting vote in the event of a further tie.

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

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

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

The Finance and Audit Committee (FAC) oversees the financial reporting process, including the effectiveness of the internal control system and of the risk management and internal audit systems. It discusses the quarterly reports and deals with issues relating to compliance, profitability trends at Group companies and the size of the loss reserves. Additionally, it prepares the Supervisory Board's review of the annual financial statements, the management report, the Board of Management's proposal for the appropriation of distributable profit, and the consolidated financial statements and Group management report. In this context, the FAC informs itself in detail of the auditors' opinion of the net assets, financial position and results of operations, and has the effects of any changes in the accounting policies explained to it. It deals with issues concerning the requisite independence of the auditors, the engagement of the auditors, the audit's areas of emphasis and the auditors' fees. The FAC receives direct reports from the Board of Management and also from the Head of Internal Auditing, the Chief Risk Officer and the Chief Compliance Officer.

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

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

To ensure that candidates fulfil the relevant selection criteria, the Nomination Committee has drawn up a catalogue of requirements for Supervisory Board members, one of the aims of which is to make sure that the Supervisory Board has the necessary expertise to cover all business areas at the Group. The Supervisory Board's Rules of Procedure state that the Supervisory Board may not include more than two former members of the Company's Board of Management, so as to guarantee the independence of Supervisory Board members. Additionally, members of the Supervisory Board may not hold offices on the governing bodies of, or provide advisory services in an advisory capacity to, any significant competitors of the Company, of Group companies or of the Talanx Group.

Further details on the activities of the Supervisory Board committees are given in the report of the Supervisory Board on page 13 of this Annual Report.

Care is taken when selecting candidates who are to be proposed to the General Meeting for election to the Supervisory Board that these have the necessary knowledge, skills and professional experience. The principle of diversity is also taken into account in the selection process. The Company currently complies with the target of at least four women set out in the Supervisory Board's Rules of Procedure. One member of the Personnel Committee is also female. 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 the age of 72 at the time they are elected. With regard to the number of independent Supervisory Board members that the Supervisory Board considers appropriate, the latter has decided that it should include two independent members as defined in section 5.4.2 of the German Corporate Governance Code. The Supervisory Board currently meets this target. Employee representatives on the Supervisory Board are not taken into account here. A shareholder representative on the Supervisory Board holds a 25.93% stake in a company that has a business relationship with Talanx AG and Hannover Rück SE (see page 134 of the Annual Report).

REMUNERATION OF THE BOARD OF MANAGEMENT AND SUPERVISORY BOARD

The remuneration report beginning on page 118 contains a detailed description of the structure of the remuneration paid to the Board of Management and the Supervisory Board, as well as to senior executives.

DIRECTORS' DEALINGS

Members of the Board of Management and Supervisory Board, authorised representatives of Talanx AG and related parties are legally obliged to disclose the acquisition or disposal of shares in Talanx AG or of related financial instruments if the value of the transactions in a single calendar year amounts to or exceeds EUR 5,000.00. Talanx AG not only ensures that it makes the relevant publications and disclosures required in accordance with section 15a(4) of the Securities Trading Act (WpHG), but also publishes directors' dealings on its website.

SHAREHOLDINGS OF THE BOARD OF MANAGEMENT AND SUPERVISORY BOARD

The aggregate shares in Talanx AG and related financial instruments held by all members of the Board of Management and Supervisory Board amounted to less than 1% of all shares issued by the Company as at 31 December 2014.

COMPLIANCE

Compliance with the law and internal Company guidelines, and ensuring that Group companies also observe these, is an essential part of management and oversight at Talanx. A dedicated Compliance department was set up in 2011 to structure and expand the existing Group-wide compliance organisation as part of a compliance project which ran until 2014. In terms of staff, Talanx's compliance organisation consists of the Chief Compliance Officer, who is also the Corporate Governance Officer and an authorised representative of Talanx AG, and additional compliance officers responsible for the individual divisions. An exception to this is the Hannover Re subgroup, which has its own compliance organisation that liaises closely with Talanx's Compliance department.

A code of conduct serves as the lynchpin for internal Group compliance regulations. It contains the key principles and rules for ensuring that all Talanx Group employees act in a legally compliant and responsible manner. It also sets out the high ethical and legal standards on which the Group's global operations are based. The code of conduct is available on the website. All Group employees must ensure that they comply with the code and the laws, guidelines and instructions governing their individual areas of work. The code is supplemented by a set of more concrete compliance guidelines, which give employees in Germany and abroad guidance on how to behave correctly and appropriately in their business dealings.

Another element in ensuring Group-wide compliance is a whistleblower system that can be contacted from anywhere in the world via the internet, and which employees and third parties can use to report significant breaches of the law and the rules contained in the code of conduct. Complaints can be made anonymously if desired. This enables the Compliance function to take action, limit any damage and avoid further harm. The Group is a member of the CCO Forum, which was established in January 2015 and is composed of the Chief Compliance Officers of international insurance companies. In addition to identifying common positions, the work of the Forum also offers an opportunity to identify trends in the regulatory area of compliance at an early stage and examine them appropriately.

The Board of Management submitted the compliance report for the 2014 calendar year, which sets out Talanx's structure and its wide range of activities in this area, to the Finance and Audit Committee before the annual financial statements were adopted.

RISK MONITORING AND MANAGEMENT

Talanx AG's Group-wide risk management system is based on its risk strategy, which in turn is derived from its corporate strategy. One core component is systematic and comprehensive tracking of all risks that from today's perspective could conceivably jeopardise the Company's profitability and continued existence. Further details of this are given in the risk report starting on page 136 of this Annual Report.

TAKEOVER-RELATED DISCLOSURES

STRUCTURE OF SUBSCRIBED CAPITAL

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

RESTRICTIONS ON VOTING RIGHTS AND THE TRANSFER OF SHARES

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

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

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

SHARES CONVEYING SPECIAL CONTROL RIGHTS

There are no shares conveying special control rights.

SYSTEM OF VOTING RIGHTS CONTROL WHERE EMPLOYEES ARE SHAREHOLDERS

No employees are shareholders within the meaning of section 315(4) No. 5 of the German Commercial Code (HGB).

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

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

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

German supervisory law requires members of the Board of Management to be reliable and professionally qualified to run an insurance holding company (section 7a(1) sentence 1 in conjunction with section 1b of the Insurance Supervision Act (VAG)). Persons who are already senior executives of two insurance companies, pension funds, insurance holding companies or special purpose entities for insurance cannot be appointed as members of the Board of Management. However, the supervisory authority can permit more offices to be held if the companies concerned belong to the same insurance group or group of companies (section 7a(1) sentence 6 in conjunction with section 1b of the VAG). The Federal Financial Supervisory Authority must be notified of plans to appoint a member of the Board of Management (section 13e in conjunction with section 104(2) no.4 of the VAG).

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

POWERS OF THE BOARD OF MANAGEMENT TO ISSUE OR REPURCHASE SHARES

The powers of the Board of Management to issue and repurchase shares are regulated by the Company's Articles of Association and by sections 71ff. of the AktG. In this context, the General Meeting of the Company authorised the Board of Management on 29 September 2012 in accordance with section 71(1) no. 8 of the AktG to acquire own shares under certain conditions for a period of five years, i.e. up to 28 September 2017.

On 15 May 2012, the General Meeting authorised the Board of Management, subject to the approval of the Supervisory Board, to issue registered bonds on one or more occasions until 14 May 2017, and to impose contingent conversion obligations for no-par value shares of Talanx AG on the creditors of the bonds, without granting them rights of exchange or pre-emptive rights. In the Extraordinary General Meeting on 28 August 2012, the Board of Management was authorised, subject to the approval of the Supervisory Board, to issue both convertible bonds, bonds with warrants, income bonds and profit participation rights on one or more occasions, and to grant the holders or creditors of these bonds and rights options or conversion rights. On 29 September 2012, the Extraordinary General Meeting resolved to cancel the authorised capital under article 7(1) of Talanx AG's Articles of Association, as authorised by the General Meeting on 21 November 2011, and to replace it with a new article 7(1), which authorises the Board of Management, subject to the approval of the Supervisory Board, to increase the share capital in the period up to 28 September 2017 on one or more occasions by a maximum of EUR 146 million by issuing new no-par value registered shares in exchange for cash or non-cash contributions. Subject to the approval of the Supervisory Board, shareholders' pre-emptive rights may be disapplied for certain listed purposes in the case of cash capital increases, provided that the notional amount of share capital attributable to the new shares does not exceed 10% of the share capital. Subject to the approval of the Supervisory Board, EUR 1 million of this may be used to issue employee shares. Subject to the approval of the Supervisory Board, pre-emptive rights may be disapplied for non-cash capital increases if their disapplication is in the Company's overriding interest. The amendment to the Articles of Association took effect on its entry in the commercial register on 1 October 2012. When the greenshoe option was exercised on 8 October 2012 in the course of the IPO, authorised capital was reduced to EUR 143 million in accordance with the Articles of Association. In the course of the employee share programme, authorised capital was reduced by EUR 0.2 million. After its partial utilisation, the authorised capital amounts to EUR 142,307,260, of which a further EUR 785,060 can be used for employee shares.

MATERIAL AGREEMENTS OF TALANX AG SUBJECT TO CHANGE OF CONTROL CLAUSES

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

The cooperation agreements with Deutsche Postbank AG dated 18 July 2007 all contain a clause that, in the event of the direct or indirect acquisition of control over one of the parties to the contract by a third company not affiliated with the parties, grants the other party to the contract an extraordinary right of termination.

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

COMPENSATION ARRANGEMENTS IN THE EVENT OF A TAKEOVER BID

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

REMUNERATION REPORT

The remuneration report describes and explains the basic features of the remuneration structure for the Board of Management of Talanx AG, the amount of the remuneration paid to the Board of Management and the key criteria for its calculation. The description covers the payments made to the Board of Management in financial year 2014 in respect of the activities of the members of the Board of Management on behalf of Talanx AG and its consolidated companies. It also explains the structure and amount of remuneration paid to the Supervisory Board of Talanx AG and the basic principles governing the remuneration of senior executives below the level of the Group Board of Management.

The remuneration report is based on the recommendations of the German Corporate Governance Code and contains information that is included in the Notes to the 2014 Consolidated Financial Statements in accordance with IAS 24 "Related Party Disclosures". In accordance with German commercial law, the information also contains mandatory disclosures from the Notes (section 314 of the HGB) and the management report (section 315 of the HGB). These are all discussed in this remuneration report and, additionally, are summarised in the Notes in accordance with the statutory provisions.

The remuneration system complies with the provisions of the German Act on the Appropriateness of Executive Board Remuneration (VorstAG) and of the Insurance Supervision Act (VAG) in conjunction with the German Remuneration Regulation for Insurance Companies (VersVergV). In addition, the more specific rules of German Accounting Standard GAS 17 (amended 2010) "Reporting on the Remuneration of Members of Governing Bodies" have been taken into account.

REMUNERATION OF THE BOARD OF MANAGEMENT

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

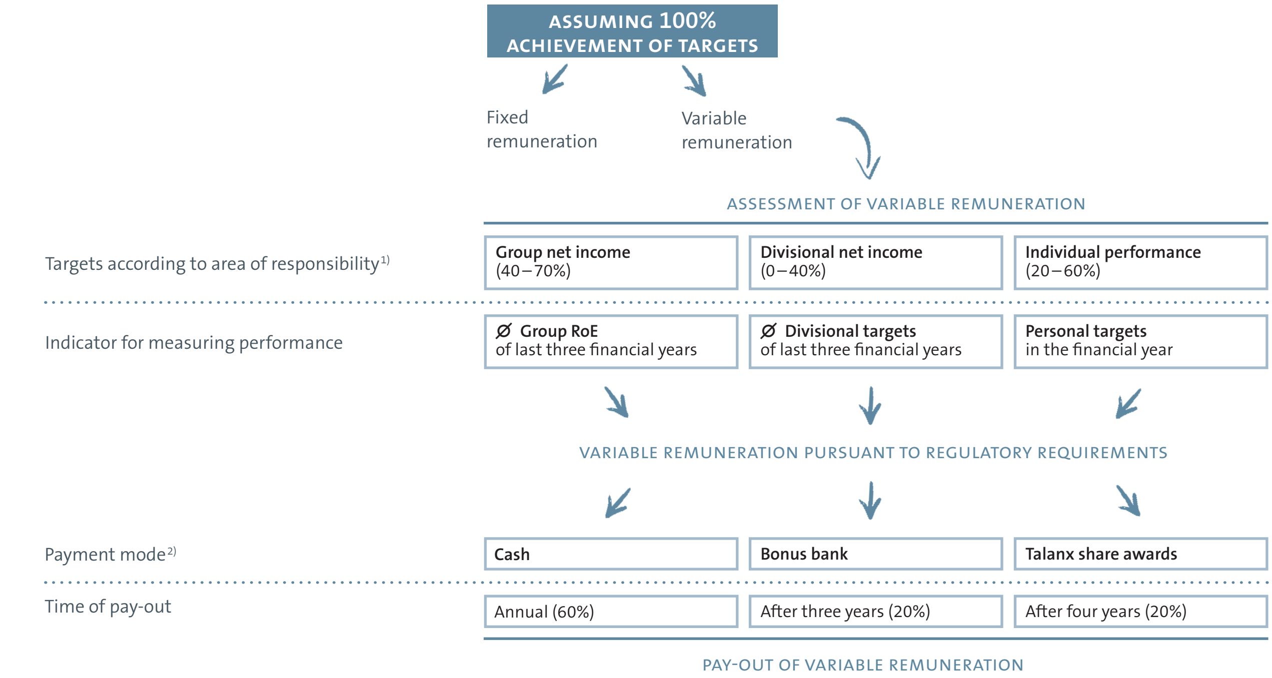
STRUCTURE OF REMUNERATION FOR THE BOARD OF MANAGEMENT

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

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

The remuneration of the Board of Management comprises an annual fixed component and a variable component based on a multi-year assessment. The proportion of variable remuneration within the overall remuneration package differs in each individual case and ranges from 40% to 70% in the case of 100% achievement of the Board of Management's targets.

M66 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

The fixed remuneration is paid out in cash in twelve equal monthly instalments. It is tailored in particular to the individual Board member's range of tasks and duties and professional experience. The Supervisory Board reviews the amount of fixed remuneration paid regularly, generally at two-year intervals. No review will be performed in future for Board of Management members appointed or reappointed in 2014.

Non-cash benefits/fringe benefits

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

Variable remuneration

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

Group bonus

The Group bonus consists of an individually determined amount for each 0.1 percentage point by which the average return on equity (RoE) for the last three financial years exceeds the risk-free interest rate; the amount in question is set out in the Board member's contract of service. If the average RoE is below the risk-free interest rate or a negative figure, a corresponding penalty amount is deducted for each 0.1 percentage point by which its undershoots the risk-free rate. Due to the decline in the risk-free interest rate, the underlying five-year average used to calculate the Group bonus in accordance with the provisions in the contracts of services has been lowered from 2.8% to 1.8% from financial year 2014 onwards. The Group bonus is capped at twice the amount granted if the basis of calculation is reached, while the maximum penalty is –100%. The rules governing the Group bonus may be adjusted if the risk-free interest rate changes to such an extent that a deviation of at least 1 percentage point from the underlying benchmark arises. The risk-free interest rate is the average market rate for ten-year German government bonds over the last five years, which is calculated annually at the year-end on the basis of the prevailing interest rate.

Divisional bonus

Since financial year 2013, the divisional bonus for the Industrial Lines, Retail Germany and Retail International Divisions has been calculated on the basis of the following criteria for the divisions' target values: gross premium growth, the change in the net combined ratio in property/casualty insurance/the change in the value of new business in life insurance, the EBIT margin, the return on equity and the profit transferred/dividend paid to Talanx AG. The Supervisory Board determines the divisional bonus after a due assessment of the circumstances, based on the extent to which these criteria have been met. The 2013 financial year was used as the assessment period when measuring target achievement for 2013. The average target achievement in 2013 and 2014 was used for 2014, and from 2015 onwards the bonus will be based on the average target achievement for the last three financial years. If the targets are met in full, the individually defined amount for a target achievement of 100% is payable. If the defined targets are exceeded or not met, the amount will be adjusted upwards or downwards. The divisional bonus is capped at twice the bonus payable if the targets are met in full, while the minimum bonus is a penalty corresponding to a target achievement of –100%.

Individual bonus

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

Total amount of variable remuneration

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

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

M67 BASIS OF ASSESSMENT/PRECONDITIONS FOR PAYMENT OF VARIABLE REMUNERATION

Remuneration component	Basis of assessment/parameters	Preconditions for payment
Group bonus		
Proportion of variable remuneration Chairman of the Board of Management and Chief Financial Officer: 70% Deputy Chairman: 50% Chief Information Officer: 40% Divisional 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) for the last three financial years (FYs) exceeds the risk-free interest rate ■ Basis of calculation: RoE of 10% + risk-free interest rate (= 100%) ■ Max. cap: 200% ■ Min. cap: –100% (penalty) ■ Calculation of remuneration may be amended if the risk-free interest rate changes by one percentage point or more ■ Calculation of RoE: Group net income in accordance with IFRSs (excluding non-controlling interests) / arithmetic mean of Group equity in accordance with IFRSs (excluding non-controlling interests) at the start and end of the financial year	■ Average RoE over three years > risk-free interest rate
Divisional bonus		
Proportion of variable remuneration Chairman of the Board of Management, Chief Financial Officer and Chief Information Officer: 0% Deputy Chairman: 30% Divisional managers: 0 – 40%	■ Gross premium growth, net combined ratio in property/casualty insurance/value of new business in life insurance, EBIT margin, return on equity, profit transferred/dividend paid; each in comparison to target (2013: FY 2013 alone as assessment period; 2014: average of FY 2013 and FY 2014; 2015 onwards: three-year average) ■ 100% = targets achieved in full ■ Max. cap: 200% ■ Min. cap: – 100% (penalty)	■ Achievement of three-year targets (successive introduction from 2013 onwards) ■ Amount determined by Supervisory Board after due assessment of extent to which targets were achieved
Individual bonus		
Proportion of variable remuneration Chairman of the Board of Management and Chief Financial Officer: 30% Chief Information Officer: 60% Deputy Chairman and divisional managers: 20 – 30%	■ Qualitative and quantitative personal targets; individual contribution to overall result, leadership skills, innovation skills, business abilities, specific achievements in areas of responsibility ■ 100% = targets achieved in full ■ Max. cap: 200% ■ Min. cap: EUR 0	■ Achievement of annual targets ■ Amount determined by Supervisory Board after due assessment of extent to which targets were achieved

M68 PAYMENT OF VARIABLE REMUNERATION

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

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

Payment of variable remuneration

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

Bonus bank

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

Share awards

The other 20% of the total variable remuneration that has been determined is granted as a share-based entitlement in the form of virtual share awards. The total number of share awards granted depends upon the value per Talanx AG share at the time of allocation. The value per Talanx AG share is the unweighted arithmetic mean of the XETRA closing prices of Talanx shares for the period stretching from five trading days before to five trading days after the meeting of the Supervisory Board of Talanx AG that approves the consolidated financial statements. Share awards are allocated automatically, without the need for a declaration by Talanx AG or the Board member. The total number of share awards allocated is arrived at by dividing the amount to be credited by the value per share, rounded up to the nearest whole share (cap). After expiry of a vesting period of four years, the value of one Talanx share as calculated on the disbursement date (using the same procedure as for allocation), plus an amount equal to the dividends if dividends are paid out to shareholders, is paid out for each share award. The Board member is not entitled to receive actual shares.

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

Under the remuneration model applicable until 31 December 2010, the Board member in question was allocated stock appreciation rights of Hannover Rück SE. Stock appreciation rights were awarded for the last time in 2011 for the 2010 financial year. The virtual stock option plan with stock appreciation rights will remain in force until all awarded stock appreciation rights have been exercised or have lapsed. The detailed terms and conditions are explained in the section of the Notes to the consolidated financial statements entitled "Share-based payment".

Anti-dilution protection

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

Payment in the event of incapacity

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

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

Early termination of membership of the Board of Management

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

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

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

The contracts of service of members of the Company's Board of Management do not include caps on severance payments as recommended in section 4.2.3 paragraph 4 of the German Corporate Governance Code. Please see our remarks in the declaration of conformity in the "Corporate Governance" section on page 112f. of this Group Annual Report regarding this and the maximum limits on remuneration/the variable remuneration components recommended in section 4.2.3 paragraph 2 of the German Corporate Governance Code.

Sideline activities of members of the Board of Management

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

Amount of remuneration for the Board of Management

The aggregate benefits for all active members of the Board of Management in respect of their activities on behalf of Talanx AG and its affiliated companies amounted to EUR 10,097 (10,439) thousand. The following table shows a breakdown of the remuneration into the components set out in GAS 17.

M69 AGGREGATE BENEFITS FOR ACTIVE MEMBERS OF THE BOARD OF MANAGEMENT IN ACCORDANCE WITH GAS 17 (AMENDED 2010)

IN EUR THOUSAND

		Non-performance-related remuneration		Performance-related remuneration[1]		
				Short-term		Medium-term
		I	II	III	IV	V
Name		Fixed remuneration	Non-cash benefits/ fringe benefits	Variable remuneration payable	of which remuneration from memberships of Group supervisory bodies[2]	Allocated to bonus bank[3]
Herbert K. Haas	2014	765	21	620	271	206
	2013	714	21	832	280	278
Dr Christian Hinsch	2014	540	15	463	8	154
	2013	504	15	504	8	169
Torsten Leue[9]	2014	600	113	572	—	190
	2013	560	113	514	—	171
Dr Thomas Noth (until 31 March 2014)	2014	233	6	94	—	31
	2013	560	17	176	—	59
Dr Immo Querner	2014	582	19	475	111	159
	2013	544	17	482	131	161
Dr Heinz-Peter Roß[9] (until 30 June 2014)	2014	280	—	161	15	54
	2013	560	165	444	34	148
Ulrich Wallin	2014	570	13	841	—	281
	2013	520	13	716	—	238
Dr Jan Wicke (since 1 May 2014)	2014	420	20	314	1	105
	2013	—	—	—	—	—
Total[10]	2014[10]	**3,990**	**207**	**3,540**	**406**	**1,180**
	2013	3,962	361	3,668	453	1,224

1) No governing body resolution regarding the amount of performance-related remuneration for 2014 had been taken as at the 2014 reporting date The amounts are recognised on the basis of estimates and the corresponding provisions approved by the Personnel Committee
2) Remuneration for supervisory board offices at affiliated companies offset against the variable remuneration payable for 2014
3) The figure shown represents the nominal amount; payment will be made in full or in part from 2018 onwards, depending on the changes to the bonus bank balance up to that time
4) The figure shown represents the nominal amount of the share awards to be granted for work performed in the year under review; the equivalent amount of the share awards will be paid out from 2019 at the value applicable at that time
5) Total of I, II, III, V, VI, VII
6) The figure shown represents the maximum total remuneration payable if share awards are granted (excluding non-cash benefits/fringe benefits). The minimum remuneration corresponds to the annual fixed remuneration
7) Estimate of number of Talanx share awards to be granted, based on the XETRA closing price of Talanx shares as at the reporting date (EUR 25.27 per share). The actual number of Talanx share awards will be calculated on the basis of the arithmetic mean of the XETRA closing prices for Talanx shares for the period stretching from five trading days before to five trading days after the Supervisory Board meeting that approves the consolidated financial statements of Talanx AG in March 2015
8) Estimate of the number of Hannover Re share awards to be granted, based on the XETRA closing price for Hannover Re shares as at the reporting date (EUR 74.97 per share). The actual number of Hannover Re share awards will be calculated on the basis of the arithmetic mean of the XETRA closing prices for Hannover Re shares for the period stretching from five trading days before to five trading days after the Supervisory Board meeting that approves the consolidated financial statements of Hannover Rück SE in March 2015
9) Non-cash benefits and fringe benefits include the non-performance-related additional payments made together with the fixed remuneration for the month of December. This related to Mr Leue and Dr Roß in 2013 and to Mr Leue in 2014
10) Payments for performance-related remuneration in 2013 exceeded the provisions recognised for this by a total of EUR 156 (98) thousand. The total amount recognised for performance-related remuneration in 2014 was increased accordingly

Performance-related remuneration[1]						
Long-term						
VI	VII					
Talanx share awards granted[5]	Hannover Re share awards granted[4]	Aggregate benefits[5]	Maximum remuneration[6]	No. of Talanx share awards[7]	No. of Hannover Re share awards[8]	
206	—	1,818	3,420	8,163	—	
278	—	2,123	3,369	10,345	—	
154	—	1,326	2,404	6,154	—	
169	—	1,361	2,368	6,686	—	
190	—	1,665	2,292	7,132	—	
171	—	1,529	2,252	6,913	—	
31	—	395	567	1,219	—	
59	—	871	1,335	2,678	—	
159	—	1,394	2,218	6,003	—	
161	—	1,365	2,179	6,111	—	
54	—	549	1,126	2,086	—	
148	—	1,465	2,252	6,232	—	
55	226	1,986	2,770	2,129	2,842	
50	188	1,725	2,680	2,232	3,012	
105	—	964	1,553	4,144	—	
—	—	—	—	—	—	
954	**226**	**10,097**	**16,350**	**37,030**	**2,842**	
1,036	**188**	**10,439**	**16,435**	**41,197**	**3,012**	

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

M70 TOTAL EXPENSE IN CONNECTION WITH SHARE-BASED REMUNERATION FOR THE MEMBERS OF THE BOARD OF MANAGEMENT

IN EUR THOUSAND

Name		Expense for new Talanx share awards granted [1]	Expense for new Hannover Re share awards [1]	Allocations to provisions for Talanx share awards [2] from previous years	Allocations to provisions for Hannover Re share awards [3] from previous years	Allocations to provisions for existing stock appreciation rights	Stock appreciation rights exercised	**Total**
Herbert K. Haas	2014	67	—	376	—	—	—	**443**
	2013	62	—	260	—	—	—	322
Dr Christian Hinsch	2014	60	—	247	—	—	—	**307**
	2013	46	—	165	—	—	—	211
Torsten Leue	2014	34	—	134	—	—	—	**168**
	2013	64	—	157	—	—	—	221
Dr Thomas Noth (until 31 March 2014)	2014	31	—	120	—	—	—	**151**
	2013	47	—	152	—	—	—	199
Dr Immo Querner	2014	65	—	271	—	—	—	**336**
	2013	45	—	175	—	—	—	220
Dr Heinz-Peter Roß (until 30 June 2014)	2014	53	—	210	—	—	—	**263**
	2013	102	—	224	—	—	—	326
Ulrich Wallin	2014	15	58	18	271	85	73	**435**
	2013	33	40	113	62	59	114	421
Dr Jan Wicke (since 1 May 2014)	2014	14	—	—	—	—	—	**14**
	2013	—	—	—	—	—	—	—
Total	2014	**339**	**58**	**1,376**	**271**	**—**	**73**	**2,117**
	2013	399	40	1,246	62	59	114	1,920

[1] The expense for share awards is recognised pro rata in the various financial years depending upon the remaining term of the member's contract of service
[2] The allocation to the provisions for Talanx share awards from previous years is calculated on the basis of the increase in the price of Talanx shares, the dividend resolved for Talanx AG for 2013 and the distribution of expenses for share awards across the individual remaining terms of the contracts of service
[3] The allocation to the provisions for Hannover Re share awards from previous years is calculated on the basis of the increase in the price of Hannover Re shares, the dividend resolved for Hannover Re for 2013 and the distribution of expenses for share awards across the individual remaining terms of the contracts of service

OCCUPATIONAL RETIREMENT PROVISION

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

The contract of one member of the Board of Management provides for a pension on a defined contribution basis. This grants a life-long retirement pension when the Board member turns 65 and leaves the Company. The amount of the monthly retirement pension is calculated on the basis of the Board member's age at the reporting date (year of reporting date less year of birth) and the funding contribution on the reporting date. The Company's annual funding contribution for this contract amounts to 25% of the Board member's pensionable income (fixed annual remuneration as at 1 May of each year). The Company made an annual funding contribution of 20% of another Board member's pensionable income until financial year 2013.

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

SURVIVORS' PENSIONS

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

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

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

ADJUSTMENTS

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

PENSIONS PAID

Pension commitments for active members of the Board of Management totalled EUR 1,633 (1,479) thousand. The service cost for active members of the Board of Management amounted to EUR 1,203 (1,291) thousand. Individualised disclosures are presented and explained in the following tables.

M71 **PENSION BENEFIT ENTITLEMENTS OF ACTIVE MEMBERS OF THE BOARD OF MANAGEMENT**

IN EUR THOUSAND

Name		Pension commitment[1]	Present value of DBO[2]	Cost of post-employment benefits[3]
Herbert K. Haas	2014	410	10,727	241
	2013	390	6,992	248
Dr Christian Hinsch	2014	311	7,624	181
	2013	303	4,966	183
Torsten Leue	2014	235	1,870	257
	2013	225	792	300
Dr Thomas Noth[4] (until 31 March 2014)	2014	—	—	—
	2013	—	—	112
Dr Immo Querner	2014	202	3,841	129
	2013	192	2,051	147
Dr Heinz-Peter Roß (until 30 June 2014)	2014	132	4,176	159
	2013	149	662	180
Ulrich Wallin	2014	229	5,160	114
	2013	220	3,284	121
Dr Jan Wicke[5] (since 1 May 2014)	2014	114	84	122
	2013	—	—	—
Total	2014	**1,633**	**33,482**	**1,203**
	2013	**1,479**	**18,747**	**1,291**

1) Value of the agreed annual pension on leaving the company as contractually agreed after reaching the age of 65
2) DBO = defined benefit obligation
3) The figure shown represents the service cost recognised in the year under review for pensions and other post-employment benefits
4) An annual funding contribution of 20% of the annual fixed remuneration was granted for 2013. The figure shown is the funding contribution
5) A defined contribution commitment has been entered into

Total payments made to former members of the Board of Management and their surviving dependants, for which there were 7 (6) commitments in force in the year under review, amounted to EUR 749 (741) thousand. Provisions recognised for of pension obligations towards this group of people totalled EUR 21,217 (14,101) thousand.

The following two tables show the benefits granted and received in accordance with section 4.2.5 paragraph 3 of the German Corporate Governance Code.

M72 **VALUE OF BENEFITS GRANTED FOR THE YEAR UNDER REVIEW IN ACCORDANCE WITH SECTION 4.2.5 PARAGRAPH 3 (FIRST BULLET POINT) OF THE GERMAN CORPORATE GOVERNANCE CODE**

IN EUR THOUSAND

		Benefits granted										
		Fixed remu-neration	Fringe benefits	**Total**	One-year variable remun-eration	Multi-year variable remun-eration	Bonus bank (3 years)	Talanx share awards (4 years)	Hannover Re share awards (4 years)	**Total**	Pension expense	**Total remu-neration**
Herbert K. Haas *Chairman of the Board of Management*	2014[1]	765	21	**786**	797	531	266	266	—	**2,114**	241	**2,355**
	(min.)[2]	765	21	**786**	—	–884	–884	—	—	**–98**	241	**143**
	(max.)[3]	765	21	**786**	1,593	1,062	531	531	—	**3,441**	241	**3,682**
	2013[1]	714	21	**735**	797	531	266	266	—	**2,063**	248	**2,311**
Dr Christian Hinsch *Deputy Chairman of the Board of Management*	2014[1]	540	15	**555**	559	373	186	186	—	**1,487**	181	**1,668**
	(min.)[2]	540	15	**555**	—	–620	–620	—	—	**–65**	181	**116**
	(max.)[3]	540	15	**555**	1,118	746	373	373	—	**2,419**	181	**2,600**
	2013[1]	504	15	**519**	559	373	186	186	—	**1,451**	183	**1,634**
Torsten Leue *Head of Division*	2014[1]	600	113	**713**	508	338	169	169	—	**1,559**	257	**1,816**
	(min.)[2]	600	113	**713**	—	–481	–481	—	—	**232**	257	**489**
	(max.)[3]	600	113	**713**	1,015	677	338	338	—	**2,405**	257	**2,662**
	2013[1]	560	113	**673**	508	338	169	169	—	**1,519**	300	**1,819**
Dr Thomas Noth *Chief Information Officer* (until 31 March 2014)	2014[1]	233	6	**239**	100	67	33	33	—	**406**	—	**406**
	(min.)[2]	233	6	**239**	—	–67	–67	—	—	**172**	—	**172**
	(max.)[3]	233	6	**239**	200	133	67	67	—	**572**	—	**572**
	2013[1]	560	17	**577**	240	160	80	80	—	**977**	112	**1,089**
Dr Immo Querner *Chief Financial Officer*	2014[1]	582	19	**601**	491	327	164	164	—	**1,419**	129	**1,548**
	(min.)[2]	582	19	**601**	—	–535	–535	—	—	**66**	129	**195**
	(max.)[3]	582	19	**601**	981	654	327	327	—	**2,236**	129	**2,365**
	2013[1]	544	17	**561**	491	327	164	164	—	**1,379**	147	**1,526**
Dr Heinz-Peter Roß *Head of Division* (until 30 June 2014)	2014[1]	280	—	**280**	254	169	85	85	—	**703**	159	**862**
	(min.)[2]	280	—	**280**	—	–338	–338	–	—	**–58**	159	**101**
	(max.)[3]	280	—	**280**	508	338	169	169	—	**1,126**	159	**1,285**
	2013[1]	560	165	**725**	508	338	169	169	—	**1,571**	180	**1,751**
Ulrich Wallin *Head of Division*	2014[1]	570	13	**583**	660	440	220	60	160	**1,683**	114	**1,797**
	(min.)[2]	570	13	**583**	—	–712	–712	—	—	**–129**	114	**–15**
	(max.)[3]	570	13	**583**	1,320	880	440	120	320	**2,783**	114	**2,897**
	2013[1]	520	13	**533**	648	432	216	60	156	**1,613**	121	**1,734**
Dr Jan Wicke *Head of Division* (since 1 May 2014)	2014[1]	420	20	**440**	340	227	113	113	—	**1,007**	122	**1,129**
	(min.)[2]	420	20	**440**	—	—	—	—	—	**440**	122	**562**
	(max.)[3]	420	20	**440**	680	453	227	227	–	**1,573**	122	**1,695**
	2013[1]	—	—	**—**	—	—	—	—	—	**—**	—	**—**

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

M73 **BENEFITS RECEIVED IN OR FOR THE YEAR UNDER REVIEW IN ACCORDANCE WITH SECTION 4.2.5 PARAGRAPH 3 (SECOND BULLET POINT) OF THE GERMAN CORPORATE GOVERNANCE CODE**

IN EUR THOUSAND

		Fixed remuneration	Fringe benefits	Total	One-year variable remuneration 1)
Herbert K. Haas *Chairman of the Board of Management*	2014	765	21	786	758
	2013	714	21	735	767
Dr Christian Hinsch *Deputy Chairman of the Board of Management*	2014	540	15	555	491
	2013	504	15	519	518
Torsten Leue *Head of Division*	2014	600	113	713	542
	2013	560	113	673	477
Dr Thomas Noth *Chief Information Officer* (until 31 March 2014)	2014	233	6	239	200
	2013	560	17	577	221
Dr Immo Querner *Chief Financial Officer*	2014	582	19	601	454
	2013	544	17	561	468
Dr Heinz-Peter Roß *Head of Division* (until 30 June 2014)	2014	280	—	280	445
	2013	560	165	725	462
Ulrich Wallin *Head of Division*	2014	570	13	583	770
	2013	520	13	533	763
Dr Jan Wicke *Head of Division* (since 1 May 2014)	2014	420	20	440	—
	2013	—	—	—	—

1) Benefits received for the fiscal year (basis: provisions)
2) Benefits received in accordance with German tax law
3) e.g. claw-backs

REMUNERATION OF THE SUPERVISORY BOARD

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

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

Benefits received							
	Multi-year variable remuneration [2]						
Bonus bank (3 years)	Talanx share awards (4 years)	Hannover Re share awards (4 years)	Hannover Re stock appreciation rights (10 years)	Other [3]	**Total**	Pension expense	**Total remuneration**
—	—	—	—	—	**1,544**	241	**1,785**
—	—	—	—	—	1,502	248	1,750
—	—	—	—	—	**1,046**	181	**1,227**
—	—	—	—	—	1,037	183	1,220
—	—	—	—	—	**1,255**	257	**1,512**
—	—	—	—	—	1,150	300	1,450
—	—	—	—	—	**439**	—	**439**
—	—	—	—	—	798	112	910
—	—	—	—	—	**1,055**	129	**1,184**
—	—	—	—	—	1,029	147	1,176
—	—	—	—	—	**725**	159	**884**
—	—	—	—	—	1,187	180	1,367
—	—	—	73	—	**1,353**	114	**1,467**
—	—	—	114	—	1,296	121	1,417
—	—	—	—	—	**440**	122	**562**
—	—	—	—	—	—	—	—

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

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

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

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

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

The aggregate benefits for all active members of the Supervisory Board amounted to EUR 2,412 (2,235) thousand. The details are given in the following table.

M74 INDIVIDUAL REMUNERATION OF SUPERVISORY BOARD MEMBERS[1]

IN EUR THOUSAND

Name	Function	Type of remuneration	2014[2]	2013[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	143	122
		Remuneration for committee activities	123	123
		Attendance allowances	23	24
			472	**452**
Ralf Rieger[3]	■ Deputy Chairman of the Supervisory Board ■ Member of the ▪ Finance and Audit Committee ▪ Standing Committee (until 8 May 2014)	Basic remuneration	101	84
		Variable remuneration	60	50
		Remuneration for committee activities	25	25
		Attendance allowances	10	9
			196	**168**
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	60	50
		Remuneration for committee activities	50	50
		Attendance allowances	12	11
			197	**186**
Antonia Aschendorf	■ Member of the Supervisory Board	Basic remuneration	50	50
		Variable remuneration	41	33
		Attendance allowances	5	5
			96	**88**
Karsten Faber	■ Member of the Supervisory Board	Basic remuneration	50	50
		Variable remuneration	41	33
		Attendance allowances	5	5
			96	**88**
Jutta Hammer[3]	■ Member of the Supervisory Board	Basic remuneration	70	59
		Variable remuneration	41	33
		Attendance allowances	5	5
			116	**97**
Gerald Herrmann	■ Member of the Supervisory Board (until 8 May 2014)	Basic remuneration	18	50
		Variable remuneration	16	33
		Attendance allowances	1	5
			35	**88**
Dr Herrmann Jung	■ Member of the Supervisory Board (since 6 May 2013)	Basic remuneration	50	33
		Variable remuneration	40	22
		Attendance allowances	5	4
			95	**59**
Dr Thomas Lindner	■ Member of the ▪ Supervisory Board ▪ Finance and Audit Committee ▪ Nomination Committee	Basic remuneration	50	50
		Variable remuneration	41	33
		Remuneration for committee activities	25	25
		Attendance allowances	10	9
			126	**117**
Dirk Lohmann	■ Member of the ▪ Supervisory Board ▪ Nomination Committee (since 6 May 2013 in both cases)	Basic remuneration	50	33
		Variable remuneration	40	22
		Attendance allowances	5	4
			95	**59**
Christoph Meister	■ Member of the Supervisory Board (since 8 May 2014)	Basic remuneration	32	—
		Variable remuneration	24	—
		Attendance allowances	3	—
			59	**—**
Jutta Mück[3]	■ Member of the Supervisory Board	Basic remuneration	60	66
		Variable remuneration	41	33
		Attendance allowances	7	7
			108	**106**

M74 INDIVIDUAL REMUNERATION OF SUPERVISORY BOARD MEMBERS[1]

IN EUR THOUSAND

Name	Function	Type of remuneration	2014[2]	2013[2]
Otto Müller[3]	▪ Member of the ▫ Supervisory Board ▫ Finance and Audit Committee (since 8 May 2014)	Basic remuneration	80	80
		Variable remuneration	67	55
		Remuneration for committee activities	16	—
		Attendance allowances	12	9
			175	**144**
Dr Hans-Dieter Petram	▪ Member of the Supervisory Board (until 6 May 2013)	Basic remuneration	—	17
		Variable remuneration	—	12
		Attendance allowances	—	1
			—	**30**
Dr Michael Rogowski	▪ Member of the ▫ Supervisory Board ▫ Personnel Committee ▫ Nomination Committee (until 6 May 2013 in all cases)	Basic remuneration	—	17
		Variable remuneration	—	12
		Remuneration for committee activities	—	9
		Attendance allowances	—	3
			—	**41**
Katja Sachtleben-Reimann[3]	▪ Member of the ▫ Supervisory Board ▫ Standing Committee ▫ Personnel Committee (since 8 May 2014)	Basic remuneration	52	62
		Variable remuneration	41	33
		Remuneration for committee activities	16	—
		Attendance allowances	8	7
			117	**102**
Dr Erhard Schipporeit[3]	▪ Member of the ▫ Supervisory Board ▫ Finance and Audit Committee	Basic remuneration	80	80
		Variable remuneration	68	55
		Remuneration for committee activities	40	40
		Attendance allowances	15	17
			203	**192**
Prof. Dr Jens Schubert	▪ Member of the ▫ Supervisory Board ▫ Standing Committee (since 8 May 2014 in both cases)	Basic remuneration	32	—
		Variable remuneration	24	—
		Attendance allowances	4	—
			60	**—**
Norbert Steiner	▪ Member of the ▫ Supervisory Board ▫ Personnel Committee (since 6 May 2013 in both cases)	Basic remuneration	50	33
		Variable remuneration	40	22
		Remuneration for committee activities	25	16
		Attendance allowances	6	2
			121	**73**
Prof. Dr Ulrike Wendeling-Schröder	▪ Member of the ▫ Supervisory Board ▫ Personnel Committee (until 8 May 2014 in both cases)	Basic remuneration	18	50
		Variable remuneration	16	33
		Remuneration for committee activities	9	25
		Attendance allowances	2	7
			45	**115**
Werner Wenning	▪ Member of the Supervisory Board (until 6 May 2013)	Basic remuneration	—	17
		Variable remuneration	—	12
		Attendance allowances	—	1
			—	**30**
Total[4]			**2,412**	**2,235**

[1] Amounts excluding reimbursed VAT.
[2] Remuneration for the financial year is payable at the end of the Annual General Meeting that approves the activities of the Supervisory Board for the financial year in question The figures given for the variable remuneration represent the provisions recognised for this item on the basis of estimates
[3] Including supervisory board and advisory board remuneration from consolidated companies
[4] The total amounts reflect the remuneration for all active members of the Supervisory Board during the period under review. Payments made in relation to 2013 remuneration exceeded provisions by a total of EUR 48 (1) thousand. The total amount of 2014 remuneration was increased in line with this

LOANS TO MEMBERS OF GOVERNING BODIES AND CONTINGENT LIABILITIES

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

As at the reporting date, a mortgage loan for a member of the Supervisory Board in the amount of EUR 18 (34) thousand existed at HDI Lebensversicherung AG. EUR 16 (15) thousand was repaid in the year under review. The remaining term of the loan is one year and three months and the agreed nominal interest rate is 4.2% (effective rate of 4.3%). No other loans or advances were granted to members of the Board of Management or Supervisory Board or their dependants in the year under review. No contingent liabilities existed in favour of this group of persons.

One member of the Supervisory Board is Managing Director and Chairman of the Administrative Board of Sequaero Advisors AG, Zurich, and holds an equity interest of 25.93% in this company. Secquaero Advisors AG provided a variety of advisory services to Hannover Rück SE in the year under review and received EUR 328 thousand in fees for 2014 in connection with this.

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

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

M75 MANAGEMENT REMUNERATION IN ACCORDANCE WITH IAS 24

IN EUR THOUSAND

	2014	2013
Salaries and other short-term remuneration	10,149	10,226
Other long-term benefits [1]	1,180	1,224
Awards of shares and other equity-based remuneration [2]	1,180	1,224
Cost of post-employment benefits [3]	1,203	1,291
Total	**13,712**	**13,965**

[1] The figure shown represents the value of the portion of performance-related remuneration for members of the Board of Management required to be allocated to the bonus bank for the year under review

[2] The figure shown represents the value of the share awards to be granted to members of the Board of Management for the year under review

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

REMUNERATION OF SENIOR EXECUTIVES BELOW GROUP BOARD OF MANAGEMENT LEVEL

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

Remuneration for those senior executives below Group Board of Management level who are not classified as risk takers already consists in all divisions of a fixed and a variable component. On average, variable remuneration in 2014 accounted for 30% of total remuneration.

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

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

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

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

REPORT ON POST-BALANCE SHEET DATE EVENTS

Events that may influence our net assets, financial position and results of operations are described in the report on expected developments and opportunities, as well as under "Events after the end of the reporting period" on page 294 of the Notes.

RISK REPORT

INTRODUCTORY REMARKS ON THIS YEAR'S RISK REPORT

The current risk report differs in presentation from past risk reports. We have combined the disclosures on the nature and extent of risks associated with insurance contracts under IFRS 4 and financial instruments under IFRS 7 into a single unified section on those risks in the management report; if necessary, we also refer to the Notes to the consolidated financial statements.

Fully implementing the new provisions of German Accounting Standard (GAS) 20 on group management reports resulted in only minor changes, as we had already fulfilled the modified reporting requirements in the past.

RISK STRATEGY

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

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

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

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

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

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

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

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

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

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

The confidence level chosen (99.97%) exceeds the regulatory level required under Solvency II (99.5%) and ensures that the Group will 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. This re-examination of our assumptions and any necessary adjustment of our underlying strategy resulting from it are designed to ensure that our strategic guidelines are appropriate at all times and that our actions are based on adequate information.

MAPPING OF ALL RISK CATEGORIES IN TERM

Once Solvency II enters into force at the beginning of 2016, the Group intends to determine the solvency capital requirement (SCR) using an internal Group model (TERM) for all risks with the exception of operational risk. To this end, the Group is in the pre-application phase for official approval of such a model.

The idea underlying TERM is that, for each consolidated company, an economic balance sheet is prepared as at the reporting date based on market-consistent values. This balance sheet is projected 10,000 times over a one-year period so as to obtain a distribution function of the shareholders' net assets (SNAs) contained in the market-consistent balance sheet.

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

All of the Group's risk categories are mapped in the internal model. Like market risk, natural disaster risk, and premium and reserving risk, diversification also has a significant impact on the Group's SCR. By diversification, we mean both diversification between the risk categories and diversification between the companies included in the Group. In this case, diversification is not an explicitly determined model input, but a model output resulting from the common behaviour of the sources of risk. It is calculated on the basis of carefully selected, conservative parameters.

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

The regulatory capital requirement (SCR) is determined from the projected distribution of SNAs as the difference between the expected amount of projected own funds and the value at risk (confidence level of 99.5%). Capital adequacy is measured as the ratio of shareholders' net assets at the reporting date (SNA0) to the relevant SCR.

The results of the model run as at 31 December 2014 are not yet available. It is planned to publish them on Talanx AG's website soon after their completion in the second quarter of 2015.

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:

M76 **GROUP RISK MANAGEMENT SYSTEM**

Management element	Key risk management tasks
Supervisory Board	■ Advises and oversees the Board of Management in its management of the Company, including with respect to risk strategy and risk management
Board of Management	■ Overall responsibility for risk management ■ Definition of the risk strategy ■ Responsibility for proper functioning of risk management
Executive Risk Committee (ERC)	■ Manages and coordinates service centre activities, including by setting priorities ■ Deals with limit breaches below materiality thresholds ■ Approves guidelines and other frameworks in accordance with Group frameworks for the governance of the Group's internal model to the extent that they do not require the approval of the Board of Management as a whole
Risk Committee	■ Risk monitoring and coordinating body, charged with the following key tasks: ▪ Critical examination and analysis of the risk position of the Group as a whole, with a particular focus on the risk budget approved by the Board of Management and the risk strategy ▪ Monitoring of management measures within the Group with respect to risks that could threaten the Group's continued existence
Chief Risk Officer	■ 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 take part in meetings of the Board of Management when there are items on the agenda relating to risk
Central Risk Management	■ Group-wide risk monitoring function ■ Methodological expertise, including the following: ▪ Development of processes/procedures for risk assessment, management and analysis ▪ Risk limitation and reporting ▪ Overarching risk monitoring and risk capital quantification
Local Risk Management	■ Risk monitoring function in the divisions ■ Observance of the centrally defined guidelines, methods and procedures, limit systems, and thresholds that serve as the framework for local implementation, monitoring and reporting
Compliance	■ Analysis of compliance risk, based on the early identification, assessment and communication of relevant changes in the legal framework ■ Establishment and enhancement of suitable structures for ensuring compliance with applicable legal norms and Group rules
Actuarial Function	■ Coordinates and comments on calculations of technical provisions ■ Ensures that the calculations and the assumptions and methods used are appropriate
Group Auditing	■ Process-independent review of the Group's functional areas

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

RISK MANAGEMENT PROCESS

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

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

We identify risks throughout the Group using key indicators and various risk surveys. Qualitative risks are gathered systematically using a Group-wide risk capture system. Risks spanning multiple divisions, such as compliance risks, are addressed by involving the areas or experts concerned. To ensure that all risks are identified, they are coordinated using a comprehensive risk categorisation system that is specifically tailored to Talanx and used as the basis for risk identification. The applicable methods and procedures are documented and are subject to internal adequacy reviews and to audits 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 both at the level of Talanx AG and at the divisions. An escalation procedure has been established to notify Group Risk Management, among others, of significant changes in the risk position, ensuring immediate risk management at the level of Talanx AG.

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

The Group has been in the pre-application phase with respect to the approval of its internal model in accordance with Solvency II since 2008. This model covers all risks with the exception of operational risk. As part of this pre-application phase, BaFin has been and is still conducting extensive supervisory audits at Talanx AG and in various divisions. The internal risk model has a time horizon of one calendar year and makes adjustments for the effects of diversification between Group companies and between individual risk categories. The consolidated Group as defined in 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.

As part of the risk limitation process using our central system of risk limits and thresholds, loss limits are specified in order to limit, manage and monitor risks that could threaten the Group's continued existence. The use of limits and thresholds for quantifiable material risk categories is 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.

In 2014, the Group largely completed its gradual transition to a TERM-based limit and threshold system.

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

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

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

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

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 2014. S&P assessed Hannover Re's risk management as "very strong".

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

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

Risk management at the Group is organised both centrally and locally. Responsibilities are split between local risk management at the level of the divisions and central risk management at Group level.

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

- There is a clear management and corporate structure. Key functions that span multiple areas are managed centrally
- The functions performed by the main areas involved in the financial reporting process, Finance and Accounting and Controlling, are clearly separated. Areas of responsibility have been 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, standard software is used
- An adequate system of guidelines (e.g. accounting policies, work procedures) has been set up and is updated on an ongoing basis
- Controls have been implemented in the accounting-related processes and workflows. Bookkeeping data that are received or forwarded are checked for completeness and correctness by the members of staff responsible. The principle of dual control is consistently applied. In addition, a database-driven tool is used to perform automatic plausibility checks
- Controls and work procedures in the accounting-related internal control and risk management system are reviewed as and when required and at least once a year for appropriateness and to determine whether any adjustments are necessary

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

Potential risks arising from the Group financial reporting process are identified and assessed by Group Accounting. Any action required is derived from this. The risks are included in the Group's risk survey and are monitored by Group Risk Management.

The Group's internal IFRS accounting policies are collected in an accounting manual, which is available to all Group companies in electronic form and provided to all employees directly or indirectly involved in the preparation of the consolidated financial statements. The aim of this manual is to ensure the consistent and correct application of the International Financial Reporting Standards throughout the Group. The manual is regularly updated and amended as standards evolve. Group Accounting provides support for the local accounting units at subsidiaries, ensuring compliance with the rules contained in the manual.

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

The companies included in the consolidated financial statements use a web-based application for reporting. The items contained in the balance sheet, statement of income, statement of comprehensive income, cash flow statement, statement of changes in equity and Notes as well as data with a bearing on consolidation are stored in a database and uploaded to the consolidation system for processing via interfaces. Intragroup transactions are verified through prior reconciliation processes and consolidated where necessary. Written instructions exist for this to ensure that appropriate procedures are followed. In addition, the consolidation system incorporates an approval process for manual entries that ensures compliance with the dual control principle for items over certain value limits.

The independent auditor audits Talanx AG's consolidated financial statements as at the reporting date and also reviews the Group's quarterly interim financial statements and the IFRS packages from consolidated companies.

RISKS ASSOCIATED WITH FUTURE DEVELOPMENT

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

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

The results of the Market Consistent Embedded Value (MCEV) calculations and the risk assessment using our internal risk capital model, TERM, as at the end of 2014 will become available in the first half of 2015 and will be published on the Group's website soon after their completion.

MATERIAL UNDERWRITING RISKS

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

UNDERWRITING RISKS IN PROPERTY/CASUALTY INSURANCE

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

Premium/loss risk

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

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

The Group primarily manages and reduces the various components of premium/loss risk through claims analyses, actuarial modelling, selective underwriting, specialist audits and regular review of the claims experience, as well as by recourse to appropriate reinsurance cover. For details of the loss triangles, see Note 21 "Loss and loss adjustment expense reserve". The reinsurers' credit ratings are given in the "Default risk" section.

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

M77 RETENTION RATIO IN PROPERTY/CASUALTY INSURANCE BY SEGMENT

IN %

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Industrial Lines	50.9	44.5	45.6	44.1	46.1	43.7	n. a.	n. a.	n. a.	n. a.
Retail Germany	95.6	94.9	94.6	92.9	91.6	85.6	n. a.	n. a.	n. a.	n. a.
Retail International	88.9	88.5	88.5	88.7	92.4	86.9	n. a.	n. a.	n. a.	n. a.
Primary indemnity insurance[1]	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	66.7	61.2	61.6	62.0
Non-Life Reinsurance	90.6	89.9	90.2	91.3	88.9	94.1	89.0	82.2	82.0	76.1
Total property/casualty insurance	**81.0**	**79.3**	**79.8**	**79.8**	**78.9**	**78.7**	**76.9**	**71.4**	**73.0**	**71.5**

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

M78 NET LOSS RATIO BY SEGMENT

IN %

	2014	2013[2]	2012	2011	2010	2009	2008	2007	2006	2005
Industrial Lines	81.2	81.8	75.2	66.8	82.0	68.6	n. a.	n. a.	n. a.	n. a.
Retail Germany	74.1	67.0	65.2	67.5	69.4	62.5	n. a.	n. a.	n. a.	n. a.
Retail International	65.3	66.3	68.9	70.4	75.6	71.6	n. a.	n. a.	n. a.	n. a.
Primary indemnity insurance[1]	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	69.1	73.5	73.7	69.4
Non-Life Reinsurance	68.9	70.3	70.7	78.8	72.0	72.8	70.5	73.6	71.3	82.4
Total property/casualty insurance	**70.8**	**70.8**	**70.3**	**74.4**	**73.6**	**70.5**	**69.9**	**73.6**	**72.2**	**78.8**

[1] In 2010, the Group adapted its segment reporting in line with IFRS 8 "Operating Segments" following the implementation of a corporate reorganisation by customer group in its primary insurance business. Due to cost/benefit considerations, however, the reporting for periods prior to 2009 has not been retrospectively adjusted
[2] Adjusted to reflect IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes

The rise in the loss ratio in the Retail Germany segment was largely due to additions to property loss reserves and the replacement of reinsurance cover at HDI Versicherung AG, as a result of which the loss ratio increased sharply by 7.1 percentage points to 74.1%. The Industrial Lines, Retail International and Non-Life Reinsurance segments recorded an opposite trend: in the Retail International segment, the ratio declined by 1.0 percentage points. In this case, low loss expenditure at the property/casualty insurer in the TU Europa Group had a particularly positive impact. The loss ratio in the Non-Life Reinsurance segment fell in particular as a result of a decline in large claims, which were significantly lower than expected claims (–1.4 percentage points).

Overall, the loss ratio remained unchanged year on year at 70.8%. The moderate loss ratios in past years also reflect our cautious underwriting policy and our successful active claims management.

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

M79 MAJOR LOSSES (NET) IN THE FINANCIAL YEAR [1]

	2014	2013 [2]	2012
IN EUR MILLION			
Major losses (net)	782	838	600
of which natural disasters	268	563	454
of which other major losses	514	275	146
IN %			
Combined ratio in property/casualty primary insurance and reinsurance	97.9	97.1	96.4
of which major losses (net)	6.1	6.8	5.1

1) Natural disasters and other major losses over EUR 10 million gross, for the share accounted for by the Group
2) Adjusted to reflect IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes

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

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

Reserving risk

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

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

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

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

Adequately calculating loss reserves for asbestos-related claims and environmental damage is a highly complex matter, as in some cases several years or even decades may pass between the damage being caused and the claim being reported. The Group's exposure to asbestos-related claims and environmental damage is relatively minor, however. The adequacy of these reserves is usually assessed on the basis of the survival ratio, which expresses the number of years for which the reserves would last if we were to continue to pay claims at the average amount over the last three years. At the end of the year under review, our survival ratio in the Non-Life Reinsurance segment was 28.2 (32.1) years; reserves for asbestos-related claims and environmental damage amounted to EUR 223 (200) million.

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

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

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

Our subsidiary Hannover Rück SE hedges certain inflation risks by taking out inflation swaps (zero coupon swaps in USD and EUR) and – like various other Group companies – holding inflation-linked bonds in its portfolio. These derivative financial instruments hedge a portion of the loss reserves against inflation risks. Inflation risk stems in particular from the possibility that, due to inflation, liabilities (e.g. loss reserves) may not change as assumed when the reserves were recognised.

In addition, external actuaries regularly analyse the effects of possible stress scenarios on the 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.

Given the risks described, a five percentage-point increase in the net loss ratio in property/casualty primary insurance and Non-Life Reinsurance would reduce net income after taxes by EUR 441 (424) million.

Interest rate risk in property/casualty insurance

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

Concentration risk

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

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

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

M80 ACCUMULATION SCENARIOS, INCLUDING NON-CONTROLLING INTERESTS, BEFORE TAXES[1),2)]

IN EUR MILLION

	2014	2013
200-year loss event – Atlantic hurricane	1,253	1,332
200-year loss event – US/Canadian earthquake[3)]	983	901
200-year loss event – European earthquake	977	853
200-year loss event – Chilean earthquake	838	684
200-year loss event – Japanese earthquake	805	547
200-year loss event – European storm (winter storm)	803	864
200-year loss event – Asia-Pacific earthquake[4)]	707	567

1) Actual trends in natural hazards may differ from model assumptions
2) The risk level shown was changed from 250 years in last year's report to 200 years
3) Prior-year scenario limited to the USA
4) Japanese earthquake is not included; prior-year scenario limited to Australia

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

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

M81 LOSS AND LOSS ADJUSTMENT EXPENSE RESERVE[1)]

IN EUR MILLION

	Gross	Re	Net[2)]
31.12.2014			
Germany	8,732	1,592	7,140
United Kingdom	4,255	566	3,689
Central and Eastern Europe (CEE), including Turkey	1,568	82	1,486
Rest of Europe	7,462	1,333	6,129
USA	6,312	556	5,756
Rest of North America	1,034	529	505
Latin America	1,221	74	1,147
Asia and Australia	2,311	116	2,195
Africa	215	10	205
Total	**33,110**	**4,858**	**28,252**
31.12.2013[3)]			
Germany	8,387	1,377	7,010
United Kingdom	3,790	553	3,237
Central and Eastern Europe (CEE), including Turkey	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	**30,179**	**4,628**	**25,551**

1) After elimination of intragroup cross-segment transactions
2) After adjustment for the reinsurers' share of these reserves
3) Adjusted to reflect IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes

The following table shows the focus of our insurance business in property/casualty primary insurance, broken down by the main types and classes of insurance:

M82 **PREMIUMS BY TYPE AND CLASS OF INSURANCE**

IN EUR MILLION

	Gross written premiums	Net written premiums
31.12.2014		
Property/casualty primary insurance		
Motor insurance	3,198	3,025
Property insurance	2,396	1,314
Liability insurance	1,642	865
Accident insurance	320	272
Other property/casualty insurance	979	680
Non-Life Reinsurance	7,903	7,164
Total	**16,438**	**13,320**
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**

UNDERWRITING RISKS IN LIFE INSURANCE

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

Typical risks in life insurance are associated with the fact that policies grant guaranteed long-term benefits. Whereas the premium for a given benefit is fixed at the inception of the policy for the entire policy period, the underlying parameters (interest rate levels, biometric assumptions) may change. This applies to an even greater extent to the legal framework underlying the contractual relationship. Changes that can aggravate the risk in this regard are discussed under "Material operational risks".

Biometric risk, lapse risk and interest guarantee risk

Biometric actuarial assumptions such as mortality, longevity and morbidity are established at the inception of a contract for calculating premiums and reserves. Over time, however, these assumptions may prove to be no longer accurate, and additional expenditures may be needed to boost the benefit reserve. The adequacy of the underlying biometric actuarial assumptions is therefore regularly reviewed. Epidemics, a pandemic or a global shift in lifestyle habits may pose special risks to contracts under which death is the insured risk. Under annuity insurance, the risk derives first and foremost from steadily improving medical care and social conditions as well as unexpected medical innovations that increase longevity – with the result that insureds draw benefits for longer than the calculated period.

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

- To calculate premiums and technical provisions, Group companies use carefully determined biometric actuarial assumptions, the adequacy of which is regularly ensured by continually comparing claims expected on the basis of mortality and morbidity tables against claims that have actually occurred. In addition, adequate safety margins are applied so as to ensure that the actuarial assumptions make sufficient allowance for the risks of error, random fluctuation and change
- Life insurance policies are mainly long-term contracts with a discretionary participation feature. Relatively small changes in the assumptions about biometric factors, interest rates and costs that are used as the basis for calculations are absorbed by the safety margins included in the actuarial assumptions. If these safety margins are not required, they generate surpluses, which are to a large extent passed on to policyholders in accordance with statutory requirements. The impact on earnings in the event of a change in risk, cost or interest rate expectations can therefore be limited by adjusting policyholders' future surplus participation
- We regularly review the lapse behaviour of our policyholders and trends in lapse activity in our insurance portfolio
- Reinsurance contracts provide additional protection against certain – primarily biometric – risks

Reserves are set up to ensure that commitments under these policies can be met at all times; these are calculated, among other things, on the basis of assumptions as to the future development of biometric data such as mortality or occupational disability. Specially trained life actuaries use safety margins to make sure that the actuarial assumptions also make sufficient allowance for risks of change.

In addition, life insurance policies entail lapse risks. In the event of an unusual cluster of cancellations, for example, the liquid assets available might not be sufficient to cover the benefits payable. This could lead to unplanned losses being realised on the disposal of assets. For this reason, the Group's life insurers maintain a sufficiently large portfolio of short-term investments and regularly analyse the situation with regard to cancellations. They also regularly match and manage the duration of their assets and liabilities. Furthermore, insurance intermediaries may default in the event of cancellation and therefore are selected carefully. Cancellations may also create a cost risk if new business drops off significantly and fixed costs – unlike variable costs – cannot be reduced in the short term. In this context, we are monitoring trends resulting from the financial market crisis and the situation in the insurance sector closely. The general market environment is challenging, particularly in the area of retirement products, and there is a trend towards a decline in new business. Cost control and a focus on variable sales costs by using distribution channels such as brokers are used to limit this risk.

In life insurance, a distinction is made between unit-linked policies and traditional policies with guaranteed actuarial interest rates, with traditional policies accounting for the large majority of the portfolio. Whereas, under unit-linked policies, the investment risk is borne by the customers, the insurer under traditional policies promises a guaranteed return on the savings elements of the premium.

The most significant risk in German life insurance is that investments do not generate sufficient returns to meet liabilities to customers. The guaranteed returns on savings elements under traditional life insurance policies mainly depend on the actuarial interest rate generation of the policies concerned. The interest rates included in the premium calculations for the various rate generations range from 4% to 1.75% per annum. Taking into account the additional interest reserve, the average guaranteed interest rate as at 31 December 2014 was 2.82% (2.97%).

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

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

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

Life insurers are exposed to interest rate risk in two ways. Life insurance policies have very long terms in some cases. Due to the limited supply of long-term fixed-income securities on the capital market, it is almost impossible to fully cover the interest liabilities under the policies at matching maturities. As a result, fixed interest rates on the assets side regularly have a shorter term than those on the liabilities side (duration or asset-liability mismatch). This gives rise to interest rate risk, which may have a negative impact on the Group companies concerned and therefore on the Group if interest rates remain low or fall further.

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

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

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

The biometric risks described above are especially important in life and health reinsurance; this applies in particular to catastrophe risks, such as in the event of pandemics. In our life and health reinsurance business, reserves are largely recognised on the basis of the information provided by our ceding companies. Reliable biometric actuarial assumptions are used to check the plausibility of these figures. Quality assurance measures ensure that reserves calculated by ceding companies in accordance with local accounting principles satisfy all requirements with respect to the calculation methods used and assumptions made (e.g. the use of mortality and morbidity tables, and assumptions regarding the lapse rate). All new business written by the Group in all regions complies with our globally applicable 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 comprehensive analyses (e.g. of lapse risks) are performed whenever new business activities are launched or international portfolios acquired. The interest guarantee risk that is so important in primary life insurance is of little relevance in life and health reinsurance, owing to the structure of the contracts.

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

M83 **RETENTION RATIO IN LIFE/HEALTH INSURANCE BY SEGMENT**

IN %

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Retail Germany	95.2	93.9	94.4	93.6	92.9	90.4	n. a.	n. a.	n. a.	n. a.
Retail International	98.0	95.8	89.7	82.8	84.1	83.3	n. a.	n. a.	n. a.	n. a.
Life/health primary insurance[1)]	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	87.9	86.9	86.0	85.2
Life/health reinsurance	83.9	87.7	89.3	91.0	91.7	90.7	89.3	90.8	85.4	92.8
Total life/health insurance	**89.6**	**90.9**	**91.3**	**91.8**	**91.8**	**90.1**	**88.4**	**88.5**	**85.8**	**88.2**

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

Sensitivity analysis

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

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

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

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

Sensitivities to mortality rates

The exposure of the Group's life insurers varies depending on the nature of the insurance products. For example, a lower mortality rate than expected has a positive impact on products that primarily entail mortality or morbidity risk and a negative impact on products that entail longevity risk, with corresponding impacts on the MCEV.

Sensitivities to lapse rates

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

Sensitivities to administrative expenses

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

Sensitivities to interest rates and equity prices

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

Technical provisions are classified by expected maturity and investments by the remaining term of the contract. This includes a duration (Macaulay duration) of 9.5 (9.9) for recognised liabilities and 7.7 (7.2) for fixed-income securities (including interest rate derivatives).

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

Because of the way life insurance contracts are structured, interest guarantee risk affects German life insurers in particular and therefore the Group as well. For the German life insurance companies and pension funds in the Group, the average guaranteed interest rate – weighted by the companies' gross provisions – was 2.82% (2.97%) in 2014.

As some life insurance contracts have long terms, the MCEV is also sensitive to the discounting assumptions used within the model. Beyond a term of 20 years, these are not derived from the capital market, but instead follow an industry convention that is also used in the Solvency II supervisory model. If standard industry assumptions about the discount rate for liabilities with a term of more than 20 years are higher than the interest rates then actually obtainable in the market, the MCEV underestimates the liability to policyholders and interest rate sensitivity in life insurance. If, on the other hand, the interest rates actually obtainable are higher than the discount rates, liabilities to policyholders and interest rate risk are overestimated. At present, the interest rates actually obtainable in the illiquid capital market segments for particularly long-term securities tend to suggest that the MCEVs underestimate liabilities to policyholders and interest rate sensitivity.

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

With respect to the result of the MCEV calculations at the end of 2014, the MCEV is expected to reveal a tangible decline compared with the previous year. This is due in particular to the low interest rate environment in combination with the continued duration mismatch between asset items and liability maturities. In addition, the modelling of government bonds of good credit quality will be fine-tuned. As the modelling and calculations have not yet been completed at the time of preparation, it is not currently possible to measure the effect conclusively. The 2014 MCEV report is expected to be published on Talanx AG's website in the second quarter of 2015.

Concentration risk

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

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

M84 **BENEFIT RESERVE BY REGION**[1)]

IN EUR MILLION

	Gross	Re	Net
31.12.2014			
Germany	38,770	509	38,261
United Kingdom	5,324	12	5,312
Central and Eastern Europe (CEE), including Turkey	1,166	—	1,166
Rest of Europe	2,911	99	2,812
USA	2,807	126	2,681
Rest of North America	86	1	85
Latin America	17	—	17
Asia and Australia	1,452	438	1,014
Africa	49	—	49
Total	**52,582**	**1,185**	**51,397**
31.12.2013			
Germany	37,789	477	37,312
United Kingdom	4,922	18	4,904
Central and Eastern Europe (CEE), including Turkey	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**

1) After elimination of intragroup cross-segment transactions

Derivatives embedded in life insurance contracts and not recognised separately

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

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

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

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

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

With unit-linked products, policyholders may opt to have the units transferred on termination of the contract rather than receive payment of their equivalent value (benefit in kind). In this respect, there is no direct market risk.

Other embedded derivatives are economically insignificant.

In life/health reinsurance, a number of contracts have features that require embedded derivatives to be separated from the underlying insurance contract and recognised separately at fair value in accordance with IAS 39. For further information, please refer to our disclosures in the Notes to the consolidated balance sheet, Note 13 “Derivative financial instruments and hedge accounting”.

DEFAULT RISK

Accounts receivable on insurance business always entail default or credit risk. This applies in particular to receivables due from reinsurers, retrocessionaires, policyholders and insurance intermediaries. Value adjustments or write-downs on receivables would be the result.

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

Credit risk also arises in the primary insurance business on accounts receivable from reinsurers and in the reinsurance business on receivables from retrocessionaires, as gross written business is not always fully retained but (retro-)ceded as necessary. In reinsurance ceded, we ensure that reinsurers are financially extremely sound, especially in the case of accounts with a long run-off period.

The Group counters the risk of default on accounts receivable from reinsurers and retrocessionaires through Group-wide directives and guidelines. Reinsurance partners are carefully selected by security committees made up of experts and their creditworthiness is continually monitored. A rating information system accessible throughout the Group ensures the consistent and uniform use of rating information as at a specific reporting date. To limit concentrations, an upper limit is set for each reinsurance group's share of the loss reserves. To avoid or limit default risk on reinsurance business, cession limits are stipulated for individual reinsurance partners and if necessary suitable measures taken to collateralise any receivables or other contractual obligations these reinsurance partners may have.

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

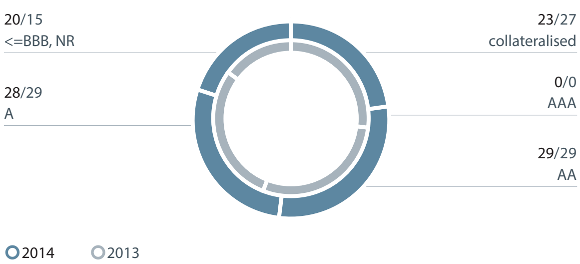
In primary insurance and in particular at the Group's own reinsurance broker Talanx Reinsurance Broker GmbH, contractual reinsurance cessions are managed in accordance with operational security and placement guidelines. In addition to traditional retrocession in Non-Life Reinsurance, Hannover Rück SE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

Claims resulting from reinsurance ceded, i.e. where we pass on risks assumed by ourselves – the reinsurers' share – amounted to EUR 7.4 (6.6) billion.

The reinsurers' share of technical provisions is secured by collateral received, such as deposits and letters of credit, in the amount of EUR 1.7 (1.8) billion. We are also the reinsurer for most of our retrocessionaires (particularly in the Non-Life Reinsurance segment), meaning that there is usually some potential for offsetting defaults against our own liabilities. An amount of EUR 5.7 (4.8) billion remains after deducting collateral received. The rating structure here is as follows:

M85 REINSURANCE RECOVERABLES ON TECHNICAL PROVISIONS BY RATING

IN %



Within the unsecured portion, 74% (80%) of our reinsurance partners/retrocessionaires are rated A or above. The large proportion of reinsurers with a high rating reflects our policy of avoiding default risk in this area wherever possible.

The carrying amount of financial instruments associated with insurance contracts (policy loans, accounts receivable on insurance business, reinsurance recoverables on technical provisions) – disregarding any collateral or other arrangements that reduce default risk – is equivalent to the maximum exposure to default risk at the reporting date.

Funds withheld by ceding companies represent the collateral furnished by Group companies to cedants outside the Group (e.g. cash deposits and securities accounts), which does not trigger payment flows and cannot be used by those cedants without our companies' consent. The duration of this collateral is generally matched to the corresponding provisions. If a ceding company defaults on funds it has withheld, the technical provisions are reduced by the same amount. Credit risk is therefore limited.

The accounting balance (income for primary insurers), defined as the reinsurers' share of earned premiums less the reinsurers' share of gross claims and claims expenses as well as gross expenses for insurance operations, was EUR –396 (–434) million in the year under review.

MATERIAL MARKET RISKS

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

In the interests of policyholders and with a view to accommodating future capital market requirements, our investment policy is essentially guided by the following goals:

- optimising the return on investment while at the same time preserving a high level of security
- ensuring liquidity requirements are satisfied at all times (solvency)
- risk diversification (mix and spread)

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

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

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

M86 **WEIGHTING OF SIGNIFICANT ASSET CLASSES**

IN %

	Value specified in investment guidelines	Position as at 31.12.2014	Position as at 31.12.2013
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 7.5	3	3

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

MARKET RISK

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

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

(Unsecured) equity price risks arise from unfavourable changes in the value of equities, equity derivatives and equity index derivatives held in the portfolio.

Currency risk results from exchange rate fluctuations – especially if there is a currency imbalance between the technical liabilities and the assets. We manage currency risk by ensuring that matching currency cover is maintained at all times. Risk is limited by investing capital wherever possible in those currencies in which the obligations under our insurance contracts must be met.

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

M87 **INVESTMENTS**

IN %

	31.12.2014	31.12.2013
EUR	69	70
USD	16	15
GBP	3	3
PLN	5	4
Other	7	8
Total	**100**	**100**

Contracts are entered into only with prime-rated counterparties and in accordance with the investment guidelines so as to avoid any risks, particularly credit risk, resulting from the use of these transactions. By systematically maintaining matching currency cover, we are also able to reduce foreign currency risk within the Group significantly.

Investments in alternative asset classes such as private equity and hedge funds are limited using a conservative set of rules and regularly monitored. The hedge funds for the individual companies 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 via fund units. They may be caused by a deterioration in the features of a particular property or by a general downturn in market prices (such as a real estate crash). In the case of direct investments in real estate, the yield and other key performance indicators (e.g. vacancies and arrears) are measured regularly at the level of individual properties and the portfolio as a whole. As with private equity funds, risk management for indirect real estate investments is based on regular monitoring of the funds' development and performance.

One important way in which market risk is monitored and managed is by regularly reviewing the value at risk (VaR), taking into account not only the investments but also the forecast cash flows for technical liabilities and their sensitivity to market risk factors (ALM VaR). The ALM VaR is based on historical market data and represents a model-based forecast of the maximum expected loss within a given holding period (e.g. ten days) that will not be exceeded for a given probability. The ALM VaR is calculated based on a confidence level of 99.5% and a holding period of ten days. This means that there is only a 0.5% probability that this estimated potential loss will be exceeded within ten days. Investment portfolio data are used as the inputs to the calculation and are updated on a daily basis. In addition to these data, the calculations use replicating portfolios for the forecast cash flows from technical liabilities in the form of payment obligations (short positions) so that dependencies between investments and insurance benefits as well as any duration gap in the investment can be taken into account and monitored. A duration gap is a mismatch in the fixed-interest period between assets and liabilities.

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

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

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

As at 31 December 2014, the ALM VaR was EUR 1,433 million, or 1.4% of the investments under consideration.

Alongside long-term monitoring of the risk-bearing capacity of the market risks associated with the investments, a version of the model is used to identify risks at an early stage in which only the last 180 weekly returns are taken into account and the most recent market observations have a stronger impact on the risk indicators due to the use of exponential weighting. This version of the ALM VaR model is much more sensitive to current changes in volatility on the capital markets and can in addition provide an early indication of an increase in risk.

Stress tests and scenario analyses complement the range of management tools. For interest rate-sensitive products and equities, we calculate possible changes in fair value on a daily basis using an historical worst-case scenario, thereby estimating the potential loss under extreme market conditions. We use scenarios to simulate changes in equity prices and exchange rates, general interest rates and spreads on bonds launched by issuers that pose a credit risk. Interest rate risk entails the risk of an adverse change in the value of the financial instruments held in the portfolio due to changes in market interest rates. Declining market yields lead to increases and rising market yields to decreases in the market price of the fixed-income securities portfolio. (Unsecured) equity price risks arise from unfavourable changes in the value of equities, equity derivatives and index derivatives held in the portfolio due, for example, to falls in particular equity indices. Currency risk is of considerable importance for an international insurance group that writes a significant amount of its business in foreign currencies.

The following table shows scenarios for changes in the Group's investments under own management as at the reporting date. The amounts shown are gross amounts; in particular, the effects shown do not reflect taxes or the provision for premium refunds. Effects arising from policyholders' surplus participation in life/health primary insurance are therefore not part of the analysis. Taking these effects into account would reduce the illustrated effects on earnings and equity significantly.

M88 SCENARIOS FOR CHANGES IN THE GROUP'S INVESTMENTS UNDER OWN MANAGEMENT AS AT THE REPORTING DATE

IN EUR MILLION

Portfolio	Scenario		Recognised in profit or loss[1]	Recognised in other comprehensive income[1]	31.12.2014 Change in the portfolio on a fair value basis[2]	31.12.2013 Change in the portfolio on a fair value basis[2]
Equities[3]						
	Equity prices	+20%	29	120	149	185
	Equity prices	+10%	15	60	75	93
	Equity prices	–10%	–15	–60	–75	–113
	Equity prices	–20%	–29	–120	–149	–227
Fixed-income securities						
	Increase in yield	+200 bps	–223	–6,428	–12,006	–9,764
	Increase in yield	+100 bps	–127	–3,449	–6,494	–5,262
	Decrease in yield	–100 bps	159	3,770	6,946	5,534
	Decrease in yield	–200 bps	342	7,953	14,673	11,596
Exchange rate-sensitive investments						
	Appreciation of the EUR[4]	+10%	–2,674	–169	–2,843	–2,459
	against USD		–1,605	–9	–1,614	–1,292
	against GBP		–322	—	–322	–279
	against PLN		–252	–1	–253	–230
	against other currencies		–495	–159	–654	–658
	Depreciation of the EUR[4]	–10%	2,674	169	2,843	2,459
	against USD		1,605	9	1,614	1,292
	against GBP		322	—	322	279
	against PLN		252	1	253	230
	against other currencies		495	159	654	658

[1] Gross (before taxes and surplus participation)
[2] Including financial instruments classified as "Loans and receivables" and "Financial assets held to maturity"
[3] Including derivatives
[4] Exchange rate movements against the euro of +/–10%, based on carrying amounts

The Group primarily enters into derivative transactions in order to hedge against price risk or interest rate risk affecting existing assets, to prepare for the subsequent purchase of securities or to generate additional earnings from existing securities. The Group also uses OTC derivatives on a minor scale, which involves a counterparty risk. In addition, Hannover Re has used inflation swaps to hedge part of the inflation risk arising from the technical loss reserves.

The full boards of management of the Group companies concerned decide on the nature and scope of investments in derivative financial instruments.

Selecting counterparties with strong credit ratings is a key means of mitigating credit risk. Internal guidelines also regulate the use of derivative products to ensure the most efficient and low-risk use of forward purchases, derivative financial instruments and structured products, and to satisfy regulatory requirements. The use of such instruments is thus subject to very strict limits. We constantly monitor the requirements set out in the investment guidelines and the statutory provisions governing the use of derivative financial instruments and structured products. Derivative positions and transactions are specified in detail in the reporting. The risk of financial default by the counterparties concerned arising from the use of OTC derivatives is reduced by netting and by means of collateral agreements.

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

CREDIT RISK

Counterparty credit risk refers to a potential deterioration in the financial situation of debtors resulting in the risk of their being unable to make contractually agreed payments in part or in full as they fall due, or to declines in the value of financial instruments due to the impaired creditworthiness of the issuer.

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

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

Counterparty credit risk is primarily limited by Talanx's system of limits and thresholds and by its investment guidelines, and is continuously monitored. To this end, limits are set at portfolio, issuer/counterparty and in some cases asset class level, ensuring a broad mix and spread in the portfolio. Exceeding these limits (breaches) triggers predefined escalation measures. The issuer's creditworthiness is the key criterion when deciding whether to invest. Creditworthiness is assessed on the basis of the Group's own credit risk analyses, which are supplemented by ratings from external agencies such as Standard & Poor's and Moody's. New investments are mainly restricted to investment-grade positions. An early warning system based on market information (in particular on credit spreads and equity prices) has been put in place to spot initial signs of crisis at companies early on and to identify potential migration risks. To reduce counterparty risk, OTC transactions are only entered into with a select group of counterparties and cross-product master agreements covering both netting and collateral are agreed (see our disclosures in Note 13 "Derivative financial instruments and hedge accounting"). We also use credit default swaps to hedge credit risk.

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

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

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

This risk assessment procedure ensures that higher-risk positions are actually assigned a significantly higher risk than lower-risk positions after taking into account clustering effects. The risk indicators calculated in this way are aggregated at the various management levels and provide the basis for monitoring and managing credit risk.

As at 31 December 2014, the credit VaR for the Group as a whole was EUR 4,231 (2,982) million, or 4.2% (3.5%) of the investments under own management. Year on year, the credit VaR ratio of 3.5% increased by 0.7 percentage points. The internal risk calculations capture all investments exposed to credit risk with the exception of country exposures with a rating better than AA– meaning that investments are modelled substantially more conservatively than in the current version of the Solvency II standard model.

The rise in the credit VaR is primarily attributable to growth in investments and fair value gains. In addition, risks were selectively entered into at marginally higher credit spreads and the average term of the investments increased slightly.

The relative changes observable in the credit VaR largely correspond to the 2013 figures. The sensitivity to changes in ratings has increased marginally, while changes in the LGD have a slightly smaller impact.

M89 **CREDIT VAR STRESS TEST**

IN EUR MILLION

	31.12.2014	31.12.2013
Rating downgrade by one notch	5,132 (+21%)	3,535 (+19%)
Rating downgrade by two notches	6,238 (+47%)	4,300 (+44%)
Increase in LGD by 10 percentage points	4,933 (+17%)	3,725 (+25%)

The table shows the sensitivity of the credit portfolio to certain credit scenarios, measured in terms of the credit VaR. It illustrates both the effect of issuer ratings being downgraded by one or two notches and the reduction in expected recovery rates in the event of default. Sensitivities are calculated by keeping all other inputs unchanged.

Disregarding collateral or other arrangements that reduce default risk, the maximum exposure to default risk (of our investments, excluding funds withheld by ceding companies) as at the reporting date corresponds to the balance sheet items.

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

Within the Group, financial assets totalling EUR 713 (527) million serve as collateral for liabilities and contingent liabilities. Of this amount, carrying amounts of EUR 79 (92) million secure existing derivatives transactions for which own investments are held in blocked custody accounts. We have received collateral with a fair value of EUR 13 (2) million for existing derivative transactions. In addition, Hannover Re Real Estate Holdings has furnished standard collateral to various credit institutions for liabilities related to investments in real estate businesses and real estate transactions. At the reporting date, this collateral amounted to EUR 574 (460) million.

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

With the exception of mortgage loans, the portfolio did not contain any past due investments that were not impaired at the reporting date because past due securities are written down immediately. Arrears on mortgage loans amount to EUR 2 (19) million in total. This figure includes receivables of EUR 1 (7) million that are more than twelve months past due. As these receivables are adequately secured by charges on property, they were not written down for impairment. Under the contractual provisions, the collateral may only be realised in the event of non-performance. For information on impairment losses charged on investments in the year under review, please refer to Note 30, page 259.

Credit rating structure of the investments: as at the end of the reporting period, 95% (95%) of our investments in fixed-income securities were issued by debtors with an investment-grade rating (i.e. a rating from AAA to BBB), with 81% (81%) rated A or above. On acquisition, promissory note loans and registered debt securities are assigned an internal rating derived as far as possible from the issuer's rating. Approximately 57% (61%) of the short-term investments, mainly in overnight money, time deposits and money-market securities with a term of up to one year (balance sheet item: other investments), are rated A or above.

The rating structures of our fixed-income securities, broken down by balance sheet item, and of the investment contracts and short-term investments are presented in the notes under "Notes to the consolidated balance sheet – Assets".

Concentration risk

A broad mix and spread of asset classes is maintained in order to minimise concentration risk. Concentration risk is limited by Talanx's system of limits and thresholds and by its investment guidelines and is continuously monitored. Overall, it is relatively small even though bank mergers in particular resulted in tangible increases in concentrations in the past. In addition, investments in higher-risk assets are only permitted to a limited extent.

Overall, the measurement and monitoring mechanisms outlined result in a conservative and broadly diversified investment strategy. Thus, within its portfolio of investments under own management, the Group's exposure to government bonds issued by the GIIPS countries amounts to only EUR 2.7 (1.5) billion on a fair value basis, or just 2.8% (1.8%). Italy accounts for EUR 1,564 (1,144) million, Spain for EUR 795 (107) million, Ireland for EUR 317 (258) million, Portugal for EUR 39 (20) million and Greece for EUR 10 (6) million.

The following table shows the exposure to the GIIPS countries, including the corporate bonds we hold, on a fair value basis:

M90 **EXPOSURE TO GIIPS FIXED-INCOME INVESTMENTS**

IN EUR MILLION

	Government bonds	Semi-government bonds	Corporate bonds: Financial	Corporate bonds: Industrial	Covered bonds/ asset-backed securities	Other	Total
31.12.2014 [1]							
Greece	10						**10**
Ireland	317		12	148	96	316	**889**
Italy	1,564		510	667	960		**3,701**
Portugal	39		5	15			**59**
Spain	795	611	166	440	466		**2,478**
Total	**2,725**	**611**	**693**	**1,270**	**1,522**	**316**	**7,137**
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**

[1] Investments are allocated to countries according to the country of the financial institution's parent rather than the country of the issuer

Due to the support measures taken at European level (the European Financial Stability Facility), there is currently no risk of default on government bonds issued by the GIIPS countries. Only with regard to Greece does default appear to be at least a possibility.

Thanks to its system of limits and thresholds, together with its investment guidelines, the Group is bound by precisely defined limits that aim to avoid risks relating to individual debtors that could endanger the Group's continued existence.

LIQUIDITY RISK

We define liquidity risk as the risk of being unable to convert investments and other assets into cash when they are needed to meet our financial obligations as they fall due. For example, it may not be possible to sell holdings (or at least not without a delay) or to close out open positions (or only at a discount) due to market illiquidity.

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

We counteract liquidity risk through regular liquidity planning and by continuously matching the maturities of our investments to our financial obligations. A liquid asset structure ensures that the Group is able to make the necessary payments at all times. Planning for technical payment obligations is based, among other things, on the expected due dates, after allowance for the run-off pattern of reserves.

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

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

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

The Group also optimises the availability of liquid funds using cash pools at the relevant subsidiaries and Talanx AG to manage cash inflows and outflows at the various Group companies.

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

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

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

Property/casualty insurance: The following table shows cash inflows from premium payments, cash outflows from claims and claims expenses paid, acquisition costs and reinsurance commissions, including administrative expenses incurred, as at the reporting date in each case.

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

M91 **CASH FLOWS AND LIQUID FUNDS FROM INSURANCE BUSINESS**[1]

IN EUR MILLION

	31.12.2014	31.12.2013[2]
Gross written premiums including premiums from unit-linked life and annuity insurance	15,845	15,412
Claims and claims expenses paid (gross)	–9,391	–8,791
Acquisition costs and reinsurance commissions paid plus administrative expenses	–4,087	–3,847
Liquid funds	**2,367**	**2,774**

[1] Presentation after elimination of intragroup transactions between the segments
[2] Adjusted to reflect IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes

Life/health insurance: To monitor liquidity risk, the Group's life insurers regularly compare net claims and claims expenses paid during the financial year against existing investments (during the year, budgeted amounts are used for net claims and claims expenses paid in the course of the financial year). In doing so, they make allowance for potential unforeseen increases in net claims and claims expenses paid using appropriate margins and monitor the ability to liquidate the investments.

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

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

As part of its loan agreements with banks, Talanx AG has entered into standard market covenants. The company has set up a continuous monitoring system in order to prevent the outstanding loan amounts from being called in owing to failure to comply with its obligations.

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

As at 31 December 2014, the Group had two syndicated variable-rate credit lines for a nominal amount of EUR 1.25 billion. As at the reporting date, these had not been drawn down (previous year: EUR 150 million). The existing syndicated credit lines can be terminated by the lenders if there is a change of control, i.e. if a person or persons acting in concert, other than HDI Haftpflichtverband der Deutschen Industrie V.a.G., gains direct or indirect control over more than 50% of the voting rights or share capital of Talanx AG.

Facilities for letters of credit (LoC) are in place at various credit institutions. A syndicated facility agreed in 2011 for the equivalent of EUR 823 (726) million runs until the beginning of 2019.

LoC facilities are also in place with credit institutions on a bilateral basis for the equivalent of EUR 2.6 (2.5) billion. The durations vary and run until 2022 at the latest. For information on the letters of credit, please refer to our disclosures under "Contingent liabilities and other financial commitments" in the "Other disclosures" section, page 292. In December 2009, a long-term unsecured line of credit specifically intended for the US life reinsurance business was agreed for a total amount of up to the equivalent of EUR 226 (363) million.

A number of LoC facilities include standard contractual clauses that give the credit institutions the right to terminate the facilities in the event of significant changes in the ownership structure of our Group company Hannover Rück SE, or that trigger a requirement to provide collateral if certain significant events, such as a significant rating downgrade, occur.

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

MATERIAL OPERATIONAL RISKS

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

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

Multifaceted, cause-based risk management and an efficient internal control system minimise risks associated with business activities in general, members of staff or technical systems. In addition to Group Auditing, the Compliance function is also responsible for overseeing compliance with the law and with external and internal guidelines.

Legal risks may arise in connection with contractual agreements and the broader legal environment, especially with respect to business-specific uncertainties in the areas of commercial and tax law as they relate to an international insurance group. Primary insurers and reinsurers are also dependent on the general political and economic conditions in the markets on which they operate. Legal risks play an important part in the area of life insurance in particular. These risks are monitored by Talanx's Board of Management, which is in constant contact with local management and also consults Group lawyers.

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

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

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

Issues brought before the courts include, for example, the question of whether section 5a(2) sentence 4 of the old version of the Insurance Contracts Act (VVG) regarding the policy model complies with European law. In this case, the European Court of Justice followed the final arguments of the Advocate General on 19 December 2013 and ruled that the limitation period established in the act was not in keeping with European law as set out in the directives. As regards the legal consequences of this ruling, the German Federal Court of Justice decided on 7 May 2014 that the right of objection of policyholders who were not properly advised of their right of objection continues to exist in principle. The Federal Court of Justice confirmed this once again in principle in the ruling handed down on 17 December 2014, stating that, if there is an effective right of objection, the contract can be rescinded in accordance with the principles of the law of restitution. On 16 July 2014, the Federal Court of Justice had already clarified that policyholders who were properly advised according to the policy model when the contract was entered into and have performed the contract for years do not have a right of objection and therefore do not have a right of restitution either. The precise form and amount of the right of restitution resulting from a legally valid objection and the number of policyholders who will invoke the ruling handed down on 7 May 2014 remain unclear in many areas and are the subject of ongoing court proceedings. Due to the way in which the Group advises policyholders, however, few are expected to exercise their right.

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

Under the VVG, policyholders as defined in accordance with section 153 III 3 of the VVG are entitled to a share of the valuation reserves as well as the surplus paid on an ongoing/annual basis and the surplus paid upon termination of the policy, unless an exclusion applies. The majority of life insurers grant a minimum share in the valuation reserves, which becomes due upon termination of the policy irrespective of the actual amount of the valuation reserves. If the valuation reserves are relatively high, customers receive a share in valuation reserves in addition to the minimum share upon termination of the policy. If the valuation reserves are low, only the minimum share may be paid. This practice has been heavily criticised by consumer protection groups and customers, as a result of which court rulings or regulators responding to this criticism may require additional payments to be made. The probability of this risk occurring is currently considered to be low. The German Federal Government's response to a minor interpellation from the Greens also shows that the Group's legal view is well founded and, in the event of a legal dispute, a valid one. The risk in this case relates to valuation reserves that have already been allocated. The potential loss will not increase significantly due to the adoption of the LVRG. A decision by the Federal Court of Justice on February 11, 2015 (file reference: IV ZR 213/14) relating to a similar proceeding involving a competitor supports the Group's practice of fulfilling claims to the surplus participation.

Legislation in other countries can also give rise to new risks. For example, the Foreign Account Tax Compliance Act (FATCA) was passed in the USA in March 2010. The US legislature's aim in adopting FATCA is to stop tax evasion by persons and companies liable for tax in the USA. To this end, all foreign financial institutions worldwide affected by FATCA (FFIs) are required to report US accounts and contracts. Non-participating FFIs are subject to a penalty tax. Products relevant to FATCA are those that allow investors to invest capital and obtain income. These include insurance products with investment components. Asset management companies are also affected in principle. The USA is aiming to conclude agreements with the countries concerned (intergovernmental agreements, IGAs) to permit data to be forwarded to the US authorities. Financial institutions in countries with an IGA are not subject to a penalty tax. An IGA was concluded in Germany back in 2013. An implementing regulation issued by the German Federal Ministry of Finance (FATCA-USA-UmsV) entered into force on 29 July 2014. FATCA is being implemented in the Group companies on schedule. Of the countries in which Group companies are affected, the governments of Spain, the United Kingdom, Italy, Luxembourg, Mexico, Austria, Poland, Chile, South Africa and Hungary have so far entered into IGAs with the USA in addition to Germany. Other countries are also planning to sign IGAs. As a result, the risk of a penalty tax on US assets continues to diminish for the Group. Assuming that all companies comply with the FATCA requirements in accordance with national law, the Group only faces the possibility of a penalty tax in Russia and Argentina at the present time. Its exposure there is small, however. The penalty tax can be avoided by adapting the investment strategy. As the legal framework is still unclear to some extent, we are continuing to keep a close eye on developments relating to FATCA in order to reduce risks.

Following the squeeze-out at Gerling-Konzern Allgemeine Versicherungs-AG that was resolved in September 2006 and became effective in May 2007, former minority interest shareholders instituted award proceedings to have the appropriateness of the settlement reviewed. The proceedings are pending before the Cologne Regional Court. The material financial risk is limited by the number of shares entitled to a settlement (approximately 10 million shares) and the difference between the settlement already paid and the enterprise value of Gerling-Konzern Allgemeine Versicherungs-AG, which can be determined as of the measurement date. The Group considers the probability of the risk occurring and a payment being made in excess of the provisions already recognised to be small.

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

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

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

HDI V. a. G, the ultimate Group parent, intends to request approval for an internal model to replace the standardised approach (TERM) and to use this when Solvency II begins, i.e. from 1 January 2016 onwards. Due to the changes over time in the supervisory authorities' interpretation of the legal situation, particularly in the form of pronouncements by EIOPA, we face a degree of uncertainty over the precise form to be taken by regulatory requirements. This may have consequences for our approval process.

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. Any transfers of shares to the Group implemented in extreme cases to overcome a deadlock would of course put a strain on liquidity. In light of the current circumstances, this risk is regarded as small at the present time.

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

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

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

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

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

EMERGING RISKS

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

STRATEGIC RISKS

Strategic risks result from the danger of an imbalance between our corporate strategy and the constantly changing general business environment. Such an imbalance might be caused, for example, by inappropriate strategic decisions, failure to consistently implement strategies once defined or the 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

Reputational risks are risks associated with possible damage to the Company's reputation as a consequence of unfavourable public perception (e.g. among clients, business partners or government agencies). These may result, for example, from the inadequate implementation of legal requirements or from delays or errors in the publication of the Company's figures. Our well-established communication channels, professional approach to corporate communications, tried-and-tested processes for defined crisis scenarios and established Code of Conduct help us to manage this risk.

MODEL RISK

At Group level, model risk receives particular attention. For us, it means the risks associated with inappropriate decisions that result from uncertainty due to a partial or total lack of information with regard to the understanding or knowledge of an event, its repercussions or its likelihood. In this context, the term "model" encompasses quantitative methods, processes and procedures that use statistical, economic, financial or mathematical theories, techniques and premises to process inputs (including qualitative data/expert estimates) so as to produce quantitative estimates.

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

To a certain extent when applying models, judgements are made by management and inputs used that are based on estimates and assumptions that are included in the model calculations and may subsequently differ from actual events. In addition, in some of our measurements, we rely on estimates of future model calculations, as certain calculations cannot be completed until after the consolidated balance sheet has been prepared.

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

OTHER MATERIAL RISKS

The Group's other risks also implicitly include Talanx AG's investment risks, especially those associated with the performance of subsidiaries, earnings stability in our investment portfolio and potential imbalances in the business. Talanx AG participates directly in its subsidiaries' performance and risks through profit and loss transfer agreements and dividend payments.

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

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

The pension obligations assumed by Talanx AG in the course of acquiring Gerling may result in the need to establish additional reserves if interest rates remain at the current low level or fall even further, or if ongoing lawsuits relating to the fact that pensions have not been adjusted make further allocations necessary. A rising inflation rate may also lead to additional expenses if it means that larger than planned adjustments to pensions become necessary. Talanx conducts regular reviews of the adequacy of its actuarial assumptions to counteract the risk of possible inadequate allocations to pension provisions (e.g. due to changes in mortality, inflation and interest rate changes).

SUMMARY OF THE OVERALL RISK POSITION

No concrete risks that could have a material adverse effect on the Group's net assets, financial position or results of operations are discernible at present. However, if risks were to occur cumulatively, this could result in the need to adjust certain intangible assets and carrying amounts. For example, a prolonged period of low interest rates could have a material adverse effect on earnings and solvency in parts of the life insurance business due to increased interest guarantee and reinvestment risk. In particular, it poses a risk to the Group's life insurers and occupational pension scheme providers, which may have to recognise additional provisions for interest payments in the HGB financial statements.

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

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

REPORT ON EXPECTED DEVELOPMENT AND OPPORTUNITIES

ECONOMIC ENVIRONMENT

The mixed performance by the global economy is likely to continue in the coming quarters: global growth should pick up speed, while the developed economies – with the USA and the UK leading the way – are likely to further close the growth gap with the emerging markets. The USA is on a growth trajectory again: the real estate market, and increasingly also the labour market, are showing solid economic development. In parallel to the increase in assets, there has been a significant rise in disposable household income in the US and a noticeable decline in debt service payments.

The economic recovery in the Eurozone should continue at a moderate level in the coming quarters. The sharp decline in energy and commodities prices will generate further growth momentum in the area over the course of the year. However, France and Italy are likely to remain a drag on growth, while we are expecting an upturn in Germany in the spring. We anticipate modest growth in the Eurozone, but the recovery will remain sluggish.

Growth momentum in the emerging markets has slowed recently and we believe these markets are facing both structural and cyclical challenges. Growth rates are likely to remain extremely heterogeneous in the future, too. Positive factors include the substantial currency reserves held by some of these countries and the relatively low level of debt overall. In addition, stronger US demand is more important for most countries than the Fed's moves to decrease liquidity. Structural problems in China are also likely to have an impact on the Chinese economy. We expect a slowdown in growth there, although the central bank's ability to respond will remain intact. The ongoing crisis in Russia – with the fall in oil prices and the sanctions – are a risk factor that can quickly lead to disruptions.

The mixed trends within the industrialised nations and the emerging markets are increasingly leading to decoupling of the economies in question and hence of the associated inflation and interest rate cycles. This is leading to a divergence between the monetary policies of the ECB, the Fed and the Bank of England. In the USA, inflation rates are likely to increase with the wage-price spiral, meaning that a "return to normal" for monetary policy would seem to make sense. The ECB is expected to continue its expansionary monetary policy due to lower inflation rates, the higher financing requirements of Eurozone governments and mixed, moderate growth rates. The deflationary trend in the Eurozone – a necessary adjustment process – is likely to continue. The fall in oil prices, which has additionally depressed prices, will probably result in negative inflation rates well into 2015.

CAPITAL MARKETS

The low interest rate environment is expected to continue for some time in view of the general environment, geopolitical risks and the ECB's expansionary monetary policy. Almost all of the EU's yield curves reached new, historical lows as at the end of the year; German government bonds also followed this trend. Depending on the data available, interest rates in the USA are expected to start rising again in 2015. Legal and political pressure on rating agencies is expected to lead to very cautious rating procedures in the future, and in cases of doubt, to lower ratings.

European and American shares are already highly valued and have little upside potential. Nevertheless, central bank policies, coupled with investor expectations, will continue to drive the stock markets. Profit margins and returns on equity are low in Europe, which is why we are expecting a catch-up process as the European economy stabilises. In addition, we anticipate economic tailwinds due to the decline of the euro against the US dollar and low commodities prices. Nevertheless, more attractive relative share valuations compared to bonds are likely to encourage a shift from the latter to the former. The end of the zero interest rate policy in the USA suggests that risk assets will become more volatile over the course of the year.

FUTURE STATE OF THE INDUSTRY

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

INTERNATIONAL INSURANCE MARKETS

In international property and casualty insurance, we expect low real growth in premium income in 2015. While only a slight increase is likely in the developed economies, we expect significant growth in the emerging markets. At present, the market in the developed countries is hardening slightly, which is reflected in moderate increases in premiums. However, this trend is losing momentum due to only marginal improvements in economic growth. As a result, we expect profitability to continue to stagnate at a low level in 2015.

In Central and Eastern Europe, we anticipate that the decline in premium growth in 2014 will be followed by a return to moderately higher premium growth in 2015 as a result of the improving economic and consumer climate, and attractive premiums. However, this projection depends on how the conflict between Russia and Ukraine develops. Latin America is likely to see a slight increase in real premium growth after modest growth in 2014. Structural reforms have begun in Mexico, creating growth potential, while in Brazil, the end of the long and uncertain election campaign may generate positive momentum. We also reckon with strong premium growth continuing in the Asian emerging markets in 2015.

We expect a further increase in real premium growth in the international life insurance markets in 2015, both in the developed and in the emerging markets. However, the challenging low interest rate environment and regulatory changes involving stricter capital requirements – which continue to exert a negative impact on life insurers' results – will continue to put pressure on their profitability.

In Central and Eastern Europe, real premium growth in 2015 is expected to increase again and be roughly on a level with the developed insurance markets, following a decline in 2014. In some EU member states in particular, the outlook is positive thanks to a more upbeat consumer climate, lower inflation and more favourable labour market conditions. Latin America is likely to see a recovery in real premium growth in 2015 after a slowdown in 2014. In Asia, we expect strong premium growth to continue, driven among other things by the extension of the cap on tax benefits for insurance premiums in India.

GERMAN INSURANCE INDUSTRY

In light of the persistent economic risk factors – which will also continue into 2015 – forecasts are generally subject to caveats. Assuming that macroeconomic conditions do not deteriorate significantly, the insurance industry will achieve largely constant premium volumes year-on-year according to the German Insurance Association (GDV).

Property and casualty insurance in Germany is expected to see an increase in premium income in 2015. However, premium growth is likely to decline somewhat compared with the level recorded in the year under review. This projection reflects the expected growth in motor insurance – the key driver of positive premium growth in recent years.

Following the strong increase in premium volume – in particular in the single premium business – for German life insurers in the year under review, the GDV expects a slight decline in premiums for 2015. Persistently low interest rates and their negative impact on total returns are likely to continue to have an adverse effect on German life insurers' profitability in 2015.

FOCUS AND FORECASTS FOR THE TALANX GROUP IN FINANCIAL YEAR 2015

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

In the Industrial Lines Division we aim to further extend our global presence by achieving above-average growth outside Germany. In the Retail Germany Division, a programme designed to stabilise the division and improve its long-term competitiveness has been launched. Further details on this can be found in the section on the course of business. The focus of the Retail International Division is largely on the successful integration of the Inversiones Magallanes insurance group in Chile, which was acquired in February 2015. We expect stable premium volumes in the Non-Life Reinsurance Division and will continue to pursue our systematic approach of only underwriting business that meets our margin requirements. In Life/Health Reinsurance, we are continuing our focus on expanding our service offering in the current year and expect a slight increase in gross premiums.

M92 FOCUS OF THE TALANX GROUP'S PRINCIPAL DIVISIONS TAKING INTO ACCOUNT ECONOMIC CONDITIONS

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

ANTICIPATED FINANCIAL DEVELOPMENT OF THE GROUP

We are making the following assumptions:

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

TALANX GROUP

Based on steady exchange rates, the Talanx Group is aiming for gross premium growth of 1% to 3% in 2015, with most of this generated outside Germany. The IFRS return on investment should amount to over 3.0%. We are aiming for Group net income of at least EUR 700 million, even though we are substantially increasing our calculated budget for major losses in comparison to 2014, and 2015 will be dominated by investments as part of the Retail Germany programme. It follows that we expect our return on equity to be around 9% in 2015, in line with our strategic target of 750 basis points above the average risk-free interest rate. This earnings target assumes that any major losses will be within the expected range and that there will be no disruptions on the currency and capital markets. Our express aim is to pay out 35% to 45% of Group net income as dividends.

INDUSTRIAL LINES

As our domestic market penetration is already high, the best opportunities for growth are still to be found outside Germany. For this reason, in 2015 we intend to continue our efforts to make HDI-Gerling Industrie Versicherung AG a global player. Throughout Europe, we aim to expand our industrial insurance business in the fields of local business, small and medium enterprises and international insurance programmes. Latin America, (South-)East Asia and MENA (Middle East and North Africa) remain our target regions outside Europe. Due to the continuing increase in international business in particular, we expect overall gross premium growth of 2% to 5% (adjusted for exchange rate effects). To ensure that premium growth is reflected by more than this amount in earnings, we will continue with our strategic aim of gradually raising the retention in 2015. The segment's strong capital position should probably make it possible to increase the retention ratio to significantly above 50%. Compared with the previous year, we expect that major losses will return to normal in 2015 and, as a result, that the combined ratio will be lower, at 96% to 98%. The EBIT margin should therefore increase and lie between 9% to 10% in 2015, and the return on equity should be in the region of 7%.

RETAIL GERMANY

We anticipate that gross written premiums in the Retail Germany Group segment will erode by approximately 5% in 2015, due in particular to policies maturing, what is likely to be more subdued new business as a result of the Life Insurance Reform Act (LVRG) and the persistently low interest rates in life insurance business. As a result of the changes in the law (LVRG) and persistently low interest rates, we are not providing a figure for the new business margin in 2015. Key components of the LVRG such as the reduction of the maximum technical interest rate, the recognition of the effective costs of contracts and the lowering of the maximum zillmerisation rate apply from 1 January 2015 and will have a negative overall effect on earnings. In addition, if there is a further decline in interest rates the need to write down intangible assets allocated to the segment cannot be ruled out. The combined ratio is expected to be approximately 100%, due to the investment phase of the divisional programme. Assuming that there is no further decline in interest rates, we expect an EBIT margin of 2% to 3% for 2015. As a result, the return on equity should be in the region of 3% in 2015.

RETAIL INTERNATIONAL

In the Retail International segment we are aiming for growth in gross written premiums of 4% to 8% in 2015, assuming that there are no material exchange rate fluctuations. We anticipate that growth in value of new business is likely to lie between 5% and 10% in 2015, in line with our strategic target, and that the combined ratio is likely to be around 96%. We expect an EBIT margin of at least 5%. In addition, we expect the return on equity for 2015 to exceed 6%.

NON-LIFE REINSURANCE

Based on steady exchange rates, we expect stable premium volumes for 2015 in Non-Life Reinsurance. We are continuing to pursue our systematic approach of only underwriting business that meets our margin requirements. We expect healthy results for mid-year renewals thanks to our good ratings and longstanding, stable customer relationships.

Assuming that major losses remain within the expected range, our goal is for our combined ratio to be less than 96%, despite softer market conditions overall. The EBIT margin for Non-Life Reinsurance should amount to at least 10%.

LIFE/HEALTH REINSURANCE

As a global reinsurance company, we are focusing on long-term success in the current fiercely competitive environment. As in the past, our business in the current financial year will be largely affected by developments on the capital markets and by the complex supervisory requirements in individual regions.

In Life/Health Reinsurance, we are continuing to focus in the current year on expanding our range of services so that we can offer our customers an optimum combination of traditional risk coverage and comprehensive reinsurance services. Adjusted for exchange rate effects, we anticipate a slight rise in gross premiums and an increase in profit. Once again, we are expecting the value of new business (excluding non-controlling interests) in 2015 to be in excess of EUR 90 million. Our EBIT margin target for the financial solutions and the longevity business is 2%; for the mortality and morbidity business it is 6%.

REINSURANCE DIVISION OVERALL

The Talanx Group expects the return on equity for the Reinsurance Division overall to be at least 11% in 2015, in line with its strategic target of 900 basis points above the five-year average for (risk free) ten-year German government bonds.

OVERALL ASSESSMENT BY THE BOARD OF MANAGEMENT

Talanx AG's Board of Management aims for reliable continuity, a stable and high return on equity, financial strength and sustainable, profitable growth, and as such focuses the Talanx Group on long-term value creation. 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 designed our organisational structure to meet the needs of our customers – our guide in creating a lean and efficient structure. The core objective is to generate profitable growth, with the aim of further developing our individual strengths and pooling forces within the Group.

The Talanx Group is actively responding to the challenges of a globalised world. It has set itself the goal of achieving above-average success in generating business, particularly outside of Germany. Strategic cooperation agreements and acquisitions of companies with strong sales forces in our defined regions of Latin America and Central and Eastern Europe are expected to help expand the Group's international reach. Industrial Lines offers a global service to industrial groups and SMEs, while simultaneously gaining new customers on local markets outside Germany. The foreign companies making up Talanx International conduct business with local retail and commercial customers. Reinsurance is by definition an international business, and the global diversification of large-scale, complex risks in order to make them acceptable is a basic tool.

OPPORTUNITIES MANAGEMENT

Identifying, managing and taking advantage of opportunities is an integral part of our performance management process, and has been firmly anchored in the Talanx Group's corporate culture and end-to-end management philosophy for years. We see the consistent exploitation of available opportunities as a basic business challenge that is crucial to achieving our corporate objectives. The core element of our opportunities management process is an integrated performance metric developed along the lines of a balanced scorecard. This is applied across all hierarchical levels – from senior Group management down to individual functions at Group companies. It also forms the link between our strategic and operational opportunities management.

In the area of strategic opportunities management, the annual performance management cycle begins with Group management evaluating the strategic targets and specific strategic core issues identified on the basis of our umbrella strategy. These are then broken down into indicative targets for the divisions, which in turn use these as a basis to develop specific targets and strategic action programmes as part of their strategic programme planning. Following a strategy dialogue between Group management and the divisional boards of management concerned, the individual strategic programmes are combined to form a strategic programme for the entire Group that forms the starting point and framework for the operational aspect of opportunities management.

In the area of operational opportunities management, strategic inputs are translated into operational targets and a detailed schedule of activities, and are also implemented as mandatory goal agreements at levels below division level. The integrated performance metric is also used here. Whether and to what extent opportunities and possibilities actually result in operational success is assessed and tracked using mid-year and end-of-year performance reviews. In turn, these reviews generate forward-oriented management inputs for the next opportunities management cycle.

Two key aspects of opportunities management at the Talanx Group are therefore shifting the focus from short-term performance and purely financial results onto the success factors and actions required in the long term, and monitoring the successful implementation of these value drivers as part of a regular, integrated management and assessment process.

ASSESSMENT OF FUTURE OPPORTUNITIES AND CHALLENGES

OPPORTUNITIES ASSOCIATED WITH DEVELOPMENTS IN THE BUSINESS ENVIRONMENT

Demographic change in Germany: Demographic change is currently creating two markets offering considerable growth potential: firstly, a market for products for senior citizens, and secondly, a market for young customers needing to make additional personal provision in response to the diminishing benefits offered by social welfare systems. It is evident that today's senior citizens can no longer be equated with the "traditional" pensioners of the past. Not only are these customers increasingly making use of services – for which they are willing and able to pay – but, even more significantly, this customer group is increasingly active and is therefore devoting more attention than previous generations to finding the necessary financial cover for various risks. This means that it is not enough for providers simply to add assistance benefits onto existing products; instead, they have to offer innovatively designed products to cater for these newly emerging needs. Examples include products for second homes and extensive foreign travel, for sporting activities pursued well into pensioners' advancing years, and for passing assets on to their heirs. At the same time, younger customers are also becoming increasingly aware of the issue of financial security in old age. It is possible to tap into this potential via a range of (state-subsidised) private retirement products and attractive occupational retirement provision schemes. We currently expect to see a trend in this client group towards increased demand for retirement provision products with more flexible saving and payout phases. Due to their comprehensive range of products, innovative solutions and sales positioning, the Group's life insurance companies may be able to profit from the senior citizen and young customer markets.

Should we be able to benefit more from the sales opportunities arising from demographic change than currently expected, this could have a positive impact on our premium growth and results of operations, and could lead to us exceeding our forecasts.

Change in energy policy: Germany has decided in principle that it will meet its future energy requirements primarily from renewable sources. The change in energy policy and climate protection feature strongly in the German government's coalition agreement. The policy of converting the energy system to supplying renewable energy is to be continued, while attention is also to be focused on moderating price increases for the end consumer. In addition to further extending the use of renewable energies within a stable regulatory framework, energy efficiency is becoming increasingly important. We see the changes to the energy system as an important chance to stimulate innovation and technological progress, thus creating an opportunity to strengthen Germany as a business location. As an insurance group, we are actively supporting this change. We offer tailor-made solutions for our industrial clients for developing, marketing and using new energy technologies. Apart from renewable energy sources, storage technologies, the expansion of the power grid and intelligent control of individual components (smart grid) will make a decisive contribution to the success of the change in energy policy. We are supporting the change with our investments in the energy sector. Building on our existing investments in energy networks, wind farms and water companies, we are planning to further increase our investments in power distribution and renewable energies.

Should we be able to benefit from sales opportunities arising from the change in energy policy more than currently expected, this could have a positive impact on our premium growth and results of operations, and could lead to us exceeding our forecasts.

Financial market stability: Turbulence on the financial markets has severely shaken clients' trust in banks. Policyholders are also experiencing significant and prolonged uncertainty as a result of current low interest rates and stock market volatility. However, this macroeconomic environment also offers opportunities for insurance companies to develop innovative products designed specifically to address these new concerns. In Europe, the USA and Asia, life insurers have been increasingly concentrating on selling modern, versatile index-linked products. Traditional German life insurance, which gives guarantees for the entire term of the policy, is being put to the test. Given the high own funds requirements under Solvency II for this product category, we believe it makes sense in principle to express these guarantees in a more capital efficient manner in the future and to develop products in the future in line with this.

Should the financial markets stabilise more definitively and should innovative products be accepted more quickly than currently expected, this could have a positive impact on our premium growth, return on investment and results of operations, and could lead to us exceeding our forecasts.

Regulatory and financial reporting changes: The entire insurance industry is operating against a backdrop of regulatory amendments, some of which are pending and some of which are already effective, and is therefore facing extensive changes, especially in the context of the IFRSs, Solvency II and a torrent of associated European and German implementing legislation. We are tracking these financial reporting and regulatory changes closely, have identified the stricter requirements associated with them and have taken action accordingly. At the same time, this situation offers us an opportunity to enhance our risk management to meet these more complex and extensive future requirements. We are currently implementing and refining an in-house, Solvency II-compliant stochastic risk capital model. This is at the pre-application stage with the Federal Financial Supervisory Authority (BaFin), and its purpose is to evaluate risk categories and the Group's overall risk position, and thus enable the use of in-house models throughout the Talanx Group. See page 62 in the section entitled "The Talanx Group" for further details.

In Europe, reinsurance companies may benefit from cedants' increased demand for reinsurance solutions as a result of the higher capital requirements under Solvency II. This is because transferring risk to reinsurers with good ratings offers an economically attractive alternative.

Should the Group succeed in fully meeting the new regulatory requirements faster than currently expected, this could have a positive impact on our premium growth and results of operations, and could lead to us exceeding our forecasts.

OPPORTUNITIES WITHIN THE GROUP

We are currently in the process of realigning the Retail Germany segment so as to future-proof the Group and improve its competitiveness, and to eliminate cost disadvantages in the German private retail business. Our ultimate aim is to reduce complexity and make our procedures more efficient and customer friendly. Our activities revolve around four key areas: customer benefits, profitable growth, efficiency, and a performance culture. We will only be successful if our clients are fully satisfied, and to this end we are working on making it as simple as possible for both end clients and sales partners to take decisions. Our aims are clear language, speedy solutions and compelling products. To achieve positive premiums and earnings trends, we need to align our business with clear-cut risk and profit targets, and fully exploit opportunities in the market. For this reason it is important for us to review each individual product for long-term profitability. We are working on ways to make more systematic cross-divisional use of existing client contacts. This realignment requires a firm belief on our part that the way we think and act must be performance-driven throughout. We actively aim to encourage this kind of culture.

Should we succeed in restructuring our internal procedures faster than currently expected, this could impact positively on our premium growth and results of operations, and could lead to us exceeding our forecasts.

SALES OPPORTUNITIES

Bancassurance: The sale of insurance products via banks, known as bancassurance, has become an established practice in recent years. Bancassurance has been a great success at the Talanx Group and offers encouraging prospects for the future. The basis of this success is a special business model in which the insurance business is fully integrated into the banking partner's business structures. The insurance companies design and develop the insurance products and, in return, banks, savings institutions and post offices provide a variety of sales outlets. This sales channel is established within the Talanx Group both in Germany and in particular in Poland, Hungary and Russia. In principle, we see the use of this model outside Germany as a means of promoting profitable growth with a focus on the European markets. The success of Talanx's bancassurance model at its current Group companies primarily stems from three core factors. Firstly, we draw up exclusive long-term cooperation agreements, enabling insurance products to be sold via our partners' sales outlets. Secondly, the highest possible degree of integration is required, together with excellent products and services: cooperation is part of our partners' strategic focus. The insurance companies design exclusive, tailor-made products for the bank's client segments, and form an integral part of their market presence. Integration with our partners' IT systems also makes it easier to provide all-round advice when selling banking and insurance products. Thirdly, success depends on providing customised sales support to our partners. Bank sales staff are given individual training and exclusive guidance by sales coaches from the insurance companies, allowing them to build up product expertise and experience of sales approaches. The insurance companies also supply readily understandable supporting sales materials.

Our companies in Poland also market their established products via sales cooperation agreements, but use a number of different banks and are not fully integrated with their partners' market presence.

Should we be able to expand our bancassurance activities faster than currently expected, this could have a positive impact on our premium growth and results of operations, and could lead to us exceeding our forecasts.

Internet: The growth of the online economy means that companies are increasingly suffering massive losses as a result of cyber attacks. Most notably, espionage activities by intelligence services have demonstrated recently that manufacturing industry in particular is not immune to risks from cybercrime, despite excellent defence mechanisms. Attention is also increasingly focused on senior management responsibility. For this reason, HDI-Gerling has developed Cyber+, an insurance solution that comprehensively covers the various risks. HDI-Gerling's all-round protection spans all lines of business and covers both first-party losses arising as a result of cybercrime and also third-party losses by customers, service providers or other third parties, for which companies are liable. In addition, it allows management's civil and criminal responsibilities to be taken into account.

Should we be able to exploit the sales opportunities arising from the need for additional internet risk cover to a greater extent than currently expected, this could have a positive impact on our premium growth and results of operations, and could lead to us exceeding our forecasts.

SUMMARY OF FUTURE OPPORTUNITIES

Talanx AG's Board of Management considers that identifying, managing and taking advantage of opportunities is an integral part of the Talanx Group's range of management tools. Our systematic approach sets out a clear strategy for ensuring the Group's long-term viability and its implementation. This is key to efficient enterprise and group management. We therefore constantly monitor changing external market conditions to enable us to identify opportunities at an early stage, and to respond to them via our flexible internal structure. This allows us to fully exploit future opportunities that are crucial to achieving our corporate goals.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

NOTES

CONSOLIDATED BALANCE SHEET OF TALANX AG
AS AT 31 DECEMBER 2014

N1 **CONSOLIDATED BALANCE SHEET — ASSETS**

IN EUR MILLION

	Note			31.12.2014	31.12.2013 [1]
A. Intangible assets					
a. Goodwill	1		1,090		1,105
b. Other intangible assets	2		1,006		1,446
				2,096	**2,551**
B. Investments					
a. Investment property	3		1,873		1,623
b. Shares in affiliated companies and participating interests	4		112		92
c. Investments in associates and joint ventures	5		262		247
d. Loans and receivables	6/12		30,553		32,231
e. Other financial instruments					
i. Held to maturity	7/12	2,454			2,984
ii. Available for sale	8/12	56,183			44,922
iii. At fair value through profit or loss	9/12/13	1,139			1,090
f. Other investments	10/12	3,834			3,121
Investments under own management			**96,410**		**86,310**
g. Investments under investment contracts	11/12/13		2,037		1,758
h. Funds withheld by ceding companies			14,432		12,894
Investments				**112,879**	**100,962**
C. Investments for the benefit of life insurance policyholders who bear the investment risk				9,426	8,325
D. Reinsurance recoverables on technical provisions				7,370	6,604
E. Accounts receivable on insurance business	14			5,252	5,039
F. Deferred acquisition costs	15			4,645	4,513
G. Cash at banks, cheques and cash-in-hand				2,145	1,864
H. Deferred tax assets	28			764	485
I. Other assets	12/13/16			2,699	2,202
J. Non-current assets and assets of disposal groups classified as held for sale [2]				22	248
Total assets				**147,298**	**132,793**

[1] Adjusted to reflect IAS 8, see “Accounting policies”, subsection “Changes in accounting policies and errors” in the Notes
[2] For further information, see “Non-current assets held for sale and disposal groups” in the Notes

N2 CONSOLIDATED BALANCE SHEET — EQUITY AND LIABILITIES

IN EUR MILLION

	Note			31.12.2014	31.12.2013[1]
A. Equity	17				
a. Subscribed capital		316			316
Nominal value: 316 (previous year: 316) Contingent capital: 104 (previous year: 104)					
b. Reserves		7,682			6,811
Equity excluding non-controlling interests			**7,998**		**7,127**
c. Non-controlling interests			4,902		3,997
Total equity				**12,900**	**11,124**
B. Subordinated liabilities	12/18		2,661		3,107
C. Technical provisions					
a. Unearned premium reserve	19	6,316			5,678
b. Benefit reserve	20	52,679			49,767
c. Loss and loss adjustment expense reserve	21	37,256			33,775
d. Provision for premium refunds	22	4,484			2,178
e. Other technical provisions		374			319
			101,109		**91,717**
D. Technical provisions for life insurance policies where the investment risk is borne by the policyholders			9,426		8,325
E. Other provisions					
a. Provisions for pensions and other post-employment benefits	23	2,251			1,696
b. Provisions for taxes	24	722			703
c. Miscellaneous other provisions	25	735			688
			3,708		**3,087**
F. Liabilities					
a. Notes payable and loans	12/26	1,349			942
b. Funds withheld under reinsurance treaties		6,253			5,535
c. Other liabilities	12/13/27	7,626			6,969
			15,228		**13,446**
G. Deferred tax liabilities	28		2,262		1,754
H. Liabilities included in disposal groups classified as held for sale[2]			4		233
Total liabilities/provisions				**134,398**	**121,669**
Total equity and liabilities				**147,298**	**132,793**

[1] Adjusted to reflect IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes
[2] For further information, see "Non-current assets held for sale and disposal groups" in the Notes

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

CONSOLIDATED STATEMENT OF INCOME OF TALANX AG
FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2014

N3 **CONSOLIDATED STATEMENT OF INCOME**

IN EUR MILLION

	Note	2014			2013[1]
1. Gross written premiums including premiums from unit-linked life and annuity insurance			28,994		28,151
2. Savings elements of premiums from unit-linked life and annuity insurance			1,091		1,131
3. Ceded written premiums			3,612		3,539
4. Change in gross unearned premiums			–449		–506
5. Change in ceded unearned premiums			–2		–138
Net premiums earned	**29**			**23,844**	**23,113**
6. Claims and claims expenses (gross)	31		22,702		21,648
Reinsurers' share			2,678		2,415
Claims and claims expenses (net)				**20,024**	**19,233**
7. Acquisition costs and administrative expenses (gross)	32		6,157		5,903
Reinsurers' share			536		552
Acquisition costs and administrative expenses (net)				**5,621**	**5,351**
8. Other technical income			43		52
Other technical expenses			300		200
Other technical result				**–257**	**–148**
Net technical result				**–2,058**	**–1,619**
9. a. Investment income	30	4,263			3,963
b. Investment expenses	30	487			518
Net income from investments under own management			3,776		**3,445**
Net income from investment contracts	30		10		13
Net interest income from funds withheld and contract deposits	30		358		334
Net investment income				4,144	**3,792**
of which share of profit or loss of equity-accounted associates and joint ventures				9	13
10. a. Other income	33		1,100		808
b. Other expenses	33		1,294		1,215
Other income/expenses				**–194**	**–407**
Profit before goodwill impairments				**1,892**	**1,766**
11. Goodwill impairments				—	—
Operating profit (EBIT)				**1,892**	**1,766**
12. Financing costs	34			183	206
13. Taxes on income	35			341	308
Net income				**1,368**	**1,252**
of which attributable to non-controlling interests				599	520
of which attributable to shareholders of Talanx AG				769	732
Earnings per share					
Basic earnings per share (EUR)				3.04	2.90
Diluted earnings per share (EUR)				3.04	2.90

[1] Adjusted to reflect IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF TALANX AG FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2014

N4 **CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

IN EUR MILLION

	2014	2013 [1]
Net income	**1,368**	**1,252**
Items that will not be reclassified to profit or loss		
Actuarial gains (losses) on pension provisions		
Gains (losses) recognised in other comprehensive income for the period	–576	160
Tax income (expense)	172	–48
	–404	**112**
Changes in policyholder participation/shadow accounting		
Gains (losses) recognised in other comprehensive income for the period	28	–5
Tax income (expense)	—	—
	28	**–5**
Total items that will not be reclassified to profit or loss, net of tax	**–376**	**107**
Items that may be reclassified subsequently to profit or loss		
Unrealised gains and losses on investments		
Gains (losses) recognised in other comprehensive income for the period	3,888	–900
Reclassified to profit or loss	–636	–314
Tax income (expense)	–473	246
	2,779	**–968**
Exchange differences on translating foreign operations		
Gains (losses) recognised in other comprehensive income for the period	429	–410
Reclassified to profit or loss	–2	–17
Tax income (expense)	–35	43
	392	**–384**
Changes in policyholder participation/shadow accounting		
Gains (losses) recognised in other comprehensive income for the period	–2,219	487
Tax income (expense)	45	–8
	–2,174	**479**
Changes from cash flow hedges		
Gains (losses) recognised in other comprehensive income for the period	384	–59
Reclassified to profit or loss	1	—
Tax income (expense)	–14	1
	371	**–58**
Changes from equity method measurement		
Gains (losses) recognised in other comprehensive income for the period	11	1
Reclassified to profit or loss	—	—
Tax income (expense)	—	—
	11	**1**
Other changes		
Gains (losses) recognised in other comprehensive income for the period	—	1
Reclassified to profit or loss	—	—
Tax income (expense)	—	—
	—	**1**
Total items that may be reclassified subsequently to profit or loss, net of tax	**1,379**	**–929**
Other comprehensive income for the period, net of tax	**1,003**	**–822**
Total comprehensive income for the period	**2,371**	**430**
of which attributable to non-controlling interests	1,173	154
of which attributable to shareholders of Talanx AG	1,198	276

[1] Adjusted to reflect IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

N5 **CHANGES IN EQUITY**

IN EUR MILLION

	Subscribed capital	Capital reserves	Retained earnings
2013			
Balance at 31.12.2012	316	1,369	4,830
Adjusted to reflect IAS 8 [1]	—	—	−57
Adjusted balance at 1.1.2013	316	1,369	4,773
Changes in ownership interest without a change in control	—	—	6
Other changes in basis of consolidation	—	—	—
Net income [1]	—	—	732
Other comprehensive income	—	—	—
of which not eligible for reclassification	—	—	—
of which actuarial gains or losses on pension provisions	—	—	—
of which changes in policyholder participation/shadow accounting	—	—	—
of which eligible for reclassification	—	—	—
of which unrealised gains and losses on investments	—	—	—
of which currency translation	—	—	—
of which change from cash flow hedges	—	—	—
of which change from equity method measurement	—	—	—
of which other changes [2]	—	—	—
Total comprehensive income	—	—	732
Capital increase	—	4	—
Capital reduction	—	—	—
Dividends to shareholders	—	—	−265
Other changes outside profit or loss	—	—	4
Balance at 31.12.2013	316	1,373	5,250
2014			
Balance at 1.1.2014	316	1,373	5,250
Changes in ownership interest without a change in control	—	—	−1
Other changes in basis of consolidation	—	—	1
Net income	—	—	769
Other comprehensive income	—	—	—
of which not eligible for reclassification	—	—	—
of which actuarial gains or losses on pension provisions	—	—	—
of which changes in policyholder participation/shadow accounting	—	—	—
of which eligible for reclassification	—	—	—
of which unrealised gains and losses on investments	—	—	—
of which currency translation	—	—	—
of which change from cash flow hedges	—	—	—
of which change from equity method measurement	—	—	—
of which other changes [2]	—	—	—
Total comprehensive income	—	—	769
Capital increase	—	—	—
Capital reduction	—	—	—
Dividends to shareholders	—	—	−303
Other changes outside profit or loss	—	—	−26 [3]
Balance at 31.12.2014	316	1,373	5,690

1) Adjusted to reflect IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes
2) Other changes consist of policyholder participation/shadow accounting as well as miscellaneous other changes
3) The decrease in retained earnings is attributable to the subsequent purchase cost recognised in connection with the acquisition of non-controlling interests in a company that was completed in prior years; in accordance with IFRS 10.23, this is classified as an equity transaction

Other reserves						
Unrealised gains/losses on investments	Currency translation gains/losses	Other changes in equity	Measurement gains/ losses on cash flow hedges	Equity attributable to shareholders of Talanx AG	Non-controlling interests	Total equity
1,949	48	–1,446	87	7,153	4,156	11,309
—	—	—	—	–57	—	–57
1,949	48	–1,446	87	7,096	4,156	11,252
—	1	—	—	7	–7	—
—	—	—	—	—	–14	–14
—	—	—	—	732	520	1,252
–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	276	154	430
—	—	—	—	4	2	6
—	—	—	—	—	–2	–2
—	—	—	—	–265	–258	–523
—	5	—	—	9	–34	–25
1,269	–209	–906	34	7,127	3,997	11,124
1,269	–209	–906	34	7,127	3,997	11,124
2	—	—	—	1	–21	–20
—	—	—	—	1	–1	—
—	—	—	—	769	599	1,368
2,267	176	–2,348	334	429	574	1,003
—	—	–357	—	–357	–19	–376
—	—	–381	—	–381	–23	–404
—	—	24	—	24	4	28
2,267	176	–1,991	334	786	593	1,379
2,267	—	—	—	2,267	512	2,779
—	176	—	—	176	216	392
—	—	—	334	334	37	371
—	—	6	—	6	5	11
—	—	–1,997	—	–1,997	–177	–2,174
2,267	176	–2,348	334	1,198	1,173	2,371
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	–303	–246	–549
—	—	—	—	–26	—	–26
3,538	–33	–3,254	368	7,998	4,902	12,900

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

CONSOLIDATED CASH FLOW STATEMENT OF TALANX AG
FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2014

N6 **CONSOLIDATED CASH FLOW STATEMENT**

IN EUR MILLION

	2014	2013 [1]
I. 1. Net income	1,368	1,252
I. 2. Changes in technical provisions	4,236	4,623
I. 3. Changes in deferred acquisition costs	–120	–211
I. 4. Changes in funds withheld and in accounts receivable and payable	–363	–901
I. 5. Changes in other receivables and liabilities as well as investments and liabilities under investment contracts	467	317
I. 6. Changes in financial assets held for trading	44	22
I. 7. Gains/losses on disposal of investments and property, plant and equipment	–860	–572
I. 8. Other non-cash expenses and income (including income tax expense/income)	1,055	1,367
I. Cash flows from operating activities [2]	**5,827**	**5,897**
II. 1. Cash inflow from the sale of consolidated companies	—	–6
II. 2. Cash outflow from the purchase of consolidated companies [3]	–13	—
II. 3. Cash inflow from the sale of real estate	67	81
II. 4. Cash outflow from the purchase of real estate	–304	–474
II. 5. Cash inflow from the sale and maturity of financial instruments	24,591	21,146
II. 6. Cash outflow from the purchase of financial instruments	–27,532	–25,448
II. 7. Changes in investments for the benefit of life insurance policyholders who bear the investment risk	–905	–1,188
II. 8. Changes in other investments	–463	354
II. 9. Cash outflows from the acquisition of tangible and intangible assets	–198	–119
II. 10. Cash inflows from the sale of tangible and intangible assets	24	21
II. Cash flows from investing activities	**–4,733**	**–5,633**
III. 1. Cash inflow from capital increases	—	6
III. 2. Cash outflow from capital reductions	—	–2
III. 3. Dividends paid	–549	–523
III. 4. Net changes attributable to other financing activities	–307	86
III. Cash flows from financing activities	**–856**	**–433**
Net change in cash and cash equivalents (I. + II. + III.)	**238**	**–169**
Cash and cash equivalents at the beginning of the reporting period, excluding disposal groups	**1,864**	**2,119**
Effect of exchange rate changes on cash and cash equivalents	**59**	**–87**
Effect of changes in the basis of consolidation on cash and cash equivalents [4]	**–4**	**3**
Changes in cash and cash equivalents of disposal groups in the reporting period	**–12**	**–2**
Cash and cash equivalents at the end of the reporting period, excluding disposal groups	**2,145**	**1,864**
Additional information		
Taxes paid [2]	222	376
Interest paid [5]	374	280
Dividends received [2]	120	98
Interest received [2]	3,452	3,422

[1] Adjusted to reflect IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes
[2] Income taxes paid as well as dividends and interest received are allocated to cash flows from operating activities. Dividends received also comprise dividend-equivalent distributions from investment funds and private equity companies, resulting in differences to the amounts disclosed in Note 30 "Net investment income"
[3] The cash outflow from the purchase of a property company described in the "Consolidation" section is reported in the "Cash outflow from the purchase of real estate" item
[4] This item relates primarily to changes in the basis of consolidation, excluding disposals and acquisitions
[5] EUR 213 (188) million of interest paid is attributable to cash flows from financing activities and EUR 161 (92) million to cash flows from operating activities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GENERAL INFORMATION

Based in Hannover/Germany, Talanx AG is a financial and management holding company that heads Germany's third-largest and Europe's seventh-largest insurance group (based on 2013 gross premium income). However, it does not 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 (see also "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 of all Group companies belonging to HDI V. a. G. At the balance sheet date, 79.0% of Talanx AG's shares were held by HDI V. a. G., 14.4% of the shares were held in free float by private and institutional investors, 6.5% were held by Talanx AG's Japanese partner (insurance company Meiji Yasuda) and 0.1% of the shares were held by employees under an employee share scheme.

Talanx AG is entered in the commercial register of the Local Court in Hannover under the number HR Hannover B 52546 with its registered address at "Riethorst 2, 30659 Hannover". In accordance with section 341i of the German Commercial Code (HGB), HDI V. a. G. is required to prepare consolidated financial statements that include the financial statements of Talanx AG and its subsidiaries. The consolidated financial statements are published in the Federal Gazette.

BASIS OF PREPARATION AND APPLICATION OF IFRSS

As the parent company of the Talanx Group, Talanx AG is required to prepare consolidated financial statements in accordance with section 290 of the HGB. On the basis of section 315a(1) of the HGB, the accompanying consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRSs), as adopted by the European Union (EU), as required by Article 4 of Regulation (EC) No. 1606/2002. The requirements of German commercial law set out in section 315a(1) of the HGB were observed in full. The consolidated financial statements are published in the Federal Gazette.

The consolidated financial statements reflect all IFRSs effective as at 31 December 2014 as well as the interpretations issued by the IFRS Interpretations Committee (previously known as the IFRIC) and the previous Standing Interpretations Committee (SIC) that were required to be applied for financial year 2014 and had been adopted by the EU.

In accordance with IFRS 4 "Insurance Contracts", insurance-specific transactions for which IFRSs do not contain any separate guidance are accounted for in accordance with the relevant requirements of United States Generally Accepted Accounting Principles (US GAAP) as at the date of initial application of IFRS 4 on 1 January 2005.

IFRS 4 requires disclosures to be made about the nature and extent of risks associated with insurance contracts and IFRS 7 "Financial Instruments: Disclosures" requires similar disclosures on risks associated with financial instruments. Additionally, section 315(2) no. 2 of the HGB requires insurance undertakings to disclose in the management report information on how they manage underwriting and financial risks. The disclosures resulting from these requirements are contained in the risk report. We do not present identical disclosures in the notes. Therefore, both the risk report and the relevant disclosures in the notes must be read in order to obtain a comprehensive overview of the risks to which the Talanx Group is exposed. Please refer to the corresponding explanations in the risk report and the notes.

The consolidated financial statements were prepared in euros (EUR). The amounts shown have been rounded to millions of euros (EUR million), unless figures in thousands of euros (EUR thousand) are required for reasons of transparency. This may give rise to rounding differences in the tables presented in this report. Amounts in brackets refer to the previous year.

APPLICATION OF NEW AND REVISED STANDARDS/ INTERPRETATIONS

The Group applied the following new or revised IFRSs for the first time as of 1 January 2014:

The IASB issued "Novation of Derivatives and Continuation of Hedge Accounting" (Amendment to IAS 39 "Financial Instruments: Recognition and Measurement") in June 2013. As a result of this amendment, derivatives continue to be recognised as hedging instruments in existing hedging relationships despite their novation. Adoption of this amendment did not result in any effects for the Group.

The IASB changed the requirements governing offsetting financial assets and financial liabilities and issued an amendment to IAS 32 "Financial Instruments: Presentation" – Offsetting Financial Assets and Financial Liabilities on 16 December 2011. The conditions applicable to offsetting defined in IAS 32 were retained in principle, and were merely set out in greater detail in application guidance. This amendment to IAS 32 was applied retrospectively by the Group and did not have any material effects.

On 12 May 2011, the IASB issued three new standards (IFRSs 10, 11 and 12) and two revised standards (IASs 27 and 28) that establish new requirements for consolidation, the accounting for investments in associates and joint ventures, as well as the related disclosures:

IFRS 10 "Consolidated Financial Statements" replaces the requirements previously contained in IAS 27 "Consolidated and Separate Financial Statements" and SIC 12 "Consolidation – Special Purpose Entities" and introduces a uniform definition of control and thus a uniform basis for the existence of a parent-subsidiary relationship. The standard also contains additional application guidance illustrating the various ways in which control can exist. The revised IAS 27 now solely contains requirements governing the accounting for interests in subsidiaries, associates and joint ventures in the separate financial statements of the parent. The wording of the existing standard was taken over with only minor changes. For the Group, initial application of IFRS 10 did not affect consolidation of the participating interests and structured entities held by the Group. More detailed information on the new definition of control is contained in the "Consolidation principles" subsection of the "Consolidation" section.

IFRS 11 "Joint Arrangements" governs the accounting for arrangements in which an entity jointly controls a joint venture or a joint operation. The new standard replaces the relevant requirements of IAS 31 "Interests in Joint Ventures" and SIC 13 "Jointly Controlled Entities – Non-monetary Contributions by Venturers". IFRS 11 abolishes the option to proportionately consolidate joint ventures, i.e. arrangements in which the parties have rights to the net assets. In future, these must be accounted for using the equity method. Initial application of IFRS 11 did not have any effects for the Group. The material joint ventures included in the consolidated financial statements were already accounted for using the equity method. There are no joint operations, i.e. arrangements in which the Group has rights to the assets, and obligations for the liabilities, relating to the arrangement.

The revised IAS 28 "Investments in Associates and Joint Ventures" has been expanded to include requirements governing the accounting for investments in joint ventures. In future, the equity method must be applied to all joint ventures. This corresponds to the existing practice in the Group (see IFRS 11). A further amendment applies to the accounting under IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", if only a portion of an investment in an associate or joint venture is classified as held for sale. IFRS 5 applies only to the portion that is held for sale. As there are currently no plans to sell portions of our investments in associates or joint ventures, this new accounting requirement does not have any effects as of the reporting date.

The disclosure requirements in connection with consolidation and the accounting for investments in associates and joint ventures are combined in IFRS 12 "Disclosure of Interests in Other Entities". IFRS 12 aims to give users of financial statements information on the nature of, and risks associated with, the reporting entity's interests in other entities and their effects on the net assets, financial position and results of operations, and contains in part considerably expanded disclosure requirements for subsidiaries, associates, joint arrangements, unconsolidated structured entities and all other participating interests. The Group applied the new disclosure requirements in full as at 31 December 2014. The corresponding disclosures are contained largely in the "Consolidation" section, Note 5 "Investments in associates and joint ventures", and the list of shareholdings (see the Notes to the consolidated financial statements).

In June 2012, the IASB additionally issued transition guidance (amendments to IFRSs 10, 11 and 12) that clarifies the transitional provisions and offers relief relating to the comparative information required to be disclosed. For example, it is no longer necessary to disclose comparative information for periods prior to the initial application of IFRS 12 in connection with disclosures on unconsolidated structured entities. The amendments are effective as of the effective dates of IFRSs 10, 11 and 12. In October 2012, the IASB issued further amendments to IFRSs 10 and 12 and IAS 27 that contain an exemption from the requirement to consolidate certain subsidiaries. Parents that meet the definition of an investment entity must now measure their investments in subsidiaries at fair value. As Talanx AG is not an investment company, it is not affected by this exemption, which consequently has no practical relevance for the consolidated financial statements.

STANDARDS, INTERPRETATIONS AND REVISIONS TO ISSUED STANDARDS THAT WERE NOT YET EFFECTIVE IN 2014 AND THAT WERE NOT APPLIED BY THE GROUP PRIOR TO THEIR EFFECTIVE DATE. UNLESS OTHERWISE STATED, THE EFFECTS ON OUR CONSOLIDATED FINANCIAL STATEMENTS ARE CURRENTLY BEING EXAMINED.

A) ALREADY ENDORSED BY THE EU

As part of its Annual Improvements to IFRSs (Annual Improvement Process), the IASB issued the outstanding document for the 2010–2012 Cycle on 12 December 2013. This affects IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38. The editorial amendments to the individual standards are designed to clarify the existing requirements. There are also changes that affect disclosures in the Notes. These amendments are effective for annual periods beginning on or after 1 February 2015; the amendments to IFRS 2 and IFRS 3 are effective for transactions occurring on or after 1 February 2015. The amendments do not have any material effects on the Group.

The IASB also issued Annual Improvements, 2011–2013 Cycle on 12 December 2013. This affects IFRS 1, IFRS 3, IFRS 13 and IAS 40. The editorial amendments to the individual standards are designed to clarify the existing requirements. The amendments are effective for annual periods beginning on or after 1 January 2015. The amendments do not have any material effects on the Group.

The IASB issued "Defined Benefit Plans: Employee Contributions" (Amendments to IAS 19) on 21 November 2013. These amendments clarify how entities recognise contributions by employees or third parties to defined benefit plans. They are effective for annual periods beginning on or after 1 February 2015. The amendments are of no practical relevance for the Group.

The IASB issued IFRIC 21 "Levies" on 20 May 2013. This Interpretation provides guidance on how and in particular when to recognise liabilities for levies imposed by a government that do not fall within the scope of another standard. When the Interpretation was adopted by the EU on 14 June 2014, the effective date was changed from the original wording to reporting periods beginning on or after 17 June 2014. This Interpretation is of no practical relevance for the Group because it is merely a clarification that corresponds to our existing accounting practice.

B) NOT YET ENDORSED BY THE EU

The IASB issued two amendments to standards on 18 December 2014:

"Investment Entities: Applying the Consolidation Exception" consists of a number of narrow scope amendments to IFRS 10, IFRS 12 and IAS 28 that affect the exemption from consolidation for investment entities. The following distinction is now made in terms of the accounting for subsidiaries of an investment entity: subsidiaries that are themselves investment entities must be accounted for at fair value in line with the general principle behind the investment entity exception. By contrast, subsidiaries that are not investment entities but that provide services related to the investment activities of the parent, and thus are considered to be an extension of the parent's activities, must be consolidated. The IASB also clarifies that an investor that does not meet the definition of an investment entity and that applies the equity method to an associate or a joint venture can retain the fair value measurement that the investment entity uses for its investments in subsidiaries. Finally, the amendments set out that investment entities that measure their subsidiaries at fair value fall within the scope of IFRS 12.

The amendments to IAS 1 "Presentation of Financial Statements" concern a range of presentation issues. They clarify that disclosures are only required if their substance is not immaterial. This also applies explicitly if an IFRS stipulates a list of minimum disclosures. In addition, disclosures on the aggregation and disaggregation of items in the balance sheet and the statement of comprehensive income have been added. The amendments also clarify how interests in the other comprehensive income of equity-accounted investments are to be presented in the statement of comprehensive income. Finally, the illustrative order of the Notes has been replaced by a requirement to take account of the information that is most relevant for the reporting entity.

Both amendments are effective for annual periods beginning on or after 1 January 2016.

The amendments issued by the IASB in its "Annual Improvements to IFRSs, 2012–2014 Cycle" on 25 September 2014 relate to IFRS 5, IFRS 7, IAS 19 and IAS 34. The editorial amendments to the individual standards are designed to clarify the existing requirements. The amendments are effective for annual periods beginning on or after 1 January 2016 and are not expected to be of any material importance for the Group.

The IASB issued amendments to IFRS 10 and IAS 28 on 11 September 2014. The amendments address a conflict between the requirements of IFRS 10 and IAS 28 in the event of the sale or contribution of assets between an investor and its associate or joint venture. The amendments set out that gains or losses from a transaction – resulting from loss of control over a subsidiary – will only be recognised in full in the future if the sold or contributed assets constitute a business as defined in IFRS 3 "Business Combinations". In other cases, the gains or losses are recognised proportionately. These amendments are applicable prospectively to transactions that occur in annual periods beginning on or after 1 January 2016. This clarification corresponds to the Group's current accounting practice.

By issuing amendments to IAS 27 "Separate Financial Statements – Equity Method in Separate Financial Statements" on 12 August 2014, the IASB reinstated the option to use the equity method to measure investments in subsidiaries, joint ventures and associates in separate financial statements. These amendments are effective for annual periods beginning on or after 1 January 2016 and are of no practical relevance for our consolidated financial statements.

The IASB issued the final version of IFRS 9 "Financial Instruments" on 24 July 2014, thereby completing its project to overhaul the existing requirements governing financial instruments in IAS 39. This final version combines in a single standard the individual phases of the overall project: "Classification and Measurement", "Impairment" and "Hedge Accounting". IFRS 9 also takes over the existing guidance on recognising and derecognising financial instruments from IAS 39. It is effective for annual periods beginning on or after 1 January 2018. The Group is currently examining the effects of IFRS 9 on the consolidated financial statements. However, it is already evident that the new requirements will affect the accounting for financial assets in the Group, among other things.

The IASB issued amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" on 30 June 2014 relating to the accounting for bearer plants. The amendments must be applied retrospectively for reporting periods beginning on or after 1 January 2016. These amendments are irrelevant for the Group.

The IASB issued its new requirements governing revenue recognition in IFRS 15 "Revenue from Contracts with Customers" on 28 May 2014. IFRS 15 establishes a comprehensive framework to determine how, how much and when revenue is recognised. It replaces the existing guidance on revenue recognition, including IAS 18 "Revenue", IAS 11 "Construction Contracts" and IFRIC 13 "Customer Loyalty Programmes". The new standard is effective for annual periods beginning on or after 1 January 2017. IFRS 15 does not apply to insurance contracts. We are currently assessing potential effects on Group companies that recognise revenue not related to insurance business.

The IASB issued amendments to IAS 16 and IAS 38 "Intangible Assets" on 12 May 2014 relating to the Clarification of Acceptable Methods of Depreciation and Amortisation. They specify that revenue based depreciation methods are not permitted for property, plant and equipment, and that revenue-based amortisation methods may only be used for intangible assets in certain exceptional circumstances (rebuttable presumption that a revenue-based method is inappropriate). The amendments are effective for annual periods beginning on or after 1 January 2016. These amendments are of no practical relevance for the Group.

The IASB issued amendments to IFRS 11 on 6 May 2014. In them, the IASB clarifies that both the initial acquisition and the additional acquisition of interests in a joint operation that constitutes a business as defined in IFRS 3 must be recognised in exactly the same way in accordance with the principles set out in IFRS 3 and other applicable IFRSs, unless those principles conflict with the requirements of IFRS 11. This clarification has no effects for the Group because it already corresponds to our accounting practice. The amendments are effective for reporting periods beginning on or after 1 January 2016.

The IASB issued the interim standard IFRS 14 "Regulatory Deferral Accounts" on 30 January 2014. The published standard is a purely interim solution until the issue of a final comprehensive standard governing accounting for rate-regulated activities. IFRS 14 allows first-time adopters of IFRSs to continue to account for "regulatory deferral account balances" relating to rate-regulated activities in accordance with their previous GAAP in their IFRS financial statements. The standard can be applied voluntarily for annual periods beginning on or after 1 January 2016. The Group is not subject to rate regulation and is not a first-time adopter of IFRSs. For this reason, the standard is of no practical relevance for the Group.

ACCOUNTING POLICIES

The annual financial statements of subsidiaries and special purpose entities included in the Group are governed by uniform accounting policies whose application is based on the principle of consistency. The following section describes the accounting policies applied, any amendments or revisions made to accounting policies in 2014, and the use of significant management judgement and estimates. Newly applicable accounting standards in financial year 2014 are described in the "Basis of preparation and application of IFRSs" section, while consolidation principles are described in the "Consolidation" section (pages 181f. and 215ff.).

CHANGES IN ACCOUNTING POLICIES AND ERRORS

Effective 30 June 2014, the Group retrospectively corrected accounts receivable from prior periods relating to own risk in respect of a customer relationship in the Industrial Lines segment in accordance with IAS 8.41 and restated the comparative information (see a) below).

In the third quarter of 2014, the measurement of current and deferred taxes was retrospectively corrected and the comparative information was restated in accordance with IAS 8.41 (see b) below). The effect results from the corrected allocation of earnings between Germany and other countries. It did not affect pre-tax profit.

The effects of the retrospective application of the aforementioned changes (described in a) and b) below) to the opening balance sheet as at 1 January 2013, the consolidated balance sheet as at 31 December 2013, and the consolidated statement of income for the comparative period are shown in the following tables:

N7 EFFECTS ON THE CONSOLIDATED BALANCE SHEET AS AT 1 JANUARY 2013

IN EUR MILLION

			Changes due to adjustments to reflect IAS 8		
		As reported at 1.1.2013	Adjustment relating to a)	Adjustment relating to b)	1.1.2013
Assets					
D.	Reinsurance recoverables on technical provisions	6,989	4	—	6,993
E.	Accounts receivable on insurance business	5,081	−20	—	5,061
H.	Deferred tax assets	529	—	−65	464
Equity and Liabilities					
A.b.	Reserves	6,837	−18	−39	6,780
C.c.	Loss and loss adjustment expense reserve	33,243	10	—	33,253
E.b.	Provisions for taxes	632	—	1	633
G.	Deferred tax liabilities	1,984	−8	−27	1,949

N8 **EFFECTS ON THE CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2013**

IN EUR MILLION

			Changes due to adjustments to reflect IAS 8 (including adjustments as at 1.1.2013)		
		As reported at 1.1.2013	Adjustment relating to a)	Adjustment relating to b)	31.12.2013
Assets					
D.	Reinsurance recoverables on technical provisions	6,596	8	—	6,604
E.	Accounts receivable on insurance business	5,071	–32	—	5,039
H.	Deferred tax assets	532	14	–61	485
I.	Other assets	2,201	—	1	2,202
Equity and Liabilities					
A.b.	Reserves	6,898	–30	–57	6,811
C.c.	Loss and loss adjustment expense reserve	33,755	20	—	33,775
E.b.	Provisions for taxes	711	—	–8	703
G.	Deferred tax liabilities	1,749	—	5	1,754

N9 **EFFECTS ON THE CONSOLIDATED STATEMENT OF INCOME 2013**

IN EUR MILLION

		Changes due to adjustments to reflect IAS 8		
	As reported 1.1.–31.12.2013	Adjustment relating to a)	Adjustment relating to b)	1.1.–31.12.2013
6. Claims and claims expenses (gross)	21,620	28	—	21,648
Reinsurers' share	2,405	10	—	2,415
13. Taxes on income	296	–6	18	308
Net income	1,282	–12	–18	1,252
of which attributable to non-controlling interests	520	—	—	520
of which attributable to shareholders of Talanx AG	762	–12	–18	732

The effect of these changes on earnings per share in the comparative period is shown in the following table:

N10 **EFFECTS ON EARNINGS PER SHARE IN 2013**

IN EUR

		Changes due to adjustments to reflect IAS 8		
	As reported at 31.12.2013	Adjustment relating to a)	Adjustment relating to b)	31.12.2013
Basic earnings per share	3.02	–0.05	–0.07	2.90
Diluted earnings per share	3.02	–0.05	–0.07	2.90

CHANGES IN ESTIMATES DURING THE REPORTING PERIOD

The calculation methodology applied to impairment testing of acquired insurance portfolios (PVFP) in the Retail Germany Division (reported in “Other intangible assets”) was enhanced during the reporting period. A stronger distinction is now made between different interest rate “generations”, so as to take account of the persistently low interest rate environment. This involves a change to an accounting estimate that, in accordance with IAS 8.32ff., must be applied prospectively in the reporting period without adjusting the comparative information for previous years. The change in the estimate resulted in a reduction in the technical result by EUR 65 million after tax, which reduces the future potential for impairment losses. The quantitative effect of this change on future financial years is not presented because of the undue effort that would be associated with this.

SIGNIFICANT MANAGEMENT JUDGEMENT AND ESTIMATES

Preparation of the consolidated financial statement requires management to exercise a certain degree of judgement and to make estimates and assumptions that affect the accounting policies applied and the carrying amounts of recognised assets and liabilities, income and expenses, and contingent assets and liabilities disclosed. Actual results may differ from those estimates.

These decisions and assumptions are continually reassessed and are based in part on historical experience as well as on other factors, including expectations of future events that currently appear reasonable. The processes in place both at the Group level and at the level of the subsidiaries are geared towards calculating the carrying amounts as reliably as possible, taking all relevant information into account. Additionally, uniform Group accounting policies ensure that the standards laid down by the Group are applied in a consistent and appropriate manner.

The effects of management judgement and estimation uncertainties that may entail a significant risk that the carrying amounts of reported assets and liabilities will have to be significantly adjusted in the financial year ending 31 December 2015 are particularly relevant for the following items:

Technical provisions: As at 31 December 2014, the Group recognised loss and loss adjustment expense reserves in the amount of EUR 37,256 million and benefit reserves in the amount of EUR 52,679 million.

Loss and loss adjustment expense reserves recognised for claims of uncertain timing or amount are generally calculated on the basis of defined subportfolios (analysis segments) by applying actuarial loss reserving methods, such as the chain ladder method. The best estimate of the amount required to settle the obligation is recognised. Price increases and other economic factors are used as measurement inputs. 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. To minimise the reserving risk, the level of reserves is regularly reviewed, including by external actuaries, and external reserving reports are commissioned. There are also policies containing requirements relating to selected aspects of the reserving process, data, methods and reporting. Group companies must comply with these policies.

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 distinguishing criteria include age, smoking status of the insured, metrics of the insurance plan, policy duration, duration of the premium payment and policy amount. 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, the sales channel, the quality of underwriting and the type of reinsurance. For the purposes of US GAAP accounting, these assumptions are reviewed as at each reporting date by specialised life insurance actuaries and subsequently adjusted in line with the actual projection. The resulting effects are reflected, for instance, in true-up adjustments in “Other intangible assets”, “Insurance-related intangible assets” (PVFP), “Deferred acquisition costs”, “Provision for premium refunds” (provision for deferred premium refunds) and, where applicable, “Benefit reserve” (funding of terminal bonuses).

In addition to our disclosures in the "Summary of significant accounting policies" subsection, further information on underwriting risks can be found in the risk report in the Group management report and in our disclosures in Notes 20, "Benefit reserve" and 21, "Loss and loss adjustment expense reserve".

Fair value and impairments of financial instruments: Financial instruments with a fair value of EUR 63,881 million were recognised at the reporting date, including financial assets of EUR 62,441 million and financial liabilities of EUR 1,440 million. Fair value and impairments of financial instruments, especially for those not traded in an active market, are measured using appropriate valuation techniques. In this respect, see our explanations on fair value measurement as well as the criteria for assessing the need to recognise impairment losses on certain financial instruments in the "Summary of significant accounting policies" subsection. The allocation of financial instruments to the various levels of the fair-value hierarchy is described in Note 12, "Fair value hierarchy". To the extent that significant inputs are not based on observable market data (level 3), estimates and assumptions play a major role in determining the fair value of those instruments.

Impairment testing of goodwill (carrying amount as at 31 December 2014: EUR 1,090 million): The Group tests whether goodwill is impaired. See Note 1, "Goodwill", on pages 225ff. for information on the criteria used to determine recoverable amount. In addition, the Group performs sensitivity analyses for the most important parameters, such as anticipated combined ratios and discount rates.

Deferred acquisition costs: The Group reported acquisition costs in the amount of EUR 4,645 million at the reporting date. The actuarial assumptions on which amortisation of deferred acquisition costs is based are continuously reviewed and adjusted where necessary. Recoverability is tested by means of regular reviews of, for example, profit trends, lapse assumptions, and default probabilities.

Present value of future profits (PVFP) on acquired insurance portfolios: The PVFP (EUR 766 million as at 31 December 2014) is the present value of expected future net cash flows from existing life insurance contracts, life reinsurance contracts and investment contracts at the date of acquisition and is determined and amortised using actuarial methods. Uncertainties may arise with regard to the expected amount of these net cash flows.

Recognition of deferred tax assets: Assumptions are made in particular with regard to the availability of future taxable profit against which tax loss carryforwards can be utilised.

The corresponding analyses and projections, and the consequent measurement of deferred tax assets, are prepared by local tax and finance experts in the countries concerned. The earnings projections are based on business plans that have been duly reviewed and approved and that are also used for managing the companies. Uniform Group principles place particularly high demands on the level of evidence required if the Group company concerned has reported a loss in the current or in a prior period. The recognition and recoverability of material deferred tax assets are reviewed by Talanx AG's Group Tax department. Deferred tax assets in the Group amounted to EUR 764 million at the reporting date.

Provisions for pensions and other post-employment benefits: The Group reported pension liabilities attributable to defined benefit plans – net of plan assets – amounting to EUR 2,251 million at the reporting date. The present value of pension liabilities is influenced by numerous factors that are based on actuarial assumptions. The assumptions used to calculate net expenses (and income) for pensions include discount rates, expected salary trends and pension trends. These parameters take into account the individual circumstances of the units concerned and are determined with the aid of actuaries. For detailed explanations of how pension liabilities are determined, including a presentation of sensitivity analyses in the case of deviations from certain key assumptions, see Note 23, "Provisions for pensions and other post-employment benefits".

Miscellaneous other provisions (31 December 2014: EUR 735 million): We describe the recognition and measurement of provisions in the "Summary of significant accounting policies" subsection and in Note 25, "Miscellaneous other provisions". For information on the accounting for litigation, please refer to our disclosures in the "Litigation" subsection of the "Other disclosures" section of the notes to the consolidated financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ACCOUNTING FOR INSURANCE CONTRACTS

In March 2004, the IASB issued IFRS 4 "Insurance Contracts", the first standard governing insurance contracts, and divided the "Insurance Contracts" project into two phases. IFRS 4 is the outcome of Phase 1 and is merely a transitional arrangement until the completion of Phase 2. IFRS 4 contains basic principles – but no more far-reaching measurement requirements – for the accounting for insurance and reinsurance contracts that an entity enters into as an insurer. For this reason, all insurance contracts are accounted for in accordance with the relevant requirements of US GAAP as at the date of initial application of IFRSs on 1 January 2005, provided IFRS 4 contains no specific provisions to the contrary. We cite certain requirements of US GAAP using the designation valid at that time (Statement of Financial Accounting Standards [SFAS]). The insurance business is classified into insurance contracts and investment contracts. An insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. Investment contracts, i.e. contracts that have no significant insurance risk and do not contain discretionary participation features, are accounted for as financial instruments in accordance with IAS 39. Investment contracts that contain discretionary participation features are recognised in accordance with US GAAP.

ASSETS

Intangible assets

Goodwill resulting from business combinations is tested for impairment at least once a year, and it is measured at initial cost less accumulated impairment losses. Goodwill may not be amortised, nor are reversals of impairment losses permitted. Minor amounts of goodwill are recognised as profit or loss in the year they arise. For the purposes of impairment testing in accordance with IAS 36.80ff. "Impairment of Assets", goodwill must be allocated to cash-generating units (CGUs) (see Note 1, "Goodwill", on pages 225ff.). 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 an operating segment. In order to determine possible impairment, the recoverable amount of a CGU – defined as the higher of value in use and fair value less costs of disposal – is established and compared with the carrying amounts of that CGU in the Group, including goodwill. If the carrying amounts exceed recoverable amount, a goodwill impairment is recognised in the statement of income. The recoverable amount of impaired goodwill must be disclosed.

Insurance-related intangible assets: The present value of future profits (PVFP) on acquired insurance portfolios refers to the present value of expected future net cash flows from existing insurance/reinsurance contracts and investment contracts at the date of acquisition. It consists of a shareholders' portion, in respect of which deferred taxes are recognised, and a policyholders' portion (only for life insurance contracts). Insurance portfolios are amortised in line with the realisation of the surpluses on which the calculation is based and reflecting the remaining duration of the acquired contracts (Note 2, "Other intangible assets" [pages 229ff.] contains a breakdown by remaining duration of the underlying insurance contracts acquired). Impairment losses and the measurement parameters applied are reviewed at least once a year; if necessary, the amortisation patterns are adjusted or an impairment loss is recognised. Only amortisation of the shareholders' portion reduces future earnings. The PVFP in favour of policyholders is recognised by life insurance companies that are required to enable their policyholders to participate in all results by establishing a provision for deferred premium refunds. We report amortisation of the PVFP from investment contracts in "Net investment income" (under "Net income from investment contracts").

Purchased intangible assets with a finite useful life as well as internally developed **software** are recognised at cost less accumulated amortisation and accumulated impairment losses. We recognise intangible assets acquired in connection with business combinations at the amount of their acquisition date fair value, provided such assets are separable or arise from contractual or other legal rights and can be measured reliably. Such assets are amortised over their estimated useful life. In the case of software (straight-line amortisation), this generally amounts to three to 10 years. For the most part, we amortise acquired sales networks and customer relationships over an estimated useful life of four to 16 years. Intangible assets with an indefinite useful life (e.g. acquired brand names) are tested for impairment annually and whenever there is evidence of impairment. Amortisation methods, useful lives and residual asset values are reviewed at each reporting date and adjusted where necessary. Amortisation and impairment losses, as well as reversals of impairment losses, that are required to be recognised in profit or loss are allocated to the functions. If allocation to the functions is not possible, they are reported under "Other expenses" in "Other income/expenses". Reversals of impairment losses are reported in "Other income".

Investments

Investment property is recognised at cost less accumulated depreciation and accumulated impairment losses. Depreciation is charged on a straight-line basis over the expected useful life, with a maximum of 50 years. An impairment loss is recognised if the difference between the market value (recoverable amount) determined using recognised valuation techniques and the carrying amount is more than the depreciation charge for a calendar year. For the portion of the portfolio that is directly held, a qualified external appraisal is prepared for each property every five years at the reporting date, based on the "Ertragswertverfahren" (a German income approach that calculates discounted cash flows from rents, etc. that can be generated by each property). Internal appraisals, which also use the German income approach, are prepared for each property on the intervening reporting dates in order to review their value. Opinions are obtained at shorter intervals if special facts or circumstances arise that may affect the value of a property. An external market value report is obtained for real estate special funds every 12 months starting from the date of the initial valuation. Gains or losses from the disposal of properties, as well as depreciation and any impairment losses or their reversal, are recognised in profit or loss.

We recognise maintenance costs and repairs in "Net investment income". Value-enhancing expenditures that constitute subsequent acquisition or production cost are capitalised and can extend the useful life in certain cases.

The Investments in associates and joint ventures item consists solely of material associates and joint ventures measured using the equity method on the basis of the share of their equity attributable to the Group. The share of these companies' net income attributable to the Group is reported separately in "Net investment income". Where necessary, the accounting policies of these investees are adjusted to ensure the uniform application of accounting policies in the Group. The Group tests for impairment at each reporting date. If impairment is identified, the difference between the carrying amount and recoverable amount is recognised as an impairment loss in profit or loss (in "Share of profit or loss of equity-accounted associates and joint ventures"). Further information can be found in the "Consolidation principles" subsection of the "Consolidation" section.

In accordance with IAS 39 Financial Instruments: Recognition and Measurement, financial assets and liabilities, including derivative financial instruments, are recognised/derecognised at the time of their acquisition or disposal at the settlement date. Financial assets are classified at initial recognition into one of four categories, depending on their purpose: "Loans and receivables", "Financial assets held to maturity", "Financial assets available for sale" or "Financial assets at fair value through profit or loss". Financial liabilities are classified either as "Financial liabilities at fair value through profit or loss" or at amortised cost. Depending on the categorisation, transaction costs directly connected with the acquisition of the financial instrument may be recognised.

Financial instruments are subsequently measured at either amortised cost or fair value, depending on the classification as described above. Amortised cost is calculated on the basis of the original cost of the instrument, after allowing for redemption amounts, premiums or discounts amortised using the effective interest rate method and recognised in income, and any impairment losses or reversals of impairment losses.

Shares in affiliated companies and participating interests include investments in subsidiaries as well as in associates and joint ventures that are not consolidated or accounted for using the equity method because of their insignificance for the presentation of the Group's net assets, financial position and results of operations, as well as other participating interests. Investments in listed companies are recognised at their fair value at the reporting date. Other investments are measured at cost, less impairments where applicable

Loans and receivables consist of non-derivative financial instruments with fixed or determinable payments that are not listed in an active market and are not intended to be sold in the near term. They consist primarily of fixed-income securities in the form of promissory note loans, registered bonds and mortgage loans. They are measured at amortised cost using the effective interest rate method. Individual receivables are tested for impairment at the reporting date. An impairment loss is recognised if the loan or receivable is no longer expected to be repaid in full or at all (see also our disclosures in the "Impairment" subsection of this section). Impairment losses and their reversal are recognised in profit or loss. The upper limit of the reversal is the amortised cost that would have resulted at the measurement date if no impairment losses had been recognised.

Financial assets held to maturity comprise financial instruments with fixed or determinable payments and fixed maturities that are not classified as loans or receivables. The Group has the positive intention and the ability to hold these securities to maturity. The procedures for measuring and testing these financial instruments for impairment are the same as for "Loans and receivables".

Financial assets available for sale consist of fixed-income and variable-yield financial instruments that the Group does not immediately intend to sell and that cannot be allocated to any other category. These securities are recognised at fair value. Premiums and discounts are amortised over the term of the assets using the effective interest rate method. Unrealised gains and losses from changes in fair value are recognised in "Other comprehensive income" and reported in equity ("Other reserves") after allowing for accrued interest, deferred taxes and amounts that life insurers owe to policyholders upon realisation (provision for deferred premium refunds).

Financial instruments at fair value through profit or loss comprise the trading portfolio and those financial instruments that are designated upon initial acquisition as at fair value through profit or loss.

The trading portfolios (financial instruments held for trading) contain all fixed-income and variable-yield securities that the Group has acquired for trading purposes with the aim of generating short-term gains. Also recognised in this item are all derivative financial instruments with positive fair values, including derivatives embedded in hybrid financial instruments that are required to be separated and derivatives related to insurance contracts, unless they qualify as hedges (hedge accounting under IAS 39). Derivatives with negative fair values are recognised in "Other liabilities" (trading liabilities).

Financial instruments classified at fair value through profit or loss consist of structured products that are recognised using the fair value option under IAS 39. These relate to structured financial instruments – whose fair value can be reliably established – that are required to be separated into their constituent parts (underlying plus one or more embedded derivatives) on classification in the "Loans and receivables", "Financial assets held to maturity" or "Financial assets available for sale" categories. The Group only uses the fair value option for selected parts of the investment portfolio.

All securities recognised at fair value through profit or loss are carried at their fair value at the reporting date. If quoted prices are not available for determining fair value, the carrying amounts are determined using recognised valuation techniques. All unrealised gains and losses from this measurement are recognised in profit or loss (in "Net investment income"), in the same way as realised gains and losses.

Derivative financial instruments that are designated as hedging instruments in hedges accounted for in accordance with IAS 39 are recognised at their fair value upon initial or subsequent measurement. The method used to recognise gains and losses in the course of subsequent measurement depends on the type of hedged risk. The Group designates certain derivatives as hedges of the fair value of certain assets (fair value hedges) and others as hedges of exposures to variability in cash flows attributable to a particular risk associated with a recognised liability or asset, or a highly probable forecasted transaction (cash flow hedges). Further information is provided in Note 13, "Derivative financial instruments and hedge accounting". These hedging instruments are recognised in "Other assets" or "Other liabilities".

Fair value measurement: Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. it is an exit price. Accordingly, the fair value of a liability reflects risk of default (i.e. 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 ask price at the reporting date. Securities for which no current market price is available are measured on the basis of current and observable market data using established financial models. Such models are used principally to measure unlisted securities. The following table shows the valuation techniques used to measure fair values. Financial assets for which publicly available prices or observable market data are not available (financial instruments in level 3 of the fair value hierarchy) are mainly measured on the basis of documented valuations prepared by independent professional experts, e.g. audited net asset values, that have been previously subjected to systematic plausibility checks.

The Group allocates all financial instruments measured at fair value as well as assets/financial liabilities not measured at fair value – whose fair values are required to be disclosed in the Notes – to a level of the IFRS 13 fair value hierarchy. For further explanations, see our disclosures in Note 12, "Fair value hierarchy".

N11 VALUATION MODELS USED TO MEASURE FAIR VALUE

Financial instrument	Pricing method	Inputs	Pricing model
Fixed-income securities			
Unlisted plain vanilla bonds	Theoretical price	Yield curve	Present value method
Unlisted structured bonds	Theoretical price	Yield curve, volatility surfaces, correlations	Hull-White, Black-Karasinski, Libor market model, etc.
ABSs/MBSs for which no market prices are available	Theoretical price	Prepayment speed, incurred losses, default probabilities, recovery rates	Present value method
CDOs/CLOs	Theoretical price	Prepayment speed, risk premiums, default rates, recovery rates, redemptions	Present value method
Equities and funds			
Unlisted equities	Theoretical price	Cost, cash flows, EBIT multiples, expert opinions, carrying amount where applicable	NAV method [1]
Unlisted equity, real estate and bond funds	Theoretical price	Audited net asset value (NAV) [1]	NAV method [1]
Other investments			
Private equity funds/private equity real estate funds	Theoretical price	Audited net asset value (NAV) [1]	NAV method [1]
Derivative financial instruments			
Listed equity options	Listed price	—	—
Equity and index futures	Listed price	—	—
Interest rate and bond futures	Listed price	—	—
Plain vanilla interest rate swaps	Theoretical price	Yield curve	Present value method
Currency forwards	Theoretical price	Yield curve, spot and forward rates	Interest parity model
OTC equity options, OTC equity index options	Theoretical price	Listed price of the underlying, implied volatilities, money market rate, dividend yield	Black-Scholes
FX options	Theoretical price	Spot rates, exchange rates, implied volatilities	Garman/Kohlhagen
Interest rate futures (forward purchases)	Theoretical price	Yield curve	Present value method
Inflation swaps	Theoretical price	Inflation swap rates (Consumer price index), historical index fixings, yield curve	Present value method with seasonality adjustment
Swaptions	Theoretical price	Yield curve, implied volatilities	Black76
Credit default swaps	Theoretical price	Yield curve, recovery rates	ISDA model
Insurance derivatives	Theoretical price	Fair values of CAT bonds, yield curve	Present value method
Other			
Real estate	Theoretical value	Location, year of construction, rental space, type of use, term of leases, amount of rent	Extended discounted cash flow method

[1] NAV: net asset value

Impairment: At each reporting 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) – to determine whether there is objective, substantial evidence of impairment. Furthermore, IAS 39.59 lists examples of objective evidence that a financial asset is impaired. In addition, IAS 39.61 sets out 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 it falls at least 20% below its cost. A decline is prolonged if 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 the same principles to investments in funds that invest in private equity.

In order to account for the specific character of these funds (in this case, initially negative trends in yield and liquidity as a result of the "J curve" effect during the investment period of the funds), we wait two years before recognising an impairment loss on net asset value, as an approximation of fair value, in cases where there has been a significant or prolonged decline in value.

Indicators for determining whether fixed-income securities and loans are impaired include financial difficulties being experienced by the issuer/debtor, failure to receive or pay interest income or capital gains, and the likelihood that the issuer/debtor will initiate bankruptcy proceedings. A case-by-case qualitative analysis is carried out in making this determination. First and foremost, we factor in the rating of the security, the rating of the issuer or borrower, and a specific market assessment. Moreover, in the case of securities measured at amortised cost, we test whether material items are impaired when analysed in isolation.

Impairment losses are recognised in profit or loss and the securities are written down to their fair value, which is generally the published exchange price. In this context, we generally deduct impairment losses on investments directly from the relevant asset items rather than using an allowance account. Reversals of impairment losses on debt instruments are recognised in profit or loss up to the amount of amortised cost. In the case of financial assets available for sale, any excess amount is recognised in "Other comprehensive income" and reported in "Other reserves". Reversals of impairment losses on equity instruments, on the other hand, are recognised outside profit or loss in "Other comprehensive income".

Financial assets and liabilities are only offset and the net amount recognised if there is a corresponding legally enforceable right to set off the amounts (reciprocity, similarity and maturity of the asset and liability) or this has been expressly agreed by contract, i.e. the entity intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Securities loaned under securities lending transactions continue to be recognised, since the principal opportunities and risks resulting from such securities still remain within the Group.

Under genuine securities repurchase transactions (repo transactions), the Group sells securities with a simultaneous obligation to repurchase them at a later date at an agreed price. Since the principal risks and opportunities associated with the financial assets remain within the Group, we continue to recognise these investments. We recognise the repurchase obligation in "Other liabilities" in the amount of the payment received. The difference between the amount received for the transfer and the amount agreed for the return is allocated in accordance with the effective interest rate method for the term of the repurchase transaction and recognised in profit or loss (in "Net investment income").

Other investments are recognised primarily at fair value. The disclosures on "financial assets available for sale" apply, with the necessary modifications. If these financial instruments are not listed on public markets (e.g. investments in private equity firms), they are recognised at the latest available net asset value as an approximation of fair value. Loans included in this item are recognised at amortised cost. Non-current assets from infrastructure investments (primarily from consolidated wind farm project companies) are accounted for at cost less accumulated depreciation and impairment losses. Depreciation is charged on a straight-line basis over a useful life of 20 years. Any provision to be recognised for restoration obligations is reported in "Other liabilities". We also test these assets for impairment as at the reporting date. Impairment losses, reversals of impairment losses, depreciation charges and revenue relating to these assets are recognised in "Net investment income".

Investments under investment contracts

Investment contracts that do not contain a discretionary participation feature are recognised as financial instruments in accordance with IAS 39. In this connection, deposit liabilities in the amount of the relevant financial instruments are reported instead of premiums. Financial assets arising from investment contracts are reported in a separate "Investments under investment contracts" line item under "Investments", while financial liabilities (i.e. investment contracts with policyholders) are recognised in the "Other liabilities" liability item. Our disclosures on the recognition of financial assets and liabilities (see above) apply, with the necessary modifications. The effects on earnings resulting from these contracts (e.g. fluctuations in the value of financial assets or liabilities) and the fees collected from asset management activities, net of the relevant administrative expenses, are presented as a separate item in "Net income from investment contracts" under "Net investment income". The resulting cash flows are reported in the cash flow statement under "Cash flows from operating activities".

Funds withheld by ceding companies, funds withheld under reinsurance treaties and contracts without sufficient technical risk

"Funds withheld by ceding companies" consist of receivables due to reinsurers from their clients in the amount of the cash deposits contractually withheld by those clients. "Funds withheld under reinsurance treaties" (shown under liabilities) represent cash deposits provided 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 largely 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 (in "Other income/expenses").

Investments for the benefit of life insurance policyholders who bear the investment risk

This item consists of policyholders' investments under unit-linked life insurance contracts. The insurance benefits under these policies are linked to the unit prices of investment funds or to a portfolio of separate financial instruments. The assets are managed and invested separately from other investments. They are recognised at fair value. Unrealised gains or losses are offset by changes in technical provisions. Policyholders are entitled to generated profits and are likewise liable for incurred losses.

Reinsurance recoverables on technical provisions

Reinsurance recoverables on technical provisions are generally calculated in this item from the gross technical provisions in accordance with the contractual conditions. Appropriate allowance is made for credit risks.

Receivables

Receivables are generally recognised at amortised cost in "Accounts receivable on insurance business" and "Other receivables". Where necessary, impairment losses are recognised on an individual basis. Impairment losses are recognised for groups of similar receivables if the receivables have not been individually impaired or no impairment can be determined for individual receivables. We use allowance accounts for impairment losses on accounts receivable on insurance business. In all other cases, the underlying assets are written down directly. If the reasons for a recognised impairment loss no longer apply, it is reversed to profit or loss directly, or by adjusting the allowance account, up to a maximum of the original amortised cost.

Deferred acquisition costs

Commissions and other costs that are closely connected with the renewal or conclusion of contracts and thus vary depending on the acquired new business are recognised in "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 adjusted if necessary.

In the case of primary property/casualty insurance companies and Non-Life Reinsurance, acquisition costs are normally amortised at a constant rate over the average contract period. In the case of short-duration contracts, premiums are amortised as they are collected to reflect the time-based amortisation of unearned premiums. In the area of primary life insurance, including Life/Health Reinsurance, deferred acquisition costs are calculated on the basis of the contract duration, anticipated surrenders, lapse expectations and anticipated interest income. The amortisation amount generally depends on the gross margins for the respective contracts that were calculated for the corresponding year of the contract duration. Depending on the type of contract, amortisation is charged in proportion either to premium income or to anticipated profit margins.

In the case of Life/Health Reinsurance contracts classified as "universal life-type contracts", deferred acquisition costs are amortised on the basis of the anticipated profit margins for the reinsurance contracts, making allowance for the duration of the insurance contracts. A discount rate based on the interest rate for medium-term government bonds is applied to such contracts. In the case of annuity contracts with a single premium payment, these values refer to the anticipated contract or annuity payment period.

Deferred tax assets

IAS 12 "Income Taxes" requires deferred tax assets to be recognised if the carrying amounts of assets are lower or those of liabilities are higher in the consolidated balance sheet than in the tax base of the relevant Group company, and where these temporary differences will reduce future tax liabilities. In principle, such measurement differences may arise between the tax accounts prepared in accordance with national tax law and the IFRS balance sheets of the companies included in the consolidated financial statements prepared in accordance with uniform Group accounting policies and as a result of consolidation adjustments. Deferred tax assets are also recognised in respect of tax credits and tax loss carryforwards. Valuation allowances are recognised for impaired deferred tax assets.

If deferred taxes relate to items recognised in equity through "Other comprehensive income", the resulting deferred taxes are also recognised in "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, this is reflected in the year in which the change in the tax rate becomes effective. Deferred taxes at Group level are generally recognised using the Group tax rate of 31.6%, unless they can be allocated to specific companies.

Deferred tax assets are set off against deferred tax liabilities if there is a legally enforceable right to set off current tax assets against current tax liabilities. The condition for this is that the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority on either (i) the same taxable entity or (ii) different taxable entities. There must be an intention either to settle current tax liabilities and assets on a net basis or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered. No distinction is made between current and non-current items in the presentation of deferred tax assets and liabilities in the consolidated balance sheet.

Other assets

Receivables included in "Other assets" are generally recognised at their principal amount, less any necessary impairment losses. Derivatives used as hedging instruments in hedge accounting are recognised at their fair value if they have a positive fair value. Property, plant and equipment is recognised at cost less straight-line depreciation and impairment losses. The maximum useful life for real estate held and used is 50 years. The useful life of operating and office equipment is normally between two and ten years. The principles that apply to the presentation of investment property generally also apply to the measurement and impairment testing of own-use real estate. Impairments/valuation allowances are allocated to the technical functions or recognised in "Other income/expenses".

Cash at banks, cheques and cash-in-hand is/are recognised at their nominal amounts.

Disposal groups in accordance with IFRS 5

Non-current assets held for sale (or groups of assets and liabilities held for sale) are classified as held for sale in accordance with IFRS 5 if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. The sale must be highly probable. These assets are measured at the lower of carrying amount and fair value less costs to sell and are recognised separately as assets or liabilities in the balance sheet. Depreciation and amortisation charges are recognised until the date of classification as held for sale. Impairment losses for any write-downs to fair value less costs to sell are recognised in profit or loss. Any subsequent increase in fair value less costs to sell leads to the recognition of a gain up to the amount of the cumulative impairment loss. If the impairment losses to be recognised for a disposal group exceed the carrying amount of the corresponding non-current assets, the Group examines whether there is a need to recognise a provision. For more detailed information, see "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. Cash funds are limited to cash and cash equivalents and correspond to the balance sheet item "Cash at banks, cheques and cash-in-hand". The effects of exchange rate changes on cash and cash equivalents and the effects of changes in the basis of consolidation are reported separately in the cash flow statement. The acquisition of new subsidiaries is shown in the line "Cash outflow from the purchase of consolidated companies". The total amount of the purchase prices paid less cash and cash equivalents acquired is presented here.

EQUITY AND LIABILITIES

Equity

Equity consists of subscribed capital, capital reserves, retained earnings and other reserves. Subscribed capital and capital reserves contain the amounts paid in for shares by shareholders of Talanx AG. Costs directly associated with the issuance of new shares are recognised in the capital reserves, net of taxes, as a deduction from issue proceeds.

In addition to allocations from net income, retained earnings consist of reinvested profits that Group companies and consolidated structured entities have generated since becoming members of the Group. Moreover, in the event of a retrospective change in accounting policies, an adjustment for previous periods is made to the opening balance of retained earnings and comparable items for the earliest period presented.

Other reserves: Unrealised gains and losses from changes in the fair value of available-for-sale financial assets are recognised in “Unrealised gains/losses on investments”. Differences resulting from the translation of the financial statements of foreign subsidiaries as well as unrealised gains and losses from equity method measurement are also recognised in “Other reserves”. In addition, reversals of impairment losses on variable-yield securities classified as available for sale are recognised in this equity account. Various derivatives were used as hedging instruments in connection with cash flow hedges in the reporting period. The effective portion of changes in the value of these derivatives is recognised in a separate reserve account in equity.

The share of net income attributable to non-controlling interests is presented in the consolidated statement of income after net income. It is followed by non-controlling interests in equity, which are recognised as a separate component of equity and relate to interests in the equity of subsidiaries that are held by non-Group third parties.

Subordinated liabilities

“Subordinated liabilities” consist of financial obligations that, in the event of liquidation or bankruptcy, will only be settled after the claims of other creditors. These financial obligations are recognised at amortised cost using the effective interest rate method.

Technical provisions

Technical provisions are reported gross in the balance sheet, i.e. before deduction of the reinsurers’ share. Reinsurance recoverables on technical provisions are calculated and recognised on the basis of the individual reinsurance contracts. Measurement of technical provisions is based on US GAAP (SFAS 60, SFAS 97 and SFAS 120).

In the case of short-duration insurance contracts, those portions of premiums already collected that are attributable to future risk periods are deferred on a time-proportion basis and recognised in “Unearned premium reserves”. These premiums are recognised as earned – and thus recognised as income – over the duration of the insurance contracts in proportion to the amount of insurance cover provided or as they fall due. For insurance contracts, this premium income is generally deferred to a specific date (predominantly in primary insurance). In the reinsurance business, assumptions are made if the data required for a time-proportion calculation is unavailable. Unearned premiums also include amounts charged when certain long-duration contracts are entered into (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 in the life insurance business, which covers commitments arising out of guaranteed claims of policyholders under life primary insurance policies and of cedants in Life/Health Reinsurance, is calculated and accounted for using actuarial methods. It is calculated as the difference between the present value of future expected payments to policyholders and cedants and the present value of future expected net premiums still to be collected from policyholders and cedants. The calculation includes assumptions relating to mortality and morbidity as well as to lapse rates, the return on investment and costs. The actuarial bases used in this context are estimated when the contract is entered into and allow for an adequate safety margin for the risks of change, error and random fluctuation.

In the case of life insurance contracts that do not provide for surplus participation, the method draws on assumptions (based on customer and industry data) as to the best estimate, allowing for a risk margin. In the case of life insurance contracts that provide for surplus participation, assumptions are used that are contractually guaranteed or based on the determination of surrender values. The biometric actuarial assumptions are based on current mortality tables; if no entity-specific mortality tables are available, industry mortality tables are used.

The measurement of the benefit reserve depends on the relevant product category. Accordingly, life insurance products must be divided into the following categories:

In the case of primary life insurance contracts with “natural” surplus participation (SFAS 120 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 premiums less the portion of premiums earmarked to cover loss adjustment expenses. The reserve for terminal bonuses is generally created from a fixed portion of the gross profit generated in the financial year from the insurance portfolio.

In the case of primary life insurance contracts that do not provide for surplus participation (SFAS 60), the benefit reserve is calculated as the difference between the present value of future benefits and the present value of the future net level premium. The net level premium corresponds to the portion of the gross premium used to fund future insurance benefits.

In the case of primary life insurance contracts classified according to the "universal life" model, unit-linked life insurance contracts or similar life reinsurance contracts (SFAS 97), a separate account is maintained to which premium payments are credited, less costs and plus interest. In the life insurance field, we recognise benefit reserves separately in item D of "Liabilities", insofar as the investment risk is borne by the policyholders.

The loss and loss adjustment expense reserve is established for payment obligations relating to primary insurance and reinsurance claims that have occurred but have not yet been settled. They are subdivided into reserves for claims that have been reported as at the reporting date and reserves for claims that have been incurred but not yet reported as at the reporting date (IBNR reserve).

The loss and loss adjustment expense reserve is generally calculated on the basis of recognised actuarial methods. These are used to estimate future claims expenditures, including expenses associated with loss adjustment, provided no estimates for individual cases need to be taken into account. The reserve is recognised on a best estimate basis in the amount likely to be required to settle the claims. Receivables arising from subrogation, salvage and claim sharing agreements are taken into account when making the best estimate. In order to assess the ultimate liability, anticipated ultimate loss ratios are calculated for all lines of Non-Life Reinsurance as well as primary property insurance using actuarial methods such as the chain ladder method. In such cases, 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 similar to the average rate of past inflation contained in the data. More recent underwriting years and occurrence years are subject to greater uncertainty in actuarial projections, although this is reduced with the aid of a variety of additional information. Particularly in reinsurance business, a considerable period of time may elapse between the occurrence of an insured loss, notification by the primary insurer and pro rata payment of the loss by the reinsurer. Therefore, the realistically estimated future settlement amount (best estimate) is recognised, which is generally calculated on the basis of information provided by cedants. This estimate draws on past experience and assumptions as to future developments, taking account of market information. The amount of provisions and their allocation to occurrence years are determined using recognised forecasting methods based on non-life actuarial principles. In this regard, provisions for the assumed insurance business are generally recognised in accordance with the data provided by prior insurers (in the case of Group business) or on the basis of actuarial analyses (in the case of non-Group business).

Because settlements of major losses differ from case to case, there is often insufficient statistical data available here. In these instances, appropriate reserves are created after analysing the portfolio exposed to such risks and, where appropriate, after individual scrutiny. These reserves represent the Group's best estimates. In addition, an individually determined reserve is created for a portion of known insurance claims. These estimates, which are based on facts that were known at the time the reserve was established, are made on a case-by-case basis by the employees responsible for loss adjustment and take into account general principles of insurance practice, the loss situation and the agreed-upon scope of coverage. Reserves are regularly remeasured when warranted by new findings.

With the exception of a few partial reserves, such as pension benefit reserves, the loss and loss adjustment expense reserve is generally not discounted.

The provision for premium refunds is established in life insurance for obligations that relate to surplus participation by policyholders that have not yet been definitively allocated to individual insurance contracts at the reporting date. It consists of amounts allocated to policyholders in accordance with national regulations or contractual provisions and amounts resulting from temporary differences between the IFRS consolidated financial statements and the local GAAP annual financial statements (provision for deferred premium refunds, shadow provision for premium refunds) that will have a bearing on future surplus participation calculations. 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 the test indicates that future income will probably not cover the anticipated expenses at the level of the calculation cluster, a provision is recognised for anticipated losses after writing off the related deferred acquisition costs. We perform the adequacy test for the unearned premium reserve and the loss and loss adjustment expense reserve on the basis of the current 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 ability to control the profitability of individual contractual relationships. Investment income is not included in this calculation. We test the adequacy of the benefit reserve on the basis of current assumptions about the actuarial bases, including pro rata net investment income and (where relevant) future surplus participations.

Shadow accounting

IFRS 4.30 allows recognised but unrealised gains and losses (deriving predominantly from changes in the fair value of assets classified as "available for sale") that are recognised in "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 in 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 "shadow adjustments" of the affected items. The contra item is reported in "Other comprehensive income" to reflect the underlying changes in value.

Technical provisions for life insurance policies where the investment risk is borne by the policyholders. In the case of life insurance products under which policyholders themselves bear the investment risk (e.g. in unit-linked life insurance contracts), the benefit reserve and other technical provisions reflect the fair value of the corresponding investments. These provisions are reported separately. See our disclosures on the asset item "Investments for the benefit of life insurance policyholders who bear the investment risk" on page 195.

Other provisions

Provisions for pensions and other post-employment benefits: Group companies make defined benefit pension commitments to their employees. The nature and amount of pension commitments depend on the terms of the pension plan in effect at the time the commitment was made. They are based principally on length of service and salary level. In addition to these pension plans, senior executives and members of the Board of Management in particular have individual commitments as well as commitments provided for under the "Bochumer Verband" benefit plan.

In addition, various German companies have long offered the opportunity to obtain pension commitments through deferred compensation. The employee-funded commitments included in the provisions for accrued pension rights are insured under pension liability insurance contracts with various insurance companies, mainly within the Group.

If pension liabilities are offset by assets of a legally independent entity (e.g. a fund or benefit commitments funded by external assets) that may only be used to settle the pension promises given and are exempt from attachment by any creditors, such pension liabilities are recognised net of those assets. If the fair value of such assets exceeds the associated pension liabilities, the net amount is recognised in "Other accounts receivable" after adjustment for effects from the application of the asset ceiling.

Liabilities under defined benefit pension plans are calculated separately for each plan according to actuarial principles. Pension liabilities are measured in accordance with IAS 19 "Employee Benefits" using the projected unit credit method. Measurement reflects benefit entitlements and current pension payments at the reporting date, together with their future trends. They are calculated in accordance with actuarial principles and take into consideration length of service and the estimated future salary trends for employee salaries. The interest rate used for discounting pension liabilities is based on the rates applicable to prime-rated corporate bonds whose currency and duration match the pension liabilities. The accounting for liabilities for post-employment benefits is based on reports obtained from qualified actuaries prior to the reporting date. The results of these measurements are updated as at the reporting date in order to account for material transactions and changes in parameters. Changes in the present value of liabilities due to interest rate changes are calculated on the basis of sensitivity analyses by means of rescaling, including where such changes are immaterial.

The cost components resulting from changes to defined benefit plans are recognised in profit or loss for the period, insofar as they relate to service costs and net interest on the net liability. Past service costs resulting from plan amendments or curtailments as well as gains and losses from plan settlements are recognised in profit or loss at the time they occur. All remeasurement effects are recognised in "Other comprehensive income" and presented in equity. Remeasurements of pension liabilities consist of actuarial gains or losses on gross pension liabilities and the difference between the actual return on plan assets and the interest income on plan assets. Moreover, where plans are in surplus, the remeasurement components include the difference between the interest rate on the effect of the asset ceiling and the total changes in net assets from the effect of the asset ceiling. Actuarial gains and losses result from differences between estimated claims experience and actual claims experience (inconsistencies in claims experience as well as effects of changes in the calculation parameters, including the effect of changes of the discount rate).

Partial retirement obligations are recognised at their present value in accordance with actuarial principles. Under the "block model", a provision for outstanding settlement amounts is recognised during the working phase in the amount of the unremunerated portion of the service rendered. Bonus payments are attributed over the periods of service until the end of the employee's working phase. The liability item is then reversed during the periods in which the employee is remunerated without having to work, in accordance with the partial retirement arrangements. In calculating the net liability, the fair value of the plan assets is deducted from the liability recognised for the partial retirement obligation.

Miscellaneous other provisions, including tax provisions, are recognised in the amount that is likely to be required to settle the obligations, based on best estimates. A condition for this is that the Group has a present legal or constructive obligation as a result of a past event, the settlement of which is probable and whose amount can be estimated reliably.

Restructuring provisions are recognised if a detailed, formal restructuring plan has been approved by the Group and the restructuring has begun to be implemented or the main features of the restructuring have been publicly announced. Among other things, the provisions reflect assumptions in respect of the number of employees affected by redundancy, the amount of severance payments and costs in connection with terminating contracts. Expenses related to future business activities (e.g. relocation costs) are not included in the recognition of restructuring provisions. The Group's accounting guidelines govern the requirements for recognising a restructuring provision as well as the cost components for which provisions may be recognised. These provisions are discounted if the effect of the time value of money is material. The carrying amount of the provisions is reviewed at each reporting date.

Liabilities

Financial liabilities, including "Notes payable and loans", are recognised at amortised cost if they do not relate to liabilities from derivatives or liabilities under investment contracts at fair value through profit or loss.

Liabilities from derivatives are measured at fair value. In addition, derivatives used as hedging instruments in connection with hedge accounting are recognised under "Other liabilities". In respect of written put options on non-controlling interests, the Group recognises a liability in the amount of the present value of the repurchase amount of the interests. It is charged to non-controlling interests in equity. Effects from subsequent measurement are recognised as income or expenses in "Other income/expenses". Unwinding of the discount on these financial liabilities is reported in "Financing costs".

The fair value of investment contracts is generally calculated using surrender values for policyholders and their account balances. In addition, the Group uses the fair value option for a selected portion of the portfolio in order to eliminate or significantly reduce accounting mismatches relating to assets from investment contracts that cover liabilities. The impact on earnings resulting from the measurement of these liabilities is recognised in "Net income from investment contracts".

Share-based payments

Share-based payment transactions in the Group are exclusively cash-settled. Liabilities for cash-settlement share-based payment plans are measured at each reporting date and at the settlement date at fair value. The fair value of each of these plans is recognised as an expense and distributed over the vesting period. Thereafter, any change in the fair value of plans that have not yet been exercised is recognised in the statement of income.

Deferred tax liabilities: IAS 12 requires deferred tax liabilities be recognised if the carrying amounts of assets are higher or those of liabilities are lower in the consolidated balance sheet than in the tax base of the relevant Group company, and where these temporary differences will increase future tax liabilities. See our disclosures on deferred tax assets. Deferred tax liabilities may not be recognised for the initial recognition of goodwill.

FINANCIAL INSTRUMENTS DISCLOSURES

IFRS 7 requires certain information to be disclosed broken down by classes of financial instruments that reflects the risk characteristics of those financial instruments. At a minimum, this information must be disclosed for financial instruments measured at amortised cost and for financial instruments measured at fair value. This classification is not necessarily the same as the categorisation of financial instruments in accordance with IAS 39. The grouping of our financial instruments into classes is based on the requirements of our portfolios; the level of detail of the classes disclosed may vary depending on the information required to be disclosed.

The following table presents a reconciliation of the classes of financial instruments in the Group to the balance sheet line items and provides information about the corresponding measurement basis.

N12 **CLASSES OF FINANCIAL INSTRUMENTS, BALANCE SHEET ITEMS AND MEASUREMENT BASES**

Classes of financial instruments	Measurement basis
Financial instruments from investments	
Shares in affiliated companies and participating interests	Amortised cost
Loans and receivables	Amortised cost
Financial instruments held to maturity	Amortised cost
Financial assets available for sale: ■ Fixed-income securities ■ Variable-yield securities	Fair value
Financial instruments at fair value through profit or loss: ■ Financial instruments classified at fair value through profit or loss ■ Financial assets held for trading	Fair value
Other investments	Fair value or amortised cost[1]
Investment contracts – loans and receivables	Amortised cost
Investment contracts: ■ Financial assets available for sale ■ Financial instruments classified at fair value through profit or loss ■ Financial assets held for trading (derivatives)	Fair value
Other financial instruments	
Other assets – derivatives (hedging instruments with positive fair values)	Fair value
Subordinated liabilities	Amortised cost
Notes payable and loans	Amortised cost
Other liabilities – derivatives	Fair value
Other liabilities – derivatives (hedging instruments with negative fair values)	Fair value
Other liabilities – investment contracts (other commitments)	Amortised cost
Other liabilities – investment contracts ■ Financial instruments classified at fair value through profit or loss ■ Derivatives	Fair value

[1] For a separate presentation of financial instruments measured at amortised cost or at fair value, see Note 10, "Other investments" on page 237

KEY PERFORMANCE INDICATORS

Net investment income is composed of: ordinary income (dividends, current interest income and other income), income from reversal of impairment losses, gains and losses on the disposal of investments, unrealised gains and losses on financial instruments at fair value through profit or loss, impairment losses on investments, the share of profit or loss of equity-accounted investments, net income from investment contracts, net interest income from funds withheld and contract deposits, and administrative, interest and other expenses relating to investments.

Technical insurance items

The amount that the insurer has declared due either once or on a continual basis during the financial year in exchange for providing insurance coverage is recognised under written premiums. Premiums include instalment payment surcharges, ancillary payments and cash payments for assumed portions of technical provisions (portfolio accessions). Payments received for premium receivables that lapsed or were written down in prior years, as well as income resulting from the reversal or reduction of impairment losses on accounts receivable from policyholders, are also recognised under this item. Increases in impairment losses are deducted from written premiums.

Deducting ceded written premiums produces the net written premiums.

Premiums for insurance contracts are recognised as earned – and thus as income – over the duration of the contracts in proportion to the amount of insurance cover provided or as they fall due. Earned premiums consist of the portion of written premiums that will be deferred in accordance with the terms of the insurance contracts. Savings elements under life insurance contracts are deducted from earned premiums. Please refer to our disclosures on the “Unearned premium reserve”.

Claims and claims expenses include claims paid during the financial year as well as claims paid in prior years (including terminal bonuses in life insurance). They also include changes in the loss and loss adjustment expense reserve and changes in the benefit reserve. Expenses for premium refunds are also recognised in this item. These consist of direct credits from the allocation to the provision for premium refunds in accordance with the German Commercial Code (HGB), as well as changes to the provision for deferred premium refunds that are recognised as an expense, including amortisation of PVFP in favour of policyholders. Please refer to our disclosures on the corresponding technical liability items.

Acquisition costs mainly comprise commissions paid to individuals and organisations engaged to sell insurance products, reinsurance commissions paid and changes in deferred acquisition costs and in provisions for commissions. Other cost elements that are closely related to the acquisition of new insurance contracts and to the extension of existing insurance contracts, such as costs for health examinations, are also recognised here. Administrative expenses primarily consist of expenses for contract management, such as collection of premiums when due. All costs directly attributable to this function, including personnel costs, depreciation, amortisation and impairment losses and rents are recognised here.

Premiums, claims and claims expenses, acquisition costs and administrative expenses are recognised both gross and net, i.e. after taking reinsurance items into account.

Taxes on income: Tax expenditures consist of the current taxes levied on the results of Group companies to which local tax rates are applied, as well as changes in deferred tax assets and deferred tax liabilities. Expenses for and income from interest or penalties payable to the tax authorities are shown in “Other income/expenses”.

EXCHANGE DIFFERENCES ON TRANSLATING FOREIGN OPERATIONS

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 translated into the functional currency at the exchange rates prevailing at the transaction date. In accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates", accounting for currency translation gains and losses depends on the nature of the underlying balance sheet item.

Gains and losses from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in "Other income/expenses" in the statement of income.

Currency translation differences relating to non-monetary assets whose changes in fair value are recognised in profit or loss are recognised together with those fair value changes as gains or losses from fair value measurement in the statement of income. Exchange rate gains or losses from non-monetary items, such as equities classified as available for sale, are initially recognised in "Other comprehensive income" and subsequently reclassified to profit or loss when the instrument is sold or impaired.

The Group companies' statements of income prepared in national currencies are translated into euros at average exchange rates and taken over into the consolidated financial statements. Foreign currency items in the balance sheets of the individual companies are translated and then taken over into the consolidated financial statements at the middle rates at the reporting date. All resulting currency translation differences – including those arising from accounting for the parent's share of the fair value of the subsidiaries' net assets – are recognised in "Other comprehensive income" and presented in equity in the currency translation reserve. Currency translation differences resulting from long-term loans or open-ended loans to a foreign operation whose repayment is neither planned nor probable are also recognised in "Other comprehensive income" and presented in equity in the currency translation reserve. Goodwill arising from the acquisition of a foreign company is treated as an asset of that foreign entity and translated as at the reporting date.

N13 **EXCHANGE RATES FOR OUR KEY FOREIGN CURRENCIES**

EUR 1 corresponds to		Balance sheet (reporting date)		Statement of income (average)	
		2014	2013	2014	2013
AUD	Australia	1.4879	1.5513	1.4789	1.3842
BRL	Brazil	3.2324	3.2095	3.1215	2.8727
CAD	Canada	1.4131	1.4751	1.4652	1.3726
CNY	China	7.5533	8.3445	8.1675	8.1738
GBP	United Kingdom	0.7825	0.8357	0.8059	0.8480
MXN	Mexico	17.9228	17.9831	17.6771	17.1102
PLN	Poland	4.3071	4.1502	4.1935	4.2026
USD	USA	1.2155	1.3766	1.3256	1.3293
ZAR	South Africa	14.1409	14.4390	14.3566	12.8556

SEGMENT REPORTING

IDENTIFICATION OF REPORTABLE SEGMENTS

In accordance with IFRS 8 "Operating Segments", the reportable segments were identified in line with the Group's internal reporting and management that the Group Board of Management uses to regularly assess the performance of the segments and decide on the allocation of resources to them. The Group classifies its business activities into the areas of insurance and Corporate Operations. Insurance activities are further subdivided into five reportable segments. However, in view of the different product types, risks and capital allocations involved, these are classified initially into primary insurance and reinsurance.

Since they are managed according to customer groups and geographical regions (Germany versus other countries) – and therefore span various lines of business – insurance activities in the primary insurance sector are organised into three reportable segments: "Industrial Lines", "Retail Germany" and "Retail International". This segmentation also corresponds to the responsibilities of the members of the Board of Management.

Reinsurance business is handled solely by the Hannover Re Group and is divided into the two segments of Non-Life Reinsurance and Life/Health Reinsurance in accordance with the Hannover Re Group's internal reporting system. In a departure from the segmentation used in the consolidated financial statements of Hannover Rück SE, however, we allocate its holding company functions to its Non-Life Reinsurance segment. By contrast, cross-segment loans within the Hannover Re Group are allocated to the two reinsurance segments in the consolidated financial statements of the Talanx Group (in the consolidated financial statements of Hannover Rück SE, these loans are shown in the consolidation column). Differences between the segment results for reinsurance business as presented in the consolidated financial statements of Talanx AG and those reported in the financial statements of Hannover Rück SE are thus unavoidable.

The major products and services from which these reportable segments generate income are described in the following.

Industrial Lines: We report our worldwide industrial business as an independent segment in the Industrial Lines segment. The scope of business operations encompasses a wide selection of insurance products such as liability, motor, accident, fire, property, legal protection, marine, financial lines and engineering insurance for large and mid-sized enterprises in Germany and abroad. In addition, reinsurance is provided in various classes of insurance.

Retail Germany: This reportable segment manages insurance activities serving German retail and commercial customers that span the various lines of business, including our Germany-wide bancassurance business activities – i.e. insurance products sold over the counter at banks. In the area of life insurance, this segment also provides cross-border insurance services in Austria. The segment's products range from property/casualty insurance through all lines of life insurance and occupational pension insurance, down to all-round solutions for small and medium-sized companies and self-employed professionals. The Group employs a wide range of sales channels, including its own exclusive sales organisation as well as sales through independent brokers and multiple agents, direct sales and partnerships with banks.

Retail International: The scope of operations in this segment encompasses insurance business transacted across the various lines of insurance with retail and commercial customers, including bancassurance activities in foreign markets. The range of insurance products includes motor insurance, property and casualty insurance and marine and fire insurance, as well as many products in the field of life insurance. A large part of our international business is transacted by brokers and agents. Additionally, many companies in this segment use post offices and banks as sales channels.

Non-Life Reinsurance[1]: The most important activities are property and casualty business with retail, commercial and industrial customers (first and foremost in the US and German markets), marine and aviation business, credit/surety business, structured reinsurance, and facultative and NatCat business.

Life/Health Reinsurance[1]: This 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.

[1] See our remarks at the beginning of this section for an explanation of the difference in the segment result between the Talanx Group and the Hannover Re Group

Corporate Operations: In contrast to the five operating segments, the Corporate Operations segment encompasses management and other functional activities that support the business conducted by the Group; these mainly relate to asset management and, in the primary insurance sector, the run-off and placement of portions of reinsurance cessions (Talanx Reinsurance Broker GmbH, Hannover), including intragroup reinsurance (Talanx Reinsurance Ltd., Dublin), as well as Group financing. Asset management by Ampega Investment GmbH, Cologne, for non-Group private and institutional investors is also shown in this segment. This segment also includes centralised service companies that provide specific billable services – such as IT, collection, personnel and accounting services – mainly to the Group's primary insurers based in Germany. A portion of the in-house business written by Talanx Reinsurance Ltd. and the operating profit of Talanx Reinsurance Broker GmbH are reallocated to the ceding segments in the course of segment allocation (see the "Corporate Operations" subsection in the "Development of the divisions with the Group" section of the management report).

MEASUREMENT BASES FOR THE PERFORMANCE OF THE REPORTABLE SEGMENTS

All transactions between reportable segments are measured on the basis of standard market transfer prices that are calculated on an arm's length basis. Cross-segment transactions within the Group are eliminated in the consolidation column, whereas income from dividend payments and profit/loss transfer agreements attributable to the Group holding company is eliminated in the applicable segment. For reasons of consistency and comparability, we have aligned the segment statement of income 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 performance of the reportable segments within the Group. However, operating profit (EBIT) – determined on the basis of IFRS earnings contributions – is used as a consistent measurement basis. Net profit or loss for the period before income taxes is highlighted as a means of capturing true operating profitability and to enhance comparability. In addition, the result is adjusted for interest charges incurred for borrowing (financing costs).

N14 **SEGMENT REPORTING. BALANCE SHEET AS AT 31 DECEMBER 2014**

IN EUR MILLION

Assets	Industrial Lines		Retail Germany		Retail International	
	31.12.2014	31.12.2013[1]	31.12.2014	31.12.2013	31.12.2014	31.12.2013
A. Intangible assets						
a. Goodwill	153	153	403	403	518	533
b. Other intangible assets	14	16	601	1,000	193	235
	167	**169**	**1,004**	**1,403**	**711**	**768**
B. Investments						
a. Investment property	32	21	847	734	16	21
b. Shares in affiliated companies and participating interests	18	19	17	17	—	—
c. Investments in associates and joint ventures	126	124	36	35	—	—
d. Loans and receivables	1,564	2,029	25,113	26,466	861	672
e. Other financial instruments						
i. Held to maturity	79	32	170	116	358	353
ii. Available for sale	4,852	3,821	18,907	14,194	4,858	3,883
iii. At fair value through profit or loss	132	98	279	319	597	565
f. Other investments	466	524	857	549	681	528
Investments under own management	**7,269**	**6,668**	**46,226**	**42,430**	**7,371**	**6,022**
g. Investments under investment contracts	—	—	—	—	2,037	1,758
h. Funds withheld by ceding companies	22	23	21	25	—	—
Investments	**7,291**	**6,691**	**46,247**	**42,455**	**9,408**	**7,780**
C. Investments for the benefit of life insurance policyholders who bear the investment risk	—	—	8,718	7,616	708	709
D. Reinsurance recoverables on technical provisions	5,034	4,640	2,524	2,446	765	668
E. Accounts receivable on insurance business	1,214	1,168	315	364	865	820
F. Deferred acquisition costs	20	16	1,960	2,161	521	403
G. Cash at banks, cheques and cash-in-hand	324	322	661	398	302	427
H. Deferred tax assets	175	75	97	95	94	99
I. Other assets	450	423	1,616	794	510	409
J. Non-current assets and assets of disposal groups classified as held for sale[2]	8	—	3	4	12	233
Total assets	**14,683**	**13,504**	**63,145**	**57,736**	**13,896**	**12,316**

[1] Adjusted to reflect IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes
[2] For further information see "Assets held for sale and disposal groups" in the Notes

	Non-Life Reinsurance		Life/Health Reinsurance		Corporate Operations		Consolidation		Total	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013[1)]	31.12.2014	31.12.2013	31.12.2014	31.12.2013[1)]
	16	16	—	—	—	—	—	—	1,090	1,105
	26	22	94	94	78	79	—	—	1,006	1,446
	42	**38**	**94**	**94**	**78**	**79**	**—**	**—**	**2,096**	**2,551**
	976	845	2	2	—	—	—	—	1,873	1,623
	56	32	—	—	21	24	—	—	112	92
	132	126	23	19	15	13	–70	–70	262	247
	2,912	3,137	76	72	27	11	—	–156	30,553	32,231
	1,961	2,469	179	198	4	6	–297	–190	2,454	2,984
	20,532	16,918	6,639	5,768	395	338	—	—	56,183	44,922
	77	38	54	69	—	1	—	—	1,139	1,090
	1,694	1,536	438	281	476	245	–778	–542	3,834	3,121
	28,340	**25,101**	**7,411**	**6,409**	**938**	**638**	**–1,145**	**–958**	**96,410**	**86,310**
	—	—	—	—	—	—	—	—	2,037	1,758
	1,124	890	14,794	13,453	1	—	–1,530	–1,497	14,432	12,894
	29,464	**25,991**	**22,205**	**19,862**	**939**	**638**	**–2,675**	**–2,455**	**112,879**	**100,962**
	—	—	—	—	—	—	—	—	9,426	8,325
	1,201	1,307	1,008	589	—	1	–3,162	–3,047	7,370	6,604
	1,494	1,702	1,620	1,243	22	4	–278	–262	5,252	5,039
	597	491	1,317	1,181	2	2	228	259	4,645	4,513
	587	434	186	209	85	74	—	—	2,145	1,864
	52	16	70	56	276	144	—	—	764	485
	1,306	1,273	271	151	494	484	–1,948	–1,332	2,699	2,202
	—	11	—	—	—	—	–1	—	22	248
	34,743	**31,263**	**26,771**	**23,385**	**1,896**	**1,426**	**–7,836**	**–6,837**	**147,298**	**132,793**

N15 SEGMENT REPORTING. BALANCE SHEET AS AT 31 DECEMBER 2014

IN EUR MILLION

Equity and Liabilities	Industrial Lines		Retail Germany		Retail International	
	31.12.2014	31.12.2013[1]	31.12.2014	31.12.2013	31.12.2014	31.12.2013
B. Subordinated liabilities	200	144	161	213	2	2
C. Technical provisions						
a. Unearned premium reserve	1,022	936	937	888	1,799	1,591
b. Benefit reserve	—	1	37,894	36,795	3,233	2,554
c. Loss and loss adjustment expense reserve	9,148	8,463	2,883	2,701	2,347	2,142
d. Provision for premium refunds	8	8	4,245	2,071	231	99
e. Other technical provisions	37	34	8	8	7	8
	10,215	**9,442**	**45,967**	**42,463**	**7,617**	**6,394**
D. Technical provisions for life insurance policies where the investment risk is borne by the policyholders	—	—	8,718	7,616	708	709
E. Other provisions						
a. Provisions for pensions and other post-employment benefits	636	502	138	92	19	14
b. Provisions for taxes	107	122	104	116	98	92
c. Miscellaneous other provisions	79	70	240	266	73	74
	822	**694**	**482**	**474**	**190**	**180**
F. Liabilities						
a. Notes payable and loans	—	—	—	—	—	—
b. Funds withheld under reinsurance treaties	39	27	2,026	1,951	185	184
c. Other liabilities	1,274	1,283	2,232	2,138	3,011	2,543
	1,313	**1,310**	**4,258**	**4,089**	**3,196**	**2,727**
G. Deferred tax liabilities	174	44	328	285	136	121
H. Liabilities included in disposal groups classified as held for sale[2]	—	—	—	—	10	235
Total liabilities/provisions	**12,724**	**11,634**	**59,914**	**55,140**	**11,859**	**10,368**

	Non-Life Reinsurance		Life/Health Reinsurance		Corporate Operations		Consolidation		Total	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013[1]	31.12.2014	31.12.2013[1]
	1,986	2,238	64	60	642	612	−394	−162	2,661	3,107
	2,627	2,297	122	108	8	8	−199	−150	6,316	5,678
	—	—	11,757	10,632	—	—	−205	−215	52,679	49,767
	20,798	18,848	3,316	2,821	37	9	−1,273	−1,209	37,256	33,775
	—	—	—	—	—	—	—	—	4,484	2,178
	158	129	166	140	—	—	−2	—	374	319
	23,583	**21,274**	**15,361**	**13,701**	**45**	**17**	**−1,679**	**−1,574**	**101,109**	**91,717**
	—	—	—	—	—	—	—	—	9,426	8,325
	128	90	44	27	1,286	971	—	—	2,251	1,696
	241	218	19	4	153	151	—	—	722	703
	94	90	61	45	189	145	−1	−2	735	688
	463	**398**	**124**	**76**	**1,628**	**1,267**	**−1**	**−2**	**3,708**	**3,087**
	284	227	236	213	1,496	1,217	−667	−715	1,349	942
	446	440	6,443	5,778	—	—	−2,886	−2,845	6,253	5,535
	643	953	2,037	1,495	612	112	−2,183	−1,555	7,626	6,969
	1,373	**1,620**	**8,716**	**7,486**	**2,108**	**1,329**	**−5,736**	**−5,115**	**15,228**	**13,446**
	1,282	1,005	322	271	4	—	16	28	2,262	1,754
	—	—	—	—	—	—	−6	−2	4	233
	28,687	**26,535**	**24,587**	**21,594**	**4,427**	**3,225**	**−7,800**	**−6,827**	**134,398**	**121,669**
Equity[3]									**12,900**	**11,124**
Total equity and liabilities									**147,298**	**132,793**

[1] Adjusted to reflect IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes
[2] For further information see "Assets held for sale and disposal groups" in the Notes
[3] Equity attributable to Group shareholders and non-controlling interests

N16 SEGMENT REPORTING. STATEMENT OF INCOME FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2014

IN EUR MILLION

	Industrial Lines		Retail Germany		Retail International	
	2014	2013[1]	2014	2013	2014	2013
1. Gross written premiums including premiums from unit-linked life and annuity insurance	4,031	3,835	6,890	6,954	4,454	4,220
of which attributable to other segments	81	65	44	63	—	—
with third parties	3,950	3,770	6,846	6,891	4,454	4,220
2. Savings elements of premiums from unit-linked life and annuity insurance	—	—	947	946	144	185
3. Ceded written premiums	1,979	2,127	278	351	352	374
4. Change in gross unearned premiums	–48	–109	–49	–70	–237	–174
5. Change in ceded unearned premiums	–18	–145	–14	–18	–14	–26
Net premiums earned	**2,022**	**1,744**	**5,630**	**5,605**	**3,735**	**3,513**
6. Claims and claims expenses (gross)	3,165	2,868	6,245	6,219	2,994	2,630
Reinsurers' share	1,531	1,435	118	204	241	163
Claims and claims expenses (net)	**1,634**	**1,433**	**6,127**	**6,015**	**2,753**	**2,467**
7. Acquisition costs and administrative expenses (gross)	767	721	1,377	1,154	1,025	1,037
Reinsurers' share	327	361	125	115	80	82
Acquisition costs and administrative expenses (net)	**440**	**360**	**1,252**	**1,039**	**945**	**955**
8. Other technical income	8	20	16	9	17	20
Other technical expenses	17	13	220	75	65	79
of which attributable to amortisation of PVFP	—	1	192	57	13	32
Other technical result	**–9**	**7**	**–204**	**–66**	**–48**	**–59**
Net technical result	**–61**	**–42**	**–1,953**	**–1,515**	**–11**	**32**
9. a. Investment income	317	291	2,111	2,026	369	339
b. Investment expenses	49	52	195	216	57	67
Net income from investments under own management	**268**	**239**	**1,916**	**1,810**	**312**	**272**
Net income from investment contracts	—	—	—	—	10	13
Net interest income from funds withheld and contract deposits	—	1	–17	–24	–1	–1
Net investment income	**268**	**240**	**1,899**	**1,786**	**321**	**284**
of which attributable to interest and similar income	198	202	1,559	1,550	340	314
attributable to interest and similar expenses	—	—	17	24	50	47
impairment losses on investments	4	8	47	65	5	8
reversals of impairment losses on investments	7	—	13	10	—	1
share of profit or loss of equity-accounted associates and joint ventures	6	3	5	2	—	—
10. a. Other income	147	105	227	211	167	64
b Other expenses	172	174	288	321	269	195
Other income/expenses	**–25**	**–69**	**–61**	**–110**	**–102**	**–131**
of which attributable to interest and similar income	7	1	15	6	12	15
reversals of impairment losses on accounts receivable and other assets	14	2	4	9	3	3
attributable to interest and similar expenses	29	29	11	14	3	3
impairment losses on accounts receivable and other assets	30	30	3	2	33	53
Profit before goodwill impairments	**182**	**129**	**–115**	**161**	**208**	**185**
11. Goodwill impairments	—	—	—	—	—	—
Operating profit/loss (EBIT)	**182**	**129**	**–115**	**161**	**208**	**185**
12. Financing costs	7	9	12	13	6	1
13. Taxes on income	54	42	–41	64	50	57
Net income	**121**	**78**	**–86**	**84**	**152**	**127**
of which attributable to non-controlling interests	—	—	–2	6	30	26
of which attributable to shareholders of Talanx AG	121	78	–84	78	122	101

[1] Adjusted to reflect IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes

Non-Life Reinsurance		Life/Health Reinsurance		Corporate Operations		Consolidation		Total	
2014	2013	2014	2013	2014	2013	2014	2013 [1]	2014	2013 [1]
7,903	7,818	6,459	6,145	50	40	–793	–861	28,994	28,151
462	509	156	184	50	40	–793	–861	—	—
7,441	7,309	6,303	5,961	—	—	—	—	28,994	28,151
—	—	—	—	—	—	—	—	1,091	1,131
739	787	1,042	756	8	10	–786	–866	3,612	3,539
–150	–175	–6	–29	—	–8	41	59	–449	–506
3	–10	—	1	—	—	41	60	–2	–138
7,011	**6,866**	**5,411**	**5,359**	**42**	**22**	**–7**	**4**	**23,844**	**23,113**
5,159	5,242	5,547	5,110	29	18	–437	–439	22,702	21,648
331	420	882	658	–1	1	–424	–466	2,678	2,415
4,828	**4,822**	**4,665**	**4,452**	**30**	**17**	**–13**	**27**	**20,024**	**19,233**
1,953	1,826	1,228	1,418	9	6	–202	–259	6,157	5,903
123	120	106	93	—	—	–225	–219	536	552
1,830	**1,706**	**1,122**	**1,325**	**9**	**6**	**23**	**–40**	**5,621**	**5,351**
1	2	—	—	—	—	1	1	43	52
5	8	8	4	2	2	–17	19	300	200
—	—	3	7	—	—	—	—	208	97
–4	**–6**	**–8**	**–4**	**–2**	**–2**	**18**	**–18**	**–257**	**–148**
349	**332**	**–384**	**–422**	**1**	**–3**	**1**	**–1**	**–2,058**	**–1,619**
999	969	307	296	215	102	–55	–60	4,263	3,963
152	173	50	28	81	74	–97	–92	487	518
847	**796**	**257**	**268**	**134**	**28**	**42**	**32**	**3,776**	**3,445**
—	—	—	—	—	—	—	—	10	13
20	15	356	343	—	—	—	—	358	334
867	**811**	**613**	**611**	**134**	**28**	**42**	**32**	**4,144**	**3,792**
688	707	694	687	6	9	–54	–59	3,431	3,410
4	5	105	117	—	—	–5	–8	171	185
28	20	—	—	2	1	—	—	86	102
—	—	—	—	—	—	—	—	20	11
7	11	–6	2	4	1	–7	–6	9	13
262	232	214	120	816	827	–733	–751	1,100	808
259	278	175	170	738	769	–607	–692	1,294	1,215
3	**–46**	**39**	**–50**	**78**	**58**	**–126**	**–59**	**–194**	**–407**
3	13	15	10	13	2	–3	–1	62	46
5	8	—	—	—	—	—	—	26	22
20	28	45	57	49	35	–9	–9	148	157
42	26	10	8	3	3	—	—	121	122
1,219	**1,097**	**268**	**139**	**213**	**83**	**–83**	**–28**	**1,892**	**1,766**
—	—	—	—	—	—	—	—	—	—
1,219	**1,097**	**268**	**139**	**213**	**83**	**–83**	**–28**	**1,892**	**1,766**
96	127	3	3	101	96	–42	–43	183	206
263	180	45	–15	–20	–25	–10	5	341	308
860	**790**	**220**	**151**	**132**	**12**	**–31**	**10**	**1,368**	**1,252**
459	413	113	75	—	—	–1	—	599	520
401	377	107	76	132	12	–30	10	769	732

GEOGRAPHICAL BREAKDOWN OF INVESTMENTS, NON-CURRENT ASSETS AND WRITTEN PREMIUMS

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)]

N17 INVESTMENTS UNDER OWN MANAGEMENT BY GEOGRAPHICAL ORIGIN

IN EUR MILLION

	Primary Insurance	Reinsurance	Corporate Operations	Total
31.12.2014				
Germany	21,436	6,313	432	**28,181**
United Kingdom	3,475	2,605	103	**6,183**
Central and Eastern Europe (CEE), including Turkey	3,393	672	4	**4,069**
Rest of Europe	26,424	8,711	281	**35,416**
USA	2,215	9,673	23	**11,911**
Rest of North America	173	1,410	18	**1,601**
Latin America	1,203	1,465	2	**2,670**
Asia and Australia	1,825	4,203	24	**6,052**
Africa	5	322	—	**327**
Total	**60,149**	**35,374**	**887**	**96,410**
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**

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

NON-CURRENT ASSETS BY GEOGRAPHICAL ORIGIN

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

N18 NON-CURRENT ASSETS BY GEOGRAPHICAL ORIGIN

IN EUR MILLION

	Primary Insurance	Reinsurance	Corporate Operations	Total
31.12.2014				
Germany	3,002	756	77	3,835
United Kingdom	—	3	—	3
Central and Eastern Europe (CEE), including Turkey	—	—	—	—
Rest of Europe	341	83	1	425
USA	—	331	—	331
Rest of North America	—	—	—	—
Latin America	32	—	—	32
Asia and Australia	—	2	—	2
Africa	—	7	—	7
Total	**3,375**	**1,182**	**78**	**4,635**
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**

GROSS WRITTEN PREMIUMS BY GEOGRAPHICAL ORIGIN (BY DOMICILE OF CUSTOMER)[1)]

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

N19 GROSS WRITTEN PREMIUMS BY GEOGRAPHICAL ORIGIN

IN EUR MILLION

	Primary Insurance	Reinsurance	Corporate Operations	Total
2014				
Germany	8,460	874	—	9,334
United Kingdom	153	2,488	—	2,641
Central and Eastern Europe (CEE), including Turkey	2,177	221	—	2,398
Rest of Europe	2,461	1,969	—	4,430
USA	400	3,091	—	3,491
Rest of North America	35	694	—	729
Latin America	1,289	820	—	2,109
Asia and Australia	230	3,136	—	3,366
Africa	45	451	—	496
Total	**15,250**	**13,744**	**—**	**28,994**
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**

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

GROSS WRITTEN PREMIUMS BY TYPE AND CLASS OF INSURANCE AT GROUP LEVEL[1)]

N20 GROSS WRITTEN PREMIUMS BY TYPE AND CLASS OF INSURANCE

IN EUR BILLION

	2014	2013
Property/casualty primary insurance	8,404	8,103
Life primary insurance	6,846	6,778
Non-Life Reinsurance	7,441	7,309
Life/Health Reinsurance	6,303	5,961
Total	**28,994**	**28,151**

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

CONSOLIDATION

CONSOLIDATION PRINCIPLES

The consolidated financial statements have been prepared in compliance with uniform Group accounting policies in accordance with IFRSs. Most of the annual financial statements included in the consolidated financial statements were prepared as at a 31 December reporting date. In accordance with IFRS 10, the preparation of interim financial statements for Group companies with differing financial years was not required because their reporting dates are no more than three months prior to the Group reporting date. The effects of significant transactions between the non-standard reporting dates and the Group reporting date were taken into account.

In accordance with the transitional provisions of IFRS 10, the Group reassessed control of its participating interests, including investment funds and structured entities, as at 1 January 2014. IFRS 10 comprehensively redefines the concept of control. An investee (participating interest) is controlled if the Group directly or indirectly has power over a Group company from voting rights or other rights and is thereby exposed, or has rights, to positive and negative variable returns from the Group company and has the ability to affect those returns through its power over the investee. All of these criteria must be met. Other factors may also result in control, for example a principal-agent relationship. In this case, a party with decision-making rights acts as the Group's agent, although it does not control the investee because it merely exercises decision-making rights that have delegated by the Group (the principal). If an entity controls another investee, the parent must consolidate the subsidiary. The Group holds the majority of voting rights in all of its subsidiaries. When assessing whether control exists, potential voting rights are considered if they are substantive.

Acquired subsidiaries are accounted for using the purchase method as soon as the Group has obtained control. The acquisition costs correspond to the fair value of the assets acquired and liabilities arising or assumed at the transaction date. Acquisition-related costs are recognised as an expense. Assets, liabilities and contingent liabilities that can be identified in a business combination are measured in the course of initial consolidation at their acquisition date fair values. Any positive difference arising when the acquisition costs are eliminated against the fair value of the net assets is recognised as goodwill in intangible assets. If the acquisition costs are less than the identified net assets, the difference is recognised directly in profit or loss.

Non-controlling interests in acquired companies are generally reported based on the proportionate interest in the net assets of the acquired companies. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as an equity transaction. Non-controlling interests in the equity or net income of majority-owned subsidiaries are shown separately in equity in "Non-controlling interests" and in the statement of income in "attributable to non-controlling interests".

If the Group loses control of a subsidiary, the subsidiary's assets and liabilities and all related non-controlling interests and other components of equity are derecognised. Any gain or loss arising is recognised in "Other income/expenses" in the statement of income. Any investment retained in the former subsidiary is measured at fair value when control is lost.

All intragroup receivables and liabilities as well as income, expenses and intercompany profits and losses resulting from intragroup transactions are eliminated as part of the consolidation of intercompany balances, income and expenses, and profits or losses. Transactions between disposal groups and the Group's continuing operations are also eliminated.

Companies over which the Group is able to exercise significant influence are generally accounted for as associates using the equity method in accordance with IAS 28 and initially recognised at cost, including transaction costs. A significant influence is presumed to exist if a company belonging to the Group directly or indirectly holds at least 20% – but no more than 50% – of the voting rights. The Group's interest in associates includes the goodwill arising upon acquisition.

A joint venture is an arrangement of which the Group has joint control, giving it rights to the net assets of the arrangement rather than rights to its assets and obligations for its liabilities. These entities are accounted for using the equity method in accordance with IFRS 11.

Equity method accounting ends when the Group ceases to have significant influence or joint control. For further information, please see our disclosures in the "Accounting policies" section.

Structured entities as defined in IFRS 12 are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. In the same way as for subsidiaries, IFRS 10, in combination with IFRS 12, requires relationships with structured entities to be examined to determine whether those entities must be consolidated. In the Group, the requirement to consolidate structured entities is examined in the course of an analysis that covers both transactions in which the Groups initiate a structured entity, either by itself or together with third parties, and transactions in which it enters into a contractual relationship, either by itself or with third parties, with an existing structured entity. The decision whether or not to consolidate depends on the circumstances and is reviewed at least each year. 3 (2) structured entities were consolidated as at the reporting date. The list of all consolidated structured entities is a component of the list of shareholdings.

BASIS OF CONSOLIDATION

All material subsidiaries that are directly or indirectly controlled by Talanx AG are included in the consolidated financial statements. These include material structured entities. Material associates and joint ventures are accounted for using the equity method.

Only subsidiaries, associates and joint arrangements that are insignificant both individually and in the aggregate for the net assets, financial position and results of operations of the Group and that do not transact insurance business are exempted from consolidation or application of the equity method. The Group assesses whether a Group entity is insignificant by comparing its total assets and net income with the corresponding average figures for the Group as a whole over the last three years. For this reason, 37 (36) subsidiaries whose business purpose is primarily the rendering of services for insurance companies within the Group were not consolidated in the reporting period. A further 7 (7) associates and 2 (4) joint ventures were not accounted for using the equity method due to insignificance. Altogether, the total assets of these entities amount to less than 1% of the average total assets of the Group over the last three years; the net income of these companies amounts altogether to less than 2% of the average net income of the Group over the last three years. In subsequent periods, the entities not included in the basis of consolidation on grounds of insignificance are examined at each reporting date to establish whether they should be consolidated or accounted for using the equity method in light of a reassessment of their materiality.

For information on the composition of the Group, including a complete list of all shareholdings, please refer to the separate section in these notes on pages 295ff. We have also complied with the requirements of IFRS 12.10 (a) (i). Information on associates and joint ventures is contained in Note 5 "Investments in associates and joint ventures" in the "Notes to the consolidated balance sheet" section.

N21 **BASIS OF CONSOLIDATION**

	Germany	Other countries	Total
Number of consolidated subsidiaries			
31.12.2013	95[1]	109[2]	204
of which investment funds[3]	25	11	36
Additions	13	10	23
of which investment funds[3]	1	5	6
Disposals	12	9	21
of which investment funds[3]	11	3	14
31.12.2014	**96[1]**	**110[2]**	**206**
Number of consolidated structured entities			
31.12.2013	—	2	2
Additions	—	1	1
Disposals	—	—	—
31.12.2014	**—**	**3**	**3**
Total number of consolidated subsidiaries/structured entities	**96**	**113**	**209**
Number of equity-accounted associates and joint ventures			
31.12.2013	4	10[4]	14[5]
Additions	—	2	2
Disposals	1	1	2
31.12.2014	**3**	**11[4]**	**14[5]**

1) Consists of: 94 (93) individual entities and 2 (2) entities consolidated in 1 (1) subgroup
2) Consists of: 67 (66) individual entities and 43 (43) entities consolidated in 4 (4) subgroups
3) Control is exercised through voting or similar rights, so these investment funds do not constitute structured entities
4) Consists of 6 (5) individual entities and 5 (5) equity-accounted investments included in a subgroup
5) Includes a foreign joint venture

DISCLOSURES ON THE NATURE AND EXTENT OF SIGNIFICANT RESTRICTIONS

Statutory, contractual or regulatory restrictions, as well as protective rights of non-controlling interests, can restrict the Group's ability to access or use the assets, to transfer them to or from other entities in the Group without restriction, and to settle the liabilities of the Group. The following significant restrictions (as defined in IFRS 12.13) applied to the following subsidiaries with non-controlling interests at the reporting date because of protective rights in favour of those shareholders.

N22 **SIGNIFICANT RESTRICTIONS APPLYING TO MATERIAL SUBSIDIARIES**

IN EUR MILLION

Company	Nature and extent of significant restrictions
neue leben Lebens-versicherung AG, Hamburg	In certain circumstances, the sale of the shares held by the Group may require the approval of the general meeting of neue leben Holding AG, Hamburg, and hence also the approval of the minority shareholders.
Towarzystwo Ubezpieczeń Europa S.A. and Towarzystwo Ubezpieczeń na Życie Europa S.A., both Wroclaw, Poland	Under the existing consortium agreement with a minority shareholder, a dividend or a capital decrease may only be resolved with that shareholder's approval. In addition, the consortium agreement specifies that the shares held by the Group are subject to a restriction on disposal.
Towarzystwo Ubezpieczeń i Reasekuracji WARTA S.A. and Towarzystwo Ubezpieczeń na Życie WARTA S.A., both Warsaw, Poland	Under the existing consortium agreement with a minority shareholder, a dividend or a capital decrease may only be resolved with that shareholder's approval. In addition, the consortium agreement specifies that the shares held by the Group are subject to a restriction on disposal.
E+S Rückversicherung AG, Hannover	The sale or transfer of shares of E+S Rückversicherung AG is subject to endorsement and must be approved by the company's supervisory board. The supervisory board has the absolute right to issue or deny approval without being obliged to give reasons in the event of denial.

The provisions of national company law or regulatory requirements may restrict the Group's ability in certain countries to transfer assets between Group companies. These restrictions result largely from local minimum capital adequacy and solvency requirements and, to a lesser extent, from exchange controls.

To secure our technical liabilities and as collateral for liabilities arising from existing derivative transactions, the Group has established blocked custody accounts and trust accounts in certain countries, and has pledged assets in favour of non-Group third parties for liabilities associated with real estate transactions, which is standard practice for such transactions. For further information, please refer to our disclosures in the "Contingent liabilities and other financial commitments" subsection of the "Other disclosures" section in the notes to the consolidated financial statements.

DISCLOSURES ON SUBSIDIARIES WITH SIGNIFICANT NON-CONTROLLING INTERESTS

Interests in the equity of subsidiaries that are attributable to non-controlling interest shareholders are reported separately in equity. They amounted to EUR 4,902 (3,997) million at the reporting date.

The following table presents information on material Group subsidiaries with significant non-controlling interests, in each case before intragroup eliminations:

N23 **SUBSIDIARIES WITH SIGNIFICANT NON-CONTROLLING INTEREST** [1)]

IN EUR MILLION

	Hannover Rück SE subgroup [2)]		Towarzystwo Ubezpieczeń i Reasekuracji WARTA S.A.		Towarzystwo Ubezpieczeń Europa S. A. [3)]	
	2014	2013	2014	2013	2014	2013
Domicile/country of formation	Hannover/ Germany	Hannover/ Germany	Warschau/ Poland	Warschau/ Poland	Breslau/ Poland	Breslau/ Poland
Non-controlling interests	49.78 %	49.78 %	24.26 %	24.26 %	50.00 %	50.00 %
Investments	52,147	46,219	1,727	1,611	302	274
Reinsurance recoverables on technical provisions	2,207	1,894	195	164	2	4
Accounts receivable on insurance business	3,114	2,946	257	251	49	36
Total assets	**60,458**	**53,916**	**2,375**	**2,219**	**581**	**461**
Subordinated liabilities	1,986	2,238	—	—	—	—
Technical provisions	38,942	34,973	1,459	1,393	279	199
Other provisions	586	474	30	31	5	5
Equity	**8,253**	**6,530**	**593**	**579**	**241**	**220**
of which non-controlling interests [4)]	4,604	3,717	144	140	81	74
Total debt	**52,205**	**47,386**	**1,782**	**1,640**	**340**	**241**
Gross written premiums	14,362	13,963	792	800	216	169
Net premiums earned	12,423	12,227	692	720	117	104
Underwriting result	–24	–83	27	41	22	14
Net investment income	1,472	1,412	57	62	4	5
Operating profit (EBIT)	1,466	1,229	74	69	20	10
Net income	**1,065**	**939**	**64**	**54**	**32**	**8**
of which non-controlling interests [4)]	572	488	16	13	11	3
Other comprehensive income	**1,083**	**–697**	**8**	**–28**	**–3**	**–1**
Total comprehensive income	**2,148**	**242**	**72**	**26**	**29**	**7**
of which non-controlling interests [4)]	1,133	133	17	6	10	2
Cash flows from operating activities	1,931	2,225	196	162	39	22
Cash flows from investing activities attributable to operating activities	–1,195	–1,762	–133	–101	–33	–8
Cash flows from financing activities	–648	–348	58	–63	–8	–13
Cash and cash equivalents at the end of the reporting period, excluding disposal groups	**773**	**643**	**11**	**6**	**1**	**2**
Dividends paid to non-controlling interests during the year [5)]	**222**	**229**	**14**	**16**	**4**	**7**

1) All amounts relate to financial information before consolidation
2) Information according to Hannover Rück SE subgroup
3) The "notional" share (16.54%) is attributed to the Group for accounting purposes by modelling a written put option on shares of non-controlling interest shareholders using the anticipated acquisition method (the acquisition is thus depicted in the amount of 66.54% for accounting purposes)
4) The non-controlling interests in equity, net income and total comprehensive income of the Hannover Rück SE subgroup are based on the proportionate indirect share
5) Contained in cash flows from financing activities

SIGNIFICANT ADDITIONS AND DISPOSALS OF CONSOLIDATED SUBSIDIARIES AS WELL AS OTHER CHANGES UNDER COMPANY LAW

ADDITIONS AND DISPOSALS, NEWLY FORMED SUBSIDIARIES

Effective 24 March 2014, Funis GmbH & Co. KG, Hannover, ("Funis") repaid its holdings of callable voting preference shares of Glencar Underwriting Managers, Inc., Chicago, USA, ("Glencar") and thus surrendered its voting majority in this company. In the course of this transaction, it was necessary for contractual reasons to change the composition of the board of Glencar, as Hannover Rück SE no longer has a majority representation on the board. Because Hannover Rück SE thus no longer has the ability to control Glencar, but can still exercise significant influence over the company, Glencar was deconsolidated as at the end of the first quarter of 2014 and is now included in the consolidated financial statements using the equity method. As a result of the derecognition of the assets and liabilities and the recognition of the investment at fair value, a gain of EUR 3 million was recognised in "Other income/expenses". In addition, currency translation losses resulted in accumulated other comprehensive income of EUR –0.1 million.

On entry of the transaction in the commercial register on 27 May 2014, HDI Lebensversicherung AG and HG-I Alternative Investments Beteiligungs-GmbH & Co. KG (both Cologne) jointly acquired 100% of the limited partner shares of WP Mörsdorf Nord GmbH & Co. KG, Cologne (formerly ABO Wind WP Mörsdorf Nord GmbH & Co. KG, Heidesheim); Talanx Direct Infrastructure 1 GmbH, Cologne, is the general partner in this company. The purpose of this company is to build and operate a wind farm. The purchase price amounted to EUR 7.1 million; no goodwill arose. No contingent liabilities, contingent considerations or separate transactions within the meaning of IFRS 3 were identified. The company was initially consolidated in the second quarter of 2014.

HDI-Gerling Assurances S.A., Brussels, Belgium, was merged with HDI-Gerling Industrie Versicherung AG, Hannover, effective 1 January 2014; the merger was entered in the Hannover commercial register on 16 June 2014 and became legally effective on the same date.

By way of an agreement dated 6 August 2014, HR GLL Europe Holding S.à.r.l., Luxembourg, acquired all shares of property company Mustela s.r.o., Prague, which holds and manages a commercial property in Prague, for a purchase price of EUR 69 million. No contingent liabilities, contingent considerations or separate transactions within the meaning of IFRS 3 were identified. The company was included in the subgroup financial statements of HR GLL Central Europe GmbH & Co. KG with effect from the third quarter of 2014.

On entry of the transaction in the commercial register on 28 August 2014, HDI Lebensversicherung AG and HG-I Alternative Investments Beteiligungs-GmbH & Co. KG (both Cologne) jointly acquired 100% of the limited partner shares of WP Berngerode GmbH & Co. KG, Cologne (formerly ABO Wind WP Berngerode GmbH & Co. KG, Heidesheim); Talanx Direct Infrastructure 1 GmbH, Cologne, is the general partner in this company. The purpose of this company is to build and operate a wind farm. The purchase price amounted to EUR 12 million; no goodwill arose. No contingent liabilities, contingent considerations or separate transactions within the meaning of IFRS 3 were identified. The company was initially consolidated in the third quarter of 2014.

HDI Pensionskasse AG, Cologne, was merged with PB Pensionskasse AG, Hilden, effective 1 January 2014; the merger was entered in the HANNOVER commercial register on 24 October 2014 and became legally effective on the same date. The renaming of PB Pensionskasse AG as HDI Pensionskasse AG and the relocation of its registered office to Cologne were entered in the commercial register on the same date.

HDI Hannover International España, Cia de Seguros y Reaseguros S.A., Madrid, Spain, was merged with HDI-Gerling Industrie Versicherung AG, Hannover, effective 1 January 2014; the merger was entered in the commercial register on 17 November 2014 and became legally effective on the same date.

OTHER CHANGES UNDER COMPANY LAW

Since March 2014, Hannover Rück SE has directly held 19.9% of the shares of Meribel TopCo Limited, St. Helier, Jersey, in the form of a financial investment. The purpose of the company is to indirectly acquire life insurance companies, including Heidelberger Lebensversicherung AG, Heidelberg. Together with the shares held via a fund by Hannover Re Euro PE Holdings GmbH & Co. KG, Hannover Rück SE directly and indirectly holds 20.1% of the shares of this company. These shares are reported in the consolidated financial statements from the first quarter of 2014 as a participating interest measured at amortised cost.

Effective 17 October 2014, Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover, all of whose shares are held by Hannover Rück SE, acquired 838 shares of E+S Rück AG from a non-Group third party for a purchase price of EUR 20 million. By way of an increase in its interest by 1.1% without any change in the control status, Hannover Rück Beteiligung Verwaltungs-GmbH held 64.79% of the shares of E+S Rück AG on completion of the transaction. As part of the acquisition of these shares, Hannover Rück SE paid in an amount of EUR 20 million to the capital reserves of Hannover Rück Beteiligung Verwaltungs-GmbH.

DISCLOSURES ON CONSOLIDATED STRUCTURED ENTITIES

The following structured entities were consolidated as at the reporting date:

- Hannover Re (Guernsey) PCC Limited, St. Peter Port, Guernsey
- Kaith Re Ltd., Hamilton, Bermuda
- LI RE, Hamilton, Bermuda

Hannover Re PCC (Guernsey) Ltd. was a "protected cell company" under the Protected Cell Companies Ordinance 1997, whose primary purpose was to offer services in the field of direct insurance and reinsurance. Hannover Re PCC was closed to new business in 2009 and was wound up as of 31 December 2014. The liquidation of this company, which is planned for the first quarter of 2015, will only result in insignificant run-off liabilities for Hannover Rück SE.

Kaith Re Ltd. is a "segregated accounts company" (SAC) whose sole purpose is to securitise reinsurance risks in investment products. In the course of this transformation, the risk is transferred in its entirety to the relevant investor in all cases. SACs also have segregated accounts in addition to their general account; these segregated accounts are legally entirely separate in terms of liability from each other and from the general account and are used for the securitisation transactions for the investors.

In accordance with IFRS 10, we classify the general account and segregated accounts as separate entities to which the principles of "silo accounting" are applied. In line with this concept, Hannover Rück SE is required to consolidated Kaith Re Ltd.'s general account and is contractually obliged to pay the costs of external service providers, to be covered from the funds in the general account. Each individual segregated account must be examined separately by the parties involved (investors) in terms of the requirement to consolidate and must be consolidated depending on the contractual arrangements in each case.

LI RE is a segregated account of Kaith Re Ltd. established effective 16 October 2014 whose purpose – as in the case of all of Kaith Re Ltd.'s segregated accounts – is to securitise underwriting risks. In contrast to the other segregated accounts, Hannover Rück SE is LI RE's sole investor and risk taker.

At the reporting date, the Group had not provided any financial or other support for a consolidated structured entity. The Group does not intend to provide financial or other support to one or more of these entities without a contractual obligation to do so.

DISCLOSURES ON UNCONSOLIDATED STRUCTURED ENTITIES

The Group uses other structured entities to conduct its business activities. These entities are not consolidated because the control criteria defined in IFRS 10 are not applicable. The unconsolidated structured entities comprise the following types of transactions:

N24 UNCONSOLIDATED STRUCTURED ENTITIES, INCLUDING PRESENTATION OF LOSS EXPOSURE

Type of entity	Nature and purpose of the business relationship or investment
Investments including investments in CAT bonds (ILS)	
	Investments: As part of its asset management activities, the Group is invested in various funds, which themselves transact certain types of equity and debt investments, and whose fund/corporate management has been outsourced to a fund manager. The investments consist of special funds, private equity funds, fixed income funds, collateralised debt obligations, real estate funds, index funds and other retail funds. The relationships with these funds are based largely on investment transactions. However, in some cases, Talanx companies also act as fund managers (as an agent) in order to collect management fees on behalf of the investors. Material risks consist of the risk of loss of capital invested that is typical for funds. The maximum loss exposure corresponds to the carrying amounts.
	Leine Investment SICAV-SIF: Through investments in CAT bonds, Hannover Rück SE is invested via its subsidiary Leine Investment SICAV-SIF, Luxembourg, in a number of structured entities that issue these bonds to securitise catastrophe risks. Leine Investment General Partner S. à. r. l. is the managing partner of the asset management company Leine Investment SICAV-SIF, whose purpose consists of the development, holding and management of a portfolio of insurance-linked securities (CAT bonds), including for investors outside the Group. The volume of these transactions results from the carrying amount of the relevant investments and amounted to EUR 50 million at the reporting date. The maximum loss exposure corresponds to the carrying amounts.

N24 UNCONSOLIDATED STRUCTURED ENTITIES, INCLUDING PRESENTATION OF LOSS EXPOSURE

Type of entity	Nature and purpose of the business relationship or investment
Unit-linked life insurance contracts	
	There are unit-linked life insurance contracts at the reporting date resulting from the life insurance business of Group companies. In this form of investment, all risks and returns are attributable to the policyholder, meaning that the Group has no obligations or risk exposures. The investments and the related obligations to the policyholders are classified as silos in accordance with IFRS 10.B76ff. for which the policyholder makes the investment decision; there is therefore no requirement to consolidate them.
Insurance-linked securities (ILS)	
	As part of its extended insurance-linked securities (ILS) activities, Hannover Rück SE has underwritten 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. The volume of the transactions is measured by reference to the reinsurance layer of the underlying retrocession agreements and amounted to EUR 3,135 million at the reporting date. A portion of the reinsurance layer is funded by contractually defined investments in the form of cash and cash equivalents. In such cases, the liable capital is fully collateralised and there is thus no underwriting loss exposure for Hannover Rück SE. A further portion of the reinsurance layer of these transactions remains uncollateralised or is collateralised by less liquid securities. The maximum loss exposure of these transactions is defined as the uncollateralised reinsurance layer and the credit risk of the collateralisations, and amounted to EUR 1,942 million at the reporting date. However, this does not correspond to the economic loss exposure measured in accordance with recognised actuarial methods. The worst-case modelled expected loss in 10,000 years is a maximum of EUR 50 million.
Retrocessions and securitisation of reinsurance risks	
	In connection with the sale of the operational companies of the Clarendon Insurance Group, Inc. (CIGI), Wilmington/USA, subgroup to Enstar Group Ltd., Hamilton/Bermuda, a subportfolio of CIGI was retroceded to a structured entity effective 12 July 2011. The term of the retrocession ran until final settlement of the underlying obligations. The agreement was superseded and terminated effective 31 December 2014. The securitisation of reinsurance risks is largely performed using structured entities. In 2012, Hannover Rück SE issued a CAT bond with the aim of transferring to the capital market peak natural catastrophe exposures deriving from European storm events. The term of the CAT bond, which has a nominal volume of EUR 100 million, runs until 31 March 2016. It was placed with institutional investors from Europe, North America and Asia by Eurus III Ltd., a special purpose entity domiciled in Hamilton, Bermuda, that was registered in August 2012 as a special purpose insurer under the Bermuda Insurance Act of 1978. The retrocessions concluded in connection with the transaction with Eurus III Ltd. protect Hannover Rück SE, E+S Rückversicherung AG and Hannover Re (Bermuda) Ltd. against the above catastrophe risks. The aforementioned transaction volume is measured by reference to the reinsurance layer of the reinsurance contract. The structured entity is fully funded by contractually defined investments in the form of cash and cash equivalents. As the maximum liability of the structured entity is thus fully collateralised, there is no underwriting loss exposure for Hannover Rück SE in this respect. K Cession: Through its "K" transactions, Hannover Rück SE secured underwriting capacity for catastrophe risks on the capital market. The "K Cession", which was placed with institutional investors from North America, Europe and Asia, involves a quota share cession on its worldwide natural catastrophe business as well as aviation and marine risks. The volume of the "K Cession", which is securitised through structured entities, was equivalent to EUR 169 million as at the reporting date. The transaction has an indefinite term and can be called annually by the investors. Segregated accounts of Kaith Re Ltd. are being used as a transformer in relation to part of this transaction. Hannover Rück SE also uses further segregated accounts of Kaith Re Ltd. and other structured entities for various retrocessions of its traditional cover that are passed on to institutional investors in the form of securitised transactions. The volume of these transactions is measured by reference to the reinsurance layer of the underlying retrocession agreements and amounted to EUR 848 million at the reporting date. The structured entities are in all cases fully funded by contractually defined investments in the form of cash and cash equivalents. As the entire reinsurance layer of the structured entities is thus fully collateralised in each case, there is no underwriting loss exposure for Hannover Rück SE in this respect.
Assumed life/health reinsurance business	
	Some transactions in the Life/Health Reinsurance segment require the involvement as contractual partners of cedant special purpose entities established by parties outside the Group and from which companies of the Hannover Re Group assume certain technical and/or financial risks. As all the risks from assumed business are reflected in the Hannover Re Group's technical and non-technical account, it is irrelevant whether the active reinsurance business is assumed by structured or other entities. Although Hannover Rück SE is exposed to variable returns from the business relationships with these entities, they are not related to the purpose and structure of the structured entity in question. Rather, these business relationships correspond to regular cedant/reinsurer relationships and are therefore not the subject of this disclosure. Some of the transactions contain features that are required to be classified as financial guarantee contracts. For further information, please refer to our disclosures in Note 13, "Derivative financial instruments and hedge accounting".
"Unterstützungskassen" (provident funds)	
	"Unterstützungskassen" are provident funds with legal capacity that assume responsibility for performing a benefit commitment for an employer. The Group's relationship with these entities is based on the support it provides to establish these entities and the insurance business it concludes. As the Group cannot direct the relevant activities of the "Unterstützungskassen" and has no rights to variable returns from them, there is no requirement for the Group to consolidate these entities. These entities do not result in assets, liabilities or non-performance risk for the Group.

The carrying amounts of the assets and liabilities of the aforementioned transactions with unconsolidated structured entities are composed of the following items at the reporting date.

N25 **BUSINESS RELATIONSHIPS WITH UNCONSOLIDATED STRUCTURED ENTITIES**

IN MIO. EUR

	31.12.2014			
Type of unconsolidated structured entity [1]	General investment activity	Unit-linked life insurance contracts	Investments in CAT bonds (ILS)	Retrocession: securitisations and ILS transactions
ASSETS				
Other financial instruments – financial instruments held to maturity	21	—	—	—
Other financial instruments – financial assets available for sale	2,212	—	—	—
Other financial instruments – financial instruments at fair value through profit or loss:	788	—	50	—
Other investments	1,741	—	—	—
Investments for the benefit of life insurance policyholders who bear the investment risk	—	9,426	—	—
Reinsurance recoverables on technical provisions	—	—	—	147
Accounts receivable on insurance business	—	—	—	13
Total asset items	**4,762**	**9,426**	**50**	**160**
LIABILITIES				
Technical provisions for life insurance policies where the investment risk is borne by the policyholders	—	9,426	—	—
Other liabilities – reinsurance payables	—	—	—	29
Total liability items	**—**	**9,426**	**—**	**29**

[1] The Group makes use of the relief available under IFRS 12 C2B and only discloses the information for financial year 2014

Where they result from general investment activities or investments from CAT bonds, income and expenses from business relationships with unconsolidated structured entities are reported in "Net investment income"; if they are attributable to retrocessions and securitisations, they are reported in the technical account.

At the reporting date, Group companies had not provided any financial or other support for these unconsolidated structured entities. There are currently no intentions to provide financial or other support to these entities without a contractual obligation to do so.

Commitments that we do not classify as support, such as outstanding capital commitments with respect to existing investment exposures, are presented in the "Other disclosures" section ("Contingent liabilities and other financial commitments" subsection).

NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS

HDI STRAKHUVANNYA, KIEV, UKRAINE (RETAIL INTERNATIONAL SEGMENT)

We classified HDI STRAKHUVANNYA, Kiev, Ukraine, as a disposal group in accordance with IFRS 5 as at the reporting date. By selling this company, the Retail International segment aims to streamline its portfolio in Eastern Europe. The company has now been sold at a price in the low single-digit millions of euros, with legal ownership transferred on 19 February 2015. We are expecting the transaction to be completed in the course of 2015. We recognised impairment losses of EUR 1 million in "Other income/expenses" as a result of measuring the disposal group at the lower of carrying amount and fair value less costs to sell. Accumulated other comprehensive income of EUR –5 million resulting from the translation of the assets and liabilities belonging to the disposal group will only be realised in the course of deconsolidation. The disposal group contains assets of EUR 11 million and liabilities of EUR 4 million.

CIV HAYAT SIGORTA A. Ş., ISTANBUL, TURKEY (RETAIL INTERNATIONAL SEGMENT)

In the second quarter of 2014, CIV Hayat Sigorta A. Ş., Istanbul, Turkey, decided to sell its entire insurance portfolio (assets and liabilities each amounting to EUR 12 million). The portfolio was disposed of in October 2014. This did not have any material effects on the Group's results.

HDI SEGUROS S. A. DE C. V., LEON, MEXICO (RETAIL INTERNATIONAL SEGMENT)

The sale of the life insurance portfolio of HDI Seguros S. A. de C. V., León, Mexico, was completed in the third quarter of 2014 with a small disposal gain. At the time of sale, the assets of EUR 16 (15) million were mainly attributable to cash at banks, cheques and cash in hand (investments including accounts receivable on the insurance business). Technical provisions and other liabilities amounted to EUR 18 (17) million. No accumulated income/expenses were contained in "Other comprehensive income". No impairments were recognised from measurement at fair value less costs to sell.

The non-life insurance portfolio previously reported as a disposal group was disposed of in the second quarter of 2014 (assets and liabilities each amounting to EUR 2 million).

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 LUXEMBOURG S. A., LUXEMBOURG, LUXEMBOURG (RETAIL INTERNATIONAL SEGMENT)

In the third quarter of 2013, ASPECTA Assurance International Luxembourg S. A., Luxembourg, Luxembourg, decided to sell a subportfolio of its unit-linked life insurance business in connection with portfolio optimisation measures. Legal ownership was transferred in the fourth quarter of 2014, whereas the transfer of beneficial ownership was completed retrospectively as at January 1, 2014. The transaction resulted in a disposal gain in the low single-digit millions of euros. At the date the transaction was completed, the disposal group contained assets of EUR 216 million (including investments for the benefit of life insurance policyholders who bear the investment risk amounting to EUR 212 million and cash at banks, cheques and cash-in-hand of EUR 4 million), as well as liabilities of EUR214 million (including technical provisions for life insurance policies where the investment risk is borne by the policyholders amounting to EUR 212 million and other liabilities amounting to EUR 2 million). No accumulated 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 2014, we classified real estate portfolios in the amount of EUR 11 (15) million as held for sale. Of this amount, EUR 8 (0) million was attributable to the Industrial Lines segment and EUR 3 (4) million to the Retail Germany segment. In the previous year, the Non-Life Reinsurance segment contained separated real estate of EUR 11 million.

The fair value of the total portfolio (corresponding to the expected selling prices) amounts to EUR 11 (16) million. Measurement of these properties at fair value less costs to sell resulted in impairment losses of EUR 1 (1) million. As at the reporting date, the carrying amount (fair value less costs to sell) of the impaired real estate amounted to EUR 10 (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. Intentions to sell 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.

NOTES TO THE CONSOLIDATED BALANCE SHEET – ASSETS

(1) GOODWILL

N26 SEGMENT BREAKDOWN OF GOODWILL

IN EUR MILLION

	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Corporate Operations	2014	2013
Gross carrying amount as at 31.12. of the previous year	159	527	565	16	3	1,270	1,317
Currency translation as at 1.1. of the financial year	—	—	–15	—	—	–15	–21
Gross carrying amount after currency translation as at 1.1. of the financial year	159	527	550	16	3	1,255	1,296
Other changes	—	—	—	—	—	—	–26
Gross carrying amount as at 31.12. of the financial year	159	527	550	16	3	1,255	1,270
Accumulated impairment losses as at 31.12. of the previous year	5	124	33	—	3	165	165
Currency translation as at 1.1. of the financial year	—	—	—	—	—	—	—
Accumulated impairment losses after currency translation as at 1.1. of the financial year	5	124	33	—	3	165	165
Accumulated impairment losses as at 31.12. of the financial year	5	124	33	—	3	165	165
Carrying amount as at 31.12. of the previous year	154	403	532	16	—	1,105	1,152
Carrying amount as at 31.12. of the financial year	154	403	517	16	—	1,090	1,105

IMPAIRMENT TESTING

Goodwill is allocated to cash-generating units (CGUs) in accordance with IFRS 3 in conjunction with IAS 36. It is allocated to those CGUs that are expected to derive economic benefits in the form of cash flows from the business combination that gave rise to the goodwill. Each CGU to which goodwill is allocated represents the lowest organisational level at which goodwill is monitored for internal management purposes.

The Group has therefore allocated all goodwill to CGUs. With regard to the Industrial Lines and Retail Germany segments, the CGUs in primary insurance are the same as the operating segments with the same names within the meaning of IFRS 8. In the Retail International segment, each foreign market generally constitutes a separate CGU. Cross-company potential synergies (in relation to cash flows) can generally be realised only in those countries in which the Group is represented by several companies. In such cases, we have allocated goodwill to individual companies or groups of companies. In terms of their products and sales structures, the individual foreign entities otherwise operate largely autonomously. An exception applies to the insurance companies in Argentina and Uruguay, which constitute a single CGU because of their existing joint management structures, among other factors. There are two separate CGUs in the Polish market, since the TU Europa Group is considered to be a separate CGU to the WARTA Group.

N27 CGUS TO WHICH GOODWILL IS ALLOCATED

IN EUR MILLION (MEASURED AT THE CLOSING RATE)

	31.12.2014	31.12.2013
Industrial Lines operating segment	154	154
Retail Germany operating segment	403	403
Retail International operating segment		
Argentina/Uruguay	5	5
Brazil	62	63
Chile	5	6
Mexico	44	44
Poland – TU Europa Group	110	113
Poland – WARTA Group	291	301
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. There were no indications of impairment at the reporting date.

In order to establish whether an impairment loss needs to be recognised, the carrying amount of the CGU, including its allocated goodwill, is compared with its recoverable amount. Recoverable amount is the higher of fair value less costs of disposal and value in use. With the exception of the two reinsurance segments, the recoverable amount for all CGUs is measured on the basis of value in use, which is calculated by the Group using a recognised valuation technique, specifically the discounted cash flow method or, for life insurance companies, MCEV. If CGUs comprise more than one Group company, a sum-of-the-parts approach is used. Recoverable amount for the reinsurance segment is measured on the basis of fair value less costs to sell (Level 1 of the fair value hierarchy).

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 the projected income statements approved by the management of the companies concerned. The projections are prepared on a stand-alone basis, based on a going concern assumption that the entity will continue to operate a generally unchanged concept. They project after-tax net income for the subsequent five years and, starting in the sixth year, extrapolate to perpetuity.

Five-year planning – which generates detailed profit or loss data in local currency for each company, taking into account a variety of factors – analyses the following aspects, among others: forecast by the company in light of the relevant market trends; projected liquidity volume for the purposes of approximating investment portfolios; uniform Group standard for return on investments, by investment class; projected solvency requirements for each company; and validation of projected underwriting data, including on the basis of key performance 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 growth opportunities in the market environment as well as of profitability, depending on trends in claims and costs in the context of planned measures at the company level. Investment income is projected for each asset portfolio. In addition, projections are tested for plausibility by the relevant Controlling department or, at Group level, by Group Controlling.

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 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 of business performance in the area of property/casualty insurance, and results from projected premium development and expenses. Premiums and costs are projected during the detailed planning period, with the combined ratio being the resulting operand. The ratios for the property/casualty insurers of the CGUs range from approximately 90% to nearly 100%. Net return on investment is likewise an indicator for trends during the detailed planning phase. This varies widely by CGU, depending on the interest rate level of the currency area in question.

Where possible, corresponding long-term yield curve data in the relevant countries are used to determine risk-free base interest rates. If the rates cannot be determined or can be determined only with undue effort, the yields used are those for the relevant 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.

N28 KEY PARAMETERS FOR THE PROPERTY/CASUALTY SEGMENT

IN %

	Capitalisation rate	Long-term growth rate
Industrial Lines		
German-speaking countries	7.50	1.00
Other countries (Eurozone only)	7.70	1.00
Other countries (non-Eurozone)	9.00–13.00	1.00–4.00
Retail Germany	7.50	0.00–1.00
Retail International		
Argentina/Uruguay	30.00 (ARG); 9.50 (UYU)	4.00 (ARG); 2.00 (UYU)
Brazil	15.50	3.00
Chile	10.50	2.00
Mexico	11.50	4.00
Poland	9.50	2.00

The figures are arrived at from past experience and future expectations, and do not exceed long-term average growth rates for the respective markets in which the companies operate. Any present values calculated in local currency are translated at the exchange rate as at the reporting date.

The latest forecast for the Market Consistent Embedded Values (MCEVs) for 2014 forms the basis for valuing German life insurers. Estimates are used because the MCEV report for financial year 2014 is not available until the second quarter of 2015. Please refer to our disclosures in the risk report for information on potential risks from calculation models used and uncertainties. In the case of companies with long-term, exclusive cooperation agreements (bancassurance) the valuation is based on MCEV plus the present value of anticipated new business (new business value, NBV) up to the end of the cooperation period agreed in each case. The MCEV is a sector-specific valuation method used to determine the present value of portfolios of in-force insurance business. The value of the portfolio thus results from the difference between the present value of future profits and the sum total of capital costs, options and guarantees as well as remaining risks that cannot be hedged. The present value of profits is estimated from the portfolio, and options and guarantees are measured in line with market conditions in accordance with the standards developed by the CFO Forum (the CFO Forum is an international organisation of the Chief Financial Officers (CFOs) of large insurers and reinsurers) and in compliance with the expected Solvency II requirements, i.e. similar to the way in which the value of financial derivatives is measured. To this end, underwriting liabilities are measured with the aid of replication portfolios (i.e. portfolios that replicate a portfolio's payout structure).

In the case of the bancassurance life insurers, NBV is extrapolated for future years from the ratio of estimated MCEV earnings for the current year 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 2015–2019 are based on the forecast and on medium-term planning. Extrapolation beyond 2019 assumes the constant extrapolation of the 2019 values until the end of the relevant cooperation period.

At the date of the impairment test, the interest rate swap curve used as a basis for calculating the estimated MCEV is extrapolated beyond the market information that can be reliably estimated after 20 years to an ultimate forward rate of 4.2% reached after a total of 60 years; this is based on EIOPA requirements and is in line with standard market practice. In line with the general decline in interest rates, the curve is 100 basis points below its prior-year values at the liquid end.

The bancassurance property insurers are measured at the present value of future cash flows, whereby – similar to the life insurers – only the future earnings until the end of the relevant cooperation period are factored into the calculation. This is followed by an assumed constant earnings value over three years and notional liquidation proceeds.

Small life insurers (these include most of the Group's non-German life insurers) and non-insurance companies are measured either at the present value of future cash flows or at their equity.

N29 **KEY PARAMETERS FOR THE LIFE INSURANCE SEGMENT**

IN %

	Capitalisation rate	Long-term growth rate
Retail Germany	7.50	0.00
Retail International		
Argentina/Uruguay	30.00 (ARG); 9.50 (UYU)	4.00 (ARG); 2.00 (UYU)
Mexico	11.50	4.00
Poland	9.50	2.00

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 the market environment that correspond to the economic forecasts for the countries of the units to be measured and conform to market expectations and sector forecasts.

The figures are arrived at from past experience and future expectations, and do not exceed long-term average growth rates for the respective markets in which the companies operate. Any present values calculated in local currency are translated at the exchange rate prevailing at the date of the impairment test.

For the Non-Life Reinsurance and Life/Health Reinsurance CGUs, which together correspond to the Hannover Re Group, reference is first made to the quoted market price of Hannover Rück SE shares as at the reporting date for the purposes of impairment testing. The market capitalisation of Hannover Rück SE is allocated to the two CGUs on the basis of the average operating margin over the past three years. The recoverable amount measured in this way is compared with the carrying amount, including the goodwill allocated to the CGU in question. Alternatively, if the price of Hannover Rück SE shares is significantly adversely affected in the short term at a reporting date by factors that do not reflect the sustainable profit potential of the Hannover Re Group, an income approach (discounted cash flow method) may be used instead.

There was no need to recognise goodwill impairment losses as at the reporting date.

Talanx AG performed sensitivity analyses with respect to the most important parameters when calculating the values in use for all CGUs to which goodwill is allocated.

In each case, one of the parameters described below was changed (all other things being equal) when calculating the value in use, whereas the other assumptions (in the medium-term planning and in the exploration) were left unchanged, and the resulting change in fair value was calculated. The calculations are based on value in use calculated when the impairment test is performed.

In order to cover key risks when calculating value in use, such as underwriting risk (combined ratio), interest rate parameters (interest rate risk), currency parameters (foreign exchange risk) and equity parameters (equity risk), a variety of conceivable scenarios complete with the relevant parameter changes were defined and studied in detail. Unless indicated otherwise in the following, the calculations concerning the conceivable changes of parameters did not lead to any potential impairment.

A possible need to recognise an impairment loss emerged under the scenarios described in the following:

1. Increase in 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 in assumed investment income as a result of a 100 basis points (bps) decrease in interest rates over the entire future horizon (detailed planning phase and in perpetuity), without simultaneously adjusting the discount rate (parallel reflection of the lower interest rate for the risk-free interest rates as a component of the discount rate) by 100 bps. This applies to life insurance companies measured on the basis of extrapolated MCEVs and for property/casualty insurers.
3. Immediate appreciation of the euro/depreciation of foreign currency for the most important foreign currency pairs for Retail International CGUs – EUR/PLN (Polish zloty) and EUR/BRL (Brazilian real) – by 10%.
4. Increase in assumed investment income as a result of a 100 BP increase in interest rates over the entire future period (detailed planning phase and in perpetuity), plus a simultaneous 100 BP increase in the discount rate.
5. Decrease in equity indices expected in the projection by 10 percentage points for the entire future period (detailed planning phase and in perpetuity), without changing the existing proportion of equities in the portfolio.

The following table summarises the results for the potential need to recognise impairment losses in the event of a change under the relevant scenario, as well as for the value of the scenario in which the carrying amount and the recoverable amount are the same (threshold).

N30 DISCLOSURES ON SCENARIOS THAT LEAD TO POSSIBLE IMPAIRMENT OF GOODWILL ALLOCATED TO INDIVIDUAL CGUS

IN EUR MILLION

	Retail Germany		Argentina/Uruguay		Brazil		Poland – TU Europa Group		Poland – WARTA Group	
	Possible impairment[1]	Threshold	Possible impairment[1]	Threshold	Possible impairment[1]	Threshold	Possible impairment[1]	Threshold	Possible impairment[1]	Threshold
1 Combined ratio +3 percentage points[3]	416	+0.07 percentage points	5	+0.97 percentage points	116	+1.27 percentage points	28	+1.61 percentage points	42	+2.52 percentage points
2 Reduction of investment income by 100 bps[3]	331	–3 bps	0.2	–92 bps	—	—	20	–62 bps	—	—
3 Appreciation of the EUR by 10% versus BRL or PLN	—	—	—	—	—	—	12	7.31%[2]	—	—
4 Increase in investment income by 100 BP with increase in discount	60	+14 bps	—	—	—	—	—	—	—	—
5 Decrease in equity indices by 10 percentage points	44	1.78 percentage points	—	—	—	—	—	—	—	—

1) Amount by which the carrying amount would exceed the recoverable amount, adjusted for minority interests in goodwill
2) Corresponds to an exchange rate of PLN 4.49/EUR 1
3) The consequences for the Group from these potential changes can normally be counteracted in the medium to long term by taking suitable measures, thus reducing the impairment risk. We did not take into consideration possible individual countermeasures under these scenarios (e.g. change in the product portfolio in the first scenario and adjustment of the discount rate in the second scenario)

(2) OTHER INTANGIBLE ASSETS

N31 **CHANGES IN OTHER INTANGIBLE ASSETS**

IN EUR MILLION

	Finite useful life					Indefinite useful life		
	Insurance-related intangible assets	Software: Purchased	Software: Developed	Acquired distribution networks and customer relationships	Other	Acquired brand names	2014	2013
Gross carrying amount as at 31.12. of the previous year	2,564	368	120	132	54	33	3,271	3,305
Change in basis of consolidation (additions)								
Business combinations	—	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—	77
Additions	6	48	2	—	16	—	72	
Disposals	154	26	7	—	3	—	190	99
Reclassifications	—	17	—	—	–17	—	—	—
Other changes	—	—	—	—	—	—	—	—
Exchange rate changes	–7	–2	—	–4	—	–1	–14	–12
Gross carrying amount as at 31.12. of the financial year	2,409	405	115	128	50	32	3,139	3,271
Accumulated amortisation and impairment losses as at 31.12. of the previous year	1,382	250	98	81	14	—	1,825	1,664
Change in basis of consolidation (additions)								
Business combinations	—	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—	—
Disposals	141	24	—	—	—	—	165	91
Amortisation/impairment losses								
Amortisation	156	46	8	17	4	—	231	254
Impairment losses	250	—	—	—	—	—	250	2
Reclassifications	—	—	—	—	—	—	—	—
Other changes	—	—	—	—	—	—	—	—
Exchange rate changes	–4	–1	—	–3	—	—	–8	–4
Accumulated amortisation and impairment losses as at 31.12. of the financial year	1,643	271	106	95	18	—	2,133	1,825
Carrying amount as at 31.12. of the previous year	1,182	118	22	51	40	33	1,446	1,641
Carrying amount as at 31.12. of the financial year	766	134	9	33	32	32	1,006	1,446

The insurance-related intangible assets (= PVFP) result from the acquisition of insurance portfolios in previous years.

The PVFP is composed of a shareholders' portion – on which deferred taxes are recognised – and a policyholders' portion. It is capitalised in order to spread the charge to Group equity required by IFRSs upon acquisition of an insurance portfolio in equal portions across future periods in line with the amortisation charges. Only amortisation of the shareholders' portion reduces future earnings. The PVFP in favour of policyholders is recognised by life insurance companies that are required to enable their policyholders to participate in all results by establishing a provision for deferred premium refunds.

N32 **PVFP FOR PRIMARY LIFE INSURANCE COMPANIES**

IN EUR MILLION

	31.12.2014	31.12.2013
Shareholders' portion	342	564
Policyholders' portion	333	513
Carrying amount	**675**	**1,077**

Of the amortisation of/impairment losses on insurance-related intangible assets totalling EUR 406 (158) million, an amount of EUR 218 (106) million was attributable to the shareholders' portion – including EUR 10 (9) million relating to investment contracts – and EUR 188 (52) million to the policyholders' portion. This relates primarily to the Retail Germany and Retail International segments. We report the amortisation of the PVFP associated with investment contracts in "Net income from investment contracts" under "Net investment income". Amortisation of the shareholders' portion (less investment contracts) is reported in "Other technical expenses" in the statement of income. Because of changes in the assumptions about long-term interest rates, and as a result of impairment testing as at the reporting date, the Group recognised impairment losses of EUR 250 (—) million in the reporting period. For information on the change in estimates applied to PVFP measurement in 2014, please also refer to our remarks in the "Changes in estimates during the reporting period" subsection of the "Accounting policies" section.

The acquired brand names WARTA (EUR 31 million) and Europa (EUR 1 million) are indefinite-lived intangible assets since, based on an analysis of all relevant factors (including anticipated use, control, dependence on other assets), there is no foreseeable limitation on the period during which the asset can be expected to generate net cash flows. 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) (see the disclosures in the "Goodwill" subsection). In addition, the WARTA brand name was subjected to further detailed testing for possible indications of impairment. The result indicated that there was no need to recognise an impairment loss.

N33 **PVFP BY POLICY TERM**

IN EUR MILLION

	Term				
	Up to 10 years	Up to 20 years	Up to 30 years	More than 30 years	**Total**
Shareholders' portion	259	112	41	21	**433**
of which investment contracts	67	4	—	—	**71**
Policyholders' portion	152	99	53	29	**333**
Carrying amount as at 31.12.2014	411	211	94	50	**766**

(3) INVESTMENT PROPERTY

N34 INVESTMENT PROPERTY

IN EUR MILLION

	2014	2013
Gross carrying amount as at 31.12. of the previous year	**1,827**	**1,488**
Change in basis of consolidation (additions)		
Business combinations	—	—
Additions	292	455
Disposals	44	9
Disposal groups in accordance with IFRS 5	–37	–33
Reclassification	–4	–58
Exchange rate changes	42	–16
Gross carrying amount as at 31.12. of the financial year	**2,076**	**1,827**
Accumulated depreciation and impairment losses as at 31.12. of the previous year	**204**	**191**
Disposals	5	2
Reversal after impairment	11	6
Depreciation and impairment losses		
Depreciation	34	27
Impairment losses	7	12
Disposal groups in accordance with IFRS 5	–27	–15
Reclassification	–1	–2
Exchange rate changes	2	–1
Accumulated depreciation and impairment losses as at 31.12. of the financial year	**203**	**204**
Carrying amount as at 31.12. of the previous year	1,623	1,297
Carrying amount as at 31.12. of the financial year	**1,873**	**1,623**

Additions were attributable in particular to the Non-Life Reinsurance (EUR 144 million), Retail Germany (EUR 127 million) and Industrial Lines (EUR 20 million) segments.

The fair value of investment property amounted to EUR 2,051 (1,774) million as at the reporting date. EUR 8 (32) million of this amount is attributable to Level 2 of the fair value hierarchy and EUR 2,043 (1,742) million to Level 3. Fair values are measured largely internally within the Group using discounted cash flow methods and, in individual cases, on the basis of external expert opinions. The directly attributable operating expenses in respect of properties rented out (including repairs and maintenance) totalled EUR 51 (42) million. Operating expenses of EUR 7 (6) million were incurred on properties with which no rental income is generated.

With regard to investment property, there were restrictions on disposal and guarantee assets in the amount of EUR 714 (524) million as at 31 December 2014. Contractual obligations to buy, create or develop investment property as well as those for repairs, maintenance and improvements amounted to EUR 43 (49) million as at the reporting date.

(4) SHARES IN AFFILIATED COMPANIES AND PARTICIPATING INTERESTS

N35 SHARES IN AFFILIATED COMPANIES AND PARTICIPATING INTERESTS

IN EUR MILLION

	2013	2014
Affiliated companies	27	27
Participating interests	85	65
Carrying amount as at 31.12. of the financial year	**112**	**92**

(5) INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

This balance sheet item covers the investments in associates and joint ventures that are measured using the equity method on the basis of the share of equity attributable to the Group. Financial information on associates and joint arrangements is disclosed in aggregated form in each case, as none of these entities is individually material to the Group within the meaning of IFRS 12.21.

N36 **INVESTMENTS IN ASSOCIATES AND JOINT VENTURES**

IN EUR MILLION

	2014	2013
Carrying amount as at 31.12. of the previous year	**247**	**237**
Change in basis of consolidation	—	—
Additions	5	2
Disposals	—	—
Impairment losses	—	1
Adjustment recognised in profit or loss	–1	8
Adjustment recognised outside profit or loss	10	2
Exchange rate changes	1	–1
Carrying amount as at 31.12. of the financial year	**262**	**247**

The goodwill of all companies measured using the equity method amounted to EUR 85 (77) million at the year-end. Shares of losses totalling EUR 0 (0.5) million were not recognised in the financial year.

For further information on the Group's interest in associates and joint ventures, and on the equity and net income or loss for the year of these entities, please refer to the list of shareholdings on pages 295ff.

There were no obligations from contingent liabilities of associates and joint ventures at the reporting date.

N37 **INVESTMENTS IN ASSOCIATES**

IN EUR MILLION

	2014	2013
Carrying amount as at 31.12. of the financial year	**240**	**226**
Profit from continuing operations	34	45
Profit after tax from discontinued operations	—	—
Other comprehensive income	25	2
Total comprehensive income	**59**	**47**

N38 **INVESTMENTS IN JOINT VENTURES**

IN EUR MILLION

	2014	2013
Carrying amount as at 31.12. of the financial year	**22**	**21**
Profit from continuing operations	—	–4
Profit after tax from discontinued operations	—	—
Other comprehensive income	–1	1
Total comprehensive income	**–1**	**–3**

(6) LOANS AND RECEIVABLES

A39 **LOANS AND RECEIVABLES**

IN EUR MILLION

	Amortised cost		Unrealised gains/losses		Fair value	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Mortgage loans	696	849	72	88	768	937
Loans and prepayments on insurance policies	184	192	—	—	184	192
Loans and receivables due from government or quasi-governmental entities [1]	9,783	9,691	1,751	860	11,534	10,551
Corporate bonds	6,287	6,731	591	218	6,878	6,949
Covered bonds/asset-backed securities	13,583	14,737	3,451	1,608	17,034	16,345
Profit participation rights	20	31	4	5	24	36
Total	**30,553**	**32,231**	**5,869**	**2,779**	**36,422**	**35,010**

[1] Loans and receivables due from government or quasi-governmental entities include securities of EUR 3,030 (3,060) million that are guaranteed by the Federal Republic of Germany, other EU states or German federal states

The carrying amount of loans and receivables is measured at amortised cost.

The "Covered bonds/asset-backed securities" item includes German covered bonds (Pfandbriefe) with a carrying amount of EUR 13,563 (14,716) million, which corresponds to 99% (99%) of the total amount.

N40 **CONTRACTUAL MATURITIES**

IN EUR MILLION

	Amortised cost		Fair value	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Due within one year	2,720	3,118	2,821	3,238
More than one year, up to two years	2,031	2,344	2,106	2,439
More than two years, up to three years	1,865	2,072	2,000	2,190
More than three years, up to four years	1,107	1,912	1,224	2,061
More than four years, up to five years	1,431	1,238	1,636	1,360
More than five years, up to ten years	6,192	6,463	7,376	7,161
More than ten years	15,207	15,084	19,259	16,561
Total	**30,553**	**32,231**	**36,422**	**35,010**

N41 **RATING STRUCTURE OF LOANS AND RECEIVABLES**

IN EUR MILLION

	Amortised cost	
	31.12.2014	31.12.2013
AAA	13,564	11,430
AA	7,170	10,964
A	5,532	4,971
BBB or lower	3,028	3,532
Not rated	1,259	1,334
Total	**30,553**	**32,231**

The rating categories are based on the classifications used by the leading international rating agencies. Unrated loans and receivables consist principally of mortgage loans and policy loans.

(7) FINANCIAL ASSETS HELD TO MATURITY

N42 FINANCIAL INSTRUMENTS HELD TO MATURITY

IN EUR MILLION

	Amortised cost		Unrealised gains/losses		Fair value	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Government debt securities of EU member states	540	556	31	26	571	582
US treasury notes	257	501	3	13	260	514
Other foreign government debt securities	60	69	—	—	60	69
Debt securities issued by quasi-governmental entities [1)]	445	544	17	25	462	569
Corporate bonds	346	343	8	10	354	353
Covered bonds/asset-backed securities	806	971	61	65	867	1,036
Total	**2,454**	**2,984**	**120**	**139**	**2,574**	**3,123**

1) Debt securities issued by quasi-governmental entities include securities of EUR 130 (130) million that are guaranteed by the Federal Republic of Germany, other EU states or German federal states

The carrying amount of financial assets held to maturity is measured at amortised cost.

The "Covered bonds/asset-backed securities" item includes German covered bonds (Pfandbriefe) with a carrying amount of EUR 805 (969) million, which corresponds to 99% (99%) of the total amount.

N43 CONTRACTUAL MATURITIES

IN EUR MILLION

	Amortised cost		Fair value	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Due within one year	1,196	647	1,218	654
More than one year, up to two years	619	1,160	642	1,213
More than two years, up to three years	162	549	169	582
More than three years, up to four years	153	158	162	167
More than four years, up to five years	52	152	58	158
More than five years, up to ten years	257	301	305	331
More than ten years	15	17	20	18
Total	**2,454**	**2,984**	**2,574**	**3,123**

N44 RATING STRUCTURE OF FINANCIAL ASSETS HELD TO MATURITY

IN EUR MILLION

	Amortised cost	
	31.12.2014	31.12.2013
AAA	1,114	897
AA	493	1,258
A	594	540
BBB or lower	233	272
Not rated	20	17
Total	**2,454**	**2,984**

The rating categories are based on the classifications used by the leading international rating agencies.

(8) FINANCIAL ASSETS AVAILABLE FOR SALE

N45 **FINANCIAL ASSETS AVAILABLE FOR SALE**

IN EUR MILLION

	Amortised cost		Unrealised gains/losses		Fair value	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Fixed-income securities						
Government debt securities of EU member states	8,015	6,554	1,215	217	9,230	6,771
US treasury notes	2,699	1,750	32	–5	2,731	1,745
Other foreign government debt securities	1,992	1,682	–15	–30	1,977	1,652
Debt securities issued by quasi-governmental entities [1]	7,458	7,056	1,012	219	8,470	7,275
Corporate bonds	21,214	16,923	1,383	361	22,597	17,284
Investment funds	665	699	89	38	754	737
Covered bonds/asset-backed securities	7,916	7,152	889	489	8,805	7,641
Profit participation certificates	331	416	5	10	336	426
Total fixed-income securities	**50,290**	**42,232**	**4,610**	**1,299**	**54,900**	**43,531**
Variable-yield securities						
Equities	290	391	49	221	339	612
Investment funds	779	639	123	99	902	738
Profit participation certificates	42	41	—	—	42	41
Total variable-yield securities	**1,111**	**1,071**	**172**	**320**	**1,283**	**1,391**
Total securities	**51,401**	**43,303**	**4,782**	**1,619**	**56,183**	**44,922**

[1] Debt securities issued by quasi-governmental entities include securities of EUR 2,990 (2,681) million that are guaranteed by the Federal Republic of Germany, other EU states or German federal states

The carrying amount of available-for-sale financial assets is measured at fair value. Unrealised gains/losses are recognised in "Other comprehensive income" and reported in "Other reserves" in equity.

The "Covered bonds/asset-backed securities" item includes German covered bonds (Pfandbriefe) with a carrying amount of EUR 7,489 (6,541) million, which corresponds to 85% (86%) of the total amount.

N46 **CONTRACTUAL MATURITIES OF FIXED-INCOME SECURITIES**

IN EUR MILLION

	Fair value		Amortised cost	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Due within one year	3,482	2,800	3,456	2,784
More than one year, up to two years	3,448	3,983	3,382	3,901
More than two years, up to three years	3,867	3,074	3,765	2,967
More than three years, up to four years	4,386	3,589	4,257	3,469
More than four years, up to five years	3,974	4,141	3,805	4,027
More than five years, up to ten years	20,201	16,037	18,454	15,499
More than ten years	15,542	9,907	13,171	9,585
Total	**54,900**	**43,531**	**50,290**	**42,232**

N47 **RATING STRUCTURE OF FIXED-INCOME SECURITIES**

IN EUR MILLION

	Fair value 31.12.2014	Fair value 31.12.2013
AAA	16,396	10,803
AA	11,786	12,047
A	14,083	10,644
BBB or lower	12,086	9,484
Not rated	549	553
Total	**54,900**	**43,531**

The rating categories are based on the classifications used by the leading international rating agencies.

(9) FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

N48 **FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

IN EUR MILLION

	Fair value 31.12.2014	Fair value 31.12.2013
Fixed-income securities		
Government debt securities of EU member states	37	31
Other foreign government debt securities	49	39
Debt securities issued by quasi-governmental entities [1]	2	34
Corporate bonds	588	453
Investment funds	111	114
Covered bonds/asset-backed securities	—	24
Profit participation certificates	63	82
Other	—	20
Total fixed-income securities	**850**	**797**
Investment funds (variable-yield securities)	27	52
Other variable-yield securities	68	35
Total financial assets classified at fair value through profit or loss	**945**	**884**
Fixed-income securities		
Other foreign government debt securities	2	1
Corporate bonds	4	3
Total fixed-income securities	**6**	**4**
Investment funds (variable-yield securities)	108	120
Derivatives	80	82
Total financial assets held for trading	**194**	**206**
Total	**1,139**	**1,090**

[1] Debt securities issued by quasi-governmental entities include securities of EUR 2 (7) million that are guaranteed by the Federal Republic of Germany, other EU states or German federal states

The carrying amount of financial assets at fair value through profit or loss is measured at fair value.

The "Covered bonds/asset-backed securities" item includes German covered bonds (Pfandbriefe) with a carrying amount of EUR 0 (12) million, which corresponds to (– [50]%) of the total amount.

N49 **CONTRACTUAL MATURITIES OF FIXED-INCOME SECURITIES**

IN EUR MILLION

	Fair value	
	31.12.2014	31.12.2013
Due within one year	130	146
More than one year, up to two years	122	144
More than two years, up to three years	107	103
More than three years, up to four years	80	61
More than four years, up to five years	49	32
More than five years, up to ten years	59	48
More than ten years	309	267
Total	**856**	**801**

N50 **RATING STRUCTURE OF FIXED-INCOME SECURITIES**

IN EUR MILLION

	Fair value	
	31.12.2014	31.12.2013
AAA	—	10
AA	1	25
A	221	193
BBB or lower	347	314
Not rated	287	259
Total	**856**	**801**

The rating categories are based on the classifications used by the leading international rating agencies.

Financial assets classified at fair value through profit or loss (with no trading intention) include structured products for which the fair value option under IAS 39 was exercised. The carrying amount of these financial assets represents the maximum credit exposure, in contrast to a purely economic perspective. The amount relating to the change in fair value that is attributable to changes in the credit risk of the financial assets was EUR 0 (4) million in the reporting period and EUR 8 (–4) million on an accumulated basis. There are no credit derivatives or similar hedging instruments for these securities.

(10) OTHER INVESTMENTS

N51 **CLASSIFICATION OF OTHER INVESTMENTS**

IN EUR MILLION

	Carrying amounts	
	31.12.2014	31.12.2013
Loans and receivables	48	2
Financial assets available for sale	3,598	3,029
Financial assets at fair value through profit or loss	105	90
Non-current assets from infrastructure investments	83	—
Total	**3,834**	**3,121**

Non-current assets from infrastructure investments relate to wind farm assets acquired in the reporting period. There are no restrictions on disposal of the assets, which have not been pledged as collateral.

The carrying amount of loans and receivables is measured at amortised cost. The fair value of loans and receivables corresponds largely to their carrying amount.

N52 **FINANCIAL ASSETS AVAILABLE FOR SALE**

IN EUR MILLION

	Amortised cost		Unrealised gains/losses		Fair value	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Investments in partnerships	1,008	824	474	317	1,482	1,141
Other participating interests	71	71	9	4	80	75
Other short-term investments	2,036	1,813	—	—	2,036	1,813
Total	**3,115**	**2,708**	**483**	**321**	**3,598**	**3,029**

The carrying amount of available-for-sale financial assets is measured at fair value. Unrealised gains/losses are recognised in "Other comprehensive income" and reported in "Other reserves" in equity. Short-term investments consist predominantly of overnight money and time deposits with a maturity of up to one year. The fair value of these deposits therefore corresponds largely to their carrying amount.

N53 **RATING STRUCTURE OF OTHER SHORT-TERM INVESTMENTS**

IN EUR MILLION

	Fair value	
	31.12.2014	31.12.2013
AAA	2	—
AA	106	222
A	1,060	885
BBB or lower	657	539
Not rated	211	167
Total	**2,036**	**1,813**

Financial assets at fair value through profit or loss relate to purchased life insurance policies.

N54 **INFRASTRUCTURE INVESTMENTS**

IN EUR MILLION

	2014	2013
Gross carrying amount as at 31.12. of the previous year	**—**	**—**
Change in basis of consolidation (additions)	—	—
Business combinations	35	—
Additions	25	—
Disposals	—	—
Reclassification	—	—
Exchange rate changes	—	—
Gross carrying amount as at 31.12. of the financial year	**60**	**—**
Accumulated depreciation and impairment losses as at 31.12. of the previous year	**—**	**—**
Disposals	—	—
Reversal after impairment	—	—
Depreciation and impairment losses		
Depreciation	—	—
Impairment losses	—	—
Reclassification	—	—
Exchange rate changes	—	—
Accumulated depreciation and impairment losses as at 31.12. of the financial year	**—**	**—**
Carrying amount as at 31.12. of the previous year	—	—
Carrying amount as at 31.12. of the financial year	**60**	**—**

Non-current assets from infrastructure investments also include assets under construction amounting to EUR 23 (—) million.

(11) INVESTMENTS UNDER INVESTMENT CONTRACTS

N55 **CLASSIFICATION OF INVESTMENTS UNDER INVESTMENT CONTRACTS**

IN EUR MILLION

	Carrying amounts	
	31.12.2014	31.12.2013
Loans and receivables	925	1,005
Financial assets available for sale	24	32
Financial assets classified at fair value through profit or loss	1,027	652
Derivatives	61	69
Total	**2,037**	**1,758**

LOANS AND RECEIVABLES

N56 CONTRACTUAL MATURITIES

IN EUR MILLION

	Amortised cost		Fair value	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Due within one year	160	194	161	194
More than one year, up to two years	86	136	86	138
More than two years, up to three years	207	66	207	66
More than three years, up to four years	114	206	114	206
More than four years, up to five years	—	—	—	—
More than five years, up to ten years	358	403	363	404
Total	**925**	**1,005**	**931**	**1,008**

N57 RATING STRUCTURE

IN EUR MILLION

	Amortised cost	
	31.12.2014	31.12.2013
AAA	—	—
AA	—	4
A	16	25
BBB or lower	845	844
Not rated	64	132
Total	**925**	**1,005**

FINANCIAL ASSETS AVAILABLE FOR SALE

N58 CONTRACTUAL MATURITIES

IN EUR MILLION

	Fair value		Amortised cost	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
More than one year, up to two years	—	2	—	2
More than two years, up to three years	—	—	—	—
More than three years, up to four years	17	10	17	10
More than four years, up to five years	—	6	—	6
More than five years, up to ten years	7	14	7	14
Total	**24**	**32**	**24**	**32**

Financial assets available for sale have a rating of category A (A).

FINANCIAL ASSETS CLASSIFIED AT FAIR VALUE THROUGH PROFIT OR LOSS AND DERIVATIVES

N59 CONTRACTUAL MATURITIES

IN EUR MILLION

	Fair value	
	31.12.2014	31.12.2013
Due within one year	51	86
More than one year, up to two years	18	11
More than two years, up to three years	20	20
More than three years, up to four years	5	21
More than four years, up to five years	11	3
More than five years, up to ten years	99	54
More than ten years	884	526
Total	**1,088**	**721**

N60 RATING STRUCTURE

IN EUR MILLION

	Fair value	
	31.12.2014	31.12.2013
AAA	2	2
AA	18	13
A	177	138
BBB or lower	115	124
Not rated	776	444
Total	**1,088**	**721**

The carrying amount of financial assets classified at fair value through profit or loss represents the maximum credit exposure, in contrast to a purely economic perspective. The amount relating to the change in fair value that is attributable to the change in credit risk is insignificant. There are no credit derivatives or similar hedging instruments for these securities.

(12) FAIR VALUE HIERARCHY FOR FINANCIAL INSTRUMENTS

FAIR VALUE HIERARCHY

For the purposes of the disclosures required by IFRS 13, both financial instruments that are accounted for at fair value and those assets and liabilities that are recognised at amortised cost, but for which fair value must be disclosed in the annual financial report (financial instruments not measured at fair value), must be assigned to a three-level fair value hierarchy.

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

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

If inputs from different levels are used to measure a financial instrument, the lowest level input that is significant to the measurement is used to categorise the fair value measurement in its entirety.

Allocation to the fair value hierarchy levels is reviewed at a minimum at the end of each period. Transfers are shown as if they had taken place at the beginning of the financial year.

BREAKDOWN OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

At the reporting date, the share of Level 1 financial instruments in the total portfolio of financial assets measured at fair value was 6% (7%).

In total, 90% (89%) of financial instruments measured at fair value were allocated to Level 2 at the reporting date.

At the reporting date, the Group allocated 4% (4%) of financial instruments measured at fair value to Level 3.

In the past financial year, securities with a fair value of EUR 5 (75) million that had previously been allocated to Level 1 were allocated to Level 2. The reclassification had to be made mainly because of the reduced liquidity of the instruments. Securities with a fair value of EUR 250 (0) million that had been allocated to Level 2 in 2013 were reclassified into Level 1 effective in 2014 because there was an active market for those securities. The reallocations mainly affected fixed-income securities classified as available for sale.

In the previous year, fixed-income securities with a fair value of EUR 13,830 million that had been measured on the basis of average prices provided by pricing services were reclassified from Level 1 into Level 2. These were mainly OTC-traded debt instruments. They were reclassified in accordance with Accounting Principle “IDW RS HFA 47: Specific Issues Relating to the Measurement of Fair Value under IFRS 13” adopted by the Accounting and Auditing Board of the Institute of Public Auditors in Germany (IDW) on 6 December 2013. In accordance with this Accounting Principle, average prices provided by pricing services are Level 2 inputs if the basic data underlying these average prices constitute binding offers or observable, transaction-based prices. The reclassification in the previous year was not based either on changes in the liquidity characteristics of these securities or on a change in investment strategy.

N61 **FAIR VALUE HIERARCHY**

IN EUR MILLION

Carrying amount of financial instruments recognised at fair value by class	Level 1	Level 2	Level 3 [1]	Carrying amount
31.12.2014				
Financial assets measured at fair value				
Financial assets available for sale				
Fixed-income securities	77	54,823	—	54,900
Variable-yield securities	561	65	657	1,283
Financial assets at fair value through profit or loss				
Financial assets classified at fair value through profit or loss	94	814	37	945
Financial assets held for trading	119	69	6	194
Other investments	2,000	41	1,662	3,703
Other assets, derivative financial instruments (hedging instruments)	—	304	—	304
Investment contracts				
Financial assets classified at fair value through profit or loss	326	543	158	1,027
Financial assets available for sale	—	24	—	24
Derivatives	—	56	5	61
Total financial assets measured at fair value	**3,177**	**56,739**	**2,525**	**62,441**
Financial liabilities measured at fair value				
Other liabilities (negative fair values from derivative financial instruments)				
Negative fair values from derivatives	—	111	189	300
Negative fair values from hedging instruments	—	—	—	—
Other liabilities (investment contracts)				
Financial assets classified at fair value through profit or loss	385	537	158	1,080
Derivatives	—	55	5	60
Total financial liabilities measured at fair value	**385**	**703**	**352**	**1,440**
31.12.2013				
Financial assets measured at fair value				
Financial assets 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 investments	1,782	72	1,265	3,119
Other assets, derivative financial instruments	—	86	—	86
Investment contracts				
Financial assets classified at fair value through profit or loss	295	268	89	652
Financial assets 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 fair values from derivative financial instruments)				
Negative fair values from derivatives	—	67	117	184
Negative fair values from hedging instruments	—	7	—	7
Other liabilities (investment contracts)				
Financial assets 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**

[1] Categorisation in Level 3 does not represent any indication of quality. No conclusions may be drawn as to the credit quality of the issuers

ANALYSIS OF FINANCIAL INSTRUMENTS FOR WHICH SIGNIFICANT INPUTS ARE NOT BASED ON OBSERVABLE MARKET DATA (LEVEL 3)

The following table shows a reconciliation of the financial instruments (abbreviated in the following to "FI") included in Level 3 at the beginning of the reporting period to the carrying amounts as at 31 December of the financial year.

N62 **RECONCILIATION OF FINANCIAL INSTRUMENTS[1] (FINANCIAL ASSETS) INCLUDED IN LEVEL 3 AT THE BEGINNING OF THE REPORTING PERIOD TO CARRYING AMOUNTS AS AT 31 DECEMBER 2014**

IN EUR MILLION

	Available-for-sale FI/ variable-yield securities	FI classified at fair value through profit or loss	FI held for trading	Other investments	Investment contracts/FI classified at fair value through profit or loss	Investment contracts/ derivatives	Total amount of financial assets measured at fair value
2014							
Opening balance at 1.1.2014	**523**	**24**	**2**	**1,265**	**89**	**10**	**1,913**
Change in basis of consolidation	—	—	—	—	—	—	—
Income and expenses							
recognised in the statement of income	–9	2	—	–9	61	1	46
recognised in other comprehensive income	13	—	—	97	—	—	110
Transfers into Level 3	3[2]	—	—	36[2]	—	—	39
Transfers out of Level 3	—	—	—	—	—	—	—
Additions							
Purchases	186	26	4	363	26	2	607
Disposals							
Sales	76	1	—	186	13	8	284
Repayments/redemptions	—	14	—	—	—	—	14
Exchange rate changes	17	—	—	96	–5	—	108
Ending balance at 31.12.2014	**657**	**37**	**6**	**1,662**	**158**	**5**	**2,525**
2013							
Opening balance at 1.1.2013	**369**	**31**	**3**	**1,179**	**114**	**18**	**1,714**
Change in basis 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 into Level 3	30[3]	4[3]	—	—	—	—	34
Transfers out of Level 3	—	1[4]	3[4]	—	—	—	4
Additions							
Purchases	177	15	3	256	35	2	488
Disposals							
Sales	50	2	—	141	29	8	230
Repayments/redemptions	—	16	—	—	—	—	16
Exchange rate changes	–5	–1	—	–32	–2	—	–40
Ending balance at 31.12.2013	**523**	**24**	**2**	**1,265**	**89**	**10**	**1,913**

[1] The term "financial instruments" is abbreviated to "FI" in the following
[2] Trading in an active market discontinued
[3] Measured at net asset value and therefore transferred into Level 3
[4] Trading in an active market commenced

N63 RECONCILIATION OF FINANCIAL INSTRUMENTS[1] (FINANCIAL LIABILITIES) INCLUDED IN LEVEL 3 AT THE BEGINNING OF THE REPORTING PERIOD TO CARRYING AMOUNTS AS AT 31 DECEMBER 2014

IN EUR MILLION

	Other liabilities/ negative fair values from derivatives	Investment contracts/ FI classified at fair value through profit or loss	Investment contracts/ derivatives	Total amount of financial liabilities measured at fair value
2014				
Opening balance at 1.1.2014	**117**	**89**	**10**	**216**
Income and expenses				
recognised in the statement of income	−3	−61	−1	−65
recognised in other comprehensive income	—	—	—	—
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	—	—	—
Additions				
Purchases	57	27	2	86
Disposals				
Sales	—	14	8	22
Repayments/redemptions	—	—	—	—
Exchange rate changes	12	−5	—	7
Ending balance at 31.12.2014	**189**	**158**	**5**	**352**
2013				
Opening balance 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 into Level 3	—	—	—	—
Transfers out of Level 3	—	—	—	—
Additions				
Purchases	19	35	2	56
Disposals				
Sales	2	30	8	40
Repayments/redemptions	—	—	—	—
Exchange rate changes	−3	−2	—	−5
Ending balance at 31.12.2013	**117**	**89**	**10**	**216**

[1] The term "financial instruments" is abbreviated to "FI" in the following

Income and expenses for the period that were recognised in the consolidated statement of income, including gains and losses on Level 3 assets and liabilities held in the portfolio at the end of the reporting period, are shown in the following table.

N64 EFFECT ON PROFIT OR LOSS OF LEVEL 3 FINANCIAL INSTRUMENTS[1] (FINANCIAL ASSETS) MEASURED AT FAIR VALUE

IN EUR MILLION

	Available-for-sale FI/variable-yield securities	FI classified at fair value through profit or loss	FI held for trading	Other investments	Investment contracts/FI classified at fair value through profit or loss	Investment contracts/derivatives	Total amount of financial assets measured at fair value
2014							
Gains and losses in financial year 2014							
Investment income	—	5	5	3	77	9	99
Investment expenses	–9	–3	–5	–12	–16	–8	–53
of which attributable to financial instruments included in the portfolio as at 31.12.2014							
Investment income[2]	—	5	5	3	77	9	99
Investment expenses[3]	–9	–3	–5	–12	–16	–8	–53
2013							
Gains and losses in financial year 2013							
Investment income	—	7	2	1	147	11	168
Investment expenses	–26	–6	–3	–15	–176	–13	–239
of which attributable to financial instruments included in the portfolio as at 31.12.2013							
Investment income[2]	—	7	1	1	146	11	166
Investment expenses[3]	–26	–6	–2	–15	–176	–13	–238

[1] The term “financial instruments” is abbreviated to “FI” in the following
[2] Of which EUR 99 (166) million attributable to unrealised gains
[3] Of which EUR –37 (–200) million attributable to unrealised losses

N65 EFFECT ON PROFIT OR LOSS OF LEVEL 3 FINANCIAL INSTRUMENTS[1] (FINANCIAL LIABILITIES) MEASURED AT FAIR VALUE

IN EUR MILLION

	Other liabilities/negative fair values from derivatives	Investment contracts/FI classified at fair value through profit or loss	Investment contracts/derivatives	Total amount of financial liabilities measured at fair value
2014				
Gains and losses in financial year 2014				
Investment income	3	16	8	27
Investment expenses	—	–77	–9	–86
Financing costs	–6	—	—	–6
of which attributable to financial instruments included in the portfolio as at 31.12.2014				
Investment income[2]	3	16	8	27
Investment expenses[3]	—	–77	–9	–86
Financing costs	–6	—	—	–6
2013				
Gains and losses in financial year 2013				
Investment income	1	176	13	190
Investment expenses	—	–147	–11	–158
Financing costs	–1	—	—	–1
of which attributable to financial instruments included in the portfolio as at 31.12.2013				
Investment income[2]	1	176	13	190
Investment expenses[3]	—	–147	–11	–158
Financing costs	–1	—	—	–1

[1] The term “financial instruments” is abbreviated to “FI” in the following
[2] Of which EUR 27 (190) million attributable to unrealised gains
[3] Of which EUR –86 (–158 million) attributable to unrealised losses

N66 ADDITIONAL INFORMATION ABOUT THE MEASUREMENT OF LEVEL 3 FINANCIAL INSTRUMENTS

IN EUR MILLION

	Fair value at 31.12.2014	Fair value at 31.12.2013	Valuation technique	Unobservable inputs	Fluctuation (weighted average)
CDOs/CLOs [1]	27	14	Present value method	Prepayment speed, risk premiums, default rates, recovery rates, redemptions	n. a. [4]
Unlisted equities, real estate and bond funds [2]	706	660	NAV method [3]	n. a.	n. a.
Private equity funds/private equity real estate funds [2]	1,485	1,074	NAV method [3]	n. a.	n. a.
Written put options for minority interests [2]	52	48	Discounted NAV [3]	Risk-free interest rate	5.6% (5.6%)
Unlisted bond funds [2]	33	5	NAV method [3]	n. a.	n. a.
Insurance contracts [1]	248	130	Present value method	Fair values of CAT bonds, yield curve	n. a. [4]
Investment contracts	326	198	—	—	—

1) These financial instruments are classified in Level 3, since unobservable inputs were used to measure them
2) These financial instruments are classified in Level 3, since they are neither based on market prices nor measured by the Group on the basis of observable inputs They are measured using the NAV method
3) NAV: net asset value – alternative inputs within the meaning of IFRS 13 cannot be reasonably established
4) Fluctuations cannot be reasonably established without disproportionate effort due to the distinct character of the individual inputs

If Level 3 financial instruments are measured using models in which the use of reasonable alternative inputs leads to a material change in fair value, IFRS 7 requires disclosure of the effects of these alternative assumptions. Of the Level 3 financial instruments with fair values amounting to a total of EUR 2.9 (2.1) billion at the reporting date, the Group generally measured financial instruments with a volume of EUR 2.3 (1.8) billion using the net asset value method, under which alternative inputs within the meaning of the standard cannot reasonably be established. In addition, assets from investment contracts in the amount of EUR 163 (99) million are offset by liabilities from investment contracts in the same amount. Since assets and liabilities completely offset each other and trend similarly in value, we have elected to dispense with a scenario analysis. Insurance contracts in the amount of EUR 248 (130) million are recognised in Level 3. The change in the value of these contracts depends on the change in the risk characteristics of an underlying group of primary insurance contracts with statutory reserve requirements. The use of alternative inputs and assumptions had no material effect on the consolidated financial statements. For the remaining Level 3 financial instruments with a volume of EUR 27 (14) million, the effects of alternative inputs and assumptions are immaterial.

MEASUREMENT PROCESS

The measurement process consists of using either publicly available prices in active markets or measurements with economically established models that are based on observable inputs in order to ascertain the fair value of financial investments (Level 1 and Level 2 assets). For assets for which publicly available prices or observable market data are not available (Level 3 assets), measurements are primarily made on the basis of documented measurements prepared by independent professional experts (e.g. audited net asset value) that have previously been subjected to systematic plausibility checks. The organisational unit entrusted with measuring investments is independent from the organisational units that enter into investment risks, thus ensuring the separation of functions and responsibilities. The measurement processes and methods are documented in full. Decisions on measurement questions are taken by the Talanx Valuation Committee, which meets monthly.

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

BREAKDOWN OF FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE WITH FAIR VALUES DISCLOSED IN THE NOTES

N67 **FAIR VALUE HIERARCHY – FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE**

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
31.12.2014				
Financial assets not measured at fair value				
Loans and receivables	122	35,468	832	36,422
Financial assets held to maturity	—	2,574	—	2,574
Other investments	46	2	—	48
Investment contracts – loans and receivables	734	197	—	931
Total financial assets not measured at fair value	**902**	**38,241**	**832**	**39,975**
Financial liabilities not measured at fair value				
Subordinated liabilities	890	2,133	—	3,023
Notes payable	—	1,447	—	1,447
Other commitments under investment contracts	703	186	—	889
Total financial liabilities measured at fair value	**1,593**	**3,766**	**—**	**5,359**
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 investments	—	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 represent any indication of quality. No conclusions may be drawn as to the credit quality of the issuers

(13) DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

DERIVATIVES

We use derivative financial instruments to hedge against interest rate, currency and other market risks and, to a limited extent, also to optimise income and realise intentions to buy and sell. In this context, the applicable regulatory requirements and the standards set out in the Group's internal investment guidelines are strictly observed, and prime-rated counterparties are always selected.

In addition, embedded derivatives in structured products and insurance contracts are separated from the host contracts and recognised separately at fair value where this is required by IAS 39 "Financial Instruments: Recognition and Measurement" or IFRS 4 "Insurance Contracts".

Derivative financial instruments are initially measured at the fair value attributable to them at the transaction date. Thereafter, they are measured at the fair value applicable at each reporting date. For information on the valuation techniques used, see the "Fair value measurement" subsection in the "Accounting policies", pages 185ff.

The method for recognising gains and losses depends on whether the derivative financial instrument is used as a hedging instrument in hedge accounting in accordance with IAS 39 and, if it is, on the nature of the hedged item/risk. In the case of derivatives that are not used as hedging instruments, changes in value are recognised as income or expenses in "Net investment income". This approach also applies to separated embedded derivatives associated with structured financial instruments and insurance contracts.

N68 **DERIVATIVE FINANCIAL INSTRUMENTS, BY BALANCE SHEET ITEM**

IN EUR MILLION

	Hedging instrument under IAS 39	31.12.2014	31.12.2013
Balance sheet item (positive fair values)			
Financial assets at fair value through profit or loss, financial assets held for trading (derivatives)	No	80	82
Investment contracts, financial assets held for trading (derivatives)	No	61	69
Other assets, derivative financial instruments (hedging instruments)	Yes	304	86
Balance sheet item (negative fair values)			
Other liabilities			
Liabilities from derivatives	No	–300	–184
Liabilities from derivatives (hedging instruments)	Yes	—	–7
Investment contracts, derivatives	No	–60	–70
Total (net)		**85**	**–24**

Derivative financial instruments – excluding hedging instruments – generated an unrealised loss of EUR 29 (31) million in the financial year. The loss realised on positions closed out in 2014 amounted to EUR –10 (–8) million.

The fair values of our open derivative positions at the reporting date, including their associated notional amounts, are disclosed in table N69, classified by risk type and maturity. Positive and negative fair values are offset in the table. This shows that open positions from derivatives amounted to EUR 85 (–24) million at the reporting date, corresponding to 0.06% (0.02%) of total assets.

In the reporting period, the Group held derivative financial instruments in connection with reinsurance business for the purposes of hedging inflation risk exposures in the loss reserves. These transactions resulted in the presentation of EUR 64 (34) million in "Other liabilities" (in the previous year, EUR 1 million was additionally recognised in "Financial assets at fair value through profit or loss").

DISCLOSURES ON OFFSETTING FINANCIAL ASSETS AND LIABILITIES

The Group enters into derivatives transactions on the basis of standardised master agreements that contain master netting arrangements. The netting arrangements described in table N70 do not generally meet the criteria for offsetting in the balance sheet because the Group has no enforceable right of set-off relating to the recognised amounts at the present time. The right of set-off is generally enforceable only when certain defined future events occur. Depending on the counterparty, collateral pledged or received is taken into account up to the amount of the related net liability or net asset.

HEDGE ACCOUNTING

The Group uses hedge accounting to compensate for changes in an underlying transaction's fair value or cash flows that are caused by changes in market prices by entering into a hedging instrument (derivative) whose changes in fair value or cash flows approximately offset those of the hedged item. Hedging is carried out for individual transactions (micro hedges). When a hedge is entered into, we document the hedging relationship between the hedged item and the hedging instrument, the risk management objective and the underlying hedging strategy. In addition, at the inception of the hedging relationship, we document our assessment of the extent to which the hedging instruments will be highly effective in offsetting the changes in the fair value or cash flows of the hedged items. There is documented evidence of the effectiveness of the hedges.

N69 **MATURITIES OF DERIVATIVE FINANCIAL INSTRUMENTS**

IN EUR MILLION

	Due within one year	More than one year, up to five years	More than five years, up to ten years	More than ten years	Other	31.12.2014	31.12.2013
Interest rate hedges							
Fair value	69	200	31	—	—	**300**	78
Notional amount	268	853	102	—	—	**1,223**	1,863
Currency hedges							
Fair value	–18	–3	—	—	—	**–21**	7
Notional amount	1,088	28	—	—	—	**1,116**	315
Equity and index hedges							
Fair value	6	2	–53	—	—	**–45**	–41
Notional amount	575	65	–77	—	—	**563**	55
Inflation hedges							
Fair value	–36	–27	—	—	—	**–63**	–33
Notional amount	1,771	362	—	—	—	**2,133**	3,460
Derivatives associated with insurance contracts [1]							
Fair value	–43	–30	21	12	–57	**–97**	–88
Other risks							
Fair value	—	4	4	—	3	**11**	53
Notional amount	92	146	137	—	—	**375**	90
Total hedges							
Fair value	**–22**	**146**	**3**	**12**	**–54**	**85**	–24
Notional amount	**3,794**	**1,454**	**162**	—	—	**5,410**	5,783

[1] Financial instruments relate exclusively to embedded derivatives in connection with reinsurance business, which are required by IFRS 4 to be separated from the underlying insurance contract and recognised separately. Due to the characteristics of these derivatives, it is not reasonably possible to disclose the notional amounts, and this information has therefore been omitted. These derivatives are recognised at fair value

N70 **NETTING ARRANGEMENTS**

IN EUR MILLION

	Fair value	Netting arrangement	Cash collateral received/provided	Other collateral received/provided	Net amount
31.12.2014					
Derivatives (positive fair values)	324	4	280	—	40
Derivatives (negative fair values)	101	4	2	78	17
31.12.2013					
Derivatives (positive fair values)	118	17	36	15	50
Derivatives (negative fair values)	54	8	8	28	10

Cash flow hedges

In 2014, the Group hedged interest rate risk exposures in highly probable forecast transactions. To do so, it recognised hedges combining forward securities transactions (forward purchases) and planned securities purchases. Forward purchases are used to hedge the risk that future returns on firmly committed reinvestments may be low due to falling interest rates. The underlying transaction for the hedging instruments is the future investment at the returns/prices applicable at the time. In accordance with IAS 39, hedging forecast transactions is accounted for as a cash flow hedge.

To hedge against price risks in connection with the stock appreciation rights granted under its share award plan, Hannover Rück SE purchased hedging instruments in the form of equity swaps (cash flow hedges) in the reporting period.

The effective portion of hedging instruments measured at fair value is recognised in equity in the reserve for cash flow hedges, net of deferred taxes and any policyholder participation. By contrast, the ineffective portion of such changes in fair value is recognised directly in "Net investment income" in the statement of income in cases where the hedged items are a financial instruments (hedges of forecast transactions). If the hedged items are not financial instruments, the ineffective portion is recognised in other comprehensive income (hedges of price risks in connection with stock appreciation rights granted). If hedged transactions result in the recognition of financial assets, the amounts recognised in equity are amortised over the life of the acquired asset.

The following table presents changes in the reserve for cash flow hedges (before taxes and policyholder participation):

N71 **CHANGES IN THE RESERVE FOR CASH FLOW HEDGES**

IN EUR MILLION

	2014	2013
Carrying amount as at 31.12. of the previous year (before taxes)	28	87
Additions (hedges of forecast transactions)	384	–59
Additions (hedges of price risks)	1	—
Carrying amount as at 31.12. of the financial year (before taxes and withdrawal)	**413**	**28**

The reserve for cash flow hedges changed by EUR 385 (–59) million before taxes and by EUR 371 (–58) million net of taxes in the reporting period.

In connection with forward purchases falling due, an amount of EUR 149 (12) million was withdrawn from equity in 2014 and amortised in the statement of income in the amount of EUR 3 (0.4) million (in "Net investment income"). Of the EUR 3 million, EUR 2.5 million is attributable to forward purchases due in 2014 and EUR 0.5 million to forward purchases due in 2013.

The amount of EUR 2 (1) million was recognised in income in the reporting period owing to the ineffectiveness of cash flow hedges.

The expected cash flows from cash flow hedges were as follows; see Table N72.

There were no forecast transactions in 2014 that had been previously included in a hedging relationship that is no longer likely to occur in the future.

Fair values of hedging instruments

At the reporting date, the fair values of derivative financial instruments designated in connection with hedge accounting were as follows:

N72 **HEDGING INSTRUMENTS**

IN EUR MILLION

	31.12.2014	31.12.2013
Cash flow hedges		
Forward securities transactions (net)	303	79
Equity swaps	1	—
Total	**304**	**79**

In the reporting period, the net gains or losses on hedging derivatives recognised in the statement of income amounted to EUR 5 (12) million and related to the amortisation of equity amounts in connection with forward purchases falling due (EUR 3 [0.4] million) and changes in fair value recognised in income as a result of ineffectiveness (EUR 2 [1] million). The previous year also contained EUR –13 million from hedging derivatives in connection with fair value hedges entered into in 2013.

DERIVATIVES ASSOCIATED WITH INSURANCE CONTRACTS

A number of contracts in the Life/Health Reinsurance segment have characteristics requiring application of the IFRS 4 requirements governing embedded derivatives. According to these requirements, certain derivatives embedded in reinsurance contracts must be separated from the host insurance contract and recognised separately in accordance with IAS 39 in "Net investment income".

N73 **CASH FLOWS OF HEDGED FORECAST TRANSACTIONS**

IN EUR MILLION

	Due within one year	More than one year, up to five years	More than five years, up to ten years	31.12.2014	31.12.2013
Cash flows of hedged items	–263	–717	–81	**–1,061**	–1,757

In connection with the recognition of reinsurance contracts involving modified coinsurance and coinsurance funds withheld ("ModCo"), where securities accounts are held by cedants and payments are made on the basis of the income from certain securities, elements of interest rate risk are clearly and closely linked with the underlying reinsurance contracts. Consequently, embedded derivatives result exclusively from the credit risk of the underlying securities portfolio. Hannover Rück SE uses information available at the measurement date to measure the fair values of derivatives embedded in ModCo contracts based on a credit spread method, under which the derivative has a value of zero on the date when the contract is entered into and then fluctuates over time depending on how the credit spread changes for the securities. The derivative had a positive fair value of EUR 45 (45) million at the reporting date. Over the course of the year, the derivative's fair value changed by EUR 7 (–7) million before taxes, resulting in an expense.

A number of transactions underwritten in 2013 for the Life/Health Reinsurance segment involved Hannover Rück SE companies offering their contract partners coverage for risks associated with possible future payment obligations under hedging instruments. These transactions are also required to be classified as derivative financial instruments. The payment obligations result from contractually defined events and relate to changes in an underlying group of primary insurance contracts with statutory reserving requirements. In accordance with IAS 39, the contracts are classified and recognised as free-standing credit derivatives. These derivative financial instruments were initially recognised outside profit or loss because receivables were recognised in the same amount. At the reporting date, the fair value of these instruments amounted to EUR 137 (69) million and is reported in "Other liabilities". Changes in fair value in subsequent periods depend on risk trends and led to an improvement in earnings of EUR 6 (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. At the reporting date, their measurement led to a positive derivative value of EUR 6 (7) million. As at 31 December 2014, their measurement reduced earnings by EUR 1 (1) million.

Overall, application of the requirements governing the accounting for insurance derivatives at the reporting date led to recognition of assets in the amount of EUR 51 (52) million and of liabilities associated with derivatives resulting from technical items in the amount of EUR 142 (78) million. Increases in earnings of EUR 11 (9) million and decreases in earnings of EUR 8 (4) million were recorded in the reporting period from all insurance derivatives required to be measured separately.

FINANCIAL GUARANTEE CONTRACTS

Structured transactions were entered into in the Life/Health Reinsurance segment in order to finance statutory reserves for US cedants ("Triple X" or "AXXX" reserves). These structures required the use of a special purpose entity in each case. The special purpose entities carry extreme mortality risks securitised by cedants above a contractually defined retention ratio and transfer these risks by way of a fixed/variable-rate swap to a Group company of Hannover Rück SE. The total amount of the contractually agreed capacities of the transactions is equivalent to EUR 3,079 (1,372) million, of which the equivalent of EUR 1,887 (892) million had been underwritten at the reporting date. The variable payments to the special purpose entities guaranteed by companies of Hannover Rück SE cover their payment obligations. For some of the transactions, payments resulting from swaps in the event of a claim are reimbursed by the cedants' parent companies by way of compensation agreements. In this case, reimbursement claims under the compensation agreements are capitalised separately from and up to the amount of the provision.

Under IAS 39, these transactions are recognised at fair value as financial guarantee contracts. To do this, Hannover Rück SE uses the net method, under which the present value of the agreed fixed swap premiums is netted with the present value of the guarantee commitment. The fair value on initial recognition therefore amounted to zero. The higher of adjusted historical cost and the amount carried as a provision on the liabilities side in accordance with IAS 37 is recognised at the time when utilisation is considered probable. This was not the case as at the reporting date.

(14) ACCOUNTS RECEIVABLE ON INSURANCE BUSINESS

N74 ACCOUNTS RECEIVABLE ON INSURANCE BUSINESS

IN EUR MILLION

	2014	2013[1]
Accounts receivable on direct written insurance business	2,180	2,090
of which		
from policyholders	1,206	1,181
from insurance intermediaries	974	909
Accounts receivable from reinsurance business	3,072	2,949
Carrying amount as at 31.12. of the financial year	**5,252**	**5,039**

[1] Adjusted to reflect IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes

N75 ACCOUNTS RECEIVABLE ON INSURANCE BUSINESS THAT WERE PAST DUE BUT NOT IMPAIRED AT THE REPORTING DATE

IN MIO. EUR

	> 3 months < 1 year	> 1 year
31.12.2014		
Accounts receivable from policyholders	111	44
Accounts receivable from insurance intermediaries	69	27
Accounts receivable from reinsurance business	408	271
Total	**588**	**342**
31.12.2013		
Accounts receivable from policyholders	121	37
Accounts receivable from insurance intermediaries	31	6
Accounts receivable from reinsurance business	309	219
Total	**461**	**262**

Past due accounts receivable on insurance business relate to accounts receivable that were not paid by the due date and were still outstanding at the reporting date.

In the case of primary insurance companies, accounts receivable on insurance business from policyholders and insurance intermediaries that were more than 90 days past due amounted to a total of EUR 251 (195) million, of which EUR 71 (43) million was more than one year past due. This means that accounts receivable more than one year past due accounted for 3.3% (2.1%) of total accounts receivable. The combined average default rate in the past three years was 1.1% (1.2%). The default rate in 2014 was 1.2% (1.4%).

Accounts receivable from reinsurance business more than 90 days past due amounted to a total of EUR 679 (528) million, of which EUR 271 (219) million was more than one year past due; accounts receivable more than one year past due therefore accounted for 8.8% (7.4%) of total accounts receivable. The average default rate on reinsurance business in the past three years was 0.6% (0.3%).

Impaired accounts receivable relate to the following items:

N76 INDIVIDUALLY IMPAIRED ASSETS RESULTING FROM INSURANCE CONTRACTS

IN EUR MILLION

	Risk provision	of which attributable to 2014/2013	Carrying amount after risk provision
31.12.2014			
Accounts receivable from policyholders	59	–18	1,206
Accounts receivable from insurance intermediaries	19	–4	974
Accounts receivable from reinsurance business	69	15	3,072
Total	**147**	**–7**	**5,252**
31.12.2013 [1]			
Accounts receivable from policyholders	77	13	1,181
Accounts receivable from insurance intermediaries	23	2	909
Accounts receivable from reinsurance business	54	–7	2,949
Total	154	8	5,039

[1] Adjusted to reflect IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes

Impairments of accounts receivable on insurance business that we recognise in separate allowance accounts changed as follows in the reporting period:

N77 IMPAIRMENTS OF ACCOUNTS RECEIVABLE ON INSURANCE BUSINESS

IN EUR MILLION

	2014	2013
Accumulated impairments as at 31.12. of the previous year	154	146
Change in basis of consolidation	—	—
Impairments in financial year	27	28
Reversals of impairment losses	21	13
Exchange rate changes	–2	–2
Other changes	–11	–5
Accumulated impairments as at 31.12. of the financial year	**147**	154

The credit risk associated with accounts receivable on insurance business was generally measured on the basis of individual analyses. Impairments were not recognised to the extent that the credit risk exposure of the assets was reduced by collateral (e.g. letters of credit, cash deposits, securities accounts). Impaired accounts receivable accounted for 2.7% (3.0%) of total accounts receivable.

Accounts receivable from passive reinsurance business in the three primary insurance segments amounted to EUR 423 (463) million (after deduction of impairments). More than 56% (52%) of these accounts receivable had a rating of category A or better at the reporting date. 42% of the total accounts receivable amounting to EUR 3.1 (2.9) billion had a rating of category A or better.

N78 IMPAIRMENT RATES

IN %

	31.12.2014	31.12.2013
Accounts receivable from policyholders	4.6	6.1
Accounts receivable from insurance intermediaries	2.0	2.5
Accounts receivable from reinsurance business	2.2	1.8

N79 ANNUAL DEFAULT RATES

IN %

	31.12.2014	31.12.2013
Accounts receivable from policyholders	1.2	1.4
Accounts receivable from insurance intermediaries	0.7	0.7
Accounts receivable from reinsurance business	1.3	0.1

(15) DEFERRED ACQUISITION COSTS

N80 **DEFERRED ACQUISITION COSTS**

IN EUR MILLION

	Gross business	Reinsurers' share	Net business	Gross business	Reinsurers' share	Net business
	2014			2013		
Carrying amount as at 31.12. of the previous year	**4,766**	**253**	**4,513**	**4,636**	**258**	**4,378**
Portfolio entries/withdrawals	1	1	—	2	—	2
Additions	884	59	825	999	15	984
Amortised acquisition costs	880	79	801	738	7	731
Currency adjustments	117	9	108	–125	–4	–121
Other changes	—	—	—	–8	–9	1
Carrying amount as at 31.12. of the financial year	**4,888**	**243**	**4,645**	**4,766**	**253**	**4,513**

(16) OTHER ASSETS

N81 **OTHER ASSETS**

IN EUR MILLION

	2014	2013[1]
Real estate held and used	666	675
Tax assets	353	393
Operating and office equipment	174	167
Interest and rent due	9	7
Derivative financial instruments – hedging instruments, hedge accounting	304	86
Miscellaneous assets	1,193	874
Carrying amount as at 31.12. of the financial year	**2,699**	**2,202**

[1] Adjusted to reflect IAS 8, see "Accounting policies", subsection "Changes in accounting policies, accounting errors" in the Notes

The fair value of real estate held and used amounted to EUR 759 (724) million as at the reporting date. EUR 131 (113) million of this amount is attributable to Level 2 of the fair value hierarchy and EUR 628 (611) million to Level 3. These fair values were mainly calculated using the German income approach (discounted cash flow method).

In the case of real estate held and used, there were restrictions on disposal and guarantee assets in the amount of EUR 423 (449) million as at 31 December 2014. The expenditures capitalised for property, plant and equipment under construction amounted to EUR 2 (8) million as at the reporting date. Contractual commitments to acquire property, plant and equipment totalled EUR 108 (4) million as at the reporting date.

N82 **CHANGES IN REAL ESTATE HELD AND USED**

IN EUR MILLION

	2014	2013
Gross carrying amount as at 31.12. of the previous year	**854**	**783**
Change in basis of consolidation (additions)		
Business combinations	—	—
Additions	12	18
Disposals	—	9
Reclassifications	2	65
Exchange rate changes	–2	–3
Gross carrying amount as at 31.12. of the financial year	**866**	**854**
Accumulated depreciation and impairment losses as at 31.12. of the previous year	**179**	**169**
Disposals	—	6
Depreciation and impairment losses		
Depreciation	21	16
Impairment losses	2	2
Reversal after impairment	3	8
Reclassifications	1	7
Exchange rate changes	—	–1
Accumulated depreciation and impairment losses as at 31.12. of the financial year	**200**	**179**
Carrying amount as at 31.12. of the previous year	675	614
Carrying amount as at 31.12. of the financial year	**666**	**675**

N83 **CHANGES IN OPERATING AND OFFICE EQUIPMENT**

IN EUR MILLION

	2014	2013
Gross carrying amount as at 31.12. of the previous year	**427**	**511**
Change in basis of consolidation (additions)		
Business combinations	—	—
Additions	64	51
Disposals	33	126
Reclassifications	3	–1
Exchange rate changes	3	–8
Gross carrying amount as at 31.12. of the financial year	**464**	**427**
Accumulated depreciation and impairment losses as at 31.12. of the previous year	**260**	**344**
Disposals	21	122
Depreciation and impairment losses		
Depreciation	45	43
Reclassifications	3	—
Exchange rate changes	3	–5
Accumulated depreciation and impairment losses as at 31.12. of the financial year	**290**	**260**
Carrying amount as at 31.12. of the previous year	167	167
Carrying amount as at 31.12. of the financial year	**174**	**167**

N84 **MISCELLANEOUS ASSETS**

IN EUR MILLION

	31.12.2014	31.12.2013
Trade accounts receivable	48	44
Receivables relating to investments	144	64
Receivables from non-Group-led business	140	137
Other tangible assets	76	13
Claims under pension liability insurance/surrender values	101	91
Prepaid insurance benefits	114	122
Prepaid expenses	161	112
Other miscellaneous assets	409	291
Total	**1,193**	**874**

NOTES TO THE CONSOLIDATED BALANCE SHEET – EQUITY AND LIABILITIES

(17) EQUITY

CHANGES IN EQUITY AND NON-CONTROLLING INTERESTS

N85 **COMPOSITION OF EQUITY**

IN EUR MILLION

	31.12.2014	31.12.2013 [1]
Subscribed capital	316	316
Capital reserves	1,373	1,373
Retained earnings	4,921	4,518
Other reserves	619	188
Group net income	769	732
Non-controlling interests in equity	4,902	3,997
Total	**12,900**	**11,124**

[1] Adjusted to reflect IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes

Retained earnings include equalisation reserves of EUR 1,580 (1,583) million (after deferred taxes).

Other reserves include gains and losses from currency translation amounting to EUR –33 (–209) million.

N86 **UNREALISED GAINS AND LOSSES INCLUDED IN OTHER RESERVES** [1]

IN EUR MILLION

	31.12.2014	31.12.2013
From available-for-sale investments	4,091	1,486
From cash flow hedges	379	33
From the measurement of associates using the equity method	5	—
Other changes	–965	–421
less/plus		
Policyholder participation/shadow accounting [1]	–2,633	–617
Deferred taxes recognised directly in equity	–225	–84
Non-controlling interests in equity	742	169
Total	**1,394**	**566**

[1] Includes provisions recognised directly in equity for deferred premium refunds

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

N87 RECONCILIATION ITEMS FOR NON-CONTROLLING INTERESTS IN EQUITY

IN EUR MILLION

	31.12.2014	31.12.2013
Unrealised gains and losses on investments	890	380
Share of net income	599	520
Other equity	3,413	3,097
Total	**4,902**	**3,997**

The changes recognised in equity resulting from financial instruments classified in the Group as "Financial assets available for sale", before allowances for policyholders, non-controlling interests and deferred taxes, were as follows:

N88 EFFECT OF FAIR VALUE MEASUREMENT ON OTHER COMPREHENSIVE INCOME

IN EUR MILLION

	31.12.2014	31.12.2013
Allocation of gains/losses from fair value measurement of "Financial assets available for sale" (unrealised gains and losses)	3,605	–696
Transfers of gains/losses from fair value measurement of "Financial assets available for sale" to net income	–381	–499

SUBSCRIBED CAPITAL

The share capital of Talanx AG is unchanged at EUR 316 million and is composed of 252,797,634 no-par value registered shares. The share capital is fully paid up.

For information on the composition of equity, see the "Consolidated statement of changes in equity".

CONTINGENT CAPITAL

On 15 May 2012, the General Meeting resolved to contingently increase the share capital by up to EUR 78 million by issuing up to 62,400,000 new no-par value shares (Contingent Capital II). The contingent capital increase is designed to grant no-par value shares to holders of bonds that Talanx AG or a subordinate Group company will issue by 14 May 2017 in exchange for cash, in order to satisfy the contingent conversion obligation, on the basis of the authorisation of the Board of Management by the resolution adopted by the General Meeting on the same date. The amendment to Talanx AG's Articles of Association took effect on its entry in the commercial register on 4 June 2012.

Furthermore, on 28 August 2012, the Extraordinary General Meeting resolved to contingently increase the share capital by up to EUR 26 million by issuing up to 20,800,000 new no-par value shares with a notional interest in the share capital of EUR 1.25 each (Contingent Capital III). The contingent capital increase is designed to grant no-par value shares to holders of convertible bonds, bonds with warrants, participating bonds with conversion rights or warrants, and profit participation rights with conversion rights or warrants, as well as measures in connection with the employee share programme, that, based on the authorisation resolved by the aforementioned meeting, Talanx AG or a subordinate Group company will issue by 27 August 2017 in exchange for cash in order to satisfy the contingent conversion obligation. The amendment to Talanx AG's Articles of Association took effect on its entry in the commercial register on 5 September 2012.

AUTHORISED CAPITAL

On 29 September 2012, the Extraordinary General Meeting resolved to cancel the authorised capital under article 7(1) of Talanx AG's Articles of Association, as authorised by the General Meeting on 21 November 2011, and to replace it with a new article 7(1), which authorises the Board of Management, subject to the approval of the Supervisory Board, to increase the share capital in the period up to 28 September 2017 on one or more occasions by a maximum of EUR 146 million by issuing new no-par value registered shares in exchange for cash or non-cash contributions. Subject to the approval of the Supervisory Board, shareholders' pre-emptive rights may be disapplied for certain listed purposes in the case of cash capital increases, provided that the notional amount of share capital attributable to the new shares does not exceed 10% of the share capital. Subject to the approval of the Supervisory Board, EUR 1 million of this may be used to issue employee shares. Subject to the approval of the Supervisory Board, pre-emptive rights may be disapplied for non-cash capital increases if their disapplication is in the Company's overriding interest. The amendment to the Articles of Association took effect on its entry in the commercial register on 1 October 2012.

When the greenshoe option was exercised on 8 October 2012 in the course of the IPO, authorised capital was reduced to EUR 143 million in accordance with the Articles of Association. In the course of the employee share programme, authorised capital was reduced by EUR 0.2 million. After its partial utilisation, authorised capital amounts to EUR 142,307,260, of which a further EUR 785,060 can be used for employee shares.

CAPITAL MANAGEMENT

IAS 1 "Presentation of Financial Statements" requires detailed disclosures in the Notes that enable readers of financial statements to understand the objectives, methods, and processes of capital management and that provide supplementary information on changes in Group equity.

In this context, see the following remarks as well as the information contained in the management report regarding enterprise 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 equity reported in the balance sheet.

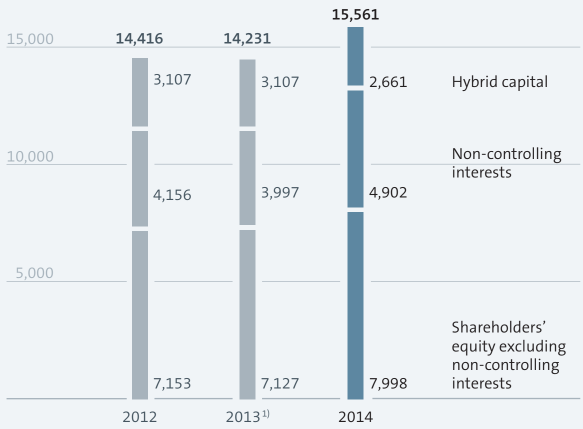
The policyholders' surplus is defined as the sum total of

- equity excluding non-controlling interests, composed of subscribed capital, capital reserves, other reserves and retained earnings;
- non-controlling interests in equity
- hybrid capital, used as debt to supplement equity, which comprises our subordinated liabilities

At the reporting date, the policyholders' surplus totalled EUR 15.6 (14.2) billion.

A89 **CHANGES IN POLICYHOLDERS' SURPLUS**

IN EUR MILLION



[1] Adjusted to reflect IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes

The Group uses intrinsic value creation (IVC) as its core indicator of sustainable, strategic value creation to measure the value created by our Group companies and divisions. This concept, as well as the objectives and principles we use to manage our business and our capital, 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 Group satisfies the expectations of the agencies rating it. Some Group companies are also subject to additional national capital and solvency requirements. All Group companies met the applicable local minimum capital requirements in the reporting period.

As part of its Group-wide capital management, Talanx AG monitors the capital resources of its subsidiaries with the utmost diligence.

(18) SUBORDINATED LIABILITIES

In order to optimise the Group's capital structure and to ensure the liquidity (solvency) required by regulators, various Group companies have in the past issued long-term subordinated debt instruments that in some cases are listed on exchanges.

N90 **COMPOSITION OF LONG-TERM SUBORDINATED DEBT**

IN EUR MILLION

	Nominal amount	Coupon	Maturity	Rating[5]	Issue	31.12.2014	31.12.2013
Hannover Finance (Luxembourg) S. A.	500	Fixed (5%), then floating rate	2005/ no final maturity	(a; A)	These guaranteed subordinated bonds were offered to the holders of debt issued in 2001 in part exchange for that debt. They may be called first on 1.6.2015 and at each coupon payment date thereafter.	498	493
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 the entire nominal amount on 17 January 2014 and repaid on 26 February 2014.	—	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 can be called for the first time after ten years under normal conditions.	497	497
Hannover Rück SE[1]	450	Fixed (3.375%), then floating rate	2014/ no final maturity	(a; A)	These guaranteed subordinated bonds were issued in 2014 on the European capital market. They can be called for the first time in 2025 under normal conditions.	444	—
HDI-Gerling Industrie Versicherung AG	142	Fixed (7%), then floating rate	2004/2024	(a–; A–)	These subordinated bonds were listed on the Euro MTF Market of the Luxembourg Stock Exchange and were repaid in full on 12 August 2014.	—	144
HDI Lebensversicherung AG (formerly HDI-Gerling Lebensversicherung AG)[2]	110	Fixed (6.75%)	2005/ no final maturity	(—; A–)	These subordinated bonds are listed on the Euro MTF Market of the Luxembourg Stock Exchange and can be called for the first time by the issuer in 2015.	110	112
Talanx Finanz[3]	113	Fixed (4.5%)	2005/2025	(bbb+; BBB)	These guaranteed subordinated bonds were originally issued in an amount of EUR 350 million. They are listed on the Luxembourg Stock Exchange.	112	112
Talanx Finanz	500	Fixed (8.37%), then floating rate	2012/2042	(bbb+; BBB)	These guaranteed subordinated bonds in the amount of EUR 500 million were issued in 2012 on the European capital market. They can be called for the first time after ten years under normal conditions.	500	500
Open Life Towarzystwo Ubezpieczeń Życie S. A.[4]	2	Fixed (2.5%), plus WIBOR 3M	2013/2018	(—; —)	This subordinated loan of EUR 2 million was entered into in 2013 and has a term that expires in 2018.	2	2
Gesamt						**2,661**	3,107

[1] At the reporting date, Group companies additionally held bonds with a nominal value of EUR 50 million (consolidated in the consolidated financial statements)
[2] At the reporting date, Group companies additionally held bonds with a nominal value of EUR 50 million (of which EUR 10 million are consolidated in the consolidated financial statements, with the remaining EUR 40 million being blocked)
[3] At the reporting date, Group companies additionally held bonds with a nominal value of EUR 96 million (consolidated in the consolidated financial statements)
[4] Not included in the calculation of Group solvency
[5] (Debt rating A. M. Best; debt rating S&P)

N91 **FAIR VALUES OF SUBORDINATED LIABILITIES MEASURED AT AMORTISED COST**

IN EUR MILLION

	31.12.2014	31.12.2013
Amortised cost	2,661	3,107
Unrealised gains/losses	362	249
Fair value	3,023	3,356

The fair value of issued liabilities is generally based on quoted prices in active markets. If such price information is not available, fair value is measured on the basis of the recognised effective interest rate method or estimated, e.g. using other financial assets with similar rating, duration and yield characteristics. The effective interest rate method is always based on current market interest rates in the relevant fixed rate maturity ranges.

The net expenses of EUR –153 (–188) million from subordinated liabilities in the reporting period consisted of interest expenses in the amount of EUR 150 (187) million and amortisation expenses (EUR 3 [1] million).

N92 **SUBORDINATED LIABILITIES: MATURITIES**

IN EUR MILLION

	31.12.2014	31.12.2013
Due within one year	—	—
More than one year, up to five years	2	2
More than five years, up to ten years	112	—
More than ten years, up to 20 years	—	1,005
More than 20 years	1,495	1,495
Without fixed maturity	1,052	605
Total	**2,661**	**3,107**

The subordinated bond issued on 26 February 2004 via Hannover Finance (Luxembourg) S.A. in the nominal amount of EUR 750 million was called by the issuer effective the first regular redemption date in the entire nominal amount and repaid on 26 February 2014.

The subordinated bond in the nominal amount of EUR 250 million that was issued by HDI-Gerling Industrie Versicherung AG on 12 August 2004 and had been partly repaid since that date was repaid early by the issuer in full effective the first possible redemption date on 12 August 2014 in the amount of the outstanding nominal amount (EUR 142 million).

On 15 September 2014, the Group placed a further subordinated bond in the nominal amount of EUR 500 million on the European capital market via Hannover Rück SE, Hannover; EUR 50 million of the nominal amount was subscribed within the Group. The bond has an indefinite term and can be called for the first time on 26 June 2025 under normal conditions. Up to that date, the bond carries a fixed annual coupon of 3.375%. After that, it pays a variable rate of 3.25% above three months EURIBOR.

(19) UNEARNED PREMIUM RESERVE

N93 **UNEARNED PREMIUM RESERVE**

IN EUR MILLION

	Gross	Re	Net	Gross	Re	Net
	2014			2013		
Balance at 31.12. of the previous year	**5,678**	**635**	**5,043**	5,440	521	4,919
Portfolio entries/withdrawals	4	—	4	2	—	2
Additions	1,958	133	1,825	1,923	154	1,769
Released	1,509	131	1,378	1,416	16	1,400
Reclassification in accordance with IFRS 5	–3	—	–3	—	—	—
Exchange rate changes	188	25	163	–271	–24	–247
Balance at 31.12. of the financial year	**6,316**	**662**	**5,654**	5,678	635	5,043

The unearned premium reserve covers that portion of gross written premiums that is required to be attributed as income to the following financial year(s) for a certain period after the reporting date. Since the unearned premium reserve essentially does not involve future cash flows that affect liquidity, we have elected to dispense with information about maturities.

(20) BENEFIT RESERVE

N94 BENEFIT RESERVE

IN EUR MILLION

	Gross	Re	Net	Gross	Re	Net
	2014			2013		
Balance at 31.12. of the previous year	**49,767**	**832**	**48,935**	**48,248**	**1,017**	**47,231**
Change in basis of consolidation	—	—	—	—	—	—
Portfolio entries/withdrawals	121	83	38	–191	–177	–14
Additions	5,711	222	5,489	5,507	120	5,387
Released	3,653	11	3,642	3,534	119	3,415
Reclassification in accordance with IFRS 5	–12	—	–12	—	—	—
Other changes	–1	—	–1	23	—	23
Exchange rate changes	746	59	687	–286	–9	–277
Balance at 31.12. of the financial year	**52,679**	**1,185**	**51,494**	**49,767**	**832**	**48,935**

IFRS 4 requires disclosures that help explain the amount and timing of future cash flows from insurance contracts. The following table shows the benefit reserve classified by expected maturities. In connection with the analysis of maturities, we directly deducted deposits provided for the purpose of hedging this reserve, since cash inflows and outflows from these deposits are attributable directly to cedants.

N95 BENEFIT RESERVE

IN EUR MILLION

	Gross	Re	Net	Gross	Re	Net
	2014			2013		
Due within one year	3,266	53	3,213	2,828	47	2,781
More than one year, up to five years	10,258	491	9,767	8,869	208	8,661
More than five years, up to ten years	10,604	361	10,243	9,709	281	9,428
More than ten years, up to 20 years	11,794	152	11,642	11,590	164	11,426
More than 20 years	9,544	123	9,421	9,498	126	9,372
Deposits	7,213	5	7,208	7,273	6	7,267
Total	**52,679**	**1,185**	**51,494**	**49,767**	**832**	**48,935**

(21) LOSS AND LOSS ADJUSTMENT EXPENSE RESERVE

N96 **LOSS AND LOSS ADJUSTMENT EXPENSE RESERVE**

IN EUR MILLION

	Gross	Re	Net	Gross	Re	Net
	2014			2013 [1]		
Balance at 31.12. of the previous year	**33,775**	**4,894**	**28,881**	**33,253**	**5,252**	**28,001**
Change in basis of consolidation	—	—	—	—	—	—
Portfolio entries/withdrawals	2	—	2	59	—	59
Plus claims and claims expenses incurred (net)						
Financial year	13,773	1,971	11,802	13,684	2,022	11,662
Previous years	2,902	491	2,411	2,160	289	1,871
Total	16,675	2,462	14,213	15,844	2,311	13,533
Less claims and claims expenses paid (net)						
Financial year	5,371	692	4,679	5,476	721	4,755
Previous years	9,483	1,652	7,831	8,672	1,783	6,889
Total	14,854	2,344	12,510	14,148	2,504	11,644
Other changes	–2	–1	–1	–1	1	–2
Exchange rate changes	1,660	211	1,449	–1,232	–166	–1,066
Balance at 31.12. of the financial year	**37,256**	**5,222**	**32,034**	**33,775**	**4,894**	**28,881**

[1] Adjusted to reflect IAS 8, see “Accounting policies”, subsection “Changes in accounting policies and errors” in the Notes

RUN-OFF OF THE NET LOSS RESERVE

As loss reserves are inevitably based to some degree on estimates, they will always feature some residual uncertainty. The difference between last year’s estimate and the current appraisal of the reserve is expressed in the net run-off result. In addition, in the case of reinsurance contracts whose terms do not correspond to a calendar year or that were entered into on an underwriting-year basis, it is often impossible to allocate claims expenses precisely to the financial year or the previous year.

The loss run-off triangles returned by the reporting units were presented as adjusted for currency effects resulting from translation of the respective transaction currency into the local currency. The foreign currency run-off triangles returned by the reporting units are translated into euros at the closing rate for the reporting period to allow run-off results to be presented on a currency-adjusted basis. In cases where the original loss estimate corresponds to the actual final loss in the local currency, steps are taken to avoid a purely indexed run-off result being returned, including after the figure has been translated into the Group reporting currency (euros).

The following tables present the net loss reserves for the years 2004 to 2014 for our main property/casualty insurance companies in the primary insurance segments, including Corporate Operations, and in the Group’s Non-Life Reinsurance segment (“run-off triangle”).

The charts show the run-off of the net loss reserves established at each reporting date for the current and preceding occurrence years. It is not the run-off of the reserve for individual occurrence years that is presented, but rather the run-off of the reserve recognised annually as at the reporting date.

The net loss reserve and its run-off are presented for primary insurance segments, including Corporate Operations, and the Non-Life Reinsurance segment after allowance for consolidation effects for each area presented, but before elimination of intragroup relationships between primary insurance segments, including Corporate Operations, and reinsurance. The values reported for the 2004 financial year also include values for previous years that are 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 crystallised in financial year 2014.

Net loss reserves in the Group amount to a total of EUR 32.0 billion. Of these, EUR 8.5 billion is attributable to our property/casualty insurance companies in the primary insurance area, including Corporate Operations, and EUR 19.7 billion to the Non-Life Reinsurance segment. The remaining EUR 3.8 billion is attributable to the Life/Health Reinsurance segment (EUR 2.9 billion) and life primary insurance business (EUR 0.9 billion).

NET LOSS RESERVE AND ITS RUN-OFF IN THE PRIMARY INSURANCE SEGMENTS, INCLUDING CORPORATE OPERATIONS

N97 **NET LOSS RESERVE AND ITS RUN-OFF IN THE PRIMARY INSURANCE SEGMENTS, INCLUDING CORPORATE OPERATIONS**

IN EUR MILLION

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Loss and loss adjustment expense reserve	**4,979**	**5,938**	**6,003**	**6,361**	**6,268**	**6,363**	**6,899**	**6,968**	**7,126**	**7,875**	**8,494**
Cumulative payments for the specific year and previous years											
One year later	768	1,150	981	1,373	964	1,181	1,347	1,543	1,179	1,734	
Two years later	1,285	1,701	1,673	1,705	1,557	1,793	2,156	1,890	1,973		
Three years later	1,687	2,161	1,823	2,115	2,003	2,411	2,276	2,433			
Four years later	2,051	2,235	2,128	2,492	2,505	2,438	2,675				
Five years later	2,103	2,495	2,451	2,932	2,479	2,786					
Six years later	2,320	2,744	2,846	2,859	2,771						
Seven years later	2,545	3,054	2,753	3,114							
Eight years later	2,816	3,081	2,980								
Nine years later	2,842	3,263									
Ten years later	2,998										
Loss and loss adjustment expense reserve (net) for the specific year and previous years, plus payments made to date into the original reserve											
At the end of the year	4,979	5,938	6,003	6,361	6,268	6,363	6,899	6,968	7,126	7,875	8,494
One year later	4,666	5,286	5,538	6,030	5,770	6,227	6,548	6,600	6,803	7,603	
Two years later	4,524	5,329	5,286	5,276	5,189	6,000	6,319	6,434	6,679		
Three years later	4,646	5,212	4,918	5,359	5,466	5,817	6,257	6,362			
Four years later	4,609	4,923	4,925	5,470	5,365	5,850	6,129				
Five years later	4,454	4,902	5,025	5,390	5,510	5,746					
Six years later	4,439	5,028	4,992	5,514	5,394						
Seven years later	4,587	5,010	5,029	5,425							
Eight years later	4,575	5,112	4,979								
Nine years later	4,660	5,029									
Ten years later	4,571										
Change year-on-year											
of the final loss reserve [1)] = run-off result	**89**	**–6**	**–33**	**39**	**27**	**–12**	**24**	**–56**	**52**	**148**	
In %	**2**	**—**	**–1**	**1**	**—**	**—**	**—**	**–1**	**1**	**2**	

[1)] Example: Calculate the difference in 2004 (EUR 4,660 million minus EUR 4,571 million = EUR 89 million). This figure is recorded and then updated in each subsequent period, e.g. in 2005, with the change from e.g. 2004 to 2005 being carried forward. Hence, in 2005 the first step involves calculating the difference between the two amounts for 2005 and then subtracting the result from the value for 2004 (calculation for 2005: EUR 5,112 million less EUR 5,029 million = EUR 83 million, from which the amount of EUR 89 million is subtracted, resulting in an amount of EUR –6 million for 2005). The process is then repeated for each subsequent year

In the reporting period, the Group reported a positive run-off result of EUR 272 million in its primary insurance segments, including Corporate Operations.

NET LOSS RESERVE AND ITS RUN-OFF IN THE NON-LIFE REINSURANCE SEGMENT

N98 NET LOSS RESERVE AND ITS RUN-OFF IN THE NON-LIFE REINSURANCE SEGMENT

IN EUR MILLION

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Loss and loss adjustment expense reserve (as reported in the balance sheet)	**12,594**	**13,382**	**13,454**	**12,838**	**13,702**	**14,024**	**15,286**	**16,674**	**17,302**	**17,926**	**19,747**
Cumulative payments for the specific year and previous years											
One year later	4,177	3,025	2,587	2,523	2,990	2,796	2,487	3,173	2,970	3,236	
Two years later	6,225	5,062	4,350	4,341	4,644	4,041	4,150	4,940	4,609		
Three years later	7,213	6,226	5,694	5,471	5,412	4,874	5,160	5,881			
Four years later	8,001	7,361	6,506	6,026	6,008	5,530	5,818				
Five years later	8,803	7,995	6,906	6,467	6,495	6,040					
Six years later	9,264	8,315	7,250	6,834	6,828						
Seven years later	9,537	8,586	7,526	7,113							
Eight years later	9,744	8,817	7,755								
Nine years later	9,928	9,003									
Ten years later	10,081										
Loss and loss adjustment expense reserve (net) for the specific year and previous years, plus payments made to date into the original reserve											
At the end of the year	12,594	13,382	13,454	12,838	13,702	14,024	15,286	16,674	17,302	17,926	19,747
One year later	15,014	13,915	12,708	13,127	14,802	13,512	14,665	16,368	16,879	17,650	
Two years later	14,748	12,854	12,279	13,050	13,525	12,778	14,057	16,022	16,455		
Three years later	14,007	12,312	12,194	12,558	12,680	12,191	13,638	15,518			
Four years later	13,544	12,312	11,762	11,721	12,177	11,770	13,148				
Five years later	13,580	11,941	10,999	11,367	11,839	11,293					
Six years later	13,274	11,241	10,725	11,063	11,331						
Seven years later	12,691	11,040	10,448	10,651							
Eight years later	12,561	10,827	10,128								
Nine years later	12,408	10,600									
Ten years later	12,238										
Change year-on-year											
of the final loss reserve [1)] = run-off result	**170**	**57**	**93**	**92**	**96**	**–31**	**13**	**14**	**–80**	**–148**	
In %	**1**	**—**	**1**	**1**	**1**	**—**	**—**	**—**	**—**	**–1**	

1) Example: Calculate the difference in 2004 (EUR 12,408 million minus EUR 12,238 million = EUR 170 million). This figure is recorded and then updated in each subsequent period, e.g. in 2005, with the change from e.g. 2004 to 2005 being carried forward. Hence, in 2005 the first step involves calculating the difference between the two amounts for 2005 and then subtracting the result from the value for 2004 (calculation for 2005: EUR 10,827 million less EUR 10,600 million = EUR 227 million, from which the amount of EUR 170 million is subtracted, resulting in an amount of EUR 57 million for 2005). The process is then repeated for each subsequent year

In financial year 2014, Non-Life Reinsurance recorded a positive run-off result in the total amount of EUR 276 million.

The carrying amount of the reinsurers' share of loss reserves amounts to EUR 5.2 (4.9) billion and includes accumulated specific valuation allowances of EUR 0.2 (1) million.

IFRS 4 requires disclosures that help explain the amount and timing of future cash flows from insurance contracts. The following table shows the loss reserve classified by expected maturities. In connection with the analysis of maturities, we directly deducted deposits provided for the purpose of hedging this reserve, since cash inflows and outflows from these deposits are attributable directly to cedants.

N99 RESERVE DURATIONS

IN EUR MILLION

	Gross	Re	Net	Gross	Re	Net
	31.12.2014			31.12.2013 [1]		
Due within one year	11,840	2,288	9,552	10,192	1,569	8,623
More than one year, up to five years	13,869	1,602	12,267	12,576	1,793	10,783
More than five years, up to ten years	5,406	594	4,812	4,968	671	4,297
More than ten years, up to 20 years	3,404	359	3,045	3,288	444	2,844
More than 20 years	1,930	273	1,657	1,971	282	1,689
Deposits	807	106	701	780	135	645
Total	**37,256**	**5,222**	**32,034**	**33,775**	**4,894**	**28,881**

[1] Adjusted to reflect IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes

(22) PROVISION FOR PREMIUM REFUNDS

N100 **PROVISION FOR PREMIUM REFUNDS**

IN EUR MILLION

	Gross	Re	Net	Gross	Re	Net
	2014			2013		
Balance at 31.12. of the previous year	**2,178**	**2**	**2,176**	2,279	2	2,277
Portfolio entries/withdrawals	—	—	—	1	—	1
Allocations/reversals (—) recognised in profit or loss	891	—	891	721	—	721
Changes attributable to other comprehensive income from investments	1,887	—	1,887	–410	—	–410
Disposals						
Life insurance policies	472	—	472	398	—	398
Liability/accident policies with a premium refund	1	—	1	10	—	10
Other changes	2	–1	3	–4	—	–4
Exchange rate changes	–1	—	–1	–1	—	–1
Balance at 31.12. of the financial year	**4,484**	**1**	**4,483**	2,178	2	2,176

The provision for premium refunds covers the statutory and contractual claims of policyholders to surplus participation that has not yet been definitively allocated to individual insurance contracts and paid out as at the reporting date, as well as the provision for deferred premium refunds. The latter provision – the "shadow provision for premium refunds" – relates to portions attributable to policyholders from measurement differences between local GAAP and IFRSs that are allocated, net of deferred taxes, either to the statement of income as income or expenses or directly to equity (in "Other comprehensive income") (e.g. unrealised investment income in "Financial instruments available for sale").

Therefore, it is generally not possible to make a clear allocation to the individual insurance contracts and to the remaining maturities.

Of the gross provision for premium refunds, EUR 1,271 (1,175) million is attributable to obligations for surplus participation and EUR 3,213 (1,003) 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, as a rule without a lump-sum option. Events that cause benefits to become due (e.g. retirement age, disability, death) closely follow the eligibility requirements for statutory pension insurance. The benefit amount is based on a percentage of the final salary. The calculation includes the number of service years completed at the time benefits become due, as well as the amount of salary at that time (where appropriate as an average over several years). In some cases, the relevant components of income below the contribution assessment ceiling for statutory pension insurance (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 service, whereas others are maintained unchanged with continued growth depending on current service. The plans are largely not funded by plan assets.

Plans based on annual pension modules involve fully employer-funded commitments for retirement, disability and survivor benefits in the form of a monthly pension without a lump-sum option. Events that cause benefits to become due (e.g. retirement age, disability, death) closely follow the eligibility requirements for statutory pension insurance. The benefit amount is based on the sum of annual pension modules, which are derived from a transformation table. The level of employment, the amount of the relevant salary and, in some cases, the business result of the employer company making the commitment are taken into account. The relevant components of income below the BBG-RV are weighted differently than those above the ceiling.

The pension plan is closed to new employees and is not funded by plan assets. However, pension liability insurance was taken out for a large subportfolio.

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”.

Contribution-based plans with guarantees involve fully employer-funded commitments for retirement, disability and survivor benefits in the form of a monthly pension from the “HDI Unterstützungskasse” (an occupational pension scheme). Instead of a retirement pension, a lump-sum payment of the pension capital can be demanded. This involves defined contribution benefit commitments within the meaning of German labour law that are classified economically as a defined benefit plan. The pension amount paid by the employer to the “Unterstützungskasse” is used by the latter as a contribution toward taking out pension liability insurance that reflects the committed range of benefits (matching pension liability insurance). The committed benefits result from the rates under the pension liability insurance policy.

The associated assets of “HDI Unterstützungskasse” are recognised as plan assets.

In addition, there are pension commitments in the event of death or survival upon reaching the retirement age that provide a lump-sum benefit from the one-time deferral of compensation by employees. In this case, the amount deferred is used as a one-time premium for a pension liability insurance policy. There is no right to choose the type of annuity. No plan assets are allocated to these commitments.

Employees 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.

The risks arising from future changes in pension liabilities consist of general actuarial risks such as interest rate risk, inflation risk and biometric risks. No unusual risks or material risk clusters are evident.

N101 **FUNDED STATUS OF PENSION PLANS**

IN EUR MILLION

Type of plan	2014	2013
Final salary plans that depend on length of service		
▪ Plan assets	–55	–128
▪ Present value of defined benefit obligation	2,106	1,720
▪ Effect of asset ceiling	1	—
surplus (net asset)	—	–1
shortfall (net liability)	2,052	1,593
Plan based on pension modules		
▪ Plan assets	–4	—
▪ Present value of defined benefit obligation	131	60
▪ Effect of asset ceiling	—	—
surplus (net asset)	—	—
shortfall (net liability)	127	60
Contribution-based plans with guarantees		
▪ Plan assets	–47	–41
▪ Present value of defined benefit obligation	117	78
▪ Effect of asset ceiling	2	6
surplus (net asset)	—	—
shortfall (net liability)	72	43
Balance at 31.12. of the financial year (net asset)	**—**	**–1**
Balance at 31.12. of the financial year (net liability)	**2,251**	**1,696**

The change in the net liability and net asset for the Group’s various defined benefit pension plans is shown in the following table. In addition to the main components – the projected benefit obligation and plan assets – the change in the asset adjustment from the calculation of the asset ceiling for any asset resulting from a plan surplus must be reported. The recoverability of the economic benefit associated with any plan surplus is reviewed at the level of the individual pension plan, resulting in a reduction in the carrying amount for the net asset both as at 31 December 2014 and as at 31 December 2013.

N102 CHANGE IN NET LIABILITY AND NET ASSET FOR THE VARIOUS DEFINED BENEFIT PENSION PLANS

IN EUR MILLION

	Defined benefit obligation		Fair value of plan assets		Asset value adjustment	
	2014	2013	2014	2013	2014	2013
Balance at 1.1. of the financial year	1,858	2,036	–169	–171	6	4
Changes recognised in net income						
Current service cost	17	20	—	—	—	—
Past service cost and plan curtailments	—	–11	—	—	—	—
Net interest component	63	61	–7	–6	—	—
Gain or loss from settlements	1	1	—	—	—	—
	81	71	–7	–6	—	—
Income and expenses recognised in other comprehensive income						
Remeasurements						
Actuarial gains (–)/losses (+) from change in biometric assumptions	—	–14	—	—	—	—
Actuarial gains (–)/losses (+) from change in financial assumptions	624	–143	—	—	—	—
Experience adjustments	–10	–15	—	—	—	—
Return on plan assets (excluding interest income)	—	—	–32	10	—	—
Change from asset adjustment	—	—	—	—	–5	2
Exchange rate changes	3	–4	–3	3	—	—
	617	–176	–35	13	–5	2
Other changes						
Employer contributions	—	—	–16	–9	—	—
Employee contributions and deferred compensation	1	—	—	—	—	—
Benefits paid during the year	–71	–74	3	4	—	—
Business combinations and disposals	1	1	—	—	—	—
Effect of plan settlements	–121	—	108	—	—	—
	–190	–73	95	–5	—	—
Balance at 31.12. of the financial year	2,366	1,858	–116	–169	1	6

The conversion of the pension plan of HDI-Gerling Verzekeringen N.V., Rotterdam (Industrial Lines segment) from a defined benefit plan to a defined contribution plan reduced the Group's defined benefit obligation by EUR 13 million.

The structure of the investment portfolio underlying the plan assets was as follows:

N103 PORTFOLIO STRUCTURE OF PLAN ASSETS

IN %

	2014	2013
Cash and cash equivalents	—	2
Equity instruments	—	—
Fixed-income securities	11	11
Real estate	3	—
Securities funds	31	17
Qualifying insurance contracts	55	70
Total	100	100

Since all equity instruments, fixed-income securities and securities funds are listed in an active market, market prices are available for them. Almost all of the assets in these investment categories are managed in a British pension scheme trust.

The fair value of plan assets does not include any amounts for own financial instruments.

The actual return on plan assets amounted to EUR 38 million in the reporting period. Losses of EUR 4 million were recognised in the previous year.

Defined benefit obligations were measured on the basis of the following weighted assumptions:

N104 ASSUMPTIONS FOR DEFINED-BENEFIT OBLIGATIONS

MEASUREMENT PARAMETERS/ASSUMPTIONS, WEIGHTED IN %

	2014	2013
Discount rate	1.70	3.46
Expected rate of salary increase	2.76	2.75
Pension increase	2.13	2.12

The “2005G” mortality tables published by Dr Klaus Heubeck formed the basis for the biometric calculation of the German pension commitments.

The duration of the defined benefit obligation is 17 (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 2014:

N105 EFFECT OF CHANGE IN ACTUARIAL ASSUMPTIONS

IN EUR MILLION

	Effect on defined benefit obligation			
	Parameter increase	Parameter increase	Parameter decrease	Parameter decrease
	2014	2013	2014	2013
Discount rate (+/–0.5%)	–184	–123	208	144
Salary increase rate (+/–0.25%)	12	9	–12	–9
Pension adjustment rate (+/–0.25%)	67	47	–74	–45

A change in the underlying mortality rates and longevities is also possible. For the purposes of calculating longevity risk, the underlying mortality tables were adjusted by lowering mortalities by 10%. This extension in longevities would have led to the pension obligation being higher by EUR 91 (56) million as at the end of the financial year.

Sensitivities are calculated as the difference between pension obligations under changed actuarial assumptions and those under unchanged actuarial assumptions. The calculation was carried out separately for key parameters.

For financial year 2014, the Group anticipates employer contributions of EUR 6 (11) million, which will be paid into the defined benefit plans shown here.

The defined contribution plans are funded through external pension funds or similar institutions. In this case, fixed contributions (e.g. based on the relevant income) are paid to these institutions, and the beneficiary’s claim is against those institutions. In effect, the employer has no further obligation beyond payment of the contributions. The expense recognised in the financial year for these commitments amounted to EUR 19 (14) million, of which EUR 1 (1) million was attributable to commitments to employees in key positions. In addition, contributions in the amount of EUR 54 (56) million were paid to state pension plans.

(24) PROVISIONS FOR TAXES

N106 BREAKDOWN OF PROVISIONS FOR TAXES

IN EUR MILLION

	31.12.2014	31.12.2013 [1]
Provisions for income tax	557	525
Other tax provisions	165	178
Total	**722**	**703**

[1] Adjusted to reflect IAS 8, see “Accounting policies”, subsection “Changes in accounting policies and errors” in the Notes

(25) MISCELLANEOUS OTHER PROVISIONS

N107 MISCELLANEOUS OTHER PROVISIONS (EXPECTED SETTLEMENT AMOUNT)

IN EUR MILLION

	Restructuring	Assumption of third-party pension commitments in return for payment	Bonuses and incentives	Anniversary bonuses	Early retirement/partial retirement	Other personnel expenses	Outstanding invoices	Other	Total
2013									
Carrying amount as at 1.1.2013	**71**	**68**	**88**	**34**	**60**	**78**	**153**	**211**	**763**
Change in basis of consolidation	—	—	—	—	—	—	—	—	**—**
Additions	13	—	70	1	13	69	182	120	**468**
Unwinding of discounts	2	—	—	1	1	—	—	1	**5**
Utilisation	23	20	57	9	13	63	219	77	**481**
Reversals	—	—	4	1	—	2	15	33	**55**
Change in fair value of plan assets	—	—	—	—	–5	—	—	—	**–5**
Other changes	10	—	–2	—	–10	3	—	—	**1**
Exchange rate changes	—	—	–2	—	—	–2	–2	–2	**–8**
Carrying amount as at 31.12.2013	**73**	**48**	**93**	**26**	**46**	**83**	**99**	**220**	**688**
2014									
Change in basis of consolidation	—	—	—	—	—	—	1	2	**3**
Additions	3	5	90	4	10	70	200	161	**543**
Unwinding of discounts	1	—	—	1	1	—	—	–2	**1**
Utilisation	34	2	66	3	10	58	177	100	**450**
Reversals	5	—	2	—	—	1	14	30	**52**
Change in fair value of plan assets	—	—	—	—	—	—	—	—	**—**
Other changes	—	—	5	—	1	–5	—	–1	**—**
Exchange rate changes	—	—	—	—	—	—	1	1	**2**
Carrying amount as at 31.12.2014	**38**	**51**	**120**	**28**	**48**	**89**	**110**	**251**	**735**

Recognised restructuring provisions relate mainly to four items:

- Restructuring measures to implement the realignment of the Retail Germany division: The provision amounted to EUR 26 (55) million at the reporting date. EUR 2 million was added to this provision in the reporting period. Unwinding of discounts amounted to EUR –2 million, EUR 2 million was reversed and EUR 27 million was utilised
- Restructuring measures in the Corporate Operations segment: The restructuring launched in the reporting period is designed to implement a change in the operating organisation that is intended to serve permanent quality improvement and the cost-optimised, efficient provision of services. The project is scheduled to be completed by 2016. Unwinding of discounts on this provision amounted to EUR 1 million in the reporting period; in addition, EUR 1 million was reversed and EUR 3 million was utilised. The carrying amount of the restructuring provision at the reporting date was EUR 5 (8) million
- Restructuring measures in connection with the integration of the Polish insurer Towarzystwo Ubezpieczeń na Życie WARTA S.A., Warsaw, with the Retail International segment: The standardisation of processes and the standardisation and centralisation of IT at our Polish insurers was largely completed in 2014. No amounts were allocated to this provision in the reporting period and EUR 3 million was utilised. The provision amounted to EUR 2 (5) million at the reporting date. The restructuring is expected to be finally completed in 2016
- In the Non-Life Reinsurance segment, a restructuring provision in the amount of EUR 4 million was recognised in 2013 for measures concerning a reorganisation of the management of an affiliated company in the United Kingdom. This provision is still recognised at the reporting date

The remaining provisions (EUR 251 million) cover a variety of items that cannot be assigned to the above categories. In particular, they relate to provisions for interest arrears on taxes amounting to EUR 89 (79) million, provisions for commissions amounting to EUR 34 (35) million, provisions for expected losses amounting to EUR 14 (19) million and provisions for administrative expenses amounting to EUR 13 (11) million. They also include provisions for litigation expenses (see the "Litigation" subsection), for outstanding contributions to the occupational health and safety agency, and for surcharges for non-employment of disabled persons.

N108 DURATIONS OF MISCELLANEOUS OTHER PROVISIONS

IN EUR MILLION

	Due within one year	Due between one and five years	Due after more than five years	Total
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
31.12.2014				
Restructuring	11	27	—	38
Assumption of third-party pension obligations in return for payment [1]	—	—	51	51
Bonuses and incentives	97	23	—	120
Anniversary bonuses [1]	—	—	28	28
Early retirement/partial retirement [1]	—	48	—	48
Other personnel expenses	60	28	1	89
Outstanding invoices	110	—	—	110
Other	189	61	1	251
Total	467	187	81	735

[1] Weighted average

(26) NOTES PAYABLE AND LOANS

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

N109 NOTES PAYABLE AND LOANS

IN EUR MILLION

	31.12.2014	31.12.2013
Talanx AG bank liability	—	150
Talanx AG notes payable	1,065	565
Mortgage loans of Hannover Re Real Estate Holdings, Inc., Orlando	183	150
Mortgage loans of HR GLL Central Europe GmbH & Co. KG, Munich	101	77
Total	1,349	942

Talanx AG entered into agreements on two syndicated, variable-rate credit lines with a total nominal value of EUR 1.2 billion and a term of five years in 2011, which were supplemented in 2012. One of these two credit lines from 2011 (EUR 500 million) was replaced in the first quarter of 2014 by a new credit line, again with a term of five years, at improved terms and with an increased volume of EUR 550 million. This means that there were credit lines with a total nominal value of EUR 1.25 billion as at 31 December 2014. They had not been drawn down at the reporting date.

In addition, Talanx AG issued senior unsecured bonds with a volume of EUR 500 million on the Luxembourg Stock Exchange on 23 July 2014 (see details in the following table).

Net expenses from notes payable and loans totalled EUR 35 (25) million and consisted of interest expenses and amortisation in the amount of EUR –1 (–1) million.

N110 **NOTES PAYABLE**

IN EUR MILLION

	Nominal amount	Coupon	Maturity	Rating [1]	Issue	31.12.2014	31.12.2013
Talanx AG [2]	565	Fix (3.125%)	2013/2023	(—; A–)	These senior unsecured bonds have a fixed term and may be only called for extraordinary reasons	565	565
Talanx AG	500	Fix (2.5%)	2014/2026	(—; A–)	These senior unsecured bonds have a fixed term and may be only called for extraordinary reasons	500	—
Total						**1,065**	565

[1] (Debt rating A. M. Best; Debt rating S&P)
[2] At the reporting date, Group companies additionally held bonds with a nominal value of EUR 185 million

N111 **FAIR VALUE OF NOTES PAYABLE AND LOANS**

IN EUR MILLION

	31.12.2014	31.12.2013
Amortised cost	1,349	942
Unrealised gains/losses	98	16
Fair value	1,447	958

N112 **NOTES PAYABLE AND LOANS: MATURITIES**

IN EUR MILLION

	31.12.2014	31.12.2013
Due within one year	15	150
More than one year, up to five years	258	195
More than five years, up to ten years	576	597
More than ten years, up to 20 years	500	—
More than 20 years	—	—
Total	**1,349**	942

(27) OTHER LIABILITIES

N113 **OTHER LIABILITIES**

IN EUR MILLION

	2014	2013
Liabilities under direct written insurance business	2,245	2,309
of which to policyholders	1,447	1,533
of which to insurance intermediaries	798	776
Reinsurance payables	1,627	1,631
Trade accounts payable	58	56
Liabilities relating to investments	366	300
Liabilities relating to non-Group lead business	142	142
Liabilities from derivatives	300	191
of which negative fair values from derivative hedging instruments	—	7
Deferred income	50	38
Interest	91	122
Liabilities to social insurance institutions	18	24
Miscellaneous other liabilities	700	404
Total other liabilities (not including liabilities relating to investment contracts)	**5,597**	**5,217**
Other liabilities relating to investment contracts		
Other obligations measured at amortised cost	889	916
Financial assets classified at fair value through profit or loss	1,080	766
Derivatives	60	70
Total other liabilities relating to investment contracts	**2,029**	**1,752**
Carrying amount as at 31.12. of the financial year	**7,626**	**6,969**

OTHER LIABILITIES (NOT INCLUDING LIABILITIES RELATING TO INVESTMENT CONTRACTS)

Liabilities relating to investments include interim distributions of EUR 115 (94) million relating to units in private equity funds that could not yet be recognised in income as at the reporting date.

Liabilities from derivatives in the amount of EUR 300 (191) million mainly consist of instruments used to hedge interest rate, currency, equity and inflation risks, as well as embedded derivatives separated from the host insurance contract and accounted for at fair value. Please refer to our disclosures in Note 13, "Derivative financial instruments and hedge accounting".

The following table shows the maturities of other liabilities, not including liabilities under the direct written insurance business and reinsurance payables, since the latter two liabilities are directly related to insurance contracts and thus cannot be considered separately.

N114 OTHER LIABILITIES (NOT INCLUDING LIABILITIES RELATING TO INVESTMENT CONTRACTS) [1]: MATURITIES

IN EUR MILLION

	31.12.2014	31.12.2013
Due within one year	1,451	1,034
More than one year, up to five years	197	156
More than five years, up to ten years	76	87
More than ten years, up to 20 years	—	—
More than 20 years	1	—
Without fixed maturity	—	—
Total	1,725	1,277

[1] For reasons of materiality, undiscounted cash flows are not presented for corresponding derivatives. Instead, the fair values (negative fair values) of the derivative financial instruments are taken into account (maturity of up to one year: EUR 114 [20] million; 1–5 years; EUR 134 [107] million; 5–10 years: EUR 52 [64] million; 10–20 years: EUR 0 [0] million)

LIABILITIES RELATING TO INVESTMENT CONTRACTS

Other liabilities relating to investment contracts are recognised on their addition at amortised cost or at the policyholder's account balance, less acquisition costs that can be directly attributed to the conclusion of the contract. These contracts are measured at amortised cost in subsequent periods.

N115 OTHER OBLIGATIONS MEASURED AT AMORTISED COST: MATURITIES

IN EUR MILLION

	Amortised cost		Fair value	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Due within one year	144	126	144	126
More than one year, up to five years	391	388	391	388
More than five years, up to ten years	354	402	354	402
Total	889	916	889	916

The fair value of investment contracts is generally calculated using surrender values for policyholders and their account balances. See our remarks in the "Accounting policies" section.

N116 FINANCIAL LIABILITIES CLASSIFIED AT FAIR VALUE THROUGH PROFIT OR LOSS AND DERIVATIVES [1]: MATURITIES

IN EUR MILLION

	31.12.2014	31.12.2013
Due within one year	103	156
More than one year, up to five years	49	87
More than five years, up to ten years	81	37
More than ten years, up to 20 years	205	142
More than 20 years	51	41
Without fixed maturity	651	373
Total	1,140	836

[1] For reasons of materiality, undiscounted cash flows are not presented for corresponding derivatives. Instead, the fair values (negative fair values) of the derivative financial instruments are taken into account (maturity of up to one year: EUR 2 [6] million; 1–5 years; EUR 15 [26] million; 5–10 years: EUR 15 [11] million; 10–20 years: EUR 28 [27] million)

The change in fair value attributable to changes in the credit risk of financial assets classified at fair value through profit or loss was insignificant.

(28) DEFERRED TAXES

N117 CHANGE IN RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES DURING THE YEAR

IN EUR MILLION

	Deferred tax assets at 31.12.2013 [1]	Deferred tax liabilities at 31.12.2013 [1]	Net balance at 31.12.2013 [1]	Recognised in profit or loss	Recognised in other comprehensive income	Business combinations/disposals	Other	Net balance at 31.12.2014	Deferred tax assets at 31.12.2014	Deferred tax liabilities at 31.12.2014
Deferred tax assets and liabilities										
Other intangible assets (PVFP)	7	–172	–165	65	2	—	—	–98	1	–99
Investments	73	–389	–316	138	–512	—	—	–690	96	–786
Funds withheld by ceding companies/funds withheld under reinsurance treaties	382	–184	198	–55	—	—	—	143	621	–478
Accounts receivable on insurance business	38	–91	–53	97	—	—	—	44	117	–73
Deferred acquisition costs [2]	135	–515	–380	149	3	—	—	–228	109	–337
Equalisation reserves	—	–1,315	–1,315	–36	—	—	—	–1,351	—	–1,351
Benefit reserves	87	–188	–101	69	37	—	—	5	189	–184
Loss and loss adjustment expense reserves	476	–102	374	32	—	—	—	406	486	–80
Premium refunds	1	–1	—	—	—	—	—	—	1	–1
Other technical provisions	210	–81	129	–222	1	—	—	–92	91	–183
Other provisions	232	–8	224	–1	172	1	—	396	411	–15
Consolidation of intercompany balances	—	–27	–27	8	—	—	4	–15	—	–15
Other	381	–347	34	–226	15	—	—	–177	246	–423
Loss carryforwards	259	—	259	13	—	1	—	273	273	—
Impairments	–130	—	–130	16	—	—	—	–114	–114	—
Tax assets (liabilities) before offsetting	**2,151**	**–3,420**	**–1,269**	**47**	**–282**	**2**	**4**	**–1,498**	**2,527**	**–4,025**
Recognised amounts set off	**–1,666**	**1,666**	**—**					**—**	**–1,763**	**1,763**
Tax assets (liabilities) after offsetting	**485**	**–1,754**	**–1,269**					**–1,498**	**764**	**–2,262**

[1] Adjusted to reflect IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes
[2] Deferred taxes on deferred acquisition costs relate to the net amount, i.e. after allowance for reinsurers' shares

Of the net change in deferred tax assets and liabilities in the previous year, EUR 11 million relating mainly to the balance sheet items "Funds withheld by ceding companies" and "Accounts receivable on insurance business" was recognised as an expense in profit and loss, and EUR 227 million was recognised in "Other comprehensive income", increasing equity.

NOTES TO THE CONSOLIDATED STATEMENT OF INCOME

(29) NET PREMIUMS EARNED

N118 NET PREMIUMS EARNED

IN EUR MILLION

	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
2014[1]							
Gross written premiums, including premiums from unit-linked life and annuity insurance	3,951	6,845	4,455	7,441	6,302	—	**28,994**
Savings elements of premiums from unit-linked life and annuity insurance	—	947	144	—	—	—	**1,091**
Ceded written premiums	1,548	114	218	727	998	7	**3,612**
Change in gross unearned premiums	–44	–49	–238	–114	–4	—	**–449**
Change in ceded unearned premiums	13	–13	–6	4	—	—	**–2**
Net premiums earned	**2,346**	**5,748**	**3,861**	**6,596**	**5,300**	**–7**	**23,844**
2013[1]							
Gross written premiums, 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 premiums	1,650	166	241	771	702	9	**3,539**
Change in gross unearned premiums	–111	–70	–174	–123	–28	—	**–506**
Change in ceded unearned premiums	–85	–18	–27	–9	1	—	**–138**
Net premiums earned	**2,094**	**5,727**	**3,647**	**6,424**	**5,230**	**–9**	**23,113**

[1] After elimination of intragroup cross-segment transactions

(30) NET INVESTMENT INCOME

N119 NET INVESTMENT INCOME IN THE REPORTING PERIOD

IN EUR MILLION

	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
2014[1]							
Income from real estate	7	64	2	100	—	—	**173**
Dividends[2]	12	9	5	11	–6	13	**44**
Current interest income	186	1,535	277	653	234	3	**2,888**
Other income	9	14	1	64	9	—	**97**
Ordinary investment income	**214**	**1,622**	**285**	**828**	**237**	**16**	**3,202**
Income from reversal of impairment losses	7	12	1	—	—	—	**20**
Realised gains on disposal of investments	76	429	58	150	58	195	**966**
Unrealised gains on investments	8	20	26	9	12	—	**75**
Investment income	**305**	**2,083**	**370**	**987**	**307**	**211**	**4,263**
Realised losses on disposal of investments	29	45	15	14	12	—	**115**
Unrealised losses on investments	3	3	19	33	21	—	**79**
Total	**32**	**48**	**34**	**47**	**33**	**—**	**194**
Depreciation of/impairment losses on investment property							
Depreciation	1	14	—	19	—	—	**34**
Impairment losses	1	5	—	1	—	—	**7**
Impairment losses on equity securities	1	7	2	—	—	2	**12**
Impairment losses on fixed-income securities	—	12	2	2	—	—	**16**
Impairment losses on other investments	—	9	2	6	—	—	**17**
Investment management expenses	5	15	5	17	3	78	**123**
Other expenses	2	34	9	33	6	—	**84**
Other investment expenses/impairment losses	**10**	**96**	**20**	**78**	**9**	**80**	**293**
Investment expenses	**42**	**144**	**54**	**125**	**42**	**80**	**487**
Net income from investments under own management	**263**	**1,939**	**316**	**862**	**265**	**131**	**3,776**
Net income from investment contracts	**—**	**—**	**10**	**—**	**—**	**—**	**10**
Interest income from funds withheld and contract deposits	—	—	—	24	456	—	**480**
Interest expense from funds withheld and contract deposits	—	13	—	4	105	—	**122**
Net interest income from funds withheld and contract deposits	**—**	**–13**	**—**	**20**	**351**	**—**	**358**
Net investment income	**263**	**1,926**	**326**	**882**	**616**	**131**	**4,144**

[1] After elimination of intragroup cross-segment transactions
[2] Income from investments in associates and joint ventures amounted to EUR 9 million and is reported in "Dividends"

N120 NET INVESTMENT INCOME IN THE PREVIOUS PERIOD

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**
Income from reversal of impairment losses	—	10	1	—	—	—	**11**
Realised gains on disposal of 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 disposal of 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**
Depreciation of/impairment losses on investment property							
Depreciation	1	12	—	14	—	—	**27**
Impairment losses	1	10	—	1	—	—	**12**
Impairment losses on equity securities	—	5	6	—	—	1	**12**
Impairment losses on fixed-income securities	3	3	—	1	—	—	**7**
Impairment losses on other investments	2	36	2	4	—	—	**44**
Investment management expenses	5	16	4	15	3	71	**114**
Other expenses	2	27	6	39	6	—	**80**
Other investment expenses/impairment losses	**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**
Net income 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 intragroup cross-segment transactions
[2] Income from investments in associates and joint ventures amounted to EUR 13 million in 2013 and is reported in "Dividends"

Of the impairment losses totalling EUR 52 (75) million, EUR 16 (7) million was attributable to fixed-income securities, EUR 12 (12) million to equities, EUR 8 (27) million to real estate funds and EUR 6 (14) million to private equity capital. Impairment losses on investment property amounted to EUR 7 (12) million. Reversals of impairment losses on investments that had been written down in previous periods amounted to EUR 20 (11) million. EUR 9 (5) million of this amount was attributable to fixed-income securities. In addition, impairment losses of EUR 11 (6) million on investment property were reversed.

Net income from the disposal of securities amounted to EUR 851 (605) million. This is principally attributable to the disposal of portfolio securities as part of regular portfolio rebalancing. In addition, Talanx AG sold its remaining interest in Swiss Life Holding AG on the market in the fourth quarter of 2014.

Over and above this, the portfolio did not contain any other securities past due but not impaired at the reporting date because past due securities are written down immediately.

N121 **INTEREST INCOME FROM INVESTMENTS**

IN EUR MILLION

	2014	2013
Loans and receivables	1,253	1,323
Financial instruments held to maturity	113	126
Financial assets available for sale	1,428	1,309
Financial assets at fair value through profit or loss		
Financial assets classified at fair value through profit or loss	50	57
Financial assets held for trading	—	1
Other	47	74
Loans and receivables – investment contracts	21	27
Financial instruments classified at fair value through profit or loss – investment contracts	23	32
Financial instruments available for sale – investment contracts	1	1
Total	**2,936**	**2,950**

NET GAINS AND LOSSES ON INVESTMENTS

The net gains and losses on investments shown in the following table are based largely on the classes established by the Group (see "Financial instruments disclosures" in the "Accounting policies" section on page 185ff.).

After allowance for "Expenses for assets under own management" (EUR 123 [114] million) as well as for "Other expenses on assets under own management (EUR 84 [80] million), "Net investment income" as at the reporting date amounted to EUR 4,144 (3,792) million in total.

N122 NET GAINS AND LOSSES ON INVESTMENTS — REPORTING PERIOD

IN EUR MILLION

2014[1]	Ordinary investment income	Amortisation	Gains on disposal	Losses on disposal	Impairment losses	Reversals of impairment losses	Unrealised gains	Unrealised losses	Total[3]
Shares in affiliated companies and participating interests	4	—	2	3	—	—	—	—	**3**
Loans and receivables	1,166	87	174	—	9	6	—	—	**1,424**
Financial instruments held to maturity	112	1	—	—	—	—	—	—	**113**
Financial assets available for sale									
Fixed-income securities	1,476	–48	449	25	6	3	—	—	**1,849**
Variable-yield securities	52	—	242	5	21	—	—	—	**268**
Financial assets at fair value through profit or loss									
Financial assets classified at fair value through profit or loss									
Fixed-income securities	50	—	17	6	—	—	30	7	**84**
Variable-yield securities	2	—	—	2	—	—	7	2	**5**
Financial assets held for trading									
Fixed-income securities	—	—	—	—	—	—	—	—	**—**
Variable-yield securities	—	—	8	4	—	—	1	2	**3**
Derivatives	6	—	55	67	—	—	15	16	**–7**
Other investments, insofar as they are financial assets	128	—	4	1	7	—	3	6	**121**
Other[2]	166	—	15	2	43	11	19	46	**120**
Investments under own management	**3,162**	**40**	**966**	**115**	**86**	**20**	**75**	**79**	**3,983**
Loans and receivables (assets)	20	1	—	—	—	—	—	—	**21**
Financial assets classified as fair value through profit or loss	20	—	11	2	—	—	104	27	**106**
Financial assets available for sale	1	—	—	—	—	—	—	—	**1**
Financial assets held for trading – (derivatives)	—	—	2	3	—	—	14	24	**–11**
Other liabilities measured at amortised cost	–36	–1	—	—	—	—	—	—	**–37**
Financial liabilities classified as fair value through profit or loss	–25	—	—	—	—	—	23	102	**–104**
Liabilities held for trading – (derivatives)	–1	—	—	—	—	—	24	13	**10**
Other[4]	34	–10	—	—	—	—	—	—	**24**
Net income from investment contracts	**13**	**–10**	**13**	**5**	**—**	**—**	**165**	**166**	**10**
Funds withheld by ceding companies/funds withheld under reinsurance treaties	358	—	—	—	—	—	—	—	**358**
Total	**3,533**	**30**	**979**	**120**	**86**	**20**	**240**	**245**	**4,351**

[1] After elimination of intragroup cross-segment transactions
[2] For the purposes of reconciliation to the consolidated statement of income, the "Other" item combines the gains on investment property, associates and derivative financial instruments where the fair values are negative. Derivatives held for hedging purposes included in hedge accounting (see Note 13) are not included in the list if they do not relate to hedges of investments
[3] Excluding investment administration expenses and other expenses
[4] "Other" contains income (EUR 84 million) and expenses (EUR 50 million) from the management of investment contracts. Amortisation of PVFP totalled EUR 10 million

N123 **NET GAINS AND LOSSES FROM INVESTMENTS — PREVIOUS YEAR**

IN EUR MILLION

	Ordinary investment income	Amortisation	Gains on disposal	Losses on disposal	Impairment losses	Reversals of impairment losses	Unrealised gains	Unrealised losses	Total[3]
2013[1]									
Shares in affiliated companies and participating interests	5	—	1	1	2	—	—	—	**3**
Loans and receivables	1,241	82	177	1	4	—	—	—	**1,495**
Financial instruments held to maturity	132	–6	1	—	—	—	—	—	**127**
Financial assets 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**
Financial assets at fair value through profit or loss									
Financial assets classified at 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 investments, 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	32	—	23	60	—	—	157	175	**–23**
Financial assets available for sale	1	—	—	—	—	—	—	—	1
Financial assets held for trading – (derivatives)	—	—	1	3	—	—	14	32	**–20**
Other liabilities measured at amortised cost	–33	–2	—	—	—	—	—	—	**–35**
Financial liabilities classified as fair value through profit or loss	–8	—	—	—	—	—	174	163	**3**
Liabilities held for trading – (derivatives)	—	—	—	—	—	—	32	15	**17**
Other[4]	52	–9	—	—	—	—	—	—	**43**
Net income 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 intragroup cross-segment transactions
[2] For the purposes of reconciliation to the consolidated statement of income, the "Other" item combines the gains on investment property, associates and derivative financial instruments where the fair values are negative. Derivatives held for hedging purposes included in hedge accounting (see Note 13) are not included in the list if they do not relate to hedges of investments
[3] Excluding investment administration expenses and other expenses
[4] "Other" contains income (EUR 83 million) and expenses (EUR 31 million) from the management of investment contracts. Amortisation of PVFP totalled EUR 9 million

(31) CLAIMS AND CLAIMS EXPENSES

N124 CLAIMS AND CLAIMS EXPENSES — REPORTING PERIOD

IN EUR MILLION

	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
2014[1)]							
Gross							
Claims and claims expenses paid	2,696	4,144	2,014	4,214	4,967	—	**18,035**
Change in loss and loss adjustment expense reserve	442	182	241	636	321	—	**1,822**
Change in benefit reserve	—	1,059	737	—	216	—	**2,012**
Expenses for premium refunds	2	829	2	—	—	—	**833**
Total	**3,140**	**6,214**	**2,994**	**4,850**	**5,504**	**—**	**22,702**
Reinsurers' share							
Claims and claims expenses paid	1,054	60	107	524	601	—	**2,346**
Change in loss and loss adjustment expense reserve	185	–22	78	–194	74	–1	**120**
Change in benefit reserve	—	35	–1	—	177	—	**211**
Expenses for premium refunds	—	—	1	—	—	—	**1**
Total	**1,239**	**73**	**185**	**330**	**852**	**–1**	**2,678**
Net							
Claims and claims expenses paid	1,642	4,084	1,907	3,690	4,366	—	**15,689**
Change in loss and loss adjustment expense reserve	257	204	163	830	247	1	**1,702**
Change in benefit reserve	—	1,024	738	—	39	—	**1,801**
Expenses for premium refunds	2	829	1	—	—	—	**832**
Total	**1,901**	**6,141**	**2,809**	**4,520**	**4,652**	**1**	**20,024**

1) After elimination of intragroup cross-segment transactions

N125 CLAIMS AND CLAIMS EXPENSES — PREVIOUS YEAR

IN EUR MILLION

	Industrial Lines[2]	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
2013[1]							
Gross							
Claims and claims expenses paid	2,471	3,843	1,947	3,951	4,855	—	**17,067**
Change in loss and loss adjustment expense reserve	362	131	212	975	17	—	**1,697**
Change in benefit reserve	—	1,298	466	—	203	—	**1,967**
Expenses for premium refunds	8	903	6	—	—	—	**917**
Total	**2,841**	**6,175**	**2,631**	**4,926**	**5,075**	**—**	**21,648**
Reinsurers' share							
Claims and claims expenses paid	1,332	139	92	472	567	—	**2,602**
Change in loss and loss adjustment expense reserve	–201	30	13	–55	20	1	**–192**
Change in benefit reserve	—	–23	–8	—	32	—	**1**
Expenses for premium refunds	1	—	3	—	—	—	**4**
Total	**1,132**	**146**	**100**	**417**	**619**	**1**	**2,415**
Net							
Claims and claims expenses paid	1,139	3,704	1,855	3,479	4,288	—	**14,465**
Change in loss and loss adjustment expense reserve	563	101	199	1,030	–3	–1	**1,889**
Change in benefit reserve	—	1,321	474	—	171	—	**1,966**
Expenses for premium refunds	7	903	3	—	—	—	**913**
Total	**1,709**	**6,029**	**2,531**	**4,509**	**4,456**	**–1**	**19,233**

[1] After elimination of intragroup cross-segment transactions
[2] Adjusted to reflect IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes

(32) ACQUISITION COSTS AND ADMINISTRATIVE EXPENSES

N126 ACQUISITION COSTS AND ADMINISTRATIVE EXPENSES

IN EUR MILLION

	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Total
2014[1]						
Gross						
Acquisition costs and reinsurance commissions	498	908	955	1,708	1,070	**5,139**
Changes in deferred acquisition costs and in provisions for commissions	–5	157	–106	–43	–103	**–100**
Total acquisition costs	**493**	**1,065**	**849**	**1,665**	**967**	**5,039**
Administrative expenses	265	309	176	192	176	**1,118**
Total acquisition costs and administrative expenses	**758**	**1,374**	**1,025**	**1,857**	**1,143**	**6,157**
Reinsurers' share						
Acquisition costs and reinsurance commissions	226	12	35	122	121	**516**
Changes in deferred acquisition costs and in provisions for commissions	17	12	11	–1	–19	**20**
Total acquisition costs	**243**	**24**	**46**	**121**	**102**	**536**
Net						
Acquisition costs and reinsurance commissions	272	896	920	1,586	949	**4,623**
Changes in deferred acquisition costs and in provisions for commissions	–22	145	–117	–42	–84	**–120**
Total acquisition costs	**250**	**1,041**	**803**	**1,544**	**865**	**4,503**
Administrative expenses	265	309	176	192	176	**1,118**
Total acquisition costs and administrative expenses	**515**	**1,350**	**979**	**1,736**	**1,041**	**5,621**
2013[1]						
Gross						
Acquisition costs and reinsurance commissions	475	966	936	1,571	1,083	**5,031**
Changes in deferred acquisition costs and in provisions 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 in provisions 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 in provisions 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**

[1] After elimination of intragroup cross-segment transactions

(33) OTHER INCOME/EXPENSES

N127 COMPOSITION OF OTHER INCOME/EXPENSES

IN EUR MILLION

	2014	2013
Other income		
Foreign exchange gains	522	252
Income from services, rents and commissions	239	224
Recoveries on receivables previously written off	26	22
Income from contracts recognised in accordance with the deposit accounting method	72	68
Income from the sale of property, plant and equipment	—	6
Income from the reversal of other non-technical provisions	44	28
Interest income	62	46
Income from the repurchase of own securities	—	6
Miscellaneous income	135	156
Total	**1,100**	**808**
Other expenses		
Foreign exchange losses	389	244
Other interest expenses	148	157
Depreciation, amortisation and impairment losses	121	122
Expenses for the company as a whole	268	286
Personnel expenses	41	30
Expenses for services and commissions	117	106
Expenses from contracts recognised in accordance with the deposit accounting method	14	14
Other taxes	45	54
Additions to restructuring provisions	3	13
Miscellaneous other expenses	148	189
Total	**1,294**	**1,215**
Other income/expenses	**–194**	**–407**

"Other income/expenses" do not in general include the personnel expenses incurred by our insurance companies, to the extent that these expenses are attributed to the functions by means of cost object accounting and allocated to investment expenses, claims and claims expenses, and acquisition costs and administrative expenses. This also applies to depreciation and amortisation of, and impairment losses on, intangible and other assets at our insurance companies.

(34) FINANCING COSTS

The financing costs of EUR 183 (206) million consist exclusively of interest expenses from borrowings that are not directly related to the operational insurance business. EUR 153 (188) million of these interest expenses is attributable to our issued subordinated liabilities, EUR 23 (16) million to issued bonds of Talanx AG and EUR 1 (1) million to bank liabilities of Talanx AG. EUR 6 (1) million is attributable to the unwinding of the discount on put options written.

(35) TAXES ON INCOME

This item includes both domestic income taxes and comparable taxes on income generated by foreign subsidiaries. The measurement of taxes on income includes the calculation of deferred taxes. The principles used to recognise deferred taxes are set out in the "Summary of significant accounting policies". Deferred taxes are recognised in respect of retained earnings of significant affiliated companies in cases where a distribution is specifically planned.

N128 TAXES ON INCOME — CURRENT AND DEFERRED

IN EUR MILLION

	2014	2013[1]
Current taxes for the reporting period	438	329
Prior-period current taxes	–49	–32
Deferred taxes in respect of temporary differences	–21	–26
Deferred taxes in respect of loss carryforwards	–28	44
Change in deferred taxes due to changes in tax rates	1	–7
Reported tax expense	**341**	**308**

[1] Adjusted to reflect IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes

N129 BREAKDOWN OF REPORTED DOMESTIC/FOREIGN TAX EXPENSE/INCOME

IN EUR MILLION

	2014	2013[1]
Current taxes	389	297
Domestic	248	131
Foreign	141	166
Deferred taxes	–48	11
Domestic	–10	31
Foreign	–38	–20
Total	**341**	**308**

[1] Adjusted to reflect IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes

Current and deferred taxes recognised in the financial year in other comprehensive income and directly in equity – resulting from items charged or credited to other comprehensive income – amounted to EUR –305 (234) million.

The following table presents a reconciliation of the expected expense for income taxes that would be incurred by applying the German income tax rate, based on pre-tax profit, to the actual tax expense:

N130 RECONCILIATION OF EXPECTED AND REPORTED INCOME TAX EXPENSE

IN EUR MILLION

	2014	2013[1]
Profit before income taxes	1,709	1,560
Expected tax rate	31.6%	31.6%
Expected tax expense	540	493
Change in rates applicable to deferred taxes	1	–7
Difference due to foreign tax rates	–95	–99
Non-deductible expenses	61	86
Tax-exempt income	–109	–211
Valuation allowances on deferred tax assets	–17	27
Prior-period tax expense	–52	18
Other	12	1
Reported tax expense	**341**	**308**

[1] Adjusted to reflect IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes

Calculation of the expected tax expense is based on the German income tax rate of 31.6% (31.6%). This tax rate is made up of corporate income tax, including the solidarity surcharge, and a composite trade tax rate.

The tax ratio, i.e. the ratio of reported tax expense to pre-tax profit, was 19.95% (19.74%) in the reporting period. The tax rate corresponds to the average income tax burden of all Group companies.

No deferred taxes were recognised in respect of taxable temporary differences of EUR 135 (108) million (assets) and EUR 148 (84) million (liabilities) in connection with shares of Group companies, as the Group is able to control their reversal and they will not reverse in the foreseeable future.

Unimpaired deferred tax assets on loss carryforwards totalling EUR 177 (162) million are expected to be realised in the amount of EUR 32 (29) million within one year and in the amount of EUR 145 (133) million after one year.

Current income taxes declined by EUR 13 (5) million in the reporting period because loss carryforwards were utilised for which no deferred tax assets had been recognised.

Impairment losses on deferred tax assets recognised in previous years led to a deferred tax expense of EUR 4 (3) million in the reporting period. On the other hand, the reversal of previous impairment losses resulted in deferred tax income of EUR 23 (9) million.

In the event of losses in the reporting period or in the previous year, a surplus of deferred tax assets over deferred tax liabilities is only recognised to the extent that there is compelling evidence that it is probable that the company in question will generate sufficient taxable profits in the future. Evidence of this was provided for deferred tax assets amounting to EUR 252 (165) million.

AVAILABILITY OF UNRECOGNISED LOSS CARRYFORWARDS

An impairment loss was recognised on deferred tax assets in respect of gross loss carryforwards of EUR 370 (381) million and gross deductible temporary differences of EUR 85 (121) million, primarily in Turkey, because their realisation is not sufficiently certain. The impaired deferred tax assets for these items total EUR 114 (130) million.

N131 AVAILABILITY OF IMPAIRED LOSS CARRYFORWARDS, TEMPORARY DIFFERENCES AND TAX CREDITS

IN EUR MILLION

	2014					2013				
	One year to five years	Six years to ten years	More than ten years	Un-limited	Total	One year to five years	Six years to ten years	More than ten years	Un-limited	Total
Loss carryforwards										
of which domestic loss carryforwards										
Corporate income tax	—	—	—	56	56	—	—	—	55	55
Trade tax	—	—	—	24	24	—	—	—	27	27
of which foreign loss carryforwards										
Australia	—	—	—	38	38	—	—	—	9	9
United Kingdom	—	—	—	17	17	—	—	—	2	2
Luxembourg	—	—	—	131	131	—	—	—	155	155
Austria	—	—	—	34	34	—	—	—	51	51
South Africa	—	—	—	29	29	—	—	—	25	25
Turkey	15	—	—	—	15	28	—	—	—	28
Other	—	3	13	10	26	—	1	14	14	29
Total	15	3	13	339	370	28	1	14	338	381
Temporary differences	—	—	—	85	85	—	—	—	121	121
Tax credits	—	—	—	—	—	—	—	—	13	13
Total	15	3	13	424	455	28	1	14	472	515

OTHER DISCLOSURES

NUMBER OF EMPLOYEES AND PERSONNEL EXPENSES

NUMBER OF EMPLOYEES

N132 **AVERAGE ANNUAL NUMBER OF EMPLOYEES**

	2014	2013
Industrial Lines	3,061	2,878
Retail Germany	5,082	5,092
Retail International	7,432	8,072
Reinsurance companies	2,475	2,376
Corporate Operations	2,836	2,792
Total excluding vocational trainees	**20,886**	**21,210**
Vocational trainees	540	509
Total	**21,426**	**21,719**

The Group's total workforce at the reporting date numbered 21,371 (21,529).

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.

PERSONNEL EXPENSES

The personnel expenses set out in the following mainly comprise expenses for insurance operations, claims management (loss adjustment) and investment management.

N133 **BREAKDOWN OF PERSONNEL EXPENSES**

IN EUR MILLION

	2014	2013
Wages and salaries	**1,125**	**1,087**
Social security contributions and other employee benefit costs		
Social security contributions	135	137
Post-employment benefit costs	78	73
Other employee benefit costs	22	19
	235	**229**
Total	**1,360**	**316**

RELATED PARTY DISCLOSURES

The related parties defined by IAS 24 "Related Party Disclosures" include parents and subsidiaries, subsidiaries of a common parent, associates, legal entities under the influence of management and the management of the company itself.

Related entities in the Talanx Group include HDI Haftpflichtverband der Deutschen Industrie Versicherungsverein auf Gegenseitigkeit (HDI V. a. G.), Hannover, which directly holds the majority of the shares of Talanx AG, all subsidiaries that are not consolidated on the grounds of insignificance, as well as associates and joint ventures. In addition, there are the provident funds that pay benefits in favour of employees of Talanx AG or one of its related party entities after termination of their employment.

A person or a close member of that person's family is related to the reporting entity if that person has control or joint control of the reporting entity, has significant influence over the reporting entity or is a member of the key management personnel of the reporting entity or of a parent of the reporting entity. Key management personnel are the members of the Board of Management and the Supervisory Board of Talanx AG and HDI V. a. G.

Transactions between Talanx AG and its subsidiaries including structured entities are eliminated in the course of consolidation and hence not disclosed in the Notes. In addition, HDI V. a. G. conducts primary insurance business in the form of co-insurance, with the lead insurers being HDI-Gerling Industrie Versicherung AG (HG-I), Hannover, and HDI Versicherung AG (HV), Hannover. In accordance with the Articles of Association of HDI V. a. G., insurance business is split uniformly 0.1% (HDI V. a. G.) to 99.9% (HG-I/HV).

In connection with operating activities, there is a contractual relationship between Ampega Investment GmbH, Cologne, and C-QUADRAT Investment AG, Vienna (an associate accounted for using the equity method in the consolidated financial statements), that governs the outsourcing of the portfolio management of special investment funds. At the reporting date, these transactions incurred expenses for portfolio management services provided in the amount of EUR 15 million.

Furthermore, services provided for Group companies by the subsidiaries HDI-Gerling Sicherheitstechnik GmbH and HDI Direkt Service GmbH (both Hannover), which are not consolidated for reasons of materiality, generated income of EUR 11 million and expenses in the total amount of EUR 14 million; the latter primarily relate to HDI Versicherung AG, Hannover, and were incurred in connection with the portfolio management of insurance contracts.

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

In addition, there are contracts for services with a company in which a member of the Supervisory Board is invested. During the reporting period, the company in question generated revenues in the amount of EUR 0.3 million with Group companies under these contracts.

For details of the remuneration received by members of the Board of Management and Supervisory Board of Talanx AG, please see the disclosures in the remuneration report on page 118ff. and the "Remuneration of the governing bodies of the parent" subsection.

SHARE-BASED PAYMENT

The following share-based payment schemes were operating within the Group in financial year 2014:

- Stock appreciation rights scheme (SAR) at Hannover Rück SE (operating since 2000, terminated successively from 2011 onwards and in the process of being wound up)
- Share award scheme (share-based payment in the form of virtual shares, operating since 2011)

These schemes and their effects on net income for the year and on the Group's net assets, financial position and results of operations are described in the following.

STOCK APPRECIATION RIGHTS SCHEME AT HANNOVER RÜCK SE

With the approval of the Supervisory Board, the Board of Management of Hannover Rück SE introduced a virtual stock option scheme with effect from 1 January 2000 that grants stock appreciation rights (SARs) to certain executives. The content of the stock option scheme is based solely on the terms and conditions for the grant of stock appreciation rights. All members of the Group's senior management are eligible for the award of stock appreciation rights. Exercising stock appreciation rights does not entitle the holder to demand delivery of Hannover Rück SE shares, but only to be paid a cash amount linked to the performance of Hannover Rück SE's shares.

A resolution adopted by the Supervisory Board on 8 November 2010 revoked the terms and conditions for the grant 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 terms and conditions (partial termination). For the previous year, the resolution adopted by the Board of Management on 14 March 2011 also revoked the terms and conditions for the grant of stock appreciation rights for other eligible executives. Stock appreciation rights that have already been allocated may be exercised until their expiration date.

Stock appreciation rights were first granted for financial year 2000 and, until the scheme was terminated, were awarded separately for each subsequent financial year (allocation year), provided that the performance criteria defined in the terms and conditions for the grant of stock appreciation rights were satisfied.

The term of the stock appreciation rights is ten years in each case, commencing at the end of the year in which they are awarded. Stock appreciation rights lapse if they are not exercised by the end of the ten-year period. Stock appreciation rights may only be exercised after a vesting period and then only within four exercise periods each year. Upon expiry of a four-year vesting period, a maximum of 60% of the SARs awarded for any allocation year may be exercised. The vesting period for each further 20% of the SARs awarded to an executive for that allocation year is an additional one year in each case. Each exercise period lasts for ten trading days, commencing on the sixth trading day after the date of publication of each quarterly report of Hannover Rück SE.

The amount paid out to the executive exercising a stock appreciation right is the difference between the strike price and the current quoted market price of Hannover Rück SE shares at the exercise date. In this context, the strike price corresponds to the arithmetic mean of the closing prices of Hannover Rück SE shares on all trading days of the first full calendar month of the allocation year in question. The current quoted market price of Hannover Rück SE shares at the date when stock appreciation rights are exercised is the arithmetic mean of the closing prices of Hannover Rück SE shares on the last 20 trading days prior to the first day of the exercise period.

The amount paid out is limited to a maximum calculated by dividing the total volume of remuneration to be granted in the allocation year by the total number of stock appreciation rights awarded in that year.

If the holder's employment with the company is terminated by either party or by mutual agreement or ends upon expiry of a fixed term, the holder is entitled to exercise all of their stock appreciation rights in the first exercise period thereafter. Any stock appreciation rights not exercised within this period and any for which the vesting period has not yet expired will lapse. Retirement, incapacity or death of the executive does not constitute termination of employment for the purpose of exercising stock appreciation rights.

The allocations for the years 2006, 2007 and 2009 to 2011 gave rise to the commitments in financial year 2014 shown in the table below. No allocations were made for 2005 and 2008.

N134 **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
Lock-up period	4 years	4 years	2 years	2 years	2 years	2 years
Strike price (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 31.12.2014 (in EUR)	26.80	8.92	8.76	10.79	10.32	24.62
Maximum value (in EUR)	32.21	8.92	8.76	10.79	10.32	24.62
Weighted exercise price (in EUR)	—	—	8.76	10.79	10.32	24.62
Number of rights as at 31.12.2014	256,402	1,625,130	345,690	25,161	4,831	—
Provision as at 31.12.2014 (in EUR million)	4.43	12.76	3.03	0.27	0.05	—
Amounts paid out in FY 2014 (in EUR million)	—	—	2.55	0.25	0.04	—
Expense in FY 2014 (in EUR million)	2.31	4.95	0.56	—	—	—

The accumulated stock appreciation rights are valued on the basis of the Black/Scholes option pricing model.

The calculations were based on the closing price of Hannover Re shares of EUR 71.89 as at 15 December 2014, an expected volatility of 24.12% (historical volatility on a five-year basis), an expected dividend yield of 4,17% and a risk-free interest rate of 0.05% for the 2006 allocation year, 0.04% for the 2007 allocation year, 0.09% for the 2009 allocation year, 0.20% for the 2010 allocation year and 0.32% for the 2011 allocation year.

In financial year 2014, the vesting period expired for 100% of the stock appreciation rights granted for the years 2004, 2006 and 2007, as well as for 80% of those granted for 2009.

A total of 3,438 stock appreciation rights from the 2006 allocation year, 23,179 stock appreciation rights from the 2007 allocation year and 290,797 stock appreciation rights from the 2009 allocation year were exercised. The total amount paid out was EUR 2.84 million.

On this basis, the aggregate provisions, which are recognised in other non-technical provisions, amounted to EUR 21 (16) million for financial year 2014. The total expenditure amounted to EUR 8 (5) million.

SHARE AWARD SCHEME

Effective financial year 2011, a share award scheme was introduced for Talanx AG and the significant Group companies including Hannover Rück SE, initially for the members of the boards of management and subsequently for certain executives; this grants stock appreciation rights in the form of virtual shares, known as "share awards". This share award scheme comes in two versions:

- Talanx share awards (for members of the boards of management of Talanx and of the significant Group companies and certain executives, other than Hannover Rück SE)
- Hannover Re share awards (for members of the Board of Management of Hannover Rück SE and, starting in financial year 2012, also for certain executives of Hannover Rück SE. This share award scheme replaces Hannover Re's terminated stock appreciation rights scheme. Please refer to our disclosures in "Stock appreciation rights scheme at Hannover Rück SE".)

The share awards do not entitle participants to demand actual shares, but only the payment of a cash amount subject to the following conditions.

The share award scheme is open to all persons contractually entitled to share awards and whose contract of service or employment is still in force at the time of allocation of the share awards and will not end due to termination by either party or by mutual agreement before expiry of the lock-up period.

Share awards will first be issued for financial year 2011 and thereafter separately for each subsequent financial year (allocation year).

The total number of share awards granted depends on the value per share. The value per share is calculated as the unweighted arithmetic mean of the XETRA closing prices. To calculate this, the conditions for beneficiaries stipulate a period of five trading days before to five trading days after the meeting of the Supervisory Board that approves the consolidated financial statements for the previous financial year. The Talanx share awards are based on the value per share of Talanx AG, while the Hannover Re share awards are based on the value per share of Hannover Rück SE. For Hannover Rück SE executives, the period stipulated is 20 trading days before until ten trading days after the meeting of the Supervisory Board that approves the consolidated financial statements for the previous financial year. The total number of share awards to be allocated is arrived at by dividing the amount available for allocation of share awards to each beneficiary by the value per share, rounded up to the next full share. For members of the boards of management of Talanx and of significant Group companies as well as of Hannover Rück SE, 20% of the individual's defined variable remuneration is allocated in share awards, while for Hannover Rück SE executives the figure is 40% or 35% depending on their management level.

The share awards are allocated automatically without the need for a declaration by either party. For each share award, the value of one share determined according to the above definition on the payout date is paid out after a lock-up period of four years. The value per share is calculated using the procedure described in the previous paragraph.

The amount payable to each beneficiary is the total value – calculated at the payout date – of the share awards for which the four-year lock-up 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.

If dividends were distributed to shareholders, an amount equal to the dividend is paid in addition to the payment of the value of the share awards. The amount of the dividend is the sum of all dividends distributed per share during the term of the share awards multiplied by the number of share awards paid out to each beneficiary at the payout date. If the share awards are paid out ahead of time, only the value of the dividends for the period up to the occurrence of the event triggering the early payout will be paid. Proportionate interests in dividends not yet distributed are not taken into account.

If a beneficiary's term of office or service contract as a member of the Board of Management ends, or the employment contract of the beneficiary ends, the beneficiary remains entitled to payment of the value of any share awards already granted at the time of expiry of the relevant lock-up period, unless that termination is based on the resignation of the beneficiary or on termination/dismissal for cause. In the event of the death of the beneficiary, the entitlement to share awards already allocated or still to be allocated passes to his or her heirs. All share awards are calculated based on the value per share determined on the payout date.

In principle, no share awards may be allocated after the beneficiary has left the company, except if the beneficiary has left the company due to non-reappointment, retirement or death, and then only in respect of entitlements to variable remuneration earned by the beneficiary in the last year – or part-year – of his or her activity.

The share award scheme is accounted for in the Group as a cash-settled share-based payment transaction as defined by IFRS 2. Due to the different calculation bases used for the Talanx share awards and the Hannover Re share awards, the further characteristics of the two versions are described separately in the following:

TALANX SHARE AWARDS

N135 DETAILS OF THE TALANX SHARE AWARDS

	2014	2013	
	Anticipated allocation in 2015 for 2014	Final allocation in 2014 for 2013	Anticipated allocation
Measurement date	30.12.2014	19.3.2014	30.12.2013
Value per share award (in EUR)	25.27	25.02	24.65
Total number of share awards	**464,774**	**371,472**	**379,076**
Number allocated in year	93,302	99,192	107,192
Talanx AG Board of Management	37,030	41,319	41,197
Other boards of management	51,752	57,897	61,329
Other beneficiaries [1]	4,520	3,976	4,666
Personnel expenses [1] (in EUR million)	3.8	2.7	2.5
Dividend payments taken into consideration [2] (in EUR million)	0.4	0.3	0.3
Total amount of provisions (in EUR million)	**8.6**	**4.9**	**4.5**

[1] The personnel expenses in respect of the share award scheme for the Board of Management are distributed over the term of the share awards or the shorter term of the service contracts. Allocations for other beneficiaries are based on a slightly different scheme (primarily different rules relating to termination of employment). These have not been disclosed separately for reasons of materiality

[2] Distributed dividends and anticipated dividend payments are not taken into consideration for the allocation year; the dividend claims are discounted before recognition

HANNOVER RE SHARE AWARDS

N136 DETAILS OF THE HANNOVER RE SHARE AWARDS

	2014	2013	
	Anticipated allocation in 2015 for 2014	Final allocation in 2014 for 2013	Anticipated allocation
Measurement date	30.12.2014	25.3.2014	30.12.2013
Value per share award (in EUR)	74.97	61.38	62.38
Total number of share awards	**354,527**	**256,060**	**246,241**
Number allocated in year	98,467	115,897	106,078
Board of Management	13,308	16,631	14,418
Other beneficiaries	85,159	99,783	91,660
Other adjustments	—	–517	—
Personnel expenses [1] (in EUR million)	6.9	5.4	4.5
Dividend payments taken into consideration [2] (in EUR million)	0.8	0.8	0.5
Total amount of provisions (in EUR million)	**12.7**	**11.1**	**8.7**

[1] The personnel expenses are in respect of the share award scheme for the Board of Management distributed over the term of the share awards or the shorter term of the service contracts, and for executives over the relevant term of the share awards

[1] Distributed dividends and anticipated dividend payments are not taken into consideration for the allocation year; the dividend claims are discounted before recognition

OTHER DISCLOSURES ON FINANCIAL INSTRUMENTS

As at the reporting date, the Group recognised securities sold with a redemption obligation to third parties at a fixed price (genuine repurchase transactions), since the material risks and opportunities associated with the financial assets remain within the Group. Investments in the "Financial assets available for sale" category in the amount of EUR 135 million (carrying amount prior to the transfer: EUR 135 million, fair value as at the reporting date corresponds to the carrying amount) were affected by these transactions. Insofar, there are no restrictions on the use of the transferred assets. The Group recognised the redemption obligation in "Other liabilities" in the amount of the payments received (EUR 135 million). The difference between the amount received for the transfer and the amount agreed for the retransfer is allocated over the term of the repurchase transaction in accordance with the effective interest rate method and recognised in "Net investment income".

LITIGATION

The usual business activities of Group companies may entail court and regulatory proceedings as well as arbitration proceedings. Depending on the probability of any resulting outflow of resources, either a provision is recognised or a contingent commitment is disclosed (in the Notes). If an outflow of resources is likely and the amount can be estimated reliably, the Group recognises a provision. Depending on the subject matter of the proceedings, these are usually technical provisions within the scope of IFRS 4 and, in exceptional cases, miscellaneous other provisions. Litigation costs (such as attorney's fees, court costs and other ancillary costs) are only recognised as a liability once a well-founded action becomes known. A contingent liability is recognised for litigation where utilisation is unlikely.

The Group uses a number of assessment criteria to estimate the amount and probability of any outflow of resources. These include the type of dispute concerned, the status of the proceedings, assessments by legal advisors, decisions by the courts or by arbitrators, expert opinions, the Group's experiences of similar cases as well as lessons learned from other companies, to the extent that these are known.

With the exception of proceedings in the course of our standard insurance and reinsurance business, there was no litigation essentially impacting the Group's net assets, financial position and results of operations in the reporting period and at the reporting date, including that listed in the following.

Following the squeeze-out (transfer of minority shareholders' shares to the majority shareholder in return for a cash settlement) at Gerling-Konzern Allgemeine Versicherungs-AG, Cologne, that was resolved in September 2006 and became effective in May 2007, former minority shareholders instituted award proceedings to have the appropriateness of the settlement reviewed. The proceedings are pending before the Cologne Regional Court. The material risk is limited by the number of shares entitled to a settlement (approximately 10 million shares) and the difference between the settlement already paid and the enterprise value of Gerling-Konzern Allgemeine Versicherungs-AG, which can be determined as of the measurement date.

In our view, the provisions recognised for litigation risk in each case, and the contingent liabilities disclosed for litigation are sufficient to cover the expected expenses.

EARNINGS PER SHARE

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

N137 EARNINGS PER SHARE

	2014	2013[1]
Net income attributable to shareholders of Talanx AG for calculating earnings per share (in EUR million)	769	732
Weighted average number of ordinary shares outstanding	252,797,634	252,638,402
Basic earnings per share (in EUR)	3.04	2.90
Diluted earnings per share (in EUR)	3.04	2.90

[1] Adjusted to reflect IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes

DIVIDEND PER SHARE

A dividend for financial year 2013 amounting to EUR 1.20 per share was paid in the reporting period, resulting in a total distribution of EUR 303 million. A proposal will be made to the General Meeting to be held on 7 May 2015 to distribute a dividend for financial year 2014 in the amount of EUR 1.25 per share, resulting in a total distribution of EUR 316 million. The distribution proposal is not part of these consolidated financial statements.

CONTINGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS

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

N138 **CONTINGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS FROM CONTRACTS, MEMBERSHIPS AND TAXES**

IN EUR MILLION

	2014	2013
Trust accounts in the United States (master trust funds, supplemental trust funds and single trust funds) as security for technical liabilities to US cedants[1]	3,848	3,335
Sureties in the form of letters of credit furnished by various credit institutions as security for technical liabilities	2,956	2,946
Guarantees for subordinated bonds issued: the guarantees cover the relevant bond volumes as well as interest due	2,112	2,862
Blocked custody accounts and other trust accounts as collateral in favour of reinsurers and cedants; generally outside the USA[1]	2,750	2,538
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[2]	1,380	1,118
Commitments under rental/lease agreements[3]	454	464
Funding commitments and contribution payments in accordance with sections 124ff. of the Insurance Supervision Act (VAG) as a member of the Statutory Guarantee Fund for Life Insurance Undertakings	457	447
Collateral for liabilities to various credit institutions in connection with investments in real estate companies and real estate transactions	574	460
Other financial commitments from planned business combinations	245	–
Commitments under service agreements – primarily in connection with IT outsourcing contracts	143	165
Assets in blocked custody accounts as collateral for existing derivative transactions: we have received collateral with a fair value of EUR 13 (2) million for existing derivative transactions[4]	79	92
Other commitments[5]	61	53
Total	**15,059**	**14,480**

[1] Securities held in the trust accounts are predominantly recognised as “Financial assets available for sale” in the portfolio of investments. The amount disclosed refers primarily to the fair value/carrying amount
[2] The prior-year information was adjusted for outstanding commitments within the Group and declined by EUR 440 million compared with the previous disclosure as at 31 December 2013
[3] Fresh data is collected only at year-end
[4] The amount disclosed refers primarily to the fair value/carrying amount
[5] Other commitments include EUR 42 million attributable to tax litigation and EUR 13 million attributable to other litigation

The amounts disclosed in the table are nominal amounts.

A number of Group companies are proportionately liable for any underfunding at Gerling Versorgungskasse in their capacity as sponsors of Gerling Versorgungskasse VVaG.

Several Group companies are members of the pharmaceutical risk reinsurance pool, the German nuclear reactor insurance pool and the traffic accident pool “Verkehrsopferhilfe e. V.”. In the event of one of the other pool members failing to meet its liabilities, the companies are obliged to assume that other member’s share in line with their proportionate interest.

Our subsidiary Hannover Rück SE enters into contingent commitments as part of its regular business activities. A number of reinsurance contracts between Group companies and external third parties contain letters of comfort, guarantees or novation agreements under which, if certain circumstances occur, Hannover Rück SE will guarantee the liabilities of the relevant subsidiary or assume its rights and obligations under the contracts.

The application of tax laws and regulations may be unresolved when tax items are accounted for. In calculating tax refund claims and tax liabilities, we have adopted the application that we believe to be most probable. However, the tax authorities may arrive at different views, which could give rise to additional tax liabilities in the future.

RENTS AND LEASES

LEASES UNDER WHICH GROUP COMPANIES ARE THE LESSEE

Outstanding commitments under non-cancellable contractual relationships amounted to EUR 454 (464) million at the reporting date.

N139 **FUTURE LEASE OBLIGATIONS**

IN EUR MILLION

	2015	2016	2017	2018	2019	Subsequent years
Payments	61	56	48	42	40	207

Operating leases resulted in expenses of EUR 55 (51) million in the reporting period.

Finance lease expenses at the reporting date were minimal, amounting to EUR 1.0 (0.3) million.

LEASES UNDER WHICH GROUP COMPANIES ARE THE LESSOR

The total amount of income due under non-cancellable leases in subsequent years is EUR 718 (560) million.

N140 **FUTURE RENTAL INCOME**

IN EUR MILLION

	2015	2016	2017	2018	2019	Subsequent years
Income	131	126	116	110	109	126

Rental income in the reporting period totalled EUR 130 (115) million. This resulted principally from property companies renting out properties in the Non-Life Reinsurance segment as well as from primary insurance companies renting out properties in Germany (mainly in the Retail Germany segment).

REMUNERATION OF THE GOVERNING BODIES OF THE PARENT

The Board of Management comprised 6 (7) active members at the reporting date.

The total remuneration of the Board of Management amounted to EUR 10,097 (10,439) thousand. In the context of the share-based payment system introduced in 2011, the Board of Management has entitlements for the reporting period to virtual shares with a fair value of EUR 954 (1,036) thousand, corresponding to 37,030 (41,197) shares, under the Talanx Share Award Plan and a fair value of EUR 226 (188) thousand, corresponding to 2,842 (3,012) shares, under the Hannover Re Share Award Plan.

Former members of the Board of Management and their surviving dependants received total remuneration of EUR 749 (741) thousand. An amount of EUR 21,217 (14,101) 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 2,412 (2,235) thousand. There are no pension commitments to former members of the Supervisory Board or their surviving dependants.

No advances were extended to members of the governing bodies in the reporting period. At the reporting date, there was one mortgage loan to a member of the Supervisory Board amounting to EUR 18 (34) thousand with a remaining term of one year and three months. An amount of EUR 16 (15) thousand was repaid in the reporting period, and the agreed interest rate is nominally 4.2% (effective rate of 4.3%).

All other information on the remuneration of the Board of Management and Supervisory Board as well as the structure of the remuneration system is contained in the remuneration report starting on page 118. The information provided there also includes the individualised disclosure of the remuneration of the Board of Management and Supervisory Board and forms an integral part of the consolidated financial statements.

AUDITOR'S FEE

The auditors engaged to audit the Talanx Group's consolidated financial statements are KPMG AG Wirtschaftsprüfungsgesellschaft (KPMG AG). The fees paid to KPMG AG and worldwide member firms of KPMG International (KPMG) that were recognised as expenses in the financial year can be broken down into four fee types.

N141 **BREAKDOWN OF KPMG FEES**

IN EUR MILLION

	KPMG worldwide		of which KPMG AG	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Financial statement audit services	14.4	14.6	5.7	5.5
Other assurance services	0.5	0.9	0.4	0.6
Tax advisory services	2.1	1.8	0.5	0.3
Other services	2.8	3.8	2.4	3.6
Total	**19.8**	21.1	**9.0**	**10.0**

The lead auditor responsible for performing the audit within the meaning of section 24a(2) of the Professional Code of Conduct for German Public Auditors and Sworn Auditors is Mr Rainer Husch. He was first responsible for the audit of the annual and consolidated financial statements as at 31 December 2008.

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

The declaration of conformity with the German Corporate Governance Code in accordance with section 161 of the German Stock Corporation Act (AktG) has been issued and made permanently available to shareholders on Talanx AG's website (http://www.talanx.com/investor-relations/corporate-governance) as described in the Board of Management's corporate governance declaration in the Group management report ("Corporate Governance" section).

On 4 November 2014, the Board of Management and Supervisory Board of our listed subsidiary Hannover Rück SE issued the declaration of conformity with the recommendations of the Government Commission on the German Corporate Governance Code required by section 161 of the AktG and made this declaration available to shareholders by publishing it in its annual report. The current and all previous declarations of conformity of Hannover Rück SE are published on the company's website (http://www.hannover-re.com/about/corporate/declaration/index.html).

EVENTS AFTER THE END OF THE REPORTING PERIOD

On 1 October 2014, the Group signed a purchase agreement for 49.94% of the shares of the largest private water company in Portugal, Indaqua Indústria e Gustão de Águas S.A., Matosinhos, Portugal. The acquisition is subject to conditions precedent, which are expected to be met in the first quarter of 2015. The acquisition is being made via INOS 14-003 GmbH (future name: Talanx Infrastructure Portugal GmbH), Munich, which was acquired separately for this purpose, and in which TD Real Assets GmbH & Co.KG (Retail Germany segment) acquired 70% of the shares and HG-I Alternative Investments Beteiligungs-GmbH & Co. KG (Industrial Lines segment) acquired 30%. The total planned investment volume amounts to approximately EUR 51 million.

On 4 September 2014, the Group signed a purchase agreement for Windfarm Belheim GmbH & Co. KG, Aurich. The acquisition is subject to conditions precedent, which are expected to be met in the first quarter of 2015. The company is a wind farm special purpose vehicle. TD Real Assets GmbH & Co. KG, Cologne, (Retail Germany segment) acquired 85% of the company's limited partner shares and HG-I Alternative Investments Beteiligungs-GmbH & Co. KG (Industrial Lines segment) acquired 15%. Talanx Direct Infrastructure 1 GmbH, Cologne, will become the new general partner. The total planned investment volume amounts to approximately EUR 70 million.

By way of a purchase agreement dated 17 December 2014, Inversiones HDI Limitada, Santiago, Chile (Retail International segment) acquired the Magallanes group by purchasing 99.9959% of the shares of Inversiones Magallanes S.A. effective 13 February 2015 as part of a tender procedure. The group consists of the holding company Inversiones Magallanes S.A., Santiago, Chile, and three operating insurance companies: Aseguradora Magallanes S.A., Santiago, Chile (property/casualty), Aseguradora Magallanes de Garantía y Crédito S.A., Santiago, Chile (credit/surety business) and Aseguradora Magallanes de Vida S.A., Santiago, Chile (life insurance). In addition, a start-up in Peru focusing on the property/casualty business – Aseguradora Magallanes del Perú S.A., Lima, Peru – was part of the transaction. Following completion of the transaction, the Group holds the following shares of the companies in the Magallanes group:

- Inversiones Magallanes S.A. – 99.9%
- Aseguradora Magallanes S.A. – 99.8%
- Aseguradora Magallanes de Garantía y Crédito S.A. – 99.8%
- Aseguradora Magallanes de Vida S.A. – 100%
- Aseguradora Magallanes del Perú S.A. – 100%

The Group's share of the voting rights corresponds to the shares held, although the voting rights cannot be exercised until final approval by the Chilean supervisory body SVS (Superintendencia Valores y Seguros) has been obtained.

The purchase price for the Magallanes group amounted to the equivalent of EUR 192 million as at the closing rate on 13 February 2015. However, thanks to a favourable currency hedge, Talanx International AG effectively only invested EUR 180 million as a capital increase at Inversiones HDI Limitada, Chile, to aquire the Magallanes group. Inversiones HDI Limitada took a further EUR 3 million from its own funds.

Information on the amount of the assets acquired and liabilities assumed, the amount of goodwill and the amount to be recognised for non-controlling interests cannot be provided due to the short timeframe between the acquisition and the preparation of this Annual Report.

On 23 December 2014, the Group signed purchase agreements for two wind farm projects based in Toulouse, France – Ferme Eolienne du Confolentais S.A.R.L and Ferme Eolienne des Mignaudières S.A.R.L. The acquisition was subject to conditions precedent, which were met on 10 February 2015. The two companies are wind farm special purpose vehicles. TD Real Assets GmbH & Co. KG, Cologne, (Retail Germany segment) indirectly acquired all the shares of Ferme Eolienne des Confolentais S.A.R.L, and HGI Alternative Investments Beteiligungs-GmbH & Co. KG indirectly acquired all the shares of Ferme Eolienne du Mignaudières S.A.R.L. The purchase price for the companies was EUR 1 million in each case. The total assets of the companies acquired amounting to EUR 8 million in each case are largely attributable to technical equipment for the wind farms, which is financed by equity and loans. No major intangible assets or goodwill exist. The total planned investment volume amounts to approximately EUR 47 million.

In January 2015, the Group decided to sell HDI Zastrahovane AD, Sofia, Bulgaria together with the disposal group already recognised as at the reporting date, HDI STRKHUVANNYA, Kiev, Ukraine (both Retail International Division). The legal transfer was executed on 19 February 2015; the selling price was in the middle single-digit millions of euros. We expect the transfer of beneficial ownership to take place in the course of 2015. The transaction does not significantly affect the Group's earnings. The sale streamlines the Group's portfolio in Eastern Europe in the Retail International Division.

LIST OF SHAREHOLDINGS

The following information is disclosed in the Consolidated Financial Statements of Talanx AG in accordance with section 313(2) of the German Commercial Code (HGB) and IFRS 12.10 (a) (i)

N142 LIST OF SHAREHOLDINGS

1. Affiliated companies included in the consolidated financial statements	Equity interest [1] in %		Equity [2), 3)] in thousand		Earnings before profit transfer [2), 4)] in thousand
Germany					
Alstertor Erste Beteiligungs- und Investitionssteuerungs-GmbH & Co. KG, Hamburg [16)]	100.00	EUR	4,175	EUR	578
Alstertor Zweite Beteiligungs- und Investitionssteuerungs-GmbH & Co. KG, Hamburg [16)]	100.00	EUR	28,178	EUR	–24
Ampega Investment GmbH, Cologne [16), 25)]	100.00	EUR	7,936	EUR	10,464
Ampega-nl-Euro-DIM-Fonds, Cologne [21), 27)]	100.00	EUR	460,553	EUR	–25,022
Ampega-nl-Global-Fonds, Cologne [21), 27)]	100.00	EUR	43,770	EUR	1,201
Ampega-nl-Rent-Fonds, Cologne [21), 27)]	100.00	EUR	622,706	EUR	69,879
Ampega-Vienna-Bonds-Master-Fonds Deutschland, Cologne [21), 27)]	100.00	EUR	276,792	EUR	4,006
CiV Grundstücksgesellschaft mbH & Co. KG, Hilden [6), 16)]	100.00	EUR	23,070	EUR	132
Dritte Hannover Beteiligungsverwaltungs-AG & Co. KG, Hannover [14)]	100.00	EUR	—	EUR	—
Erste Hannover Beteiligungsverwaltungs-AG & Co. KG, Hannover [14)]	100.00	EUR	—	EUR	—
E+S Rückversicherung AG, Hannover [22)]	64.79	EUR	691,413	EUR	126,000
EURO RENT 3 Master, Cologne [21), 27)]	100.00	EUR	990,053	EUR	92,671
FUNIS GmbH & Co. KG, Hannover [21)]	100.00	EUR	28,806	EUR	2,854
Gerling Immo Spezial 1, Cologne [21)]	100.00	EUR	283,740	EUR	4,158
GERLING Pensionsenthaftungs- und Rentenmanagement GmbH, Cologne [16)]	100.00	EUR	2,318	EUR	–4,685
GKL SPEZIAL RENTEN, Cologne [21), 27)]	100.00	EUR	924,407	EUR	196,840
Hannover America Private Equity Partners II GmbH & Co. KG, Hannover [22)]	100.00	EUR	190,590	EUR	25,843
Hannover Beteiligungsgesellschaft mbH, Hannover [16)]	100.00	EUR	6,102	EUR	544
Hannover Euro Private Equity Partners II GmbH & Co. KG, Cologne [22)]	100.00	EUR	9,893	EUR	3,096
Hannover Euro Private Equity Partners III GmbH & Co. KG, Cologne [22)]	100.00	EUR	32,077	EUR	1,865
Hannover Euro Private Equity Partners IV GmbH & Co. KG, Cologne [22)]	100.00	EUR	50,416	EUR	12,257
Hannover Insurance-Linked Securities GmbH & Co. KG, Hannover [19)]	100.00	EUR	198	EUR	93
Hannover Life Re AG, Hannover [22), 25)]	100.00	EUR	1,705,385	EUR	119,232
Hannover Re Euro PE Holdings GmbH & Co. KG, Hannover [22)]	100.00	EUR	175,845	EUR	2,385
Hannover Re Euro RE Holdings GmbH, Hannover [22)]	100.00	EUR	728,604	EUR	8,791
Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover [22), 25)]	100.00	EUR	2,091,925	EUR	275,182
Hannover Rück SE, Hannover [22)]	50.22	EUR	1,896,716	EUR	421,237
HAPEP II Holding GmbH, Hannover [22)]	100.00	EUR	15,611	EUR	11,284
HAPEP II Komplementär GmbH, Hannover [22)]	100.00	EUR	31	EUR	3
HDI Direkt Service GmbH, Hannover [5), 16), 25)]	100.00	EUR	51	EUR	–3
HDI-Gerling Friedrich Wilhelm AG, Cologne [22)]	100.00	EUR	720,792	EUR	–67,695
HDI-Gerling Industrie Versicherung AG, Hannover [16), 25)]	100.00	EUR	406,536	EUR	55,932
HDI-Gerling Sach Industrials Master, Cologne [21), 27)]	100.00	EUR	271,212	EUR	16,542
HDI-Gerling Sicherheitstechnik GmbH, Hannover [5), 16), 25)]	100.00	EUR	2,093	EUR	846
HDI-Gerling Welt Service AG, Hannover [16), 25)]	100.00	EUR	91,378	EUR	–903
HDI Kundenservice AG, Cologne [5), 16), 25)]	100.00	EUR	234	EUR	111
HDI Lebensversicherung AG, Cologne [22)]	100.00	EUR	413,547	EUR	12,000
HDI Pensionsfonds AG, Cologne [22)]	100.00	EUR	5,668	EUR	67

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1. Affiliated companies included in the consolidated financial statements	Equity interest [1] in %		Equity [2),3)] in thousand		Earnings before profit transfer [2),4)] in thousand
Germany					
HDI Pensionskasse AG, Cologne [22)]	100.00	EUR	35,905	EUR	—
HDI Versicherung AG, Hannover [16),25)]	100.00	EUR	321,907	EUR	–26,298
HDI Vertriebs AG, Hannover [5),16),25)]	100.00	EUR	4,083	EUR	–251
HEPEP II Holding GmbH, Cologne [22)]	100.00	EUR	8,203	EUR	421
HEPEP III Holding GmbH, Cologne [22)]	100.00	EUR	12,857	EUR	–525
HEPEP II Komplementär GmbH, Cologne [22)]	100.00	EUR	41	EUR	4
HEPEP IV Komplementär GmbH, Cologne [22)]	100.00	EUR	20	EUR	—
HG-I AI USD Beteiligungs-GmbH & Co. KG, Cologne [16)]	100.00	EUR	18,584	EUR	167
HG-I Aktien VC Dynamic, Cologne [21),27)]	100.00	EUR	44,593	EUR	321
HG-I Aktien VC Strategie, Cologne [21),27)]	100.00	EUR	50,384	EUR	60
HG-I Alternative Investments Beteiligungs-GmbH & Co. KG, Cologne [16)]	100.00	EUR	164,499	EUR	2,815
HGLV-Financial, Cologne [21),27)]	100.00	EUR	1,445,654	EUR	169,763
HILSP Komplementär GmbH, Hannover [19)]	100.00	EUR	27	EUR	–3
HNG Hannover National Grundstücksverwaltung GmbH & Co. KG, Hannover [6),16)]	100.00	EUR	46,864	EUR	568
HR GLL Central Europe GmbH & Co. KG, Munich [9),22)]	99.99	EUR	204,183	EUR	–292
HR GLL Central Europe Holding GmbH, Munich [13),22)]	100.00	EUR	61,941	EUR	–27
IVEC Institutional Venture and Equity Capital AG, Cologne [16)]	100.00	EUR	113,306	EUR	–8,327
Lifestyle Protection AG (formerly: Credit Life International Versicherung AG), Hilden [22),25)]	100.00	EUR	5,338	EUR	395
Lifestyle Protection Lebensversicherung AG (formerly: Credit Life International Lebensversicherung AG), Hilden [22),25)]	100.00	EUR	7,496	EUR	–437
neue leben Holding AG, Hamburg [16)]	67.50	EUR	75,572	EUR	19,950
neue leben Lebensversicherung AG, Hamburg [22),25)]	100.00	EUR	52,817	EUR	14,347
neue leben Unfallversicherung AG, Hamburg [22),25)]	100.00	EUR	3,596	EUR	4,082
NL Master, Cologne [21),27)]	100.00	EUR	54,078	EUR	54,058
Oval Office Grundstücks GmbH, Hannover [21)]	100.00	EUR	59,842	EUR	1,930
PB Lebensversicherung AG, Hilden [22),25)]	100.00	EUR	89,131	EUR	24,800
PB Pensionsfonds AG, Hilden [22),25)]	100.00	EUR	3,058	EUR	536
PB Versicherung AG, Hilden [22)]	100.00	EUR	10,899	EUR	4,429
PBVL-Corporate, Cologne [21),27)]	100.00	EUR	147,027	EUR	10,953
Riethorst Grundstückgesellschaft AG & Co. KG, Hannover [6),16)]	100.00	EUR	159,325	EUR	5,510
Talanx Asset Management GmbH, Cologne [5),16),25)]	100.00	EUR	83,600	EUR	34,498
Talanx Beteiligungs-GmbH & Co. KG, Hannover [6),16)]	100.00	EUR	22,922	EUR	169,156
Talanx Deutschland AG, Hannover [5),16),25)]	100.00	EUR	2,386,981	EUR	65,835
Talanx Deutschland Bancassurance Communication Center GmbH, Hilden [5),16),25)]	100.00	EUR	630	EUR	–67
Talanx Deutschland Bancassurance GmbH, Hilden [5),16),25)]	100.00	EUR	1,089,419	EUR	85,211
Talanx Deutschland Bancassurance Kundenservice GmbH, Hilden [5),16),25)]	100.00	EUR	75	EUR	25
Talanx Deutschland Real Estate Value, Cologne [21),27)]	100.00	EUR	167	EUR	138
Talanx Direct Infrastructure 1 GmbH, Cologne [16)]	100.00	EUR	25	EUR	—
Talanx Immobilien Management GmbH, Cologne [5),16),25)]	100.00	EUR	2,837	EUR	573
Talanx Infrastructure France 1 GmbH, Frankfurt [14)]	100.00	EUR	—	EUR	—
Talanx Infrastructure France 2 GmbH, Frankfurt [14)]	100.00	EUR	—	EUR	—
Talanx Infrastructure Portugal GmbH, Cologne [14)]	100.00	EUR	—	EUR	—

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1. Affiliated companies included in the consolidated financial statements	Equity interest[1] in %		Equity[2,3] in thousand		Earnings before profit transfer[2,4] in thousand
Germany					
Talanx International AG, Hannover[5,16,25]	100.00	EUR	1,668,846	EUR	50,907
Talanx Pensionsmanagement AG, Cologne[5,16,25]	100.00	EUR	7,599	EUR	1,185
Talanx Reinsurance Broker GmbH, Hannover[5,16,25]	100.00	EUR	296	EUR	15,859
Talanx Service AG, Hannover[5,16,25]	100.00	EUR	1,746	EUR	—
Talanx Systeme AG, Hannover[5,16,25]	100.00	EUR	140	EUR	—
TAL-Corp, Cologne[21,27]	100.00	EUR	44,526	EUR	3,345
TAM AI Komplementär GmbH, Cologne[16]	100.00	EUR	32	EUR	8
TARGO Lebensversicherung AG, Hilden[22,25]	100.00	EUR	33,655	EUR	43,034
TARGO Versicherung AG, Hilden[22,25]	100.00	EUR	9,492	EUR	12,656
TD-BA Private Equity GmbH & Co. KG, Cologne[16]	100.00	EUR	40,780	EUR	–197
TD-BA Private Equity Sub GmbH, Cologne[16]	100.00	EUR	26,300	EUR	–32
TD Real Assets GmbH & Co. KG, Cologne[16]	100.00	EUR	10,195	EUR	–115
TD-Sach Private Equity GmbH & Co. KG, Cologne[16]	100.00	EUR	28,801	EUR	164
Vierte Hannover Beteiligungsverwaltungs-AG & Co. KG, Hannover[14]	100.00	EUR	—	EUR	—
WP Berngerode GmbH & Co. KG, Cologne[16]	100.00	EUR	—	EUR	—
WP Mörsdorf Nord GmbH & Co. KG, Cologne[16]	100.00	EUR	—	EUR	—
Zweite Hannover Beteiligungsverwaltungs-AG & Co. KG, Hannover[14]	100.00	EUR	—	EUR	—
Other countries					
11 Stanwix, LLC, Wilmington, USA[11,21,23]	100.00	USD	36,711	USD	1,095
1225 West Washington, LLC, Wilmington, USA[11,21,23]	100.00	USD	23,647	USD	1,067
300 California, LLC, Wilmington, USA[11,14]	100.00	USD	—	USD	—
300 South Orange Avenue, LLC, Orlando, USA[11,21,23]	100.00	USD	1,493	USD	10,040
402 Santa Monica Blvd, LLC, Wilmington, USA[11,21,23]	100.00	USD	28,158	USD	654
975 Carroll Square, LLC, Wilmington, USA[11,21,23]	100.00	USD	55,571	USD	1,897
Akvamarin Beta, s. r. o., Prague, Czech Republic[13,22]	100.00	CZK	109,499	CZK	27,806
ASPECTA Assurance International Luxembourg S. A., Luxembourg, Luxembourg[16]	100.00	EUR	9,510	EUR	739
Atlantic Capital Corporation, Wilmington, USA[8,10,21,23,24]	100.00	USD	–111,867	USD	—
BNP-HDI Credit FI Renda Fixa Crédito Privado, São Paulo, Brazil[21,27]	100.00	BRL	137,471	BRL	4,292
BNP-HDI Estratégia Multimercado Crédito, São Paulo, Brazil[21,27]	100.00	BRL	28,508	BRL	–11,259
Broadway 101, LLC, Wilmington, USA[11,21,23]	100.00	USD	11,536	USD	258
BTG - FIC Multimercado Multistrategy, São Paulo, Brazil[21,27]	100.00	BRL	14,097	BRL	14,097
Cargo Transit Insurance (Pty) Ltd., Helderkruin, South Africa[8,12,16]	80.00	ZAR	–4,499	ZAR	—
CiV Hayat Sigorta A. Ş., Istanbul, Turkey[16]	100.00	TRY	20,181	TRY	6,571
Compass Insurance Company Ltd., Johannesburg, South Africa[12,21]	100.00	ZAR	132,364	ZAR	6,585
Construction Guarantee (Pty.) Ltd., Johannesburg, South Africa[8,12,16]	60.00	ZAR	—	ZAR	—
Credit Suisse HDI RF Crédito, São Paulo, Brazil[21,27]	100.00	BRL	231,017	BRL	47,058
Diófa Optimus Befektetési Alap, Budapest, Hungary[21,27]	100.00	HUF	3,179,924	HUF	3,179,924
Envirosure Underwriting Managers (Pty.) Ltd., Durban, South Africa[12,21]	60.00	ZAR	201	ZAR	161
Film & Entertainment Underwriters S. A. (Pty). Ltd., Johannesburg, South Africa[12,21]	51.00	ZAR	–1,960	ZAR	32
FRACOM FCP, Paris, France[20,27]	100.00	EUR	1,140,137	EUR	26,854
Garagesure Consultants and Acceptances (Pty) Ltd., Johannesburg, South Africa[12,21]	70.00	ZAR	1,491	ZAR	2,573
Gem & Jewel Acceptances (Pty) Ltd., Johannesburg, South Africa[12,21]	60.00	ZAR	278	ZAR	449
Gente Compañia de Soluciones Profesionales de México, S. A. de C. V., León, Mexico[16]	100.00	MXN	22,435	MXN	334
GLL HRE CORE Properties, LP, Wilmington, USA[11,21,23]	99.90	USD	229,382	USD	15,889
Hannover Finance, Inc., Wilmington, USA[9,22,23]	100.00	USD	440,055	USD	8,328

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1. Affiliated companies included in the consolidated financial statements	Equity interest [1] in %		Equity [2),3)] in thousand		Earnings before profit transfer [2),4)] in thousand
Other countries					
Hannover Finance (Luxembourg) S.A., Luxembourg, Luxembourg [22]	100.00	EUR	54,353	EUR	28,830
Hannover Finance (UK) Limited, London, United Kingdom [22]	100.00	GBP	2,734	GBP	2,084
Hannover Life Reassurance Africa Ltd., Johannesburg, South Africa [12),21)]	100.00	ZAR	611,281	ZAR	78,621
Hannover Life Reassurance Bermuda Ltd., Hamilton, Bermuda [22]	100.00	USD	405,355	USD	38,085
Hannover Life Reassurance Company of America (Bermuda) Ltd., Hamilton, Bermuda [22]	100.00	USD	5,826	USD	117
Hannover Life Reassurance Company of America, Orlando, USA [22]	100.00	USD	212,052	USD	26,876
Hannover Life Re of Australasia Ltd., Sydney, Australia [22]	100.00	AUD	478,191	AUD	26,770
Hannover Re (Bermuda) Ltd., Hamilton, Bermuda [22]	100.00	USD	1,465,820	USD	243,214
Hannover Reinsurance Africa Ltd., Johannesburg, South Africa [12),21)]	100.00	ZAR	752,060	ZAR	11,094
Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg, South Africa [9),21)]	100.00	ZAR	209,906	ZAR	4
Hannover Reinsurance Mauritius Ltd., Port Louis, Mauritius [12),21)]	100.00	MUR	44,816	MUR	–3,232
Hannover Re (Ireland) Ltd., Dublin, Ireland [22]	100.00	EUR	1,452,048	EUR	78,898
Hannover Re Real Estate Holdings, Inc., Orlando, USA [9),22),23)]	100.00	USD	488,570	USD	19,289
Hannover ReTakaful B.S.C. (c), Manama, Bahrain [22]	100.00	BHD	55,389	BHD	7,125
Hannover Services (UK) Ltd., London, United Kingdom [22]	100.00	GBP	712	GBP	109
HDI Assicurazioni S.p.A., Rome, Italy [16]	100.00	EUR	186,585	EUR	24,386
HDI Crédito FI RF CP Longo Prazo BTG Pactual, São Paulo, Brazil [21),27)]	100.00	BRL	141,471	BRL	5,065
HDI-Gerling America Insurance Company, Chicago, USA [16]	100.00	USD	132,724	USD	12,970
HDI-Gerling Assurances S.A. Luxembourg, Luxembourg, Luxembourg [16]	100.00	EUR	6,871	EUR	157
HDI-Gerling de Mexico Seguros S.A., Mexico City, Mexico [16]	100.00	MXN	95,117	MXN	9,898
HDI Gerling Insurance of South Africa Ltd., Johannesburg, South Africa [16]	100.00	ZAR	46,439	ZAR	3,343
HDI-Gerling Seguros Industriais S.A. (formerly: HDI-Gerling Participações Ltda.), São Paulo, Brazil [16]	100.00	BRL	–1,752	BRL	–1,752
HDI-Gerling Verzekeringen N.V., Rotterdam, Netherlands [16]	100.00	EUR	154,671	EUR	10,989
HDI Immobiliare S.r.L., Rome, Italy [16]	100.00	EUR	66,829	EUR	723
HDI Seguros S.A. de C.V., León, Mexico [16]	99.76	MXN	1,171,376	MXN	132,145
HDI Seguros S.A., Buenos Aires, Argentina [18]	100.00	ARS	164,252	ARS	58,633
HDI Seguros S.A., Montevideo, Uruguay [16]	100.00	UYU	265,725	UYU	32,422
HDI Seguros S.A., Santiago, Chile [16]	100.00	CLP	9,194,055	CLP	1,756,695
HDI Seguros S.A., São Paulo, Brazil [16]	100.00	BRL	820,842	BRL	77,032
HDI Sigorta A.Ş., Istanbul, Turkey [16]	100.00	TRY	229,933	TRY	58,606
HDI STRAKHUVANNYA (Ukraine), Kiev, Ukraine [16]	89.29	UAH	95,511	UAH	–195
HDI Versicherung AG, Vienna, Austria [16]	100.00	EUR	43,621	EUR	13,183
HDI Zastrahovane AD, Sofia, Bulgaria [16]	94.00	BGL	8,788	BGL	404
Hospitality Industrial and Commercial Underwriting Managers (Pty) Ltd., Johannesburg, South Africa [12),21)]	90.00	ZAR	1,640	ZAR	3,805
HR GLL CDG Plaza S.r.L., Bucharest, Romania [13),22)]	100.00	RON	173,426	RON	1,315
HR GLL Europe Holding S.à r.l., Luxembourg, Luxembourg [13),22)]	100.00	EUR	103,462	EUR	–17
HR GLL Griffin House SPÓLKA Z OGRANICZONA ODPOWIEDZIALNÓSCIA, Warsaw, Poland [13),22)]	100.00	PLN	39,480	PLN	–3,221
HR GLL Liberty Corner SPÓLKA Z ORGANICZONA ODPOWIEDZIALNÓSCIA, Warsaw, Poland [13),22)]	100.00	PLN	48,489	PLN	–3,233
HR GLL Roosevelt Kft, Budapest, Hungary [13),22)]	100.00	HUF	20,635,541	HUF	628,492
HSBC FI Renda Fixa Hannover, São Paulo, Brazil [21),27)]	100.00	BRL	18,199	BRL	–125,029
InChiaro Assicurazioni S.p.A., Rome, Italy [16]	51.00	EUR	6,376	EUR	266
InLinea S.p.A., Rome, Italy [16]	70.00	EUR	1,005	EUR	115
Integra Insurance Solutions Limited, Bradford, United Kingdom [16]	74.99	GBP	3,019	GBP	2,035
Inter Hannover (No. 1) Ltd., London, United Kingdom [22]	100.00	GBP	—	GBP	—

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1. Affiliated companies included in the consolidated financial statements	Equity interest[1] in %		Equity[2), 3)] in thousand		Earnings before profit transfer[2), 4)] in thousand
Other countries					
International Insurance Company of Hannover SE (formerly: International Insurance Company of Hannover Plc), London, United Kingdom[22)]	100.00	GBP	136,823	GBP	–6,300
Inversiones HDI Limitada, Santiago, Chile[16)]	100.00	CLP	15,054,571	CLP	1,820,477
Joint-stock Company Towarzystwo Ubezpieczeń EUROPA.UA Życie, Lviv, Ukraine[16)]	100.00	UAH	11,549	UAH	–1,609
Joint-stock Company Towarzystwo Ubezpieczeń EUROPA.UA, Lviv, Ukraine[16)]	100.00	UAH	17,310	UAH	–305
JPM-HDI Credit FI Renda Fixa Crédito Privado, São Paulo, Brazil[21), 27)]	100.00	BRL	105,882	BRL	44,328
KBC ALFA Specjalistyczny Fundusz Inwestycyjny Otwarty, Warsaw, Poland[21), 27)]	100.00	PLN	1,563,498	PLN	85,165
KBC OMEGA FIZ, Warsaw, Poland[21), 27)]	100.00	PLN	72,744	PLN	604
Landmark Underwriting Agency (Pty) Ltd., Bloemfontein, South Africa[12), 21)]	75.50	ZAR	3,211	ZAR	2,114
Leine Investment General Partner S. à r. l., Luxembourg, Luxembourg[22), 23)]	100.00	EUR	38	EUR	157
Leine Investment SICAV-SIF, Luxembourg, Luxembourg[22), 23)]	100.00	USD	75,040	USD	1,204
Lireas Holdings (Pty) Ltd., Johannesburg, South Africa[12), 21)]	51.00	ZAR	191,451	ZAR	21,623
Magyar Posta Biztosító Részvénytársaság, Budapest, Hungary[16)]	66.93	HUF	1,940,765	HUF	93,247
Magyar Posta Életbiztosító Zrt., Budapest, Hungary[16)]	66.93	HUF	4,781,328	HUF	783,219
Micawber 185 (Pty) Ltd., Johannesburg, South Africa[12), 21)]	100.00	ZAR	18,880	ZAR	2,925
MUA Insurance Acceptances (Pty) Ltd., Cape Town, South Africa[12), 21)]	80.00	ZAR	13,232	ZAR	5,603
MUA Insurance Company Ltd., Cape Town, South Africa[12), 21)]	100.00	ZAR	—	ZAR	204
Mustela s.r.o., Prague, Czech Republic[13), 22)]	100.00	CZK	1,234,391	CZK	–21,671
Nashville West, LLC, Wilmington, USA[11), 21), 23)]	100.00	USD	30,457	USD	49
OOO Strakhovaya Kompaniya CiV Life, Moscow, Russia[16)]	100.00	RUB	630,053	RUB	29,036
OOO Strakhovaya Kompaniya “HDI Strakhovanie”, Moscow, Russia[16)]	100.00	RUB	211,888	RUB	34,266
Open Life Towarzystwo Ubezpieczeń Życie S. A., Warsaw, Poland[16)]	51.00	PLN	120,489	PLN	22,908
Peachtree (Pty) Ltd., Johannesburg, South Africa[8), 12), 21)]	100.00	ZAR	—	ZAR	—
PIONEER Titkok Kamrája Kótvény Alap, Budapest, Hungary[21), 27)]	100.00	HUF	8,702,212	HUF	3,097,793
Protecciones Esenciales S. A., Buenos Aires, Argentina[16)]	100.00	ARS	145,336	ARS	27,918
River Terrace Parking, LLC, Wilmington, USA[11), 21), 23)]	100.00	USD	21,971	USD	54
Saint Honoré Iberia S. L., Madrid, Spain[16)]	100.00	EUR	1,128	EUR	986
SUM Holdings (Pty) Ltd., Johannesburg, South Africa[12), 21)]	72.20	ZAR	16,361	ZAR	4,573
Svedea AB, Stockholm, Sweden[16)]	53.00	SEK	13,976	SEK	–16,764
Synergy Targeted Risk Solutions (Pty) Ltd., Johannesburg, South Africa[12), 21)]	100.00	ZAR	1,980	ZAR	1,039
Talanx Finanz (Luxemburg) S. A., Luxembourg, Luxembourg[16)]	100.00	EUR	189,663	EUR	5,877
Talanx Reinsurance (Ireland) Ltd., Dublin, Ireland[16)]	100.00	EUR	138,132	EUR	7,474
Thatch Risk Acceptances (Pty) Ltd., Johannesburg, South Africa[12), 21)]	90.00	ZAR	1,433	ZAR	1,752
Towarzystwo Ubezpieczeń i Reasekuracji WARTA S. A., Warsaw, Poland[16)]	75.74	PLN	1,959,166	PLN	244,470
Towarzystwo Ubezpieczeń Europa S. A., Wrocław, Poland[16)]	50.00	PLN	649,953	PLN	40,935
Towarzystwo Ubezpieczeń na Życie Europa S. A., Wrocław, Poland[16)]	100.00	PLN	692,110	PLN	67,105
Towarzystwo Ubezpieczeń na Życie “WARTA” S. A., Warsaw, Poland[16)]	100.00	PLN	314,303	PLN	20,785
Transit Underwriting Managers (Pty) Ltd., Kapstadt, South Africa[12), 21)]	90.00	ZAR	940	ZAR	1,760
Tuz Serlege, Budapest, Hungary[21), 27)]	100.00	HUF	8,792,817	HUF	1,728,432
Woodworking Risk Acceptances (Pty) Ltd., Johannesburg, South Africa[8), 12), 21)]	60.00	ZAR	321	ZAR	1,473

N142 **SHAREHOLDINGS**

2. Affiliated companies not included in the consolidated financial statements in accordance with IFRSs due to insignificance	Equity interest[1] in %		Equity[2), 3)] in thousand		Earnings before profit transfer[2), 4)] in thousand
Germany					
Bureau für Versicherungswesen Robert Gerling & Co. GmbH, Cologne[16), 25)]	100.00	EUR	26	EUR	–17
CiV Immobilien GmbH, Hilden[16)]	100.00	EUR	30	EUR	—
HDI-Gerling Schadenregulierung GmbH, Hannover[16), 25)]	100.00	EUR	25	EUR	—
HEPEP III Komplementär GmbH, Cologne[22)]	100.00	EUR	19	EUR	—
International Hannover Holding AG, Hannover[7), 22)]	100.00	EUR	39	EUR	–3
Nassau Assekuranzkontor GmbH, Cologne[16), 25)]	100.00	EUR	180	EUR	155
Shamrock Marine-Insurance Agency GmbH, Hamburg[16), 25)]	100.00	EUR	25	EUR	18
SSV Schadenschutzverband GmbH, Hannover[16), 25)]	100.00	EUR	200	EUR	331
VES Gesellschaft f. Mathematik, Verwaltung und EDV mbH, Gevelsberg[16), 25)]	100.00	EUR	250	EUR	55
Other countries					
Desarollo de Consultores Profesionales en Seguros S. A. de CV, León, Mexico[16)]	100.00	MXN	220	MXN	74
Gerling Insurance Agency, Inc., Chicago, USA[7)]	100.00	USD	—	USD	—
Gerling Norge A/S, Oslo, Norway[16)]	100.00	NOK	268	NOK	10
Hannover Life Re Consultants, Inc., Orlando, USA[22)]	100.00	USD	187	USD	–18
Hannover Re Consulting Services India Private Limited, Mumbai, India[17)]	100.00	INR	79,502	INR	10,573
Hannover Re Risk Management Services India Private Limited, New Delhi, India[17)]	100.00	INR	36,451	INR	–3,549
Hannover Re Services Italy S. r. L., Milan, Italy[21)]	100.00	EUR	511	EUR	69
Hannover Re Services Japan, Tokyo, Japan[22)]	100.00	JPY	97,785	JPY	1,208
Hannover Re Services USA, Inc., Itasca, USA[21)]	100.00	USD	978	USD	80
Hannover Risk Consultants B. V., Rotterdam, Netherlands[16)]	100.00	EUR	–127	EUR	8
Hannover Rück SE Escritório de Representação no Brasil Ltda., Rio de Janeiro, Brazil[16)]	100.00	BRL	2,083	BRL	849
Hannover Services (Mexico) S. A. de C. V., Mexico City, Mexico[16)]	100.00	MXN	9,546	MXN	225
HDI-Gerling Services S. A., Brussels, Belgium[16)]	100.00	EUR	222	EUR	19
HDI-Gerling Welt Service AG Escritório de Representação no Brasil Ltda., São Paulo, Brazil[16)]	100.00	BRL	183	BRL	–142
H. J. Roelofs Assuradeuren B. V., Rotterdam, Netherlands[16)]	100.00	EUR	949	EUR	32
HMIA Pty Ltd., Sydney, Australia[14)]	55.00	AUD	—	AUD	—
HR Hannover Re Correduria de Reaseguros S. A., Madrid, Spain[22)]	100.00	EUR	341	EUR	39
International Mining Industry Underwriters Ltd., London, United Kingdom[16)]	100.00	GBP	552	GBP	63
KBC BETA SFIO, Warsaw, Poland[21), 27)]	80.77	PLN	11,886	PLN	–1,050
L&E Holdings Limited, London, United Kingdom[22)]	100.00	GBP	5	GBP	—
London & European Title Insurance Services Limited, London, United Kingdom[22)]	100.00	GBP	241	GBP	—
LRA Superannuation Plan Pty Ltd., Sydney, Australia[7)]	100.00	AUD	—	AUD	—
Mediterranean Reinsurance Services Ltd., Hong Kong, China[8), 22)]	100.00	USD	52	USD	—
Open Life Serwis Sp. z.o.o., Warsaw, Polen[14)]	100.00	PLN	—	PLN	—
PIONEER FIX2012 Tavasz Kötvény Alap, Budapest, Hungary[21), 27)]	100.00	HUF	110,746	HUF	2,047
Scandinavian Marine Agency A/S, Oslo, Norway[16)]	52.00	NOK	9,022	NOK	3,331
Svedea Skadeservice AB, Stockholm, Sweden[14)]	100.00	SEK	—	SEK	—
TORONY Ingatlan Befektetési Alap, Budapest, Hungary[21), 27)]	45.43	HUF	11,610,448	HUF	11,110,870

N142 **SHAREHOLDINGS**

3. Structured entities included in the consolidated financial statements in accordance with IFRS 10	Equity interest [1] in %		Equity [2] in thousand		Earnings before profit transfer [2] in thousand
Hannover Re (Guernsey) PCC Ltd., St. Peter Port, Guernsey [22]	100.00	EUR	—	EUR	—
Kaith Re Ltd., Hamilton, Bermuda [22]	88.00	USD	418	USD	–321
LI RE, Hamilton, Bermuda [22, 23]	100.00	USD	—	USD	—

N142 **SHAREHOLDINGS**

4. Associates valued using equity method in the consolidated financial statements	Equity interest [1] in %		Equity [2] in thousand		Earnings before profit transfer [2] in thousand
Germany					
HANNOVER Finanz GmbH, Hannover [16]	27.78	EUR	69,805	EUR	6,378
neue leben Pensionsverwaltung AG, Hamburg [16, 26]	49.00	EUR	15,884	EUR	–29
WeHaCo Unternehmensbeteiligungs-GmbH, Hannover [16]	40.00	EUR	86,817	EUR	10,335
Other countries					
ASPECTA Assurance International AG, Vaduz, Liechtenstein [16]	30.00	CHF	20,941	CHF	7,847
Camargue Underwriting Managers (Pty) Ltd., Johannesburg, South Africa [12, 21]	29.00	ZAR	13,783	ZAR	5,983
Clarendon Transport Underwriting Managers (Pty) Ltd., Johannesburg, South Africa [12, 21]	37.30	ZAR	13,204	ZAR	26,023
Commercial & Industrial Acceptances (Pty) Ltd., Johannesburg, South Africa [12, 21]	40.00	ZAR	5,279	ZAR	20,366
C-QUADRAT Investment AG, Vienna, Austria [16]	25.10	EUR	33,908	EUR	8,803
Firedart Engineering Underwriting Managers (Pty) Ltd., Johannesburg, South Africa [12, 21]	58.40	ZAR	1,497	ZAR	1,419
Glencar Underwriting Managers, Inc., Chicago, USA [16]	49.00	USD	5,475	USD	2,973
ITAS Vita S.p.A., Trent, Italy [16]	34.88	EUR	85,794	EUR	5,326
Petro Vietnam Insurance Holdings, Hanoi, Vietnam [16]	31.82	VND	6,043,935,021	VND	280,617,600
Synergy XOL (Pty) Ltd., Johannesburg, South Africa [12, 14]	20.00	ZAR	—	ZAR	—

N142 **SHAREHOLDINGS**

5. Associates not included in the consolidated financial statements using the equity method due to insignificance	Equity interest [1] in %		Equity [2] in thousand		Earnings before profit transfer [2] in thousand
Germany					
b2b protect GmbH (formerly: WetterProtect GmbH), Hildesheim [16]	41.86	EUR	467	EUR	–236
Hannoversch-Kölnische Beteiligungsgesellschaft mbH, Hannover [16]	50.00	EUR	27	EUR	—
Hannoversch-Kölnische Handels-Beteiligungsgesellschaft mbH & Co. KG, Hannover [16]	50.00	EUR	16,019	EUR	–11,020
VOV Verwaltungsorganisation für Vermögensschadenhaftpflicht-Versicherungen für Mitglieder von Organen juristischer Personen GmbH, Cologne [16]	35.25	EUR	1,850	EUR	303

N142 SHAREHOLDINGS

5. Associates not included in the consolidated financial statements using the equity method due to insignificance	Equity interest[1] in %		Equity[2] in thousand		Earnings before profit transfer[2] in thousand
Other countries					
Energi, Inc., Peabody, USA[16]	28.50	USD	7,922	USD	1,875
Iconica Business Services Limited, Bradford, United Kingdom[16]	25.01	GBP	–462	GBP	–461
XS Direct Holding Ltd., Dublin, Ireland[16]	25.00	EUR	2,005	EUR	–392

N142 SHAREHOLDINGS

6. Joint ventures included in the consolidated financial statements using the equity method	Equity interest[1] in %		Equity[2][3] in thousand		Earnings before profit transfer[2] in thousand
Magma HDI General Insurance Company Limited, Kolkata, India[17]	25.50	INR	1,753,092	INR	–233,009

N142 SHAREHOLDINGS

7. Joint ventures not included in the consolidated financial statements due to insignificance	Equity interest[1] in %		Equity[2] in EUR thou.		Earnings before profit transfer[2] in thousand
Germany					
Ampega C-QUADRAT Fondsmarketing GmbH, Frankfurt[16]	50.00	EUR	90	EUR	52
Other countries					
C-QUADRAT Ampega Asset Management Armenia LLC, Yerevan, Armenia[16]	25.10	AMD	621,249	AMD	–28,751

N142 SHAREHOLDINGS

8. Participating interests	Equity interest[1] in %		Equity[2][3] in thousand		Earnings before profit transfer[2] in thousand
Germany					
IGEPA Gewerbepark GmbH & Co. Vermietungs KG, Munich[16]	37.50	EUR	18,738	EUR	8,495
Other countries					
DFA Capital Management, Inc., Wilmington, USA[15]	25.37	USD	494	USD	–1,060
Meribel Topco Ltd., St. Helier, Jersey[21]	20.11	EUR	2,403	EUR	–54

N142 SHAREHOLDINGS

9. Investments in large corporations exceeding 5% of the voting rights	Equity interest[1] in %		Equity[2] in thousand		Earnings before profit transfer[2] in thousand
Germany					
Extremus Versicherungs-AG, Cologne[16]	13.00	EUR	67,090	EUR	5,850
MLP AG, Wiesloch[16]	9.48	EUR	384,490	EUR	19,166
Other countries					
Acte Vie S.A. Compagnie d'Assurances sur la Vie et de Capitalisation, Strasbourg, France[16]	9.38	EUR	8,742	EUR	261

[1] The equity interest is determined by adding together all directly and indirectly held interests in accordance with section 16(2) and section 16(4) of the German Stock Corporation Act (AktG)
[2] The figures correspond to the local GAAP or IFRS annual financial statements of the companies; differing currencies are indicated
[3] In the case of investment funds, fund assets are reported here
[2] In the case of investment funds, changes in fund assets including cash inflows and outflows are reported here
[5] The exemptions permitted under section 264(3) of the German Commercial Code (HGB) were applied
[6] The exemption provision permitted under section 264b of the German Commercial Code (HGB) was applied
[7] Company is inactive and does not prepare annual financial statements
[8] Company is in liquidation
[9] Company prepares its own subgroup financial statements
[10] Included in the subgroup financial statements of Hannover Finance, Inc
[11] Included in the subgroup financial statements of Hannover Re Real Estate Holdings, Inc
[12] Included in the subgroup financial statements of Hannover Reinsurance Group Africa (Pty) Ltd.
[13] Included in the subgroup financial statements of HR GLL Central Europe GmbH & Co. KG
[14] Company was formed in the reporting period – no annual report/annual financial statements available yet
[15] Figures as at 2011 financial year-end
[16] Figures as at 31 December 2013
[17] Figures as at 31 March 2014
[18] Figures as at 30 June 2014
[19] Figures as at 30 September 2014
[20] Figures as at 31 October 2014
[21] Figures as at 2014 financial year-end
[22] Figures as at 2014 financial year-end, provisional/unaudited
[23] Figures under IFRSS
[24] Certain equity items are not included under IFRSS, which means the amount of equity could be negative here. The company has sufficient capital under the local GAAP relevant for supervisory authority
[25] A profit/loss transfer agreement is in force
[26] The net income for nl Pensionskasse AG, Hamburg, is included in the net income of this company
[27] Investment funds

Prepared and hence authorised for publication in Hannover on 26 February 2015.

The Board of Management

Herbert K. Haas,
Chairman

Dr Christian Hinsch,
Deputy Chairman

Torsten Leue

Dr Immo Querner

Ulrich Wallin

Dr Jan Wicke

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable accounting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group.

Hannover, 26 February 2015

The Board of Management

Herbert K. Haas,
Chairman

Dr Christian Hinsch,
Deputy Chairman

Torsten Leue

Dr Immo Querner

Ulrich Wallin

Dr Jan Wicke

AUDITORS' REPORT

We have audited the consolidated financial statements prepared by Talanx Aktiengesellschaft, Hannover, comprising the consolidated balance sheet, the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement and the notes to the consolidated financial statements, together with the combined management report of the Company and the Group for the financial year 1 January to 31 December 2014. The preparation of the consolidated financial statements and the combined management report in accordance with IFRSs, as adopted by the EU, as well as the additional requirements of German commercial law in accordance with section 315a(1) of the German Commercial Code (HGB) and the additional provisions of the articles of association are the responsibility of the Company's Board of Management. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with section 317 of the HGB and generally accepted German standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (IDW). Those standards require that we plan and perform the audit such that any misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable accounting principles and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the entities included in consolidation, the definition of the basis of consolidation, the accounting and consolidation principles used and significant estimates made by the Board of Management, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, as well as the additional requirements of German commercial law in accordance with section 315a(1) of the HGB and the additional provisions of the articles of association, and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with those requirements. The combined management report is consistent with the consolidated financial statements and on the whole provides a suitable understanding of the Group's position and suitably presents the opportunities and risks of future development.

Hannover, 13 March 2015

KPMG AG
Wirtschaftsprüfungsgesellschaft

Dr Ellenbürger	Husch
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

FURTHER INFORMATION

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GLOSSARY AND DEFINITIONS OF KEY FIGURES

ACCUMULATION RISK
The underwriting risk that a single trigger event (e.g. an earthquake or hurricane) can lead to an accumulation of claims within a > portfolio.

ACQUISITION COSTS, DEFERRED (ALSO: ACQUISITION EXPENSES)
The costs/expenses incurred by an insurance company when insurance policies are taken out or renewed (e.g. new business commission, costs of proposal assessment or underwriting). Capitalising acquisition costs spreads them over the policy period.

ACQUISITION COSTS (LIFE) AS A PERCENTAGE OF PREMIUM INCOME FROM NEW BUSINESS
The ratio of the (net) cost of acquiring new business to the premium income obtained from that business.

ACQUISITION EXPENSES
> Acquisition costs, deferred

ADMINISTRATIVE EXPENSES
The costs of ongoing administration connected with the production of insurance coverage.

ADMINISTRATIVE EXPENSE RATIO
a) Gross: the ratio of the cost of administering in-force business to the gross premiums earned, including savings elements under unit-linked life/annuity insurance.
b) Net: the ratio of the cost of administering in-force business to the net premiums earned, not including savings elements under unit-linked life/annuity insurance.

AMORTISED COST
The cost of acquiring an asset including all incidental and transaction costs; in the case of depreciable assets, net of depreciation/amortisation and impairment losses.

ANNUAL PREMIUM EQUIVALENT – APE
The industry standard for measuring new business income in life insurance.

ASSET CLASS
The capital market is divided into different classes of financial instruments that are subject to similar risk factors. Examples include shares, bonds, real estate, energy and commodities.

ASSET MANAGEMENT
The administration and management of investments based on risk and return aspects.

ASSETS UNDER OWN MANAGEMENT
Investments that do not originate from either investment contracts or funds withheld by ceding companies in the insurance business. They are generally acquired or sold independently by Group companies at their own risk and are managed either by the company or by an investment company on the company's behalf.

ASSOCIATE
A company that is not consolidated (or proportionately consolidated), but is normally included in the consolidated financial statements using the > equity method. A company that is included in the consolidated financial statements exercises significant influence over the associate's operating or financial policies.

B2B
The exchange of goods, services and information between companies.

BANCASSURANCE
A partnership between a bank/postal service partner and an insurance company for the purpose of selling insurance products through the banking/postal service partner's branches. The linkage between insurer and bank often takes the form of a capital investment or a long-term strategic cooperation between the two partners.

BENEFIT RESERVE
A value for future liabilities arrived at using mathematical methods (present value of future liabilities minus less value of future premiums received), especially in life and health insurance.

CARRYING AMOUNT PER SHARE
This key figure indicates the amount of equity per share attributable to shareholders.

CASH FLOW
Net cash funds generated by a company in a certain period, representing cash receipts less expenditures, and used to assess the company's financial structure.

CASH FLOW STATEMENT
A statement that presents the source and application of cash funds during the accounting period. It shows the changes in assets and capital. > Cash flow

CATASTROPHE BOND (ALSO: CAT BOND)
An instrument used to transfer catastrophe risks held by an insurer or reinsurer to the capital markets.

CEDANT (ALSO: CEDING COMPANY)
A primary insurer or reinsurer who passes on (cedes) shares of its insured risks to a reinsurer in exchange for a premium.

CESSIONARY
The reinsurer of a primary insurer.

CHAIN LADDER METHOD
A standard actuarial method used to estimate the provisions required for future claims expenditures. It assumes that the claims amount increases by the same factor in all occurrence years. With this method, the expected total claims are determined exclusively on the basis of historical data on the settlement of losses in the insurer's portfolio.

COINSURANCE FUNDS WITHHELD TREATY
A type of coinsurance contract under which the ceding company retains a portion of the original premium that is at least equal to the ceded reserves. As with a > modified coinsurance (ModCo) treaty, interest payments to the reinsurer represent the amount invested in the underlying securities portfolio.

COMBINED RATIO
The sum of the > loss ratio and the > expense ratio (net), after allowance for interest income on funds withheld and contract deposits, as a proportion of net premiums earned. To calculate the adjusted combined ratio, interest income on funds withheld and contract deposits is offset against losses and loss adjustment expenses. This ratio is used by both property/casualty insurers and non-life reinsurers.

COMMISSION
The remuneration paid by a primary insurer to agents, brokers and other professional intermediaries.

COMPLIANCE
Laws, regulations and company-specific rules governing the responsible conduct of a company and its employees in compliance with the legal requirements.

CONSOLIDATION
In accounting practice: combining the single-entity financial statements of several companies that are members of a group to form consolidated financial statements. Internal transactions within the group are eliminated in the course of consolidation.

CORPORATE GOVERNANCE
A system that serves to ensure the responsible management and supervision of enterprises and is designed to promote and enhance the trust of investors, clients, employees and the general public in companies.

CREDIT QUALITY
Creditworthiness. The ability of a debtor to meet its payment obligations.

DECISION-MAKING POWERS
The Group is exposed, or has rights, to variable returns from an involvement and has the ability to affect the amount of the returns (e.g. the relevant activities) due to substantive rights.

DEFERRED TAXES
A difference between the taxes calculated on German GAAP or IFRS accounting profit and on taxable profit that will even out in subsequent periods. Deferred taxes are recognised to offset this difference if it is evident that they will reverse over time.

DEPOSIT ACCOUNTING
An accounting method for recognising short-term and long-term insurance and reinsurance contracts that do not transfer any significant underwriting risk.

DERIVATIVE (DERIVATIVE FINANCIAL INSTRUMENT)
Financial products that are derived from underlying primary instruments such as equities, fixed-income securities and foreign exchange instruments. The fair value of derivatives is measured by reference to the underlying security or reference asset, among other factors. Derivatives include > swaps, options and futures.

DISTRIBUTABLE PROFIT
Net income for the financial year less appropriations to other revenue reserves, plus retained profits brought forward.

DIVIDEND YIELD
A percentage figure that indicates the yield on the capital represented by 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
An audit of an equity investment in the run-up to an acquisition or merger. In particular, it encompasses a systematic analysis of the strengths and weaknesses of the target entity, an analysis of the risks associated with the acquisition and a comprehensive valuation of the potential investee.

DURATION
A ratio used in investment mathematics that represents the average capital commitment period of an investment in bonds or their interest rate sensitivity. The “Macaulay duration” is the capital-weighted mean number of years over which a bond will generate payments. The “modified duration”, on the other hand, shows the change in present value of a bond in the event of a change in interest rates and is thus a measure of the interest rate risk associated with a financial instrument.

EARNED PREMIUMS
Proportion of written premiums attributable to insurance cover in the financial year.

EARNINGS PER SHARE, DILUTED
A ratio calculated by dividing Group net income attributable to the shareholders of Talanx AG by the average weighted number of shares outstanding. Diluted earnings per share reflect exercised or as yet unexercised pre-emptive rights when calculating the number of shares.

EBIT
Earnings before interest and taxes; at the Talanx Group, this is identical to > operating profit/loss.

EMBEDDED VALUE
This refers to the value of an insurance portfolio. It comprises the present value of future net income for shareholders from the insurance portfolio, including investment income, and the value of equity minus the cost of capital.

EQUALISATION RESERVE
A reserve that is recognised in order to offset significant fluctuations in the loss experience of individual lines over a number of years. Under IFRSs, it is reported as a component of equity.

EQUITY
Funds that are provided by the owners of an enterprise for its internal financing or kept by the company as retained earnings (realised/unrealised). As a rule, the capital providers are entitled to a share of the profit, e.g. in the form of a dividend, as compensation for the provision of capital. Equity is liable to service the debts of a corporation.

EQUITY METHOD
An accounting method used to measure equity investments (> associate) in the consolidated financial statements under which the carrying amount of the investment in the consolidated balance sheet is adjusted to reflect changes in the investor’s share of the investee’s equity.

EXPENDITURES ON INSURANCE BUSINESS (ACQUISITION COSTS AND ADMINISTRATIVE EXPENSES)
Total commissions, selling expenses, personnel expenses, non-personnel operating expenses and ongoing administrative expenses.

EXPENSE RATIO
The ratio of acquisition costs and administrative expenses (net) to net premiums earned.

EXPOSURE
The level of danger inherent in a risk or portfolio of risks.

EXTRAORDINARY INVESTMENT INCOME
Income from realised and unrealised gains and losses, including impairment losses/write-downs and their reversal.

FACULTATIVE REINSURANCE
Participation by the reinsurer in a separate individual risk assumed by the primary insurer. Contrast with: > obligatory reinsurance.

FAIR VALUE
The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

FOR OWN ACCOUNT (ALSO: NET)
In insurance: after deduction of > passive reinsurance.

FREE FLOAT
Shareholdings held by a larger number of (normally smaller) investors.

FUNDS HELD BY CEDING COMPANIES/ FUNDS HELD UNDER REINSURANCE TREATIES
Collateral provided to cover insurance liabilities that an insurer retains from the cash funds it has to pay to a reinsurer under a reinsurance treaty. In this case, the insurer reports funds held under a reinsurance treaty, while the reinsurer reports funds held by a ceding company. Interest is payable/receivable on these funds.

GIIPS COUNTRIES
An acronym that refers to the five Eurozone countries of 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
A market phase during which premium levels are typically high. Contrast with: > soft market.

HYBRID CAPITAL
Subordinated debt and profit participation rights that combine characteristics of both debt and equity.

IMPAIRMENT
A write-down (impairment loss) that is recognised if the present value of the estimated future cash flows of an asset falls below its carrying amount.

INCURRED BUT NOT REPORTED (IBNR)
A reserve for losses that have already occurred but have not yet been reported.

INSURANCE-LINKED SECURITIES – ILS
Financial instruments used to securitise risks under which the payment of interest and/or the repayment of the principal depends upon the occurrence and magnitude of an insured event.

INTERNATIONAL FINANCIAL REPORTING STANDARDS – IFRSS
Formerly known as IASs (International Accounting Standards), these accounting standards have been applied at Talanx since 2004.

INVESTMENT GRADE
A rating of BBB or better awarded to an issuer on account of its low credit risk. > Credit quality

INVESTMENTS UNDER INVESTMENT CONTRACTS
Investment contracts with no discretionary surplus participation that do not involve any significant underwriting risk and are recognised in accordance with IAS 39 "Financial Instruments: Recognition and Measurement".

ISSUER
A private-sector enterprise or public-sector body that issues securities, e.g. a stock corporation in the case of shares or the German federal government in the case of German government bonds.

LAPSE RATE FOR LIFE INSURANCE PRODUCTS
The ratio of the sum of cancelled policies and other premature withdrawals to the average business in force (index published by the German Insurance Association/GDV).

LETTER OF CREDIT – LOC
A form of bank guarantee. In the USA, for example, it is a common method of furnishing collateral in the reinsurance business.

LIFE INSURANCE
Collective term covering those types of insurance that are concerned in the broader sense with the risks associated with the uncertainties of life expectancy and life planning. These include insurance relating to death, disability and retirement provision, as well as marriage and education.

LIFE/HEALTH INSURANCE (ALSO: PERSONAL LINES)
Lines of business concerned with the insurance of persons, specifically life, annuity, health and personal accident insurance.

LONG-TERM FINANCIAL ASSETS
Shares in affiliated companies, loans to affiliated companies, other long-term equity investments (participating interests) and long-term securities.

LOSS RATIO
The net loss ratio based on amounts reported in the financial statements: the ratio of claims and claims expenses (net), one element of which is the net other technical result, including amortisation of the shareholders' portion of the PVFP – to net premiums earned. > PVFP

LOSS RATIO FOR PROPERTY/CASUALTY INSURANCE PRODUCTS
a) Gross: the ratio of the sum of claims expenditures (gross) and the gross other technical result to gross premiums earned.
b) Net: the ratio of the sum of claims expenditures (net) and the net other technical result to net premiums earned.

MAJOR CLAIM (ALSO: MAJOR LOSS)
A claim of exceptional size compared with the average claim for the risk group in question and that exceeds a defined loss amount. Since 2012, major claims have been defined as natural catastrophes and other major losses in which the portion held by the Talanx Group is in excess of EUR 10 million gross.

MARKET CONSISTENT EMBEDDED VALUE – MCEV
A special methodology for valuing life insurance companies or life/health insurance portfolios that reflects the long-term nature of the life insurance business and the associated risks. In particular, using a market-consistent approach is designed to enhance comparability. A market-consistent valuation is obtained by using risk-neutral assumptions with regard to expected investment income and the discounting method. The swap curve is also introduced as a risk-neutral term structure.

MATCHING CURRENCY COVER
Cover for technical liabilities denominated in foreign currencies by means of corresponding investments in the same currency in order to avoid exchange rate risk.

MODIFIED COINSURANCE (MODCO) TREATY
A type of reinsurance treaty under which the ceding company retains the assets that secure the reinsured reserves in a separate account, thereby creating an obligation to make payments to the reinsurer at a later date. The payments include a proportionate share of the gross premiums and the income from the securities.

MORBIDITY
A measure of the incidence of disease relative to a given population group.

MORTALITY
A measure of the incidence of death within a given time interval relative to the total population.

NET
In insurance: after deduction of > passive reinsurance.

NET INCOME
EBIT less financing costs and taxes on income.

NET INCOME FROM LONG-TERM EQUITY INVESTMENTS
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
The ratio of net investment income, not including interest income on funds withheld and contract deposits, or income from > investments under investment contracts, to average investments under own management.

NET TECHNICAL EXPENSES
Claims and claims expenses, acquisition costs and administrative expenses and other technical expenses, in each case net of reinsurance recoverables.

NEW BUSINESS MARGIN (LIFE)
The ratio of the value of new business to the present value of new business premiums.

NON-PROPORTIONAL REINSURANCE
A reinsurance treaty under which the reinsurer assumes the loss expenditure or sum insured in excess of a defined amount. Contrast with: > proportional reinsurance.

OBLIGATORY REINSURANCE
A reinsurance treaty under which the reinsurer participates in an aggregate, precisely defined insurance portfolio of a > cedant. Contrast with: > facultative reinsurance.

OPERATING PROFIT/LOSS (EBIT)
Sum of net investment income, underwriting result and other income and expenses before interest for other debt borrowed for financing purposes (financing costs) and before taxes (taxes on income).

OTC
Over the counter. In the case of securities: not traded on an exchange.

OTHER OPERATING EXPENSES AND WRITE-DOWNS
Expenses for ordinary activities, e.g. personnel and non-personnel operating expenses, depreciation, amortisation and write-downs, realised losses on investments, foreign exchange losses, and the cost of services.

PASSIVE REINSURANCE
Existing reinsurance programmes of > primary insurers that protect them against underwriting risks.

PAYOUT RATE
The percentage of net income for the year distributed by stock corporations to their shareholders in the form of dividends.

POLICYHOLDERS' SURPLUS
The total amount of
a) equity excluding non-controlling interests, comprising share capital, capital reserves, retained earnings and other comprehensive income,
b) non-controlling interests and
c) hybrid capital that combines characteristics of both debt and equity and comprises subordinated liabilities.

PORTFOLIO
a) All risks assumed by a > primary insurer or > reinsurer in their entirety or in a defined subsegment.
b) A group of investments classified according to specific criteria.

PREMIUM
The remuneration agreed for the risks accepted by the insurer.

PRESENT VALUE OF FUTURE PROFITS – PVFP
An intangible asset that primarily arises from the acquisition of life and health insurance companies or individual portfolios. The present value of expected future profits from the acquired portfolio is capitalised and is normally then amortised. Impairment losses are recognised on the basis of annual impairment tests.

PRIMARY (ALSO: DIRECT) INSURER
A company that accepts risks in exchange for an insurance premium and that has a direct contractual relationship with the policyholder (private individual, company, organisation).

PRIVATE EQUITY
Investment capital raised by private investors.

PROPERTY/CASUALTY INSURANCE
All insurance classes with the exception of life insurance and health insurance: all lines in which the insured event does not trigger payment of an agreed fixed amount. Instead, the incurred loss is compensated.

PROPORTIONAL REINSURANCE
Reinsurance treaties under which shares of a risk or portfolio are reinsured at the same terms as the original insurance. Premiums and losses are shared proportionately, i.e. on a pro rata basis. Contrast with: > non-proportional reinsurance.

PROVISION
A liability item recognised at the reporting date in respect of existing liabilities of uncertain timing and/or amount. Technical provisions, for example, are recognised for claims that have already occurred but that have not yet been settled, or that have only been partially settled. In insurance accounting, provisions are often called "reserves", e.g. the "loss and loss adjustment expense reserve".

QUOTA SHARE REINSURANCE
A form of reinsurance under which the percentage share of the written risk and the premium are contractually agreed.

RATE
The percentage (normally applied to the subject premium) of a reinsured portfolio that is payable to the reinsurer under a > non-proportional reinsurance treaty as the reinsurance premium.

RATING
The systematic assessment of securities issuers by an independent specialist agency with respect to their > credit quality.

REINSURER
A company that accepts risks or portfolio segments from a > primary insurer or another reinsurer in exchange for an agreed premium.

RENEWAL
In the case of contractual relationships with insurers that are maintained over long periods of time, the contract terms and conditions are normally modified annually in the course of renewal negotiations, following which the contracts are renewed.

RETAIL BUSINESS
a) In general: business with private (retail) customers.
b) Ampega: business involving investment funds that are designed essentially for private, non-institutional investors, but are also open to investments by Group companies.

RETENTION
That portion of the accepted risks that an insurer/a reinsurer does not reinsure, i.e. that it carries > net. The ratio of net written premiums to gross written premiums (excluding savings elements of premiums under unit-linked life and annuity insurance policies).

RETROCESSION
Ceding by a reinsurer of its risks or portions of them to other reinsurers.

RISK MANAGEMENT SYSTEM
An end-to-end system comprising rules and measures that are designed to monitor and counter risks.

SILO
A part of the business that is separate from other assets and liabilities (e.g. an investment fund), and for which all rights and obligations accrue exclusively to the investors in this part of this business.

SOFT MARKET
A market phase referring to an oversupply of insurance, resulting in premiums that do not reflect the risk. Contrast with: > hard market.

SOLVENCY
The amount of available unencumbered capital and reserves needed to ensure that contracts can be fulfilled at all times.

SOLVENCY II
A project initiated by the European Commission to reform and harmonise the European insurance supervision framework, and in particular the solvency rules governing the level of own funds to be maintained by insurance companies.

SPECIALTY LINES
Specialty insurance for niche business such as non-standard motor covers, fine arts insurance, etc.

STRESS TEST
A form of scenario analysis that enables quantitative assessments to be made about the loss potential of > portfolios in the event of extreme market volatility.

STRUCTURED ENTITY
An entity that is organised in such a way that voting or similar rights are not the dominant factor in deciding who controls the entity. This is the case, for example, when voting rights relate to administrative tasks only and contractual agreements are used to determine the direction of the relevant activities (e.g. certain investment funds).

SURPLUS PARTICIPATION
Legally required participation (recalculated each year) by policyholders in the surpluses generated by life insurers.

SURVIVAL RATIO
This reflects the ratio of loss reserves to claims paid under a policy or several policies in a financial year.

SWAP
An 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.

UNDERLYING TRANSACTION (ALSO: UNDERLYING)
The instrument that underlies a forward transaction, futures contract or option contract and serves as the basis for settlement and measurement of the contract.

UNDERWRITING
The process of examining and assessing (re)insurance risks in order to determine an appropriate premium for the risk in question. The purpose of underwriting is to diversify the underwriting risk in such a way that it is fair and equitable for the (re)insured and at the same time profitable for the (re)insurer.

UNDERWRITING RESULT (ALSO: TECHNICAL RESULT)
The balance of income and expenses allocated to the insurance business: the balance of > net premiums earned and claims and claims expenses (net), acquisition costs and administrative expenses (net), and the net other technical result, including amortisation of the shareholders' portion of the > PVFP but excluding consolidation differences from the consolidation of (technical) intercompany balances. > PVFP

UNEARNED PREMIUM RESERVE
Premiums written in a financial year that will be allocated to the following period in accordance with the matching principle.

UNIT-LINKED LIFE INSURANCE
Life insurance under which the level of benefits depends on the performance of an investment fund allocated to the policy in question.

VALUE AT RISK
A risk measure for determining potential losses that will not be exceeded for a certain probability in a given period.

VALUE OF NEW BUSINESS (LIFE)
The present value of future net income generated from the new business portfolios for the current year. It is calculated on the basis of the same operational assumptions as are used to determine the embedded value as at the end of the financial year.

VOLATILITY
A measure of the variability of securities prices, exchange rates and interest rates, as well as of insurance lines whose claims history can experience sharp fluctuations.

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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
HDI-Gerling Seguros Industriais, São Paulo
Hannover Rück (Representative Office), Rio de Janeiro
HDI Seguros, São Paulo

CANADA
HDI-Gerling industrial insurance (Branch), Toronto
International Insurance Company of Hannover (Branch), Toronto

CHILE
Aseguradora Magallanes, Santiago
HDI Seguros, Santiago

COLOMBIA
Hannover Rück (Representative Office), Bogotá

MEXICO
Hannover Services (México), Mexico City
HDI-Gerling de México Seguros, Mexico City
HDI Seguros, León

PERU
Aseguradora Magallanes, Lima

URUGUAY
HDI Seguros, Montevideo

USA
Hannover Life Re America, Orlando, Charlotte/Denver/New York
Hannover Re Services USA, Itasca/Chicago
HDI-Gerling America Insurance Company, Chicago

ASIA/PACIFIC

BAHRAIN
Hannover ReTakaful, Manama
Hannover Rueck (Branch), Manama
HDI-Gerling industrial insurance (Branch), Manama

CHINA
Hannover Rück (Branch), Hong Kong
Hannover Rück (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 Rück (Branch), Seoul

MALAYSIA
Hannover Rueck (Branch), Kuala Lumpur

RUSSIA
CiV Life, Moscow
HDI Strakhovanie, Moscow

SINGAPORE
HDI-Gerling industrial insurance (Branch), Singapore

TAIWAN
Hannover Rück (Representative Office), Taipei

AUSTRALIA

AUSTRALIA
Hannover Life Re Australasia, Sydney
Hannover Rueck (Branch), Sydney
HDI-Gerling industrial insurance (Branch), Sydney/Melbourne
International Insurance Company of Hannover (Branch), Sydney

EUROPE

AUSTRIA
HDI life insurance (Branch), Vienna
HDI insurance, Vienna

BELGIUM
HDI-Gerling industrial insurance (Succursale/Bijkantoor), Brussels

CZECH REPUBLIC
HDI insurance (Branch), Prague

DENMARK
HDI-Gerling Verzekeringen (Filial), Copenhagen

FRANCE
Hannover Rück (Succursale), Paris
HDI-Gerling industrial insurance (Branch), Paris

GREECE
HDI-Gerling industrial insurance (Branch), Athens

GERMANY
Ampega, Cologne
E+S Rück, Hannover
Hannover Rück, Hannover
HDI insurers, Hannover
HDI-Gerling industrial insurance, Hannover/Cologne
International Insurance Company of Hannover, Hannover
neue leben insurers, 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 (Rappresentanza), Milan

LUXEMBOURG
HDI-Gerling Assurance, Luxembourg
Talanx Finanz, Luxembourg

NETHERLANDS
HDI-Gerling industrial insurance (Branch), Rotterdam/Amsterdam
HDI-Gerling Verzekeringen, Rotterdam

NORWAY
HDI-Gerling industrial insurance (Filial), Oslo

POLAND
TU Europa Group, Wrocław
WARTA, Warsaw

SLOVAK REPUBLIC
HDI insurance (Branch), Bratislava

SPAIN
HDI-Gerling industrial insurance (Sucursal), Madrid/Barcelona
HR Hannover Re, Madrid

SWEDEN
Hannover Rück (Branch), Stockholm
International Insurance Company of Hannover (Branch), Stockholm

SWITZERLAND
HDI-Gerling industrial insurance (Branch), Zurich

TURKEY
HDI Sigorta, Istanbul

UKRAINE
TU Europa, Lviv
TUnŻ Europa, Lviv

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

AS AT: MARCH 2015

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11 May
Interim Report as at 31 March 2015

12 August
Interim Report as at 30 June 2015

17 September
Capital Markets Day

12 November
Interim Report as at 30 September 2015

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