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PERFORMANCE AND RESULTS

16

Group Annual Report 2016

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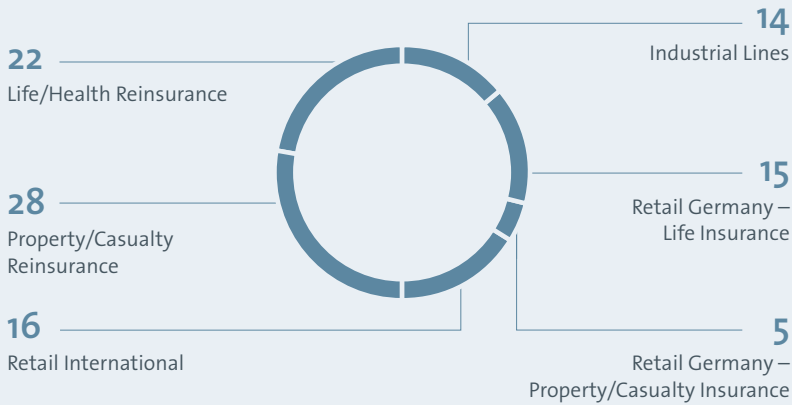
Insurance. Investments.

FINANCIAL HIGHLIGHTS

OPERATING PROFIT (EBIT)

EUR
2.3
BILLION

SEGMENTAL BREAKDOWN OF GROSS PREMIUMS %



GROSS WRITTEN PREMIUMS

EUR
31.1
BILLION

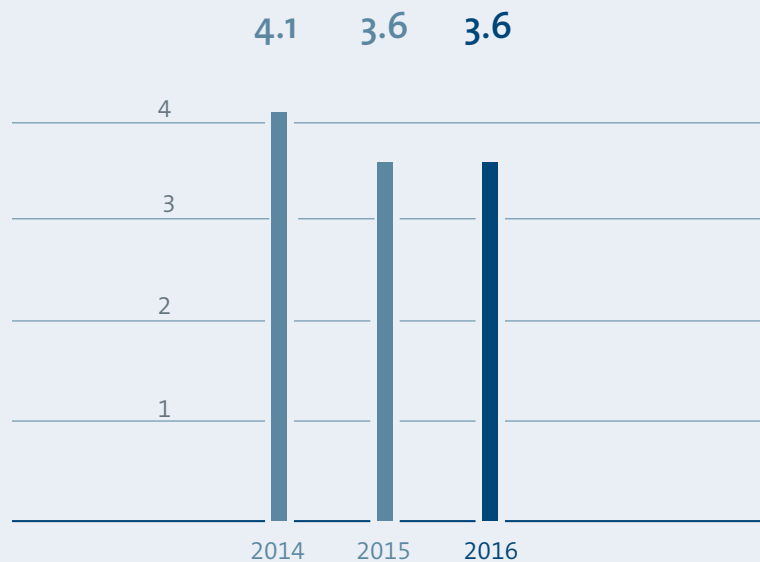
GROUP NET INCOME

EUR
907
MILLION

PROPOSED DIVIDEND PER SHARE

EUR **1.35**

NET RETURN ON INVESTMENT %



RETURN ON EQUITY

10.4%

THE TALANX GROUP AT A GLANCE

GROUP KEY FIGURES

	UNIT	2016	2015	2014	2013	2012
Gross written premiums	EUR MILLION	31,106	31,799	28,994	28,151	26,659
by region						
Germany	%	28	29	32	33	35
United Kingdom	%	9	9	9	10	11
Central and Eastern Europe (CEE), including Turkey	%	8	8	8	9	6
Rest of Europe	%	15	14	15	15	15
USA	%	15	14	12	13	13
Rest of North America	%	3	3	3	2	2
Latin America	%	8	8	7	7	7
Asia and Australia	%	12	13	12	9	9
Africa	%	2	2	2	2	2
Net premiums earned	EUR MILLION	25,742	25,937	23,844	23,113	21,999
Underwriting result	EUR MILLION	-1,520	-1,370	-2,058	-1,619	-1,447
Net investment income	EUR MILLION	4,023	3,933	4,144	3,792	3,795
Net return on investment¹⁾	%	3.6	3.6	4.1	4.0	4.3
Operating profit (EBIT)	EUR MILLION	2,300	2,182	1,892	1,766	1,748
Net income (after financing costs and taxes)	EUR MILLION	1,568	1,409	1,368	1,252	1,144
of which attributable to shareholders of Talanx AG	EUR MILLION	907	734	769	732	626
Return on equity²⁾	%	10.4	9.0	10.2	10.2	10.0
Earnings per share						
Basic earnings per share	EUR	3.59	2.90	3.04	2.90	2.86
Diluted earnings per share	EUR	3.59	2.90	3.04	2.90	2.86
Combined ratio in property/casualty primary insurance and Property/Casualty Reinsurance³⁾	%	95.7	96.0	97.9	97.1	96.4
Combined ratio of property/casualty primary insurers ⁴⁾	%	98.1	98.0	101.7	99.6	97.1
Combined ratio of Property/Casualty Reinsurance	%	93.7	94.5	94.7	94.9	95.8
EBIT margin primary insurance and Reinsurance						
EBIT margin primary insurance ⁴⁾	%	5.3	3.8	2.4	4.4	4.8
EBIT margin Property/Casualty Reinsurance	%	17.2	17.2	17.4	16.0	16.5
EBIT margin Life/Health Reinsurance	%	5.1	6.3	5.0	2.6	5.0
Policyholders' surplus	EUR MILLION	16,671	15,374	15,561	14,231	14,416
Equity attributable to shareholders of Talanx AG	EUR MILLION	9,078	8,282	7,998	7,127	7,153
Non-controlling interests	EUR MILLION	5,610	5,149	4,902	3,997	4,156
Hybrid capital	EUR MILLION	1,983	1,943	2,661	3,107	3,107
Assets under own management	EUR MILLION	107,174	100,777	96,410	86,310	84,052
Total investments	EUR MILLION	118,855	115,611	112,879	100,962	98,948
Total assets	EUR MILLION	156,571	152,760	147,298	132,793	130,350
Carrying amount per share	EUR	35.91	32.76	31.64	28.19	28.31
Share price at year end	EUR	31.77	28.55	25.27	24.65	21.48
Market capitalisation of Talanx AG at end of period	EUR MILLION	8,031	7,217	6,388	6,231	5,426
Employees	FULL-TIME EQUIVALENTS	20,039	20,334	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 annualised net income for the reporting period excluding non-controlling interests to average equity excluding non-controlling interests.

³⁾ Combined ratio taking into account interest income on funds withheld and contract deposits, before elimination of intra-Group cross-segment transactions.

⁴⁾ Excluding figures from the Corporate Operations segment.

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HERBERT K HAAS
Chairman

**“We achieved our good result
in an environment
that continues to be extremely
challenging.”**

*Dear shareholders,
Ladies and gentlemen,*

2016 was a successful financial year for Talanx. Despite a slight decline in premiums, we improved our Group net income considerably from EUR 734 million to EUR 907 million. That is an impressive gain of 24%. This positive development was due, on the one hand, to the pleasingly low burden from major losses. On the other hand, all the divisions performed better than expected. Moreover, there were also certain one-off tax effects. A stable level of investment income also contributed to the good result: despite the low interest-rate environment, the net return on investment was a commendable 3.6% (previous year: 3.6%). The return on equity increased from 9.0% to 10.4%, with a result per share of EUR 3.59 (previous year: EUR 2.90).

The comprehensive expertise and tireless work of our employees played a crucial role in this success and, on behalf of the Board of Management, I would like to extend my sincere thanks to them all for their great dedication to our Group and its stakeholders. Likewise, on behalf of all our employees, I would like to thank our customers in particular for their loyalty and solidarity with our Group.

In light of this good result, the Board of Management and Supervisory Board propose another dividend increase by 5 cents to EUR 1.35. This means that, since the IPO in December 2012,

the dividend has continually risen from EUR 1.05 by 30 cents or 29%. This translates to a dividend yield of 4.8% based on the average closing price of the Talanx share in calendar year 2016 (previous year: 4.6%). This proposal underlines our objective not only of guaranteeing an attractive and stable dividend level for our shareholders but also of raising this level further – given a corresponding earnings situation.

We achieved our good result in an environment that continues to be extremely challenging. The low-interest phase became even more acute during 2016. Bond yields in the eurozone fell once again – overall, we are anticipating a reduction in our annual net return on investment by 20 basis points due to this low-interest phase. Although the interest hike by the Federal Reserve in the USA at the end of the year gave rise to some hope and is having a positive effect on our investments held in dollars, we do not expect the European Central Bank to turn away from its policy of cheap money.

The markets in our Reinsurance and Industrial Lines Divisions remain extremely competitive, just like the cut-throat competition in the saturated German retail business.

These insurance-specific market conditions are coupled with geopolitical challenges such as the British vote to leave the European Union and the uncertainty about the future path of the new US government. We do not anticipate that Brexit will impair our business relations with our British customers in the long term; we believe that Great Britain will remain an important and attractive insurance market for our Group.

There were very few claims from extreme major natural disasters in 2016. Nevertheless, the largest single loss to the Group came from the forest fires in Canada, which placed a burden of EUR 125 million on our reinsurance business. Overall, we registered a decline in the major-loss burden by EUR 39 million to EUR 883 million, which was therefore far below the expected value of EUR 1,125 million. The combined ratio therefore improved by 0.3 percentage points to 95.7%.

In these times of great uncertainty, we have concentrated on the essentials: the excellent result shows that our strategy of recent years aimed at internationalisation and diversification is both correct and successful. Our aim is to generate more than 50% of our primary insurance premiums abroad by 2018, while the foreign share of premium income should reach at least 65% in the Industrial Lines Division by 2019. We moved closer to these goals in the 2016 financial year: 49% of our primary insurance premiums come from abroad, and in Industrial Lines the level is even already at 61%.

In the German retail business, the investment, growth and efficiency-improving programme "KuRS", which is designed to run until 2021, began to gather steam. The aim is to reduce our cost base by about EUR 240 million by 2021. At the same time, we will be investing a little over EUR 400 million during this period in a number of areas, including in portfolio management systems, to modernise the IT in this division. In the property business, the aim is to largely automate the processes, to adapt customer interfaces to the particular needs and to digitalise them. In the area of provision products, we will standardise our different portfolio management systems and save operating costs. These initiatives will improve the efficiency of the division. At the same time, however, automation and digitalisation also mean that the personnel requirement will be reduced in the long term. We have fundamentally reached an agreement with our social partners about the necessary cutting of a total of 930 jobs. The necessary partial reconciliations of interests have been signed.

In the Industrial Lines Division, the portfolio optimisation in Germany in the context of the "Balanced Book" programme

has borne fruit and the ratio of premiums to accepted risk has improved. This programme will also be continued during the current financial year. In addition, this division is also working on system improvements by reducing the level of complexity in its IT and in its customer relationships. The new mid-market strategy is also being pursued consistently. Regional offices are being opened in selected markets to allow us to cater better for small and medium-sized corporate customers in an integral way. In Great Britain, we have opened an office in Glasgow as well as one in Genoa/Italy and one in Lyon/France.

In the Retail International Division, our local companies have continued to perform positively and generally better than other market participants – despite considerable operative challenges such as the newly introduced asset tax in Poland, the severe economic crisis in Brazil and burdens due to currency effects. Following the merger with the Inversiones Magallanes Group, Chile has asserted itself as the fifth core market alongside Brazil, Mexico, Poland and Turkey.

Global digitalisation initiatives are paying off: in Brazil, HDI Digital has been working for a long time with extremely innovative ideas and approaches. These approaches have also been adopted in the motor business in Poland and now in Germany. We are now able to make price adjustments online in seconds and to respond extremely quickly to the competition and to new opportunities. As well as the motor business, this approach is to be expanded to include other insurance lines. We have introduced corresponding digital apps in Poland and Germany which help to process motor claims quickly and easily.

Dear shareholders, in the completed 2016 financial year, we were able to achieve initial, important successes with our strategic initiatives and the launched investment, growth and efficiency-improving programmes. The key now is to continue following these strategic paths and implementing the resulting measures consistently. We are convinced that in this way we are increasing the value of your Group sustainably and in the long term.

Thank you for your confidence in us and we look forward to your continued support.

Yours faithfully,



Herbert K Haas





BOARD OF MANAGEMENT

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

BOARD OF MANAGEMENT

Herbert K Haas

Chairman

Burgwedel

Chairman of the Board of Management,
HDI Haftpflichtverband der Deutschen
Industrie V.a.G., Hannover

Responsible on the Talanx Board
of Management for:

- Auditing
- Communications
- Corporate Development
- Corporate Office/Compliance
- Data Protection
- Information Technology
- Investor Relations
- Legal

Dr Christian Hinsch

Deputy Chairman

Burgwedel

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

Responsible on the Talanx Board
of Management for:

- Industrial Lines Division
- Facility Management
(until 31 December 2016)
- Human Resources
(until 31 December 2016)
- Procurement
(until 31 December 2016)
- Reinsurance Captive
- Reinsurance Procurement

Torsten Leue

Hannover

Chairman of the Board of Management,
Talanx International AG, Hannover
Member of the Board of Management,
HDI Haftpflichtverband der Deutschen
Industrie V.a.G., Hannover
(since 1 January 2017)

Responsible on the Talanx Board
of Management for:

- Retail International Division
- Facility Management
(since 1 January 2017)
- Human Resources
(since 1 January 2017)
- Procurement
(since 1 January 2017)

Dr Immo Querner

Celle

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

Responsible on the Talanx Board
of Management for:

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

Ulrich Wallin

Hannover

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

Responsible on the Talanx Board
of Management for:

- Reinsurance Division

Dr Jan Wicke

Hannover

Chairman of the Board of Management,
Talanx Deutschland AG, Hannover

Responsible on the Talanx Board
of Management for:

- Retail Germany Division
- Business Organisation

SUPERVISORY BOARD

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

Ralf Rieger*
Deputy Chairman
Raesfeld
Employee,
HDI Vertriebs AG

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

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

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

Jutta Hammer*
Bergisch Gladbach
Employee,
HDI Kundenservice AG

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

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

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

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

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

Otto Müller*
(until 31 December 2016)
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
Professor,
University of Lüneburg,
Leuphana Law School

Jörn von Stein*
(since 1 January 2017)
Employee,
neue leben Lebensversicherung AG

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

* Staff representative

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

SUPERVISORY BOARD COMMITTEES

COMPOSITION AS AT 31 DECEMBER 2016

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
- Ralf Rieger
- Prof Dr Eckhard Rohkamm
- Dr Erhard Schipporeit

Personnel Committee

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

Standing Committee

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

Nomination Committee

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

TASKS OF THE COMMITTEES

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

Finance and Audit Committee

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

Personnel Committee

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

Standing Committee

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

Nomination Committee

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

REPORT OF THE SUPERVISORY BOARD

Ladies and Gentlemen,

The Supervisory Board fulfilled its tasks and duties in accordance with statutory requirements, the Articles of Association and the Rules of Procedure without restriction again in financial year 2016. We considered the economic situation, risk position and strategic development of Talanx AG and its major subsidiaries in both Germany and foreign core markets at length. We advised the Board of Management on all key matters for the Company, continuously monitored its management of the business and were directly involved in decisions of fundamental importance.

In the reporting period, we convened for four ordinary meetings of the Supervisory Board – on 18 March, 12 May, 11 August and 14 November 2016. Two representatives of the Federal Financial Supervisory Authority (BaFin) took part in one of these meetings as a matter of routine. The Supervisory Board's Finance and Audit Committee held four 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 2016. The full Supervisory Board was briefed on the work of the various committees. In addition, we received written and verbal reports from the Board of Management on business operations and the position of the Company and the Group, based on the quarterly financial reports and the interim financial statements. At no point during the year under review did we consider it necessary to perform inspections or investigations in accordance with section 111(2) sentence 1 of the German Stock Corporation Act (AktG). Where transactions requiring urgent approval arose between meetings, the Board of Management submitted these to us for a written resolution in accordance with the procedure laid down by the Chairman of the Supervisory Board. The chairmen of the Supervisory Board and of the Board of Management regularly exchanged information and views on all material developments and transactions within the Company and the Talanx Group. Overall, we satisfied ourselves of the lawfulness, fitness for purpose, regularity and efficiency of the actions taken by the Board of Management in line with our statutory responsibilities and our terms of reference under the Articles of Association.

The Board of Management provided us with regular, timely and comprehensive information regarding the business situation and financial position, including the risk situation and risk management, major capital expenditure projects and fundamental issues of corporate policy. We were also informed of transactions that – although not subject to the approval of the Supervisory Board – need to be reported in accordance with the requirements of the Rules of Procedure, as well as of the impact of natural disasters and other major losses, the status of major lawsuits and other material developments within the Company and the Group, and in the regulatory environment (Solvency II, fit and proper

requirements). As in the previous year, we again arranged to be informed continuously about the status of any outstanding approval processes for the internal model. At our meetings, we considered at length the reports provided by the Board of Management and put forward suggestions and proposed improvements. 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 divisions; the challenges facing the German life insurance business due to the persistently low interest rates and the economic situation of the domestic life-insurance companies in the Group; also potential acquisition projects abroad and our planning for 2017. We were informed of, and developed an understanding of, the reasons for divergences between actual and planned business developments for the preceding quarters.

We also arranged for a survey of digitalisation within the Group. We discussed issues regarding the Group financing and also passed resolutions on the financial statements and the refinancing of a credit line.

Risk management within the Group was another focus of our deliberations, as in past years. The risk reports by the Board of Management were discussed at each Supervisory Board meeting. We arranged for the extended reporting requirements under Solvency II to be explained, and discussed the resulting obligations for the Supervisory Board. In light of this, the information policy document for the Supervisory Board, among other documents, was revised and restructured. In addition, we considered a number of acquisition projects in the fields of primary insurance and reinsurance, and called for reports on a cost-restriction project and on the cost situation compared with competitors. Moreover, we updated the Rules of Procedure for the Board of Management and the Supervisory Board, and noted divestments and/or the lack of any increase in investments in countries in which continued commitments appeared dubious from an economic perspective. The Supervisory Board approved the suspension and re-conclusion of a control and profit/loss transfer agreement in the Retail Germany Division.

According to the normal cycle, the Supervisory Board discussed questions relating to the reappointment of Members of the Board of Management. It also resolved to extend the terms of office on the Board of Management of Mr Haas and Mr Wallin, which were due to expire in 2017.

In keeping with section 87(1) of the AktG, the full Supervisory Board addressed the setting of divisional targets for 2017 and the determination of the bonuses for the Members of the Board of Management, and also consulted external sources in its assessment of the appropriateness and structure of the remuneration of the Board of Management. The fixed remuneration of two members of the Board of Management was also reviewed, with horizontal and vertical aspects of remuneration and remuneration concepts being used for comparison and guidance purposes. The appropriateness of the remuneration for the Board of Management members was addressed at the Supervisory Board meeting on 18 March 2016.

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

WORK OF THE COMMITTEES

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

Along with preparing the discussions and resolutions for the full Supervisory Board, the Finance and Audit Committee also carried out in-depth reviews not only of the Company's and Group's interim financial statements and quarterly reports together with the financial-statement components and key indicators, but also of the results of the review conducted by the auditors. Furthermore, the Finance and Audit Committee discussed the findings of an external actuarial audit of the gross and net claims reserves for the Talanx Group's property/casualty insurance business, along with the results of an M&A performance analysis of the individual Group companies. On a routine basis, we focussed on the risk reports, were given an overview of IFRS 4 and IFRS 9 and examined the results of a follow-up analysis of the status of the risk management in the Talanx Group. The committee also received the annual reports of the four key functions (Risk Management, Actuarial, Auditing and Compliance), which were each prepared and presented to us by the responsible heads of these functions.

The Finance and Audit Committee dedicated a considerable share of its efforts to reporting on the German auditor supervision reform act (Abschlussprüferaufsichtsreformgesetz, APAREG) and the resulting

considerations and measures. After it was agreed at a very early stage to change the audit company that audits the individual and consolidated financial statements of the Company for the financial year 2018, a project was initiated to prepare and implement the invitation-to-tender process. At an extraordinary meeting of the Committee on 30 November 2016, three audit companies presented their tenders, which had been submitted in writing, and held additional presentations. The validation of the report produced by the Company concerning the conclusions reached during the selection procedure by the Finance and Audit Committee and the committee resolutions that must be passed as a result will be carried out during the financial year 2017.

Along with preparing the discussions and resolutions by the full Supervisory Board, in particular on reappointments, the Personnel Committee set interim personal targets for the individual Members of the Board of Management for the financial year 2017. In the course of defining the Board of Management bonuses, reviewing the fixed remuneration and setting the divisional targets for 2017 for the Members of the Board of Management responsible for the respective divisions, recommendations were also given to the full Supervisory Board.

CORPORATE GOVERNANCE AND DECLARATION OF CONFORMITY

The Government Commission on the German Corporate Governance Code did not make any amendments to the German Corporate Governance Code (the "Code") during 2016. Nevertheless, the Supervisory Board again paid great attention to the subject of corporate governance. For instance, the efficiency of the Supervisory Board's activities was again evaluated in accordance with section 5.6 of the Code, and the results of this review and the derived optimisation measures were discussed and passed.

In addition, the Supervisory Board received a report on the structure of remuneration systems, as well as the risk reports. In 2016, the Company also offered an internal training event to all Members of the Supervisory Board. A majority of the members used the opportunity to find out more about risk management in the Group and about liability issues, and to gain a deeper understanding of this material. Although the Supervisory Board attaches great importance to the standards for good, responsible enterprise management as formulated in the German Corporate Governance Code, it has decided against complying with the recommendations of section 4.2.3(4) of the Code relating to a severance payment cap in Board of Management contracts, of section 5.2(2) regarding the chairmanship of the Audit Committee, and of section 4.2.3(2) regarding the potential need for a cap on the payment of Talanx share awards. The reasons for this are stated in the Declaration of Conformity in accordance with section 161 of the AktG on observance of the German Corporate Governance Code, which is published in the Group Annual Report as part of the Declaration on Corporate Governance. Further information on Corporate Governance can be found on Talanx AG's website.

AUDIT OF THE ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

The Talanx AG annual financial statements submitted by the Board of Management, the financial statements of the Talanx Group, which were prepared in accordance with the International Financial Reporting Standards (“IFRS”) as adopted by the European Union, and the corresponding management reports were audited in collaboration with the accounting services of KPMG AG, Wirtschaftsprüfungsgesellschaft, Hannover. The auditors were appointed by the General Meeting. The Finance and Audit Committee issued the detailed audit mandate and determined that, in addition to the usual audit tasks, special attention should be given in the annual and consolidated financial statements to examining the effectiveness of the accounting-related internal control system and its integrity and, with regard to the consolidated financial statements, also to reviewing the carrying amounts and the processes for determining and checking the carrying amounts for the balance-sheet items of holdings, real estate, other assets, and in particular owner-occupied real estate. 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 16 March 2017 and at the Supervisory Board meeting on 17 March 2017. The auditor took part in the discussions by the Finance and Audit Committee and the full Supervisory Board regarding the annual and consolidated financial statements, reported on the performance of the audits and was available to provide the Supervisory Board with additional information. On completion of our own examination of the annual financial statements, the consolidated financial statements, the corresponding management reports and the audit reports by the external auditors, we concurred with the opinion of the auditors in each case and approved the annual and consolidated financial statements prepared by the Board of Management.

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

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

“Following the completion of our audit, which was carried out in accordance with professional standards, we confirm that

1. The information contained in the report is correct,
2. The compensation paid by the company with respect to the transactions listed in the report was not inappropriately high.”

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

COMPOSITION OF THE SUPERVISORY BOARD AND BOARD OF MANAGEMENT

The composition of the Supervisory Board, its committees and the Board of Management did not change in the year under review. Mr Otto Müller resigned his seat as a member of the Supervisory Board as from midnight on 31 December 2016, and so left his role as an employee representative on the Supervisory Board. The Supervisory Board expressed its thanks and appreciation for his many years of work on the full Supervisory Board and also on the Finance and Audit Committee since 2014. With effect from 1 January 2017, Mr Jörn von Stein was appointed as an employee representative on the Supervisory Board of Talanx AG as an elected substitute for Mr Müller.

The appointment of Dr Christian Hinsch as Director of Labour Relations was terminated by mutual agreement – also with effect from midnight on 31 December 2016. Mr Torsten Leue was appointed as his successor with effect from 1 January 2017.

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

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

Hannover, 17 March 2017

For the Supervisory Board
Wolf-Dieter Baumgartl
(Chairman)

OUR SHARES

CAPITAL MARKET ENVIRONMENT

In the year under review, the capital market environment was characterised not only by the continuation of geopolitical crises but particularly also by political surprises (including the Brexit vote in the United Kingdom, the election of the new US President and the constitutional referendum in Italy). Moderate economic growth continued in most parts of Europe. While the Federal Reserve in the USA raised the prime rate slightly in December 2016, the ECB initially continued its extremely expansive money-market policy with a prime rate of 0% and additional bond purchases. Even though the yields on ten-year German government bonds stood at year-end approximately 40 basis points above the yields at the end of the third quarter, they still fell 40 basis points below the levels as at the end of 2015. The risk premiums on spread instruments also increased slightly in most cases. Despite the political uncertainties, the equity markets held their own well overall and registered slight gains over the year under review. The DAX closed the year 2016 with a gain of 6.9%, while the MDAX gained 6.8%. Both indices were able to process both the weak period at the beginning of the year and the referendum on the United Kingdom exit from the EU relatively quickly, for the time being. The insurance shares, on the other hand, performed below average, partly affected by concerns about the persistently low interest-rate level. The STOXX Europe 600 Insurance Index fell in the past financial year by 1.4% compared to year-end 2015, taking dividend payments into account.

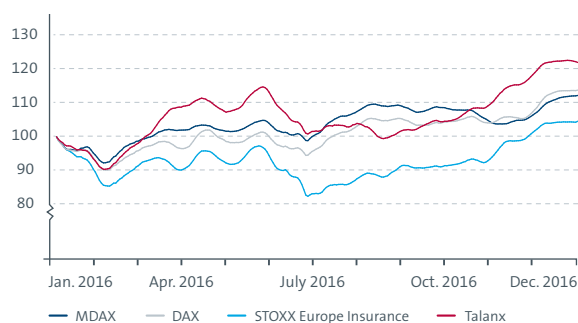
OUR SHARE PRICE PERFORMANCE

Against this background, the Talanx share closed at EUR 31.77 (XETRA), which corresponds to a gain of 11.3% (XETRA closing price in 2015: EUR 28.55), a pleasing double-digit percentage increase. Adding the dividend of EUR 1.30 paid in May 2016 gives a total yield of 15.8% for the year 2016 – a considerable outperformance compared to the best-known German indices, DAX and MDAX, and particularly compared to the STOXX Europe 600 Insurance Index, the European

industry index. In the context of the market-wide price weakness at the beginning of the year, the Talanx share price initially fell to a level of about EUR 24, but then climbed again at the beginning of the second quarter to a price of EUR 30. Following a strong consolidation in the early summer, the share price increased more considerably in the second half of the year, reaching a new record high in December 2016 (historic high based on the XETRA closing price: EUR 32.05 on 27 December 2016), which was almost maintained until the end of the year at EUR 31.77.

TALANX SHARE PERFORMANCE INDEX COMPARISONS

1.1.2016 = 100



INDEX MEMBERSHIP AND STOCK EXCHANGES

Talanx shares have been included in the MDAX, Germany's second most important benchmark index, and have been listed on the Frankfurt Stock Exchange (Prime Standard) and on the Hannover Stock Exchange since 2012. This makes them attractive to index-oriented investors and contributes to a good presence in the media and thus in the public eye generally. Talanx shares have also been listed on the Warsaw Stock Exchange since April 2014.

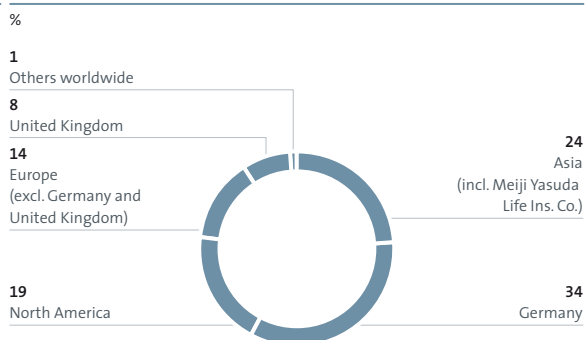
During the year under review, the shareholder structure at Talanx AG did not change in accordance with the definition of the German Stock Exchange. The free float of Talanx AG still stands at 21%, the same as at the end of the previous year. In addition to HDI V. a. G. (79% share of Talanx AG), the Japanese insurance group Meiji Yasuda also holds a share above the reporting threshold of 3% in the share capital of Talanx AG. However, as this share amounts to less than 5%, Meiji Yasuda shareholding is allocated to the free float in accordance with the definition of the German Stock Exchange. The majority of the free float is held by European investors, whereas just under one fifth of the shares from the free float can now be attributed to investors from North America. The high share of Asian minority shareholders is mainly due to the share ownership at Meiji Yasuda. Private shareholders make up at least one quarter of the free float.

CAPITAL MARKET COMMUNICATION

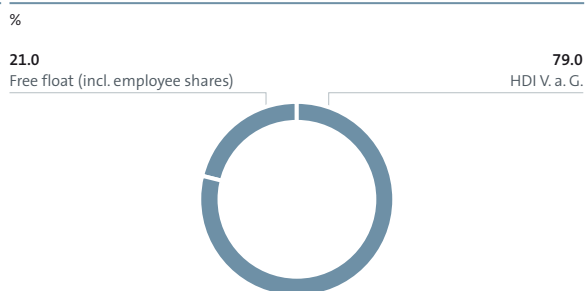
The aim of our investor relations (IR) work in the past financial year was again to further increase awareness of Talanx AG and its equity story in the capital markets, particularly in anglo-saxon countries, and to strengthen our contacts with existing investors. Our ambition here was also to successively attract new investors for our shares. Shareholders, potential investors and other parties with an interest in our shares received regular accounts on our corporate development. In 2016, the Talanx AG Board of Management participated in ten investor conferences in international financial centres such as New York, London, Frankfurt, Berlin and Munich. They also selectively visited investors in the context of roadshows, such as in Chicago, Toronto, London, Frankfurt, Zürich, Paris and Dublin. In addition, Talanx AG's IR managers took part in other investor conferences and roadshows in Germany and around the world. Overall, just under 200 meetings with institutional investors were held in the reporting period. Moreover, Investor Relations staff were actively involved in a number of major events with the aim of raising awareness of Talanx shares among retail investors.

The fourth Talanx AG Capital Markets Day took place in November 2016 in Frankfurt/Main, Germany. Members of the Board of Management of the Talanx Group, together with other members of the senior management, gave a detailed insight there into the Retail Germany Division in particular. The management explained the new strategy in the life insurance business and the consistent focus on automation and the digitalisation both in the Property/Casualty and Life Insurance business with the planned measures to improve efficiency and profitability. The 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).

COMPOSITION OF THE MINORITY SHAREHOLDERS AS AT 31.12.2016



SHAREHOLDER STRUCTURE AS AT 31.12.2016



The next Capital Markets Day is due to take place in London on 23 November 2017.

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

Research reports issued by banks and brokers constitute another valuable source of information for investors and increase transparency. We therefore pay close attention to the financial analysts who create and publish independent earnings estimates and share recommendations for us. At the end of the year under review, 18 (in the previous year: 20) analysts gave an investment assessment for Talanx share.

DIVIDEND POLICY

A continuous dividend policy is one of Talanx AG's goals. This means that the aim of achieving the payout 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. For the financial year 2015, Talanx AG paid a dividend of EUR 1.30; that corresponds to a payout rate of 37.0% – when adjusted for the depreciation of goodwill in the amount of EUR 155 million in the Retail Germany Division. Without such adjustment, the payout rate would have been 44.8%.

The Board of Management and Supervisory Board will propose a dividend of EUR 1.35 per share to Talanx AG's Annual General Meeting for the past financial year 2016. Based on the annual average price of EUR 27.93, this results in a dividend yield of 4.8%. The payout rate, based on IFRS earnings per share, is 37.6%.

The Annual General Meeting will be held on Thursday, 11 May 2017 in the Kuppelsaal of the Hannover Congress Centrum (HCC).

GENERAL INFORMATION ON TALANX SHARES

German securities identification number (WKN)	TLX100
ISIN	DE000TLX1005
Trading symbol (XETRA)	TLX
Share class	No-par value ordinary registered shares
Number of shares	252,797,634
Year-end closing price ¹⁾	EUR 31.77
Annual high ¹⁾	EUR 32.05
Annual low ¹⁾	EUR 23.62
Stock exchanges	XETRA, Frankfurt, Hannover, Warsaw
Trading segment	Prime Standard of the Frankfurt Stock Exchange

Share prices: XETRA

¹⁾ Based on XETRA daily closing prices.

1

COMBINED MANAGEMENT REPORT

FOUNDATIONS OF THE GROUP

THE TALANX GROUP

BUSINESS MODEL

The Talanx Group operates as a multi-brand provider in the insurance and financial services sector. It employed 21,649 people worldwide at the end of 2016. 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 110 years ago, is the majority shareholder in Talanx AG and holds an interest of 79.0%. The holding of strategic partner Meiji Yasuda Life Insurance Company, Japan, formerly the largest minority shareholder, is below the threshold of 5.0% of the share capital. Including employee shares amounting to 0.1%, 21.0% of the shares are held in free float, unchanged to the previous year.

The Group companies operate the insurance classes specified in the Regulation on Reporting by Insurance Undertakings to the Federal Financial Supervisory Authority, partly in the direct written insurance business and partly in the reinsurance business, focusing on various areas: life insurance, casualty insurance, liability insurance, motor insurance, aviation insurance (including space insurance), legal protection insurance, fire insurance, burglary and theft insurance, water damage insurance, plate glass insurance, windstorm insurance, comprehensive householders insurance, comprehensive home-owners insurance, hail insurance, livestock insurance, engineering insurance, omnium insurance, marine insurance, credit and surety business (reinsurance only), extended coverage for fire and fire loss of profits insurance, business interruption insurance, travel assistance insurance, aviation and space liability insurance, other property insurance, other property 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 the internationally aligned Industrial Lines, for example, are product development, sales and underwriting, including the relevant technical supervision. The core processes in the retail segments include product development, rate setting, sales, as well as product management and marketing. Sales, product development and underwriting also play a significant role in the two reinsurance segments. From the Group's perspective, the Corporate Operations segment is responsible for asset management, corporate development, risk management, human resources and other services.

LEGAL AND REGULATORY ENVIRONMENT

To protect their customers and guarantee the stability of the financial markets, insurance companies (primary and reinsurance companies), banks and asset management companies around the world are subject to special, complex legal regulations. In recent years, not least in light of the financial crisis in the years 2007 to 2010, the prudential requirements for supervised companies have developed significantly, and are now much more stringent and complex.

With the coming into force of the new Insurance Supervision Act (VAG) in the Federal Republic of Germany and the Delegated Regulation of the European Commission on 1 January 2016, this development has now peaked for the time being. As a result of the thus implemented Solvency II directive, a three pillar approach is now in use. The (quantitative) Pillar I contains detailed regulations about the necessary capital resources of insurance companies. In order to calculate their specific capital requirement, the companies can either use a statutory standard model or else their own internal model. For the Group and for key insurance companies of the Group, Talanx uses a partial internal model already approved by the Federal Financial Supervisory Authority (BaFin) in November 2015, which, in terms of its applicability at the level of the individual insurance companies, was expanded with the approval decision of BaFin as at October 2016 to include the key domestic life insurance companies.

Pillar II deals with the qualitative risk management system and primarily contains requirements for the business organisation of the insurance company. Pillar III regulates the reporting obligations of insurance companies, and in particular reporting obligations to the supervisory authorities and the general public. In addition, the implementation of Solvency II has introduced changes in the area of the supervision of insurance groups, which will also impact upon the Talanx Group. For example, with effect from 1 January 2016 there is now a group supervision function in which BaFin, the national insurance supervisor for the main parent company (and the Group supervisory authority), will work together with the national supervisory authorities of the respective foreign Group companies and the European Insurance and Occupational Pensions Authority (EIOPA) as a joint supervisory body.

Even after the new Insurance Supervision Act (VAG) came into effect, the development of statutory supervisory regulation continued to maintain its fast pace. Only six months after coming into effect, the Insurance Supervision Act (VAG) was supplemented by the First Act Amending Financial Markets Regulations, which came into force on 2 July 2016, and section 23(6) VAG was newly inserted. Insurance companies are now obliged to establish an internal whistleblower system, where employees can report specific offences within the company in complete confidentiality. The Talanx Group has already had such a whistleblower system in place for quite some time.

Through the publication in the Federal Gazette of 21 April 2016, the Federal Ministry of Finance used the powers granted by the new VAG to issue statutory ordinances and to replace the ordinances that became void at the end of 2015 with new ones.

In relation to the implementation of Solvency II, EIOPA is also continuing to publish numerous guidelines and implementing technical standards, as well as corresponding consultation documents. In recent months, BaFin has published several interpretive decisions in order to firm up the supervisory requirements. The scope of these publications and their level of detail have led, industry-wide, to a considerable, and at times almost overwhelming rise in often extremely detailed and binding regulatory framework conditions as well as, increasingly, to contradictions with respect to the published documents of EIOPA itself and the interpretive decisions of BaFin.

Against the backdrop of the Insurance Distribution Directive (IDD) which is to be implemented in Germany by 23 February 2018, EIOPA published its preparatory guidelines for internal company product oversight and governance (POG) requirements in a final report in April 2016. The specifications focus on ensuring sufficient consideration of consumer interests in product design and distribution management, but are not restricted to the purely consumer business. The specifications are aimed at the responsible supervisory authorities. BaFin has announced that it will not take these provisions into account until the IDD is implemented in Germany. This applies to the content of the EIOPA guidelines, but also to the delegated regulation that the EU Commission will issue for product development. Even now, we can see that the implementation of the IDD and the associated directives will bring with it additional requirements in relation to product monitoring and product governance of insurance products for insurance companies, but also for insurance brokers.

On 19 October 2016, BaFin presented a revised draft of the “Minimum Supervisory Requirements for the Business Organisation of Insurance Companies (MaGo)” for public consultation. MaGo is aimed at all primary and reinsurance companies that are subject to Solvency II, as well as at insurance holding companies. MaGo aims to translate the provisions of the VAG and of the Commission Delegated Regulation (EU) 2015/35 that are relevant for the business organisation into the supervisory practice of BaFin and to realise the EIOPA guidelines as a governance system. Specifically, the requirements pertaining to general governance, key functions, the risk management system, own funds requirements, internal control system, outsourcing and emergency plans are transcribed in more detail. Areas where BaFin has already published separate stipulations, such as requirements regarding professional competence and reliability or the prudent person principle, are not covered by MaGo.

The insurance companies of the Talanx Group are heavily reliant on the collection of personal data. Data is collected, inter alia, to process applications, contracts and benefit settlements, and is processed and used to provide needs-based advice to insured parties. The employees of the companies of the Talanx Group are aware of their corresponding responsibility to handle personal data appropriately. Safeguarding the rights of insured parties and protecting their

privacy are key objectives of all Group companies. In May 2016, the EU General Data Protection Regulation (GDPR) came into force with its publication in the Official Journal of the EU. Following a two-year implementation period, the GDPR will become legally binding in the EU, including in the Federal Republic of Germany, on 25 May 2018. Against this backdrop, a project was initiated to realise the implementation of the new statutory requirements in time. Legal uncertainties are arising here as it cannot be foreseen to what extent the German legislators will yet adopt deviations as part of an amendment of the Federal Data Protection Act from among the almost 50 exemption clauses of the Regulation.

In March 2016, the UCITS V Implementation Act also came into effect. This act transposes the provisions of the European UCITS V Directive (the fifth Directive on undertakings for collective investment in transferable securities [UCITS]) into German law. The UCITS V Implementation Act not only brings with it changes that are required by the Directive; it further gives rise to a considerable need for adjustment for the asset management companies of the Talanx Group, and, with the law reforming investment taxation (Investment Tax Reform Law [InvStRefG]) passed in 2016, further wide-ranging actions are already required in this sector.

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

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

GROUP STRUCTURE

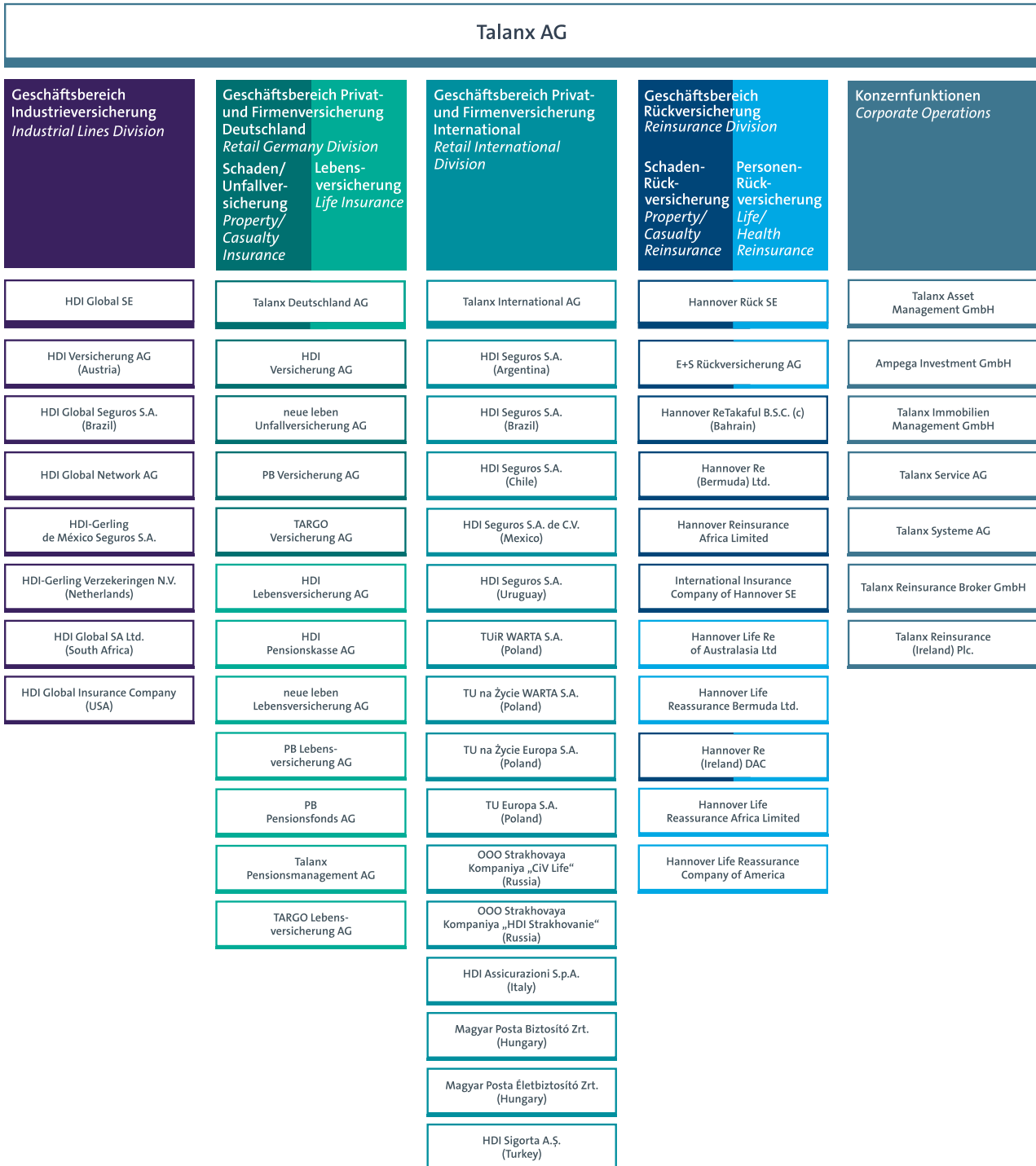
The Group adapted its structure as at 30 June of the reporting period due to a change in its management: accordingly, it divided its business activities into "Insurance" – with six, where previously there had been five, reportable segments – and "Corporate Operations", as the seventh segment.

In primary insurance, we act with the three divisions which span the various lines of business, Industrial Lines, Retail Germany – with the Property/Casualty Insurance and Life Insurance segments – and Retail International. One member of the Board of Management is responsible for each of these divisions. Industrial Lines operates worldwide; insofar as possible, it is independent of third companies and is therefore able to lead international consortia through its own companies. Companies offering insurance to retail clients and small and medium-sized companies in Germany are consolidated in the Retail Germany Division. The Retail International Division focusses primarily on the strategic core markets of Latin America, as well as Central and Eastern Europe including Turkey.

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

The Corporate Operations segment includes Talanx AG, which primarily performs strategic duties 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) Plc. and services in the area of finances; Talanx Asset Management GmbH, Ampega Investment GmbH and Talanx Immobilien Management GmbH are primarily concerned with managing the Group's investments.

GROUP STRUCTURE



Nur die wesentlichen Beteiligungen
Main participations only

Stand / As at: 31.12.2016

STRATEGY

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

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

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

Lean, efficient and standardised business processes combined with a state-of-the-art and uniform IT structure and our innovation and digitalisation strategy 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. By giving that assurance, we serve the interests of our shareholders, clients, employees and other stakeholders, and create the greatest possible benefit for all concerned.

Our human resources strategy is described in detail in the "Other success factors" section on pages 62ff and our risk management approach is described in the risk report on pages 94ff. 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 IFRS and benchmarked against Europe's 20 largest insurance companies. 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 IFRS.

CAPITAL MANAGEMENT

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

This is achieved in two ways. Firstly, we 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.

GROWTH TARGET

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

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

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

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

ENTERPRISE MANAGEMENT

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

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

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

The dominant strategic goal of sustainable economic value creation is measured in the Group using the intrinsic value creation (IVC) strategic management metric, which we analyse as a five-year average over a multi-year period. This ensures that management decisions are not based on results for just one year, which could be too volatile. IVC measures the economic net income less the cost of capital (for calculation see the figure on the following page). In addition to net income for the year under IFRS, 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 property/casualty insurance and the change in the non-capitalised value of in-force business in life insurance. Cost of capital in property/casualty insurance includes costs associated with the maintenance of the required risk capital under supervisory law (solvency capital required) and the cost of excess capital. It consists of the risk-free interest rate as the five-year average for ten-year German government bonds, a friction cost rate of 2% and, in relation to the solvency capital required, an

additional risk margin of 4%. The cost rates apply on the basis of a value at risk of 99.5%, which corresponds to the confidence level required under supervisory law. In the life insurance business, we take the roll forward into account as cost of capital in the Solvency II own funds calculation; this reflects expected changes in the value of in-force business.

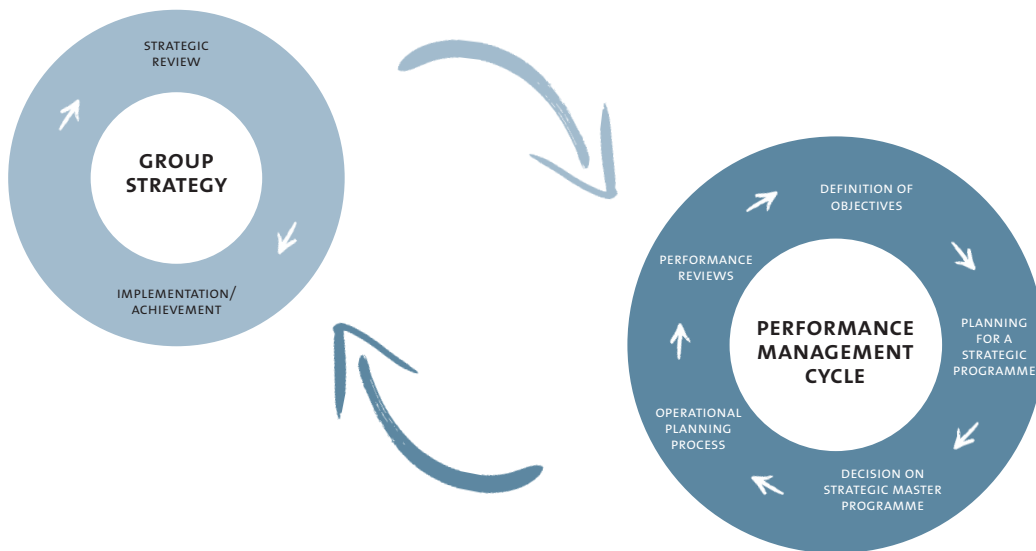
PERFORMANCE MANAGEMENT

Performance management is at the heart of our central management system. Our systematic approach sets out a clear strategy for

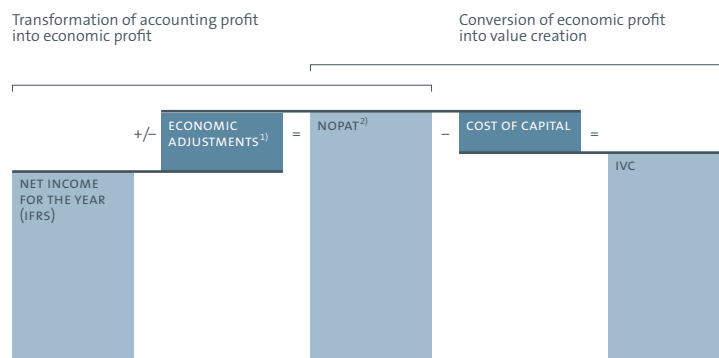
ensuring the Group's long-term viability and its implementation. This is key to efficient enterprise and group management. Since mismanagement is very often due to inadequate implementation of the strategy, we devote particularly close attention to the steps of the process that serve to ensure that our business operations are in line with our strategic objectives.

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

PERFORMANCE MANAGEMENT CYCLE



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

As of financial year 2016, the Talanx Group has further detailed the future of operational management at segment level. In terms of operational management, the Retail Germany Division is considered in the segments property/casualty Insurance and life Insurance. The operational management metrics at segment level shown in the table are restricted to solely financial performance indicators.

OVERVIEW OF OPERATIONAL MANAGEMENT METRICS IN THE GROUP

Industrial Lines Division	Retail Germany Division		Retail International Division	Reinsurance Division		Group
	Property/Casualty Insurance segment	Life Insurance segment		Property/Casualty Reinsurance segment	Life/Health Reinsurance segment	
Gross premium growth (adjusted for currency effects)	Gross premium growth	Gross premium growth	Gross premium growth (adjusted for currency effects)	Gross premium growth (adjusted for currency effects)	Gross premium growth (adjusted for currency effects)	Gross premium growth (adjusted for currency effects)
Retention	—	New business margin ¹⁾	Growth in value of new business (life)	—	Value of new business	Group net income
Combined ratio (net)	Combined ratio (net)	—	Combined ratio (net, property/casualty only)	Combined ratio (net)	—	Net return on investment
EBIT margin	EBIT margin	EBIT margin	EBIT margin	EBIT margin	<ul style="list-style-type: none"> ■ EBIT margin financial solutions ■ EBIT margin longevity solutions ■ EBIT margin mortality/morbidity 	Payout rate
Return on equity	Return on equity		Return on equity	Return on equity		Return on equity

¹⁾ Due to the persistently low interest rates and the move in sales towards capital-efficient products, there is no forecast for the new business margin for 2017 due to the associated methodological difficulties.

Gross premium growth (adjusted for currency effects)

The growth in gross written premiums (GWP) is the nominal growth, corrected for currency effects: GWP of the current year at the exchange rate of the previous year (PY) – GWP (PY) divided by GWP (PY)

Retention

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

New business margin (life)

The ratio of the value of new business to the present value of new business premiums excluding non-controlling interests

Value of new business (life)

The present value of future net income excluding non-controlling interests generated from the new business portfolios for the current year. It is calculated on the basis of the same operational assumptions as are used to determine the Solvency II own funds as at the end of the financial year

Growth in value of new business (life)

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

Combined ratio (net, property/casualty)

The total acquisition costs and administrative expenses (net), including net interest income on funds withheld and contract deposits and the claims and claims expenses (net), divided by the earned premiums (net)

EBIT margin

Operating profit (EBIT) divided by the net premiums earned

Return on equity

Net income (after financing costs and taxes) excluding non-controlling interests in proportion to 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 divided by the Group's net income for the year

Net return on investment

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

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. In this context, Talanx has received approval for its internal Group risk model in accordance with Solvency II from the Federal Financial Supervisory Authority (BaFin) and in autumn 2016 received approval for the internal solo models of German life insurers in the Group (see also pages 18ff. in the section “The Talanx Group, legal and regulatory environment” and pages 93ff. of the risk report).

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

REPORT ON ECONOMIC POSITION

MARKETS AND BUSINESS CLIMATE

MACROECONOMIC DEVELOPMENT

The global economy endured a turbulent start to the year 2016. At the beginning of the year, emerging markets had concerns about the Chinese economy and the continued slide in commodities prices. However, the recovery in commodities prices, a stabilisation in China and global support through financial policies led to an increasing stabilisation there as the year progressed. In the developed nations, private consumer spending remained the central driver of growth despite political uncertainty particularly in the USA, the United Kingdom and Italy, and was supported by low energy prices and expansive monetary policies.

The economy in the eurozone increased in both the second and third quarters by 0.3%, while the annual inflation rate stood at 1.1% in December. The positive developments on the labour market continued – the unemployment rate in the eurozone fell in November to its lowest level since 2009 (9.8%), despite the political and economic uncertainties caused by the British EU exit referendum and the resignation of the Italian Prime Minister. In the third quarter, Germany's GDP demonstrated growth of 0.2% following gains ranging from 0.4 to 0.7% in the first half of the year. Apart from private consumer spending as a growth driver, increasing government spending also contributed to this revival. In the United Kingdom, too, the unemployment rate fell in October 2016 – to 4.8%, its lowest level since 2005.

Following a weak start to the year 2016, the US economy developed relatively strongly in the following months. In the third quarter, the annualised growth rate stood at 3.5%, the strongest growth for two years; the annual inflation rate climbed to 2.1% as at year-end. Here again, private consumer spending is the central growth driver, supported by a sound performance on the labour market. The decline in economic growth in China continued unabated. The annual growth rate in the GDP stood at 6.6% in 2016, following growth of 7.0% in 2015. Monetary and fiscal measures prevented a more considerable decline in growth.

CHANGE IN REAL GROSS DOMESTIC PRODUCT

% CHANGE RELATIVE TO PREVIOUS YEAR

	2016 ¹⁾	2015
USA	+1.6	+2.6
Eurozone	+1.6	+2.0
Germany	+1.8	+1.7
United Kingdom	+2.0	+2.2
Japan	+1.0	+1.2

¹⁾ Bloomberg consensus forecasts, as at 11 January 2016 (provisional figures).

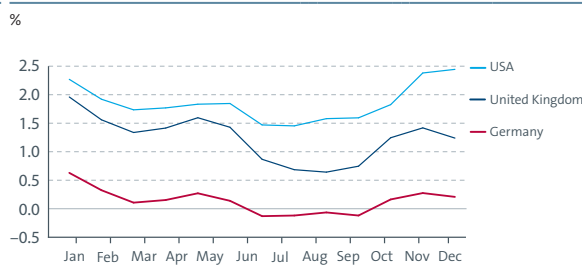
CAPITAL MARKETS

In 2016, the capital markets continued to be characterised by an expansive monetary policy. In March of the reporting period, the ECB loosened its monetary policy again: it reduced the key refinancing and deposit rate, expanded the purchasing programme to include corporate bonds, increased the monthly bond purchases to EUR 80 billion and announced four new, relatively long-term refinancing transactions. Although the ECB announced a reduction of its monthly bond purchases from EUR 80 billion to EUR 60 billion in December, it simultaneously extended the term of the programme by nine months until the end of 2017.

The bond markets were also essentially shaped by the European Central Bank policy during the course of 2016. In addition there was a series of macro-economic issues and various political decisions which influenced the performance on these markets. They included concerns at the beginning of the year about a weakening growth dynamic in China and other emerging markets. With regard to political aspects, the bond markets focused on the decisions regarding Brexit, the US election and the Italian constitutional referendum. An increased level of volatility was always noticeable prior to these decisions, but the unexpected results then only affected the markets in the short term – e.g. the decline in yield for German government bonds after the Brexit vote. In the case of the election result in the USA, there was a positive counter-reaction in the eurozone. In December 2016, the US Federal Reserve raised its prime rate for the second time after the financial crisis, referring to an improved labour market and signs of higher inflation. This moderate increase in the interest rate did not act as a signal for the euro bond markets, so interest-bearing instruments overall enjoyed a positive year-end due to falling interest rates and lower

risk mark-ups. On the US markets, the election result and positive economic forecasts led to a sharp rise in interest rates at year-end – ten-year US Treasuries increased at their peak by over 70 basis points to almost 2.6%, registering at that point an interest differential to ten-year German government bonds of approximately 240 basis points.

YIELDS ON TEN-YEAR GOVERNMENT BONDS 2016



Apart from the general conditions regarding interest-rate policy, idiosyncratic risks and various M&A activities were in the spotlight again in 2016. Following a period of weakness in the first quarter, energy and commodity prices recorded a considerable recovery. Bail-in regulation and capitalisations remained at the centre of attention in the banking sector, especially at Italian banks. Legal risks continued to be an extremely pressing issue for banks. While the primary market continued to be highly active, there was again a slight decline compared to the previous-year volume. In particular, corporate bonds with longer maturities, issuers from the higher interest-bearing segment and subordinate bank issues were in demand. Covered bonds saw an average level of new issues. As in the previous year, net issuance was slightly negative.

After a weak start to the year 2016, the equity markets managed to recover considerably in the fourth quarter, rounding off the trading year on a positive note: over the course of the year, the DAX climbed by 6.9% and the S&P 500 by 9.5%. The performances of the EURO STOXX 50 and the Nikkei were much weaker, but still positive, at 0.7% and 0.4% respectively.

GERMAN INSURANCE INDUSTRY

PROPERTY/CASUALTY INSURANCE

After strong premium growth in the previous year, the German insurance industry saw a repeat of this development in 2016, albeit at a somewhat lower level. During the period of consistently low interest rates, this indicates that property and casualty insurance providers are continuing with disciplined underwriting; growth can be traced back to increasing premiums.

The balance sheet of the property insurers for payments due to the consequences of natural disasters in 2016 stood at a similar level to the previous year. About half of the claims were caused by the two depressions “Elvira” and “Friederike” alone, which occurred in quick succession at the end of May and the beginning of June, bringing numerous storms and persistent rainfall. These two severe weather systems were the most expensive heavy-rain events so far in Germany. The net combined ratio for property and casualty insurance overall remained around the previous year’s level.

LIFE INSURANCE

After the positive trend in the previous year, premium income fell in 2016. This was particularly due to a decline in the single premium business, although the fall was less pronounced than in the previous year. Despite interest rates that have been declining for some time, the German insurance industry again achieved a total return that exceeded guaranteed returns in 2016.

INTERNATIONAL INSURANCE MARKETS

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

PROPERTY/CASUALTY INSURANCE

As a whole, premium growth in international property and casualty insurance in 2016 saw a slowdown. In the developed insurance markets, real growth fell back. Although there was a slight increase in the emerging markets compared to 2015, it remained below the annual average growth of the previous five years.

After a series of severe earthquakes, storms and floods, the volume of claims due to natural catastrophes was far higher in the reporting period than in the three previous years. The most expensive claim event was a series of severe earthquakes on the Japanese island of Kyushu. 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 the **West European markets**, there was a slight upturn overall in premium growth in 2016 in property and casualty insurance, although some individual countries registered stable or even declining premiums.

On the **us market**, premium growth fell back again in the year under review following an increase in the previous year. The key factors here were price drops in the area of corporate insurance.

In **Central and Eastern Europe**, there was an overall increase in 2016 in premiums for property and casualty insurance following the decline in the previous year, which was due to positive developments in Poland, Russia and Hungary, among other countries. Considerable rate increases compared to the previous year were registered in Poland in the motor insurance line, which is central for the premium development there.

In **Latin America**, premium growth in the area of property and casualty insurance stagnated overall. While the economic collapse in Brazil and several other countries in the region also damaged the insurance business, the economic upturn in Mexico and stable premium growth in Chile and Colombia brought about positive effects.

The strongest premium growth in the emerging markets was once again achieved in **Asia**, although the increase was smaller than in the previous year. One positive influence came from high infrastructure investments in the region, which strengthened the premium income in both property and casualty insurance.

In 2016, **property/casualty reinsurance** recorded strong underwriting results. On the one hand, this is due to the fact that, although claims due to natural disasters were higher than in the previous year, they did not exceed the forecast level. On the other hand, the

reinsurance loss ratio fell due to the liquidation of surplus reserves for claims from the previous years. Although many claim events, such as the series of earthquakes in Japan in April, severe floods in China in June and July, Hurricane "Matthew" in the USA and the Caribbean in October and the floods in the USA in August, caused high overall losses, they affected regions or risks that were insured only to a minor extent.

LIFE INSURANCE

Despite the challenging business environment marked by persistently low interest rates and ever-changing regulatory requirements, premium income on international life insurance markets has increased in comparison to the previous year. The driving force for this was the emerging markets where real premium growth increased considerably. In the developed insurance markets, in contrast, there was another decline in the premium growth. The profitability in international life insurance deteriorated in the reporting period due to falling investment income and increased price pressure.

In **Central and Eastern Europe**, premium income was down for the fourth year in succession. In Poland and the Czech Republic, in particular, there were severe declines as life insurance products became less attractive due to amended tax regulations. Premium growth was also throttled in Hungary and in Turkey, which was marked by political uncertainty. In contrast, there was a strong recovery in Russia.

In **Latin America**, the premium growth fell slightly compared to 2015, which could be explained by the declining economy in significant markets. For instance, Brazil registered a significant decline in growth due to the economic recession and a weak labour market. In Venezuela, there was a decline in premium income, while growth came to a standstill in Argentina. In contrast, solid premium growth was recorded in Chile, Colombia and Peru.

The highest level of premium growth observed on the emerging markets was in **Asia**, and China in particular, which accounted for over half of all life insurance premiums in the emerging markets. In India, the positive trend continued thanks to stronger business with corporate customers.

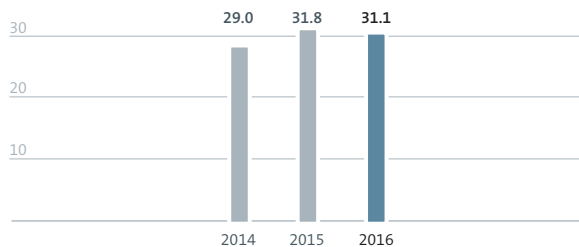
Premium income in traditional **life/health reinsurance** rose compared with the previous year. Similar to the area of primary insurance, growth in the emerging markets – particularly in Asia – was significantly higher than in developed markets. In the latter, positive developments in Canada, the United Kingdom, Japan and Australia were counteracted by a slump in the USA.

BUSINESS DEVELOPMENT

During the reporting period, the Talanx Group took further essential measures to promote its strategic international position and to strengthen its consolidation in Germany: the Retail Germany Division is driving forwards consistently and successfully with its new alignment. The Retail International Division is now operating in five strategic core markets, instead of the previous four: Chile has now also been added to the group of Mexico, Brazil, Poland and Turkey. The Industrial Lines Division has registered noticeable successes with its “Balanced Book” programme, which has been running since 2015 to optimise the ratio of risk to premiums in Germany. The consistent implementation of digitalisation initiatives in all the divisions of the Group, such as the introduction of digital service and analysis programmes, is helping to produce better results: although gross premiums fell slightly, we were able to improve the operating profit year-on-year. At EUR 907 million, Talanx has achieved its best ever Group net income.

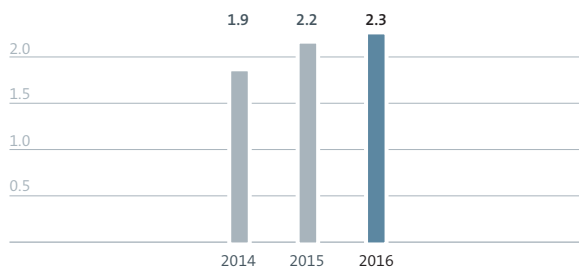
GROSS WRITTEN PREMIUMS

EUR BILLION



OPERATING PROFIT (EBIT)

EUR BILLION



TALANX PUBLISHES SUSTAINABILITY REPORT

The Talanx Group has published a sustainability report for the first time, which covers the business activities from 1 January to 31 December 2015 and which documents the increasingly sustainable orientation of the insurance group. From now on, the report will be published annually on the Group website. In addition, the Group has set itself targets for its sustainability management for the first time.

TALANX ASSET MANAGEMENT WINS AWARD FOR INNOVATIVE INVESTMENT STRATEGY

Talanx Asset Management GmbH has won the prize in the “Best Fixed-Income Investor” category at the portfolio institutionell Awards. The award is considered the most prestigious prize for institutional investors in Germany, including insurance companies, occupational pension scheme providers, company finance departments, foundations and banks; it was awarded for the tenth time in 2016.

TALANX MODERNISES THE PROPERTY/CASUALTY BUSINESS IN GERMANY

Under the heading of HDI 4.0, the German retail business is being reoriented in a similar way to the life insurance business. HDI 4.0 involves the introduction of new products for all lines, the promotion of digital and automated processes and an IT modernisation programme. The aim is to secure and to expand the overall long-term positioning of HDI in the domestic market.

PERFORMANCE OF THE GROUP

- Gross written premiums down slightly after adjustment for currency effects
- Further improvement in the combined ratio
- Operating profit rises to EUR 2.3 billion

GROUP KEY FIGURES

EUR MILLION

	2016	2015	2014
Gross written premiums	31,106	31,799	28,994
Net premiums earned	25,742	25,937	23,844
Underwriting result	-1,520	-1,370	-2,058
Net investment income	4,023	3,933	4,144
Operating profit/loss (EBIT)	2,300	2,182	1,892
Combined ratio (net, property/casualty only) in %	95.7	96.0	97.9

MANAGEMENT METRICS

%

	2016	2015	2014
Gross premium growth (adjusted for currency effects) ¹⁾	-0.3	4.8	3.6
Group net income in EUR million	907	734	769
Return on equity	10.4	9.0	10.2
Payout rate ²⁾	37.6	44.8	41.1
Net return on investment	3.6	3.6	4.1

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

²⁾ In relation to the appropriation of distributable profits, see the "Other disclosures" section of the Notes, page 239.

PREMIUM VOLUME

The Group's gross premiums written came to EUR 31.1 (31.8) billion; thanks to the positive development of the Retail International Division, they were only slightly down, at -2.2% (-0.3% after adjustment for currency effects); net premiums earned fell by only 0.8% to EUR 25.7 (25.9) billion, since the retention rose slightly to 87.8% (86.6%).

UNDERWRITING RESULT

The underwriting result in the Talanx Group fell sharply, declining by 10.9% across the Group to EUR -1.5 (-1.4) billion; this was due in particular to policyholders' participation – reported as underwriting expense – in net investment income in the Life Insurance segment of the Retail Germany Division; in the other segments, however, the underwriting result improved due, in particular, to there being fewer major losses. At EUR 883 (922) million, the major loss burden in the Group was down on the previous year and remained well below the anticipated figure of EUR 1,125 million. At EUR 627 (573) million, only the major loss burden in Reinsurance was higher than in the previous year, but also remained below the budget of EUR 825 million. The forest fires in Canada in spring 2016 were the largest single loss, at EUR 128 million. The Group's combined ratio improved compared with the previous year to 95.7% (96.0%), despite substantial expenses being incurred once more in connection with the restructuring project in the Property/Casualty segment in the Retail Germany Division. Here, the lower loss ratio more than offset the higher expense ratio.

NET INVESTMENT INCOME

In the year under review, the net investment income increased by 2.3% to EUR 4.0 (3.9) billion. Inter alia a positive one-off effect from the disposal gain on the sale of the shares in C-QUADRAT was posted in the extraordinary result. The positive extraordinary result, especially in the Life Insurance segment of the Retail Germany Division, made up for the fall in ordinary income. The net return on investment was 3.6%, exactly where it was in the previous year.

OPERATING PROFIT AND GROUP NET INCOME

EBIT increased relative to the previous year by 5.4% to reach EUR 2.3 (2.2) billion. It was very positively affected by the good result in the Industrial Lines Division and Life Insurance segment of the Retail Germany Division, which offset the fall in operating profit in the Reinsurance Division, in particular. At EUR 907 (734) million, Group net income was 23.6% up on the figure for the previous year, making it another very good result. At 10.4% (9.0%), the return on equity was also well up on the previous year.

COMPARISON OF ACTUAL BUSINESS DEVELOPMENT WITH THE FORECAST FOR 2016

MANAGEMENT METRICS FOR THE GROUP

%	Actual figures for 2016	Forecast for 2016
Gross premium growth (adjusted for currency effects)	-0.3	stable
Group net income ¹⁾ in EUR million	907	approx. 750
Return on equity	10.4	> 8.5
Payout rate ²⁾	37.6	35–45
Net return on investment	3.6	≥ 3

¹⁾ The forecast for 2016 pertains to the printed forecast in the Group Annual Report 2015; it was raised during 2016 to “at least” EUR 750 million.

²⁾ In relation to the appropriation of distributable profits, see the “Other disclosures” section of the Notes, page 239.

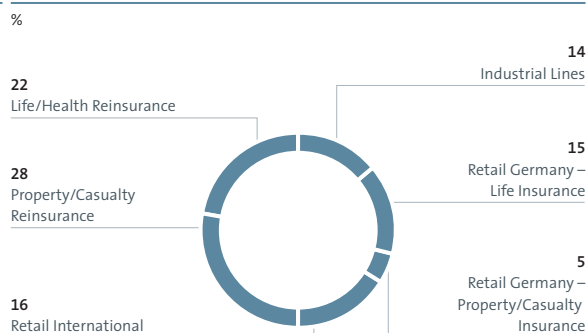
The gross premium growth achieved in the Group in the year under review amounted to -0.3% after adjustment for currency effects; it therefore remained within the prescribed framework for 2016 of achieving stable growth. At EUR 907 million, we significantly exceeded our target of posting a Group net income of approximately EUR 750 million. In particular, the Industrial Lines and Retail Germany Divisions contributed to this. For 2016 the forecast for the Group return on equity was more than 8.5%. At 10.4%, we have exceeded this target by almost 2 percentage points. The Board of Management and Supervisory Board are proposing the distribution of a dividend of EUR 1.35 per share to the Annual General Meeting. The payout rate, based on IFRS earnings per share and on the basis of the proposal to the Annual General Meeting, is 37.6%; consequently, in the fifth full year after the IPO, the payout rate is once again within the target range (35%–45%). The net return on investment is 3.6%, meaning that we have exceeded the forecast of more than 3%.

DEVELOPMENT OF THE DIVISIONS WITHIN THE GROUP

At a strategic level, Talanx divides its business into seven reportable segments: Industrial Lines, Retail Germany – Property/Casualty Insurance and Life Insurance – Retail International, Property/Casualty Reinsurance, Life/Health Reinsurance and Corporate Operations. Please refer to the section entitled “Segment reporting” in the Notes to the consolidated financial statements for details of these segments’ structure and scope of business.

The strategic realignment of the German life insurance business results in a changed presentation of products in new business. Both for the Retail Germany Division and for the Retail International Division, we subdivide the portfolio into capital-efficient, non-capital-efficient and biometric products.

GROSS PREMIUMS BY SEGMENT



INDUSTRIAL LINES

- Combined ratio within the target range at 96.8%
- Improved underwriting result
- Net investment income increased despite prolonged period of low interest rates

KEY FIGURES FOR THE INDUSTRIAL LINES DIVISION

EUR MILLION	2016	2015	2014
Gross written premiums	4,266	4,295	4,031
Net premiums earned	2,243	2,213	2,022
Underwriting result	73	18	-61
Net investment income	242	206	268
Operating profit/loss (EBIT)	296	208	182

MANAGEMENT METRICS

%	2016	2015	2014
Gross premium growth (adjusted for currency effects) ¹⁾	-0.1	2.5	5.9
Retention	53.4	51.8	50.9
Combined ratio (net)	96.8	99.2	103.0
EBIT margin	13.2	9.4	9.0
Return on equity	11.0	6.2	6.3

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

MARKET DEVELOPMENT

The market environment for the Industrial Lines segment in our core market, Germany, remains highly competitive. While growth in the developed insurance markets declined, the emerging markets recorded much stronger growth. Economic and political uncertainties, for example as a result of the UK's exit from the EU, the US presidential elections and limited economic momentum in the eurozone, also represented a challenging environment for insurance companies. Although emerging market economies gained momentum again, the trend in the various regions was mixed. As market penetration in Germany is already high, growth is primarily generated in our overseas branches and subsidiaries. In addition, for investment policy, a low interest rate environment is expected to persist.

PREMIUM VOLUME

Gross written premiums for the division amounted to EUR 4.3 (4.3) billion as at 31 December 2016, and were therefore almost at the level of the prior year. They decreased by EUR 29 million, or 0.7% (adjusted for currency effects: -0.1%). Restructuring measures, in particular those undertaken by HDI Global SE within Germany, were the key factor for the decline; these are to continue in 2017. It has been largely possible to compensate for the drop, through a growth in premiums outside Germany. This increase was primarily generated in the Swiss and UK branches of HDI Global SE, as well as in the subsidiaries in Brazil (HDI Global S. A.) and in the USA (HDI Global Insurance Company). In branches in France, the Netherlands and Belgium, which are responsible for a significant proportion of the premiums, there was a slight premiums increase.

The increase in the retention ratio in the division to 53.4% (51.8%), resulted, in particular, from lower expenses for reinstatement premiums. In contrast with the gross development, this caused an increase of EUR 30 million in net premiums earned, to EUR 2.2 (2.2) billion.

UNDERWRITING RESULT

The division's net underwriting result increased to EUR 73 (18) million. The key factors for this improvement were the significantly lower major loss burden in comparison to the prior year, as well as the restructuring successes in the marine, property and motor lines. The increased net premiums due to reduced expenditure for reinstatement premiums, as well as slightly lower expenses, were factors too. This also resulted in an improved net expense ratio, which, at 21.8% (22.7%), was lower than the figure achieved in the prior year. The loss ratio (net) fell significantly to 74.9% (76.5%). The combined ratio for the Industrial Lines Division amounted to 96.8% (99.2%).

NET INVESTMENT INCOME

Net investment income increased significantly by 17.5% to EUR 242 (206) million. Despite challenging capital market conditions due to the low-interest phase, it has been possible to increase ordinary investment income. Furthermore, there were impairment losses in particular due to a bond issued by HETA Asset Resolution AG (formally Hypo Alpe Adria) of around EUR 5 million – this negatively impacted the prior year's result.

OPERATING PROFIT AND GROUP NET INCOME

The operating profit from the division increased to EUR 296 (208) million due to the developments stated above, particularly through the improved underwriting result. Group net income – i.e. income attributable to shareholders of Talanx AG – increased to EUR 236 (127) million. The rise in the operating result increased the EBIT margin in the segment to 13.2% (9.4%), and the return on equity to 11.0% (6.2%).

COMPARISON OF ACTUAL BUSINESS DEVELOPMENT WITH THE FORECAST FOR 2016

MANAGEMENT METRICS IN THE INDUSTRIAL LINES DIVISION

%	Actual figures for 2016	Forecast for 2016
Gross premium growth (adjusted for currency effects)	-0.1	stable, to slight growth
Retention	53.4	≥ 52
Combined ratio (net)	96.8	97–98
EBIT margin	13.2	9–10
Return on equity	11.0	approx. 7

Gross premium growth corresponds to the lower end of expectations for 2016, with a decline of 0.7% (adjusted for currency effects: -0.1%). Growth abroad almost fully compensates for the decrease in Germany and the subsidiary in the Netherlands (HDI-Gerling Verzekeringen N.V.) arising from restructuring measures. The increase in retention to 53.4% is in line with expectations and is influenced by the lower expenses for reinstatement premiums.

The combined ratio was slightly below the forecast due to a lower major loss burden as well as slightly lower expenses. The EBIT margin of 13.2% and the return on equity of 11.0% exceeded expectations, thanks to the positive development of the business.

RETAIL GERMANY

This division has been managed on the basis of the Property/Casualty Insurance and Life Insurance segments since the second quarter of 2016. The development of both segments is set out in the following.

MEASURES TO SECURE THE DIVISION'S FUTURE

The Retail Germany Division set itself the goal of stabilising the business in the area of Property/Casualty Insurance and of sustainably improving its competitiveness. The focus for the implementation is on optimising business processes and increasing the service quality for customers and sales partners. This includes modernising IT, both in property and life insurance, as well as segment-wide standardisation, digitalisation, and increasing the transparency of portfolio data and expenses. In addition, a competitive costs situation is to be consistently achieved.

PROPERTY/CASUALTY INSURANCE

- Gross written premiums are at the same level as the prior year
- Lower reinvestment return had a negative impact on net investment income
- Lower EBIT due to an investment and modernisation programme

KEY FIGURES FOR THE RETAIL GERMANY DIVISION – PROPERTY/CASUALTY INSURANCE SEGMENT¹⁾

EUR MILLION	2016	2015
Gross written premiums	1,498	1,500
Net premiums earned	1,405	1,424
Underwriting result	-44	10
Net investment income	87	109
Operating profit (EBIT)	-2	51

¹⁾ Due to a change in management and associated adaptation of the same period of the prior year, only a two-year comparison is possible in 2016; from 2017 onward this presentation will include three periods again.

MANAGEMENT METRICS FOR PROPERTY/CASUALTY INSURANCE¹⁾

%	2016	2015
Gross premium growth ²⁾	-0.1	-2.6
Combined ratio (net)	103.3	99.3
EBIT margin	-0.2	3.5

¹⁾ Due to a change in management and associated adaptation of the same period of the prior year, only a two-year comparison is possible in 2016; from 2017 onward this presentation will include three periods again.

²⁾ Calculation method changed starting in 2015 to more accurately quantify currency effects (with no impact on the forecast figure).

MARKET DEVELOPMENT

In German property/casualty insurance, overall growth of around 2.9% is to be assumed. There are increases in premiums in all classes of insurance. Growth in comprehensive home-owners insurance and in motor insurance should be highlighted.

PREMIUM VOLUME

Written premium income of our property/casualty insurers stabilised at EUR 1.5 (1.5) billion. The decline in premium income in the motor business for HDI Versicherung AG was almost balanced by increases in the corporate customers/freelance professionals lines, as well as the expansion of workers' compensation insurance in conjunction with the residual debt business in the bancassurance companies. The overall share of the entire division accounted for by property/casualty insurers rose to 23.8% (22.5%), due to a decline in premiums in life insurance. The retention ratio decreased slightly to 95.4% (95.6%). The number of contracts held by HDI Versicherung AG fell by 4.1%, while the portfolio income was down by only 1.4%.

UNDERWRITING RESULT

The underwriting result from our Property/Casualty Insurance business reduced from EUR 10 million to EUR -44 million, as a result of the investments in our modernisation programme as well as a lower run-off result. This led to the net combined ratio increasing by 4.0 percentage points to 103.3%. Adjusted by investments, the net combined ratio was 99.9%.

NET INVESTMENT INCOME

Net investment income of the division declined by 20.2% to EUR 87 (109) million. The decline resulted from lower ordinary net investment income due to lower investment returns, as well as lower extraordinary net investment income.

OPERATING PROFIT

The operating profit for the property insurance business was shaped by higher investment expenditure for our modernisation programme, a lower run-off result and lower net investment income due to the continuing low-interest phase. The EBIT declined correspondingly to EUR -2 (51) million. The EBIT margin dropped to -0.2% (3.5%).

COMPARISON OF ACTUAL BUSINESS DEVELOPMENT WITH THE FORECAST FOR 2016

Due to change in management of the Property/Casualty Insurance and Life Insurance segments within the Retail Germany Division in the second quarter of 2016, it is not possible to provide a direct comparison with the forecast stated for financial year 2016.

As expected, the premium income in the Property/Casualty segment remained stable as compared with the prior year. The line-specific management metric of the combined ratio was above 100% due to the increase in investments for our modernisation programme and due to the lower run-off result for 2016, as forecast in the second quarter of 2016. As a result of this – and as expected – a negative EBIT margin was recorded.

LIFE INSURANCE

- Scheduled decline in the single premium business due to the low-interest environment
- Negative impact from allocation to the additional interest reserve increased significantly again
- An increase in net investment income as a result of the realisation of unrealised gains to finance the additional interest reserve

ADDITIONAL KEY FIGURES

RETAIL GERMANY DIVISION – LIFE INSURANCE SEGMENT¹⁾

EUR MILLION

	2016	2015
Gross written premiums	4,788	5,167
Net premiums earned	3,516	3,994
Underwriting result	-1,656	-1,473
Net investment income	1,802	1,622
Operating profit (EBIT)	92	-48
New business measured in annual premium equivalent	417	455
Single premiums	1,343	1,536
Regular premiums	282	301
New business by product in annual premium equivalent	417	455
Capital-efficient products ²⁾	136	n. a.
Non-capital-efficient products ²⁾	151	n. a.
Biometric products ²⁾	130	n. a.

¹⁾ Due to a change in management and associated adaptation of the same period of the prior year, only a two-year comparison is possible in 2016; from 2017 onward this presentation will include three periods again.

²⁾ Comparison with prior year not possible due to new product structure.

MANAGEMENT METRICS FOR LIFE INSURANCE¹⁾

%

	2016	2015
Gross premium growth ²⁾	-7.3	-3.4
New business margin ³⁾	1.1	n. a.
EBIT margin	2.6	-1.2

¹⁾ Due to a change in management and associated adaptation of the same period of the prior year, only a two-year comparison is possible in 2016; from 2017 onward this presentation will include three periods again.

²⁾ Calculation method changed starting in 2015 to more accurately quantify currency effects (with no impact on the forecast figure).

³⁾ Excluding non-controlling interests, 2016: estimated figure, the final figure will be published in the 2017 Annual Report; as a result of the changes in the law (LVVG) and persistently low interest rates, we are not providing a figure for the new business margin in 2015.

MARKET DEVELOPMENT

Low interest rates continued to put the German life insurance market under serious pressure in the reporting period. This caused market participants to distance themselves from traditional life insurance products with an interest yield guarantee and move towards offering new products with a premium guarantee payable at term.

PREMIUM VOLUME AND NEW BUSINESS

In 2016, the gross written premiums in the Retail Germany Division in Life Insurance, including the savings elements from unit-linked life insurance, were 7.3% below the level of the prior year at EUR 4.8 (5.2) billion; this was primarily due to a deliberate limitation of the single premium business and an increase in policies maturing.

The division's retention ratio decreased slightly to 95.4% (95.8%). Allowing for savings elements under our unit-linked products and the change in the unearned premium reserve, the net premium earned was consequently down on the prior year, at EUR 3.5 (4.0) billion.

New business in life insurance products – measured using the annual premium equivalent (APE), the international standard – was at EUR 417 (455) million less than in the prior year due to the decline in the single premium business.

UNDERWRITING RESULT

The underwriting result reduced to EUR –1.7 (–1.5) billion. Overall, the underwriting result is partly due to the unwinding of discounts on technical provisions and policyholder participation in net investment income, which is marked by greater realisation of unrealised gains compared with the prior year to finance the additional interest reserve required by the HGB. These expenses are offset by investment income, which is not recognised in the underwriting result.

NET INVESTMENT INCOME

Net investment income increased by 11.1% to EUR 1.8 (1.6) billion, while ordinary net investment income reduced by 3.0% from EUR 1,560 million to EUR 1,513 million due to a lower reinvestment return. The extraordinary net investment income increased by 129.4% to EUR 429 (187) million, and includes greater realisation of unrealised gains to finance the additional interest reserve.

OPERATING PROFIT

The operating profit/loss (EBIT) in the Life Insurance segment of the Retail Germany Division improved to EUR 92 (–48) million, primarily due to the omission of the full impairment of the goodwill in the life insurance business in the prior year.

COMPARISON OF ACTUAL BUSINESS DEVELOPMENT WITH THE FORECAST FOR 2016

Due to change in management of the Property/Casualty Insurance and Life Insurance segments within the Retail Germany Division in the second quarter of 2016, it is not possible to provide a direct comparison with the forecast stated for financial year 2016. At 1.1%, the line-specific management metric of the new business margin¹⁾ was within the figure forecast for 2016 for the year under review.

In the Life Insurance segment, gross premium income in 2016 declined by 7.3%, and therefore further than forecast; this was due to the deliberate limitation of the single premium business and an increase in policies maturing.

SUMMARY OF DEVELOPMENT, INCLUDING A COMPARISON OF ACTUAL BUSINESS DEVELOPMENT WITH THE FORECAST FOR 2016 IN THE RETAIL GERMANY DIVISION

THE RETURN ON EQUITY MANAGEMENT METRIC FOR THE RETAIL GERMANY DIVISION

	2016	2015	2014
Return on equity ¹⁾	2.7	–2.7	–2.9

¹⁾ The return on equity will in future also only be determined at division level.

In order to enable comparison with the forecast given for 2016, despite the change in management that took place in the second quarter of 2016, the actual values determined for the division for 2016 will be compared with the forecast metrics for gross premium growth and the EBIT margin.

(FORMER) MANAGEMENT METRICS FOR THE RETAIL GERMANY DIVISION¹⁾

	Actual figures for 2016	Forecast for 2016
Gross premium growth	–5.7	–3 to –5
EBIT margin	1.8	1–2
Return on equity ²⁾	2.7	approx. 2

¹⁾ The insurance-type-specific management metrics have been addressed in the notes relating to the Property/Casualty and Life Insurance segments.
²⁾ The return on equity will in future also only be determined at division level.

The EBIT for the Retail Germany Division increased in the reporting period from EUR 3 million to EUR 90 million. The prior year was weighed-on by the full impairment of the goodwill in the life insurance business. After adjustment for taxes on income, financing costs and non-controlling interests, Group net income increased to EUR 68 (–76) million, causing the return on equity to rise by 5.4 percentage points to 2.7%, around 2% above the forecast level.

¹⁾ Excluding non-controlling interests, 2016: estimated figure, the final figure will be published in the 2017 Annual Report.

RETAIL INTERNATIONAL

- Growth in gross written premiums adjusted for currency effects is 10.2%
- The combined ratio is 96.5%

KEY FIGURES FOR THE RETAIL INTERNATIONAL DIVISION

EUR MILLION

	2016	2015	2014
Gross written premiums	4,918	4,643	4,454
Net premiums earned	4,122	3,706	3,735
Underwriting result	9	-7	-11
Net investment income	319	338	321
Operating profit/loss (EBIT)	212	217	208

MANAGEMENT METRICS

%

	2016	2015	2014
Gross premium growth (adjusted for currency effects) ¹⁾	10.2	7.6	9.5
Growth in value of new business (life) ²⁾	90.3	-3.0 ³⁾	36.6
Combined ratio (net, property/casualty only)	96.5	96.3	96.4
EBIT margin	5.1	5.8	5.6
Return on equity	6.1	7.9	7.0

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

²⁾ Excluding non-controlling interests, 2016: estimated figure, the final figure will be published in the 2017 Annual Report.

³⁾ Estimated figure for 2015: 1.5%.

This division bundles the activities of the international retail business in the Talanx Group and is active in both Europe and Latin America. In the Europe region, the division has strengthened itself by purchasing the insurance companies of the Italian banking group Gruppo Banca Sella, with the aim of expanding its business in Italy in the area of sales via banks. As at 30 June 2016, the acquisition of 100% of the shares of both the life insurance company CBA Vita S. p. a. and its subsidiary Sella Life Ltd. (renamed as InChiaro Life DAC as at 1 July 2016), as well as the other 49% of the property insurer InChiaro Assicurazioni S. p. A., was concluded by the Italian subsidiary HDI Assicurazioni S. p. A. The Group now owns 100% of the shares in all three companies.

MARKET DEVELOPMENT

In both of the division's regions, the development of insurance markets in 2016 was influenced by both political and economic volatility. As well as the new political framework conditions, with their impact on legislation and regulation, the drop in the oil price, stronger US dollar and widespread declines in GDP with their negative impact on the markets in emerging countries should also be mentioned here.

In Brazil, where the division is mainly active in the area of motor insurance, the continued negative economic growth resulted on the one hand in a decline in sales of new cars, and on the other in more frequent theft of motor vehicles, particularly in larger cities. Both in Brazil and Mexico, the prices for imported replacement parts also increased as a result of the devaluation of local currencies as compared with the US dollar. As a result, the Brazilian real and Mexican peso declined by 5.3% and 17.3% respectively on the US dollar over a 12-month period. However, in Chile sales of new cars increased despite continued weak economic growth and the implementation of political and structural reforms that has now begun.

In Europe, impact on the development of insurance markets came primarily from the new political framework conditions. In Poland, the tighter regulatory framework, in particular the tax on assets introduced at the start of 2016 for banks and insurance companies, had a dampening effect on the performance of the business. In the fast-growing Turkish market, not only were there negative consequences from stricter minimum wage regulation and its effect of increasing insurance sums in motor liability insurance, there were also higher prices for imported replacement parts as a result of the devaluation of the Turkish lira against the euro (-10.3% over the course of 12 months).

PREMIUM VOLUME

The division's gross written premiums (including premiums from unit-linked life and annuity insurance) increased by 5.9% as compared to financial year 2015, to EUR 4.9 (4.6) billion. Adjusted for currency effects, gross premiums increased by 10.2% on the comparison period.

The trend in premium volume was different for the two regions in this reporting period. In the Latin America region, the gross written premiums fell by 1.9% as compared to the same period in the prior year, to EUR 1.5 billion. An increase of 5.7% was registered when adjusted for currency effects, which was essentially due to the

Chilean company, HDI Seguros S.A. On the one hand, the company acquired as at 13 February 2015 was incorporated for a full twelve months for the first time in financial year 2016. On the other, the gross written premiums of the company increased, especially in the key lines of motor and building insurance, due to the introduction and implementation of measures aimed at boosting turnover through broker and internet sales, enabling the market share to be increased to 9.5% as at 30 September 2016. Mexico also recorded a positive impact on the gross written premiums. Here, the premium volume was increased, particularly in motor insurance and via agent sales in the context of strategic growth projects. 54% of the premium volume achieved in the region came from HDI Seguros S.A. in Brazil. The performance of the Brazilian motor insurance market was greatly defined in the reporting period by the ongoing economic crisis there, as mentioned above, as well as the decline in the sales of new cars that this entails. The gross written premiums of the company fell accordingly in the reporting period by 8.8% to EUR 807 million including currency effects; after adjustment for currency effects, the decrease stood at 4.8%. According to local accounting, the decline in premiums as at 30 September 2016 was just 0.1%, while the Brazilian motor insurance market declined slightly by 2.7%.

On the other hand, an increase in the gross written premiums, of 10.1% to EUR 3.4 billion, was recorded in the Europe region, driven particularly by the newly acquired Italian companies being taken into account at EUR 214 million for the final six months of 2016, as well as the increase in life insurance premiums at HDI Assicurazioni in Italy due to the growth of the single premium business arising from bank sales. In Poland, the declining premium income for life insurer TUnŻ WARTA S.A. as a result of the stricter regulatory and legal framework stated above has been partially offset by the property insurance business. Taking into account currency effects, gross written premiums for the property insurer TUiR WARTA S.A. increased by 9.8%; after adjustment for currency effects, the increase stood at 14.3%. The Polish motor insurance market has been in a cycle of a “hard” motor insurance market since the second half of 2016; this has resulted in an increase in average premiums in motor liability insurance. Turkey also reported positive effects on the gross written premiums for the region; similarly, it was possible here to increase the average premiums for motor insurance in particular. Adjusted for currency effects, the growth in premium volume in Europe stood at 12.9%.

UNDERWRITING RESULT

The combined ratio for property insurance companies was at the same level as the prior year, at 96.5% (96.3%). On the one hand, the loss ratio increased by 0.5 percentage points, essentially due to higher costs for foreign replacement parts – driven by the devaluation of local currencies against the US dollar and the euro – as well as increased claims inflation in Brazil, Mexico and Turkey in particular. In contrast, the expense ratio for the division improved by 0.3 percentage points compared to the prior year, to 31.1%; this was influenced primarily by the positive development of the administrative expense ratio (-0.2 percentage points) due to expense optimisations.

Overall, the underwriting results for the division – driven by the life insurance business – is now at EUR 9 million and therefore EUR 16 million above the prior year.

NET INVESTMENT INCOME

In financial year 2016, net investment income of EUR 319 million was achieved, representing a decrease of 5.6%, while the average return on assets under own management reduced by 0.7 percentage points, to 3.7%. The interest level being lower than the same period in the prior year, in particular in Poland and Italy, combined with the highest investment volume in the division, could only be partially offset by larger investment portfolios. The division's ordinary net investment income decreased accordingly by 1.5%. Net investment income includes EUR 5 (9) million in net income from investment contracts. These are policies that provide insufficient risk cover to be classified as insurance contracts in accordance with IFRSs.

OPERATING PROFIT AND GROUP NET INCOME

In financial year 2016, the Retail International Division achieved an operating profit (EBIT) of EUR 212 (217) million, which is at the same level as the prior year. While the Europe region contributed EUR 149 (170) million to the operating profit of the segment, EUR 77 (70) million of the EBIT was generated in the Latin America region. In Europe, the decline in the operating profit was primarily due to the burden of the newly introduced tax on assets in Poland (EUR -22 million), which is disclosed under “Other income/expenses”. In Latin America, on the other hand, it was possible to increase the EBIT slightly. Group net income after minority interests declined by 16.9% to EUR 123 (148) million. This decrease resulted primarily from the newly introduced asset tax in Poland, as well as the omission

of a positive one-off fiscal effect in conjunction with the merger of the newly acquired Chilean companies in the prior year (reversal of previous impairment losses in the amount of EUR 18 million). Accordingly, the return on equity fell by 1.8 percentage points to 6.1% compared to the same period in the prior year.

COMPARISON OF ACTUAL BUSINESS DEVELOPMENT WITH THE FORECAST FOR 2016

MANAGEMENT METRICS FOR THE RETAIL INTERNATIONAL DIVISION

%	Actual figures for 2016	Forecast for 2016
Gross premium growth (adjusted for currency effects)	10.2	approx. 10
Growth in value of new business (life) ¹⁾	90.3	5–10
Combined ratio (net, property/casualty only)	96.5	approx. 96
EBIT margin	5.1	approx. 6
Return on equity	6.1	approx. 6

¹⁾ Excluding non-controlling interests, 2016: estimated figure, the final figure will be published in the 2017 Annual Report.

The Retail International Division achieved gross premium growth of 10.2% (after adjustment for currency effects) in financial year 2016, achieving the figure of around 10% published in the prior year's report on expected developments. This was due primarily to the newly acquired Italian companies being included for the first time. The growth in the new business figure (life) compared to the prior year resulted primarily from a negative one-off effect from the asset tax in the prior year period as mentioned above. In financial year 2016, the pricing in of the asset tax as well as an amended product portfolio from the Polish company TUŃŻ WARTA S. A. resulted in significantly greater growth in the new business figure (life) than was expected. The development of the combined ratio for the international property insurance companies was around the forecast of 96%. While the EBIT margin, at 5.1%, was 0.9 percentage points below the forecast, primarily due to the negative impact from the newly introduced assets tax in Poland, the return on equity achieved the forecast figure.

ADDITIONAL KEY FIGURES

RETAIL INTERNATIONAL DIVISION BY LINE OF BUSINESS AT A GLANCE

EUR MILLION

	2016	2015	2014
Gross written premiums	4,918	4,643	4,454
Property/casualty	3,241	3,248	2,915
Life	1,677	1,395	1,539
Net premiums earned	4,122	3,706	3,735
Property/casualty	2,724	2,591	2,367
Life	1,398	1,115	1,368
Underwriting result	9	-7	-11
Property/casualty	95	96	86
Life	-86	-103	-97
Others	—	—	—
Net investment income	319	338	321
Property/casualty	186	191	187
Life	134	149	136
Others	-1	-2	-2
New business by product in annual premium equivalent, (life)	214	192	195
Single premiums	1,361	1,203	1,313
Regular premiums	78	72	64
New business by product in annual premium equivalent (life)¹⁾	214	192	195
Capital-efficient products ¹⁾	105	n.a.	n.a.
Non-capital-efficient products ¹⁾	54	n.a.	n.a.
Biometric products ¹⁾	55	n.a.	n.a.

¹⁾ Comparison with prior year not possible due to new product structure.

RETAIL INTERNATIONAL DIVISION BY REGION AT A GLANCE

EUR MILLION

	2016	2015
Gross written premiums	4,918	4,643
of which Europe	3,391	3,079
of which Latin America	1,500	1,530
Net premiums earned	4,122	3,706
of which Europe	2,807	2,460
of which Latin America	1,312	1,240
Underwriting result	9	-7
of which Europe	-7	-40
of which Latin America	16	35
Net investment income	319	338
of which Europe	224	246
of which Latin America	97	94
Operating profit/loss (EBIT)	212	217
of which Europe	149	170
of which Latin America	77	70

REINSURANCE

PROPERTY/CASUALTY REINSURANCE

- Gross premium income adjusted for currency effects stable
- At EUR 627 million, major loss burden lower than the anticipated figure of EUR 825 million
- Very positive combined ratio of 93.7%

KEY FIGURES FOR THE PROPERTY/CASUALTY REINSURANCE SEGMENT

EUR MILLION			
	2016	2015	2014
Gross written premiums	9,205	9,338	7,903
Net premiums earned	7,984	8,100	7,011
Underwriting result	481	427	349
Net investment income	928	966	867
Operating profit/loss (EBIT)	1,371	1,391	1,219

MANAGEMENT METRICS

%			
	2016	2015	2014
Gross premium growth (adjusted for currency effects) ¹⁾	-0.2	8.1	1.2
Combined ratio (net)	93.7	94.5	94.7
EBIT margin	17.2	17.2	17.4

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

RETURN ON EQUITY MANAGEMENT METRIC FOR THE REINSURANCE DIVISION OVERALL

%			
	2016	2015	2014
Return on equity	14.4	16.1	15.8

BUSINESS DEVELOPMENT

Business development in the year under review was once again marked by an environment of intense competition, as no market-changing major losses were recorded. The solid level of capitalisation of primary insurers continues to allow for a high level of retentions. At the same time, a lack of profitable investment alternatives is leading to increased capital flows out of the (still growing) ILS sector (including CAT bonds and collateralised reinsurance) and into the reinsurance market. As a result, the capacity of the latter remained significantly higher than demand.

These factors once again set the tone for the contract renewal round on 1 January 2016. Although the price drop was substantial in some markets, we were able to maintain a good level of profitability for

our portfolio thanks to our broad diversification. The business in agricultural risks proved to be relatively detached from the soft property/casualty reinsurance market. Substantial declines in rates were recorded, on the other hand, in the marine and aviation business, where we reduced our premium volumes accordingly. Treaty renewals during the year continued to perform by and large in the same vein, with signs here and there of a stabilisation in reinsurance prices, for example in North America.

In this challenging environment, it was particularly important for us to consistently move ahead with our margin-oriented underwriting activities. We continue to expand our business only where margins are risk-appropriate, while, on the other hand, reducing our market share in regions and business lines where prices are insufficient to meet our profitability requirements. We focused strongly on our existing business during the year under review, and we were therefore able to benefit once again from our long-standing customer relationships and our position as one of the world's leading and financially most powerful reinsurance groups.

PREMIUM DEVELOPMENT

As was expected, gross premiums declined slightly in the year under review, by 1.4% to EUR 9.2 (9.3) billion. At constant exchange rates, gross premiums would have remained stable. This development corresponds to our forecast of slightly declining gross premium volumes adjusted for currency effects. Retention fell to 88.5% (89.3%). Net premiums earned declined by 1.4% to EUR 8.0 (8.1) billion; adjusted for currency effects, net premiums would have been stable.

EARNINGS DEVELOPMENT

The situation with regard to major losses during the year under review was marked by a series of severe earthquakes and storms, as well as man-made losses. Nevertheless, on the whole, major loss burdens remained within the range of our expectations. The most extensive negative impact on our business resulted from the devastating fires in the Canadian province of Alberta, which led to net losses of EUR 128 million. After several years of relatively moderate hurricane seasons in the USA and the Caribbean, Hurricane "Matthew" ended up causing extensive damage in the year under review. For us, this resulted in a net burden in the amount of EUR 70 million. Earthquakes in Ecuador and New Zealand also resulted in a significant burden. Our total net major loss burden during the reporting year amounted to EUR 627 (573) million. With that we were above the value for the previous year, but still below our forecast figure of EUR 825 million. The underwriting result increased by 12.6% to EUR 481 (427) million. Our combined ratio of 93.7% (94.5%) in the year under review was significantly better than the target value of 96%. Along with the good development of our underwriting activities, this positive result was also due in part to the liquidation of unneeded reserves from previous years.

OPERATING PROFIT AND NET INVESTMENT INCOME

Net investment income in the Property/Casualty Reinsurance segment fell as expected by 3.9% to EUR 928 (966) million. At EUR 1,371 million, operating profit (EBIT) was once again very encouraging and was only slightly lower than the record figure of EUR 1,391 from the previous year. At 17.2%, the EBIT margin remained at the previous year's level. Overall, the return on equity in the Reinsurance Division declined by 1.7 percentage points to 14.4% (16.1%).

COMPARISON OF ACTUAL BUSINESS DEVELOPMENT WITH THE FORECAST FOR 2016**MANAGEMENT METRICS FOR THE PROPERTY/CASUALTY REINSURANCE SEGMENT**

%	Actual figures for 2016	Forecast for 2016
Gross premium growth (adjusted for currency effects)	-0.2	slight decline
Combined ratio (net)	93.7	< 96
EBIT margin	17.2	≥ 10

RETURN ON EQUITY MANAGEMENT METRIC FOR THE REINSURANCE DIVISION OVERALL

%	Actual figures for 2016	Forecast for 2016
Return on equity	14.4	≥ 10

The Property/Casualty Reinsurance segment continued to be impacted by an intensely competitive market environment. Reinsurance capacity far exceeded demand in the year under review. Additional capacities from the market for CAT bonds also put sustained pressure on prices and terms. In view of this situation, we conducted our business very selectively, which is why gross premiums – as expected – declined slightly, by 1.4% to EUR 9.2 (9.3) billion as at 31 December 2016. At constant exchange rates, premium volumes would have remained stable.

At 93.7% (94.5%), the combined ratio was clearly lower than our target value of a maximum of 96%. At 17.2% (17.2%), the EBIT margin once again exceeded our target of at least 10% and thus reflected our very positive business development. The return on equity for the whole Reinsurance Division exceeded the forecast for 2015 by a good 4 percentage points.

LIFE/HEALTH REINSURANCE

- Earnings result confirms the profitability of the underlying business
- Investments in innovative start-ups
- “hr|ReFlex” automated underwriting system continues to operate successfully following its introduction in 2015

KEY FIGURES FOR THE LIFE/HEALTH REINSURANCE SEGMENT

EUR MILLION	2016	2015	2014
Gross written premiums	7,149	7,731	6,459
Net premiums earned	6,433	6,492	5,411
Underwriting result	-372	-351	-384
Net investment income	637	709	613
Operating profit/loss (EBIT)	330	411	268

MANAGEMENT METRICS

%	2016	2015	2014
Gross premium growth (adjusted for currency effects) ¹⁾	-4.3	9.5	4.9
Value of new business ²⁾ in EUR million	448	273	225
EBIT margin financial solutions	18.5	18.1	6.5
EBIT margin longevity solutions	2.2	4.5	2.9
EBIT margin mortality/morbidity	3.4	3.6	4.8

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

²⁾ Excluding non-controlling interests; 2016: estimated figure, the final figure will be published in the 2017 Annual Report.

RETURN ON EQUITY MANAGEMENT METRIC FOR THE REINSURANCE DIVISION OVERALL

%	2016	2015	2014
Return on equity	14.4	16.1	15.8

BUSINESS DEVELOPMENT

In general, the year under review proceeded in line with our expectations. Developments in individual markets were very dynamic in numerous cases.

Many of our activities in Germany focused on the effects of the Solvency II regulations, which went into force on 1 January 2016. The regulation on capital requirements presents a major challenge to German primary life insurers. Solvency II is also having an effect on the (re)insurance industry beyond Germany – i.e. throughout Europe.

Our observations indicate that the increase in regulatory requirements is part of a global trend. For example, supervisory authorities in China, Australia and South Africa have either already introduced more stringent regulatory requirements or are planning to do so. The (re)insurance industry therefore has to continually readjust to new conditions and requirements. We are putting our global expertise to work in order to extensively study the new stipulations and thus ensure we can develop individual reinsurance concepts that meet the specific requirements these regulations have created for our customers in each country. Despite the new regulatory environment, the longevity business developed very positively during the year under review. The number of international enquiries made regarding longevity cover increased once again last year.

In addition, many of our client meetings focused on topics such as digitalisation and online insurance sales, which have become very important issues for the global insurance industry. We have extensively examined such issues and the future business opportunities they might lead to and have already launched several activities in relevant areas.

As a reinsurer, we tend to grow where insurance markets are expanding. We are now focusing strongly on generating new business outside the traditional (re)insurance sector by establishing partnerships with start-ups (e.g. FinTechs) as strategic investments. With its many years of experience in international markets, Hannover Re, which is also well capitalised, is an ideal partner for start-ups with innovative ideas. Such partnerships establish a perfect foundation for addressing an up-and-coming generation that is proficient in technology and also places a top priority on health and quality of life. This target group is very difficult to reach via traditional insurance industry sales channels, which is why we are actively pursuing approaches in line with current and future technology trends.

PREMIUM DEVELOPMENT

During the year under review, we were able to achieve gross premium income of EUR 7.1 (7.7) billion in the Life/Health Reinsurance segment. This corresponds to a decline of 7.5%; adjusted for currency effects, the decrease amounted to 4.3%. This decrease can largely be explained by the fact that premium income growth was extraordinarily high in 2015. Retention amounted to 90.4% (84.2%). Net premiums earned totalled EUR 6.4 (6.5) billion; adjusted for currency effects, we achieved growth of 2.2%.

OPERATING PROFIT AND NET INVESTMENT INCOME

As was expected, the continuation of persistently low interest rates led to a decrease in investment income in the Life/Health Reinsurance segment – from EUR 709 million in 2015 to EUR 637 million in the year under review. The assets under own management contributed EUR 330 (333) million to the result, while the funds withheld by ceding companies contributed EUR 307 (376) million.

At EUR 330 million, operating profit (EBIT) in the Life/Health Reinsurance segment was below the figure recorded in the previous year (EUR 411 million), with this development mainly due to the non-recurrence of a one-off effect of EUR 39 million in 2015. We are satisfied with this very solid performance, especially as it reflects the sustained profitability and quality of the underlying business.

COMPARISON OF ACTUAL BUSINESS DEVELOPMENT WITH THE FORECAST FOR 2016

MANAGEMENT METRICS FOR THE LIFE/HEALTH REINSURANCE SEGMENT

	Actual figures for 2016	Forecast for 2016
%		
Gross premium growth (adjusted for currency effects)	-4.3	slight increase
Value of new business ¹⁾ in EUR million	448	> 110
EBIT margin financial solutions ²⁾	18.5	2
EBIT margin longevity solutions ²⁾	2.2	2
EBIT margin mortality/morbidity	3.4	6

¹⁾ Excluding non-controlling interests; 2016: estimated figure, the final figure will be published in the 2017 Annual Report.
²⁾ The EBIT margins are reported separately since 2016.

RETURN ON EQUITY MANAGEMENT METRIC FOR THE REINSURANCE DIVISION OVERALL

	Actual figures for 2016	Forecast for 2016
%		
Return on equity	14.4	≥ 10

Our business in the Life/Health Reinsurance segment once again made a substantial contribution to total Group net income in the year under review. The positive development and stability of this business clearly reflects its profitable underlying foundation. The sustained earnings that are achieved with these business operations, which in some cases are very long-term in nature, are not always apparent when contracts are signed. Such activities therefore need to be examined over a period of several years before they can be properly evaluated. One-off effects – both positive and negative – can sometimes lead to volatile fluctuations in earnings.

The earnings result for the year under review largely corresponds to our expectations regarding the overall profitability of our life insurance business. It should be noted, however, that the operating profit in 2015 was positively impacted by a one-off effect in the amount of EUR 39 million resulting from the early termination of a contract, and this aspect largely explains the decline in earnings in the reporting year.

Gross premium income declined by 7.5% to EUR 7.1 (7.7) billion. Adjusted for currency effects, the decrease amounted to 4.3%. This decrease can largely be explained by the fact that premium income growth was extraordinarily high in 2015. At EUR 448 million, the value of new business excluding non-controlling interests exceeded the target figure of EUR 110 million.

The following results were achieved for EBIT margins in the individual reporting categories: At 3.4%, we failed to achieve the target of 6% for the mortality and morbidity business. We report the EBIT margins for longevity solutions and financial solutions separately: With an EBIT margin of 2.2%, our longevity solutions business achieved its target of 2%. The EBIT margin recorded for the financial solutions business was 18.5%, which was significantly higher than the target of 2%. The return on equity for the whole Reinsurance Division exceeded the forecast for 2015 by a good 4 percentage points.

CORPORATE OPERATIONS

- Group assets under own management up 6.3%
- Talanx sells 25.1% share in C-QUADRAT
- Positive operating profit of EUR 20 million

THE GROUP'S REINSURANCE SPECIALISTS

Underwriting business written via our subsidiary Talanx Reinsurance (Ireland) Plc. 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 25 (35) million in the reporting period. They resulted from reinsurance cessions in the Industrial Lines, Retail Germany and Retail International Divisions. Talanx Re (Ireland) posted an operating profit of EUR –8 (8) million for this business in the Corporate Operations segment.

THE GROUP'S INVESTMENT SPECIALISTS

In cooperation with its subsidiaries Ampega Investment GmbH and Talanx Immobilien Management 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 Group's assets under own management gained 6.3% to reach EUR 107.2 (100.8) billion due to the performance in operational business and another fall in the interest rate. The total contribution to the segment's operating profit made by the companies amounted to EUR 78 (55) million in the 2016 financial year.

As an investment company, Ampega Investment GmbH manages retail and special funds and provides financial portfolio management services for institutional clients. It focuses on portfolio management and the administration of investments for clients outside the Group. Following the record sales year of 2015, the fund sector faced a setback in the business with retail investment funds in 2016. The severe price setbacks on the international stock exchanges at the start of the year and the persistent uncertainties throughout the year due to political developments caused investors to be extremely reticent towards investment forms with higher yield potential despite the unattractive interest-rate level, due to a fear of possible price losses. As a result, the net sales of retail investment funds were approximately over 80% lower than in the previous year. The fact that Ampega Investment GmbH was able to hold its own well in this difficult market environment was mainly due to successful sales to institutional customers.

The total volume of assets managed by Ampega rose by 11.9% to EUR 21.6 (19.3) billion in the 2016 financial year. At EUR 10.7 (9.5) billion, approximately half of this total was managed on behalf of Group companies using special funds and direct investment mandates. Of the remainder, EUR 5.7 (4.2) billion was attributable to institutional third-party clients and EUR 5.3 (5.5) billion to retail business. The latter is offered both through the Group's own distribution channels and products such as unit-linked life insurance and through external asset managers and banks.

OPERATING PROFIT

The Corporate Operations segment improved its operating profit to EUR 20 (13) million in the 2016 financial year, largely due to the sale of the 25.1% share in C-QUADRAT Investment AG. Talanx Asset Management GmbH sold its 25.1% investment in the asset manager C-QUADRAT Investment AG to Cubic Limited. This sale of the shares generated profit after taxes according to IFRS of around EUR 26 million. The shares were sold at a price of EUR 42.00 per share; in 2010, Talanx had acquired them at a price of EUR 12.60 per share. The aim is to continue the successful collaboration between the two companies, which stretches back many years.

The Group net income for this segment attributable to the shareholders of Talanx AG in the 2016 financial year fell to EUR –125 (–51) million due to an extraordinary write-off of deferred tax assets of EUR –81 million.

NET ASSETS AND FINANCIAL POSITION

NET ASSETS

- Total assets up EUR 3.8 billion to EUR 156.6 billion
- Investments account for 76% of total assets

ASSET STRUCTURE OVER A MULTI-YEAR PERIOD

EUR MILLION						
	2016		2015		2014	
Intangible assets	1,942	1%	1,990	1%	2,096	1%
Investments	118,855	76%	115,611	76%	112,879	77%
Investments for the benefit of life insurance policyholders who bear the investment risk	10,583	7%	10,104	7%	9,426	6%
Reinsurance recoverables on technical provisions	7,958	5%	8,372	5%	7,370	5%
Accounts receivable on insurance business	6,192	4%	6,070	4%	5,252	4%
Deferred acquisition costs	5,240	3%	5,078	3%	4,645	3%
Cash at banks, cheques and cash-in-hand	2,589	2%	2,243	1%	2,145	2%
Deferred tax assets	577	< 1%	736	< 1%	764	< 1%
Other assets	2,620	2%	2,537	2%	2,699	2%
Non-current assets and assets of disposal groups classified as held for sale	15	< 1%	19	< 1%	22	< 1%
Total assets	156,571	100%	152,760	100%	147,298	100%

SIGNIFICANT CHANGES IN THE ASSET STRUCTURE

The EUR 3.8 billion increase in our total assets to EUR 156.6 billion is primarily attributable to growth of EUR 3.2 billion in our investment portfolio.

Recognised intangible assets of EUR 1.9 (2.0) billion include EUR 903 (953) million of other intangible assets (including PVFP). They also include recognised goodwill of EUR 1,039 (1,037) million. Other intangible assets are recognised in their entirety in the Group. Other intangible assets that are economically attributable to Group shareholders – excluding non-controlling interests and the policyholders' portion – are calculated as follows:

NON-CONTROLLING INTERESTS AND POLICYHOLDERS' PORTION

EUR MILLION			
	31.12.2016	31.12.2015	31.12.2014
Other intangible assets before deducting non-controlling interests and the policyholders' portion, including deferred taxes	903	953	1,006
of which attributable to: non-controlling interests	87	124	132
of which attributable to: policyholders' portion	322	319	333
of which attributable to: deferred taxes	74	74	84
Other intangible assets after deducting non-controlling interests and the policyholders' portion, net of deferred taxes	420	436	457

"Technical provisions for life insurance policies where the investment risk is borne by the policyholders" increased by EUR 0.5 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.

“Non-current assets and assets of disposal groups classified as held for sale” comprise individual properties in the amount of EUR 15 (0) million as at the reporting date. The prior year included the associate C-QUADRAT Investment AG, Vienna, Austria, among others, which was sold in the reporting period. Furthermore, all shares in Open Life Towarzystwo Ubezpieczeń Życie s. A. were sold in December 2016 after we had recognised it as a disposal group from the first quarter of 2016. Further details of individual transactions can be found in “Non-current assets held for sale and disposal groups” in the Notes.

ASSET MANAGEMENT AND OBJECTIVES

The past financial year was again shaped by the low interest rate environment and an extremely expansive monetary policy at the ECB. The prime rate in the eurozone fell to a new historic low of 0.0%. The dominant topics for the ECB in the past financial year were the expansion of the purchase programme to include corporate bonds, the increase in monthly bond purchases and the announcement of new refinancing transactions. In addition to these monetary policy issues, the markets were also influenced by the weakening economic dynamic in China and other emerging markets. Furthermore, the markets were also dominated by political issues such as Brexit, the US elections and the Italian referendum.

A continuous decline in interest rates was observed in 2016 until the third quarter. The year-end closed with an increase in the case of five- and ten-year German government bonds. Interest rates on two- and five-year German government bonds fell by approximately 42 basis points in each case. For ten-year German government bonds, the fall amounted to approximately 36 basis points.

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 2015, the US dollar was at 1.09 to the euro. Up to the third quarter, the rate increased with various fluctuations to US dollar 1.12. At the end of the year, the exchange rate had fallen to US dollar 1.05 to the euro. At the year-end, the US dollar-denominated investment portfolio amounted to EUR 21.9 billion and accounted for 20% of total assets under own management.

Risk measurement and control are a very important part of our asset management. A robust and highly efficient interface between these core functions and Portfolio Management 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, 76% (78%) of the securities are rated A or better. A broad-based system designed to limit accumulation risks resulted in a balanced mix of assets, which also helped reduce risk in the eurozone crisis.

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

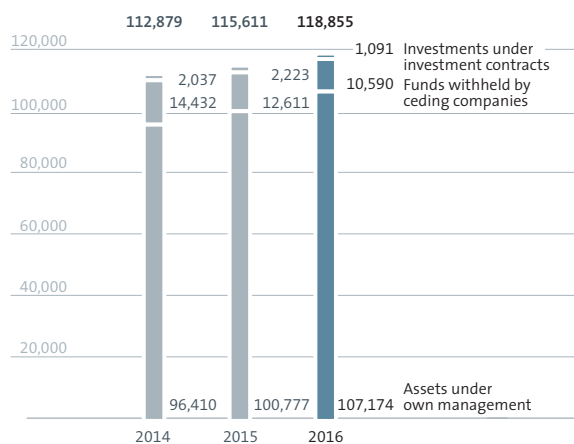
The investment guidelines at Group, segment and company level, which are subject to annual review and amended if necessary with regard to their appropriateness in light of regulatory and market restrictions, represent a further element.

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

CHANGES IN INVESTMENTS

BREAKDOWN OF THE INVESTMENT PORTFOLIO

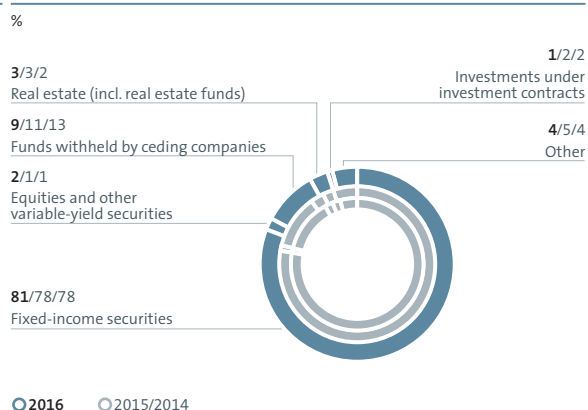
EUR MILLION



The total investment portfolio increased by 2.8% over financial year 2016 to EUR 118.9 billion. The portfolio of assets under own management rose by 6.3% to EUR 107.2 billion. Growth in the portfolio of assets under own management was predominantly market-driven and is also still determined by the cash inflows from the underwriting business – which were reinvested in accordance with the respective corporate guidelines. Moreover, the assets under own management include the portfolio of the new Italian company, CBA Vita, as at 31 December 2016 in the amount of EUR 1,047 million. The portfolio of investment contracts, by contrast, fell from EUR 2.2 billion to EUR 1.1 billion. This was due to the sale of Open Life Towarzystwo Ubezpieczeń Życie s.a. in the financial year. This decline was cushioned by a growth in investment contracts at InChiaro Life Designated Activity Company (InChiaro Life DAC). For further information about the initial consolidation of CBA Vita S. p. A. (CBA Vita) and InChiaro Life DAC, see our disclosures in the Notes, in the section “Consolidation”. Funds withheld by ceding companies fell by 16.0% to EUR 10.6 billion.

Fixed-income investments were again the most significant asset class in 2016. Most reinvestments were made in this class, reflecting the existing investment structure. This asset class contributed EUR 2.7 billion to earnings, which was reinvested as far as possible in the year under review.

BREAKDOWN OF THE INVESTMENT PORTFOLIO



BREAKDOWN OF ASSETS UNDER OWN MANAGEMENT BY ASSET CLASS

EUR MILLION

	2016		2015		2014	
Investment property	2,480	2%	2,198	2%	1,873	2%
Shares in affiliated companies and participating interests	139	< 1%	111	< 1%	112	< 1%
Investments in associates and joint ventures	290	< 1%	272	< 1%	262	< 1%
Loans and receivables						
Loans incl. mortgage loans	567	1%	733	1%	880	1%
Loans and receivables due from government or quasi-governmental entities, together with fixed-income securities	28,858	27%	29,021	29%	29,673	31%
Financial assets held to maturity	744	1%	1,287	1%	2,454	3%
Financial assets available for sale						
Fixed-income securities	65,435	61%	59,396	59%	54,900	57%
Variable-yield securities	2,615	2%	1,875	2%	1,283	1%
Financial assets at fair value through profit or loss						
Financial assets classified at fair value through profit or loss						
Fixed-income securities	1,087	1%	807	1%	850	1%
Variable-yield securities	19	< 1%	67	< 1%	95	< 1%
Financial assets held for trading						
Fixed-income securities	3	< 1%	6	< 1%	6	< 1%
Variable-yield securities	174	< 1%	135	< 1%	108	< 1%
Derivatives ¹⁾	69	< 1%	48	< 1%	80	< 1%
Other investments	4,694	4%	4,821	5%	3,834	4%
Assets under own management	107,174	100%	100,777	100%	96,410	100%

¹⁾ Only derivatives with positive fair values.

FIXED-INCOME SECURITIES

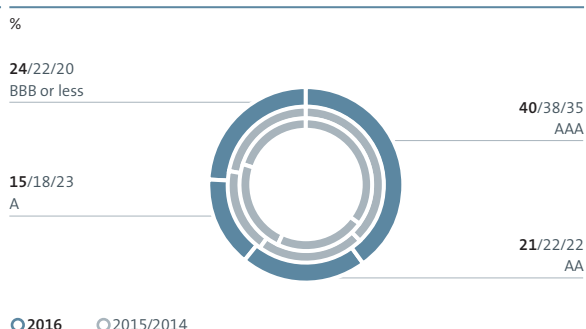
The portfolio of fixed-income investments (excluding mortgage and policy loans) rose by EUR 5.6 billion in financial year 2016, totalling EUR 96.1 billion at the end of the year. At 81% of total investments, this asset class continues to represent the most significant share of our investments by volume. 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 further by EUR 6.0 billion to EUR 65.4 billion, or 68% of total investments in the fixed-income portfolio. German covered bonds (Pfandbriefe) and corporate bonds accounted for the majority of these investments. Valuation reserves – i.e. the balance of unrealised gains and losses – have risen from EUR 2.9 billion to EUR 3.8 billion since the end of 2015 due to the further drop in interest rates for long terms.

In the “Loans and receivables” category, investments were primarily held in government securities or securities with a similar level of security. Pfandbriefe still represent the largest item in the portfolio. Total holdings in fixed-income securities within the category “Loans and receivables” amounted to EUR 29.4 billion at the end of the year and thus represent 31% of total holdings in the asset class of fixed-income investments. Off-balance-sheet valuation reserves of “Loans and receivables” (including mortgage and policy loans) increased marginally to EUR 4.9 (4.9) billion.

In 2016, investment in fixed-income securities continued to focus on government bonds with good ratings or securities from issuers with a similar credit quality. At the reporting date, holdings of AAA-rated bonds amounted to EUR 39.0 billion. This represents 40% of the total portfolio of fixed-income securities and loans.

RATING STRUCTURE OF FIXED-INCOME SECURITIES



The Group pursues a conservative investment policy. As a result, 76% (78%) of instruments in the fixed-income securities asset category have a minimum A rating.

The Group has only a small portfolio of investments in government bonds from countries with a rating lower than A-. On a fair value basis, this portfolio amounts to EUR 4.4 (3.7) billion and therefore corresponds to a share of 4.1% (3.7%) of the assets under own management.

EQUITIES AND EQUITY FUNDS

With an equity holding of approximately EUR 2 billion, the equity allocation ratio after derivatives (equity ratio) was 1.7% (1.2%) at the end of the year.

Net unrealised gains and losses on equity holdings within the Group (excluding “Other investments”) increased by EUR 125 million to EUR 251 million.

REAL ESTATE INCLUDING SHARES IN REAL ESTATE FUNDS

In light of the low interest rate environment, the German real estate market is still characterised by substantial pressure on private and institutional investors to invest. An extraordinarily high real estate transaction volume anyhow is only limited by a lack of suitable properties. High market liquidity is leading to corresponding price effects, in particular for core properties; historically low yields are recorded in individual segments. The office rental market performed positively; rising premium rents and falling vacancies characterise the nationally significant sub-markets, in particular.

Investment property totalled EUR 2.5 (2.2) billion at the reporting date. An additional EUR 830 (724) million is held in real estate funds, which are recognised as “Financial assets available for sale”.

Depreciation of EUR 45 (39) million was recognised on investment property in the reporting period. There were impairment losses in the amount of EUR 2 (8) million. Depreciation on real estate funds stood at EUR 5 (9) million. This depreciation was offset by reversals of impairment losses of EUR 10 (7) million.

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

INFRASTRUCTURE INVESTMENTS

In the year under review, Talanx again expanded its direct investments in infrastructure. The portfolio comprises both equity and external funding investments in wind farms, electricity networks, water companies, solar parks and public-private partnership projects (PPP) in Germany and the rest of Europe. Currently, Talanx has approximately EUR 1.5 billion invested in infrastructure projects in total. In the year under review, Talanx became involved in the financing of 14 primary care institutions in Ireland, a solar park in Germany and a wind farm in Norway.

NET INVESTMENT INCOME

CHANGES IN NET INVESTMENT INCOME			
EUR MILLION			
	2016	2015	2014
Ordinary investment income	3,302	3,444	3,202
of which current income from interest	2,747	2,887	2,888
of which gain/loss on investments in associates	25	24	9
Realised net gains on disposal of investments	770	527	851
Write-downs/reversals of write-downs of investments	-167	-214	-66
Unrealised net gains from investments	51	20	-4
Other investment expenses	252	231	207
Income from assets under own management	3,704	3,546	3,776
Net interest income from funds withheld and contract deposits	314	378	358
Net income from investment contracts	5	9	10
Total	4,023	3,933	4,144

The net investment income in the reporting period stood at EUR 4,023 (3,933) million, and so was slightly above the previous year's level despite the low interest rate environment. The annualised net return on investment for the assets under own management remained constant at 3.6% (3.6%).

At the end of the year, ordinary investment income amounted to EUR 3,302 (3,444) million and was therefore EUR 142 million below the prior year's figure, which contained, among other things, a one-off effect of EUR 39 million from Life/Health Reinsurance. Falling interest rates on the capital markets led to an average coupon in the fixed-income securities portfolio of 3.2%, which has therefore fallen below the previous year's value of 3.4%.

The current interest income included in the investment income amounted to EUR 2.7 (2.9) billion and still accounted for the majority of the earnings. Derivative financial instruments (including forward purchases) were used to hedge reinvestment risk, in particular in the case of life insurers in our Retail Germany – Life segment. Further information on the financial implications can be found in the Notes to the consolidated balance sheet, Note 13 "Derivative financial instruments and hedge accounting".

Overall, total realised net gains on the disposal of investments in the financial year were above the prior-year figure, at EUR 770 (527) million. The positive net gains resulted mainly from regular portfolio turnover in all segments, as well as from the requirement to realise unrealised gains in order to finance the additional interest reserve for life insurance and occupational pension plans required by the HGB. In addition, we adjusted our private equity portfolio through the sale of older commitments.

Compared with the previous year, lower net impairments were required. These amounted to EUR 167 (214) million in total, net of reversals of impairments. EUR 63 (53) million of this amount was attributable to the area of equities due to lower prices, partly because of the Brexit decision. Across the Group as a whole, impairments of fixed-income securities decreased from EUR 62 million to EUR 13 million; the prior year was adversely affected by, among other things, impairments of fixed-income securities issued by HETA Asset Resolution AG. In addition, depreciation of EUR 25 (12) million was recognised on technical property, plant and equipment from the infrastructure investments. These write-downs were offset in the past financial year by reversals of impairment losses amounting to EUR 14 (12) million. This includes EUR 10 (7) million for real estate and EUR 4 (5) million for fixed-income securities.

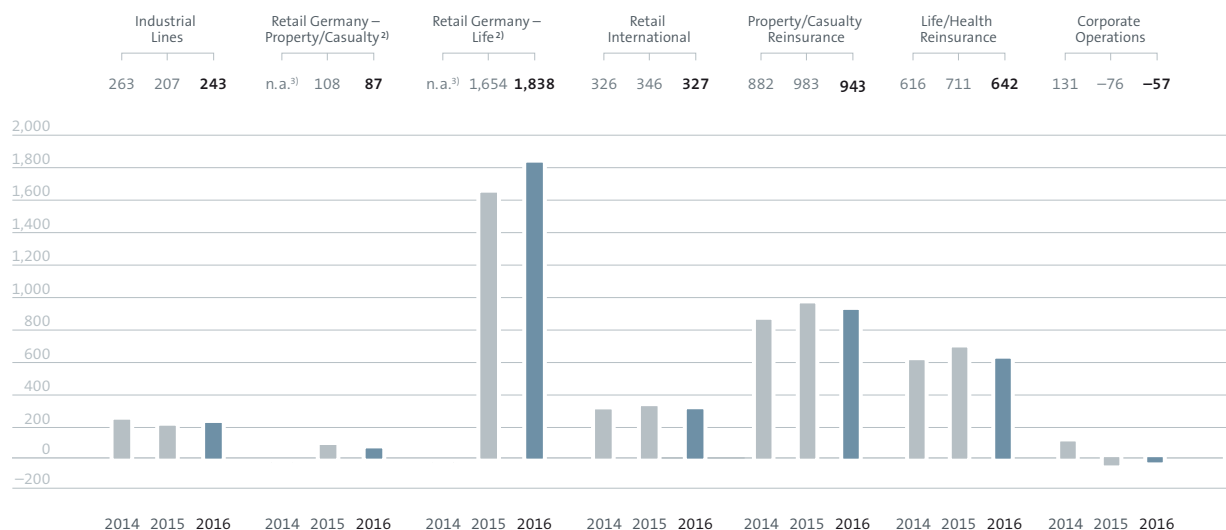
Unrealised net gains/losses improved on balance from EUR 20 million to EUR 51 million. This figure includes the unrealised gain from ModCo derivatives in the Life/Health Reinsurance segment in the amount of EUR 1 million, which was recognised with a negative contribution of EUR 26 million in "Unrealised net gains/losses" in the prior year.

Net interest income from funds withheld and contract deposits totalled EUR 314 (378) million.

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

BREAKDOWN OF NET INVESTMENT INCOME BY SEGMENT¹⁾

EUR MILLION



¹⁾ After elimination of intragroup transactions between the segments.

²⁾ Retail Germany Division 2016: 1,925; 2015: 1,762; 2014: 1,926.

³⁾ In 2016, the Group adapted its segment reporting in line with IFRS 8 “Operating Segments” because of the internal reporting and control structure in the Retail Germany Division (see our explanations in the Notes to the consolidated balance sheet, “Segment reporting” section). In order to reflect this change in the segment structure of the Group, the comparison period was adjusted retrospectively. Due to cost/benefit considerations, however, the reporting for periods prior to 2015 has not been retrospectively adjusted.

CURRENCY EFFECTS

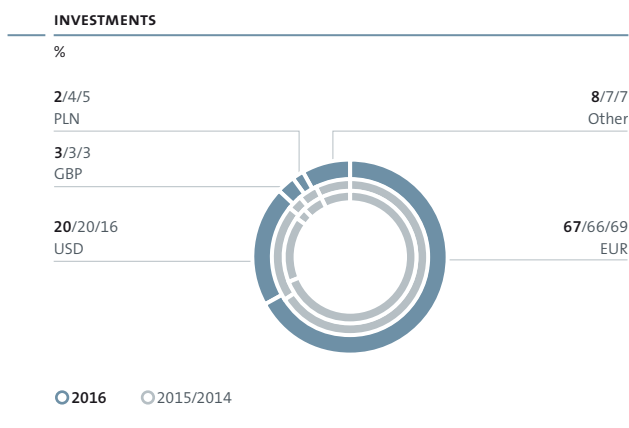
In light of the international nature of the various insurers in the Group and as a result of our business model, there are currency-related interdependencies between the net assets and the financial position.

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

As far as match-oriented currency cover is concerned, us dollar-denominated investments continue to account for the largest share (20%) of the Talanx Group’s foreign currency portfolio. Sizeable

positions are also held in pound sterling, Polish zloty and Australian dollars, totalling 7% of all investments.

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



FINANCIAL POSITION

ANALYSIS OF CAPITAL STRUCTURE

- Equity well up year-on-year at EUR 14.7 (13.4) billion
- Technical provisions up EUR 3.6 billion to EUR 110.4 billion
- Fall in liabilities from investment contracts of EUR 1.1 billion because of the sale of Open Life Towarzystwo Ubezpieczeń Życie s. A.

CAPITAL STRUCTURE OVER A MULTI-YEAR PERIOD

EUR MILLION						
	2016		2015		2014	
Equity	14,688	9%	13,431	9%	12,900	9%
Subordinated liabilities	1,983	1%	1,943	1%	2,661	2%
Technical provisions	110,429	71%	106,832	70%	101,109	69%
Technical provisions for life insurance policies where the investment risk is borne by the policyholders	10,583	7%	10,104	7%	9,426	6%
Other provisions	3,956	3%	3,516	2%	3,708	2%
Liabilities	12,784	8%	14,636	10%	15,228	10%
Deferred tax liabilities	2,148	1%	2,298	1%	2,262	2%
Liabilities included in disposal groups classified as held for sale	—	< 1%	—	< 1%	4	< 1%
Total equity and liabilities	156,571	100%	152,760	100%	147,298	100%

SIGNIFICANT CHANGES IN THE CAPITAL STRUCTURE

Overall, net technical provisions (i.e. less reinsurance recoverables on technical provisions) rose by 4.1% or EUR 4.1 billion year-on-year to EUR 102.8 (98.8) billion. The increase was due to the loss and loss adjustment expense reserve (EUR 1.7 billion) and provision for premium refunds (EUR 1.6 billion). The increase in the loss and loss adjustment reserve largely resulted from the Property/Casualty Reinsurance (EUR 1.0 billion) and Life/Health Reinsurance (EUR 0.4 billion) segments. The increase in the provision for premium refunds (EUR 1.5 billion) is attributable to the Retail Germany – Life segment and reflects the obligations relating to surplus participation as well as revaluation effects between the consolidated financial statements in accordance with IFRSs and the local annual financial statements with repercussions for future surplus participation.

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 87.3% (87.1%) at the reporting date. Investments thus exceed provisions by EUR 14.9 (14.6) billion.

OFF-BALANCE-SHEET TRANSACTIONS

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

ASSET/LIABILITY MANAGEMENT

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

To this end, we mirror the key features of our liabilities such as maturity and currency structure, as well as sensitivity to inflation, by investing where possible in assets that behave in a similar way. In this context, please see our disclosures in the risk report from page 92.

The Macaulay duration of the Group's total fixed-income securities investment portfolio was 8.0 (7.7) across all segments in the year under review. Duration management within the individual segments is guided by the requirements of the respective underwriting business, as described above. For example, the modified asset duration of 10.8 years in the Retail Germany Division is relatively long compared with that of the Industrial Lines Division (4.8 years), reflecting the length of the capital commitment period,

especially in the case of life insurance products. Asset-side duration and liabilities-side requirements are coordinated by the insurance providers and Talanx Asset Management GmbH on a regular basis.

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

CAPITAL MANAGEMENT

CAPITAL MANAGEMENT PROCESS



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

Effective and efficient capital management is a core component of the Talanx Group's integrated set of management tools. We differentiate between the following capital concepts: basic own funds and solvency capital required. The term "basic own funds" refers to the economic capital available in a business unit. Basic own funds consist of the surplus of the assets over the liabilities in the solvency balance sheet and differ from the IFRS equity (adjusted for any intangible assets) in terms of the disclosed unrealised gains and losses on assets or liabilities after taxes, and they also contain hybrid capital and surplus funds. The loss reserves in the solvency balance sheet take a loss reserve discount and a risk margin into account in accordance with Solvency II.

Solvency capital required is the amount of capital required under supervisory law to operate the insurance business. It is calculated with a confidence level of 99.5% for a one-year period according to Solvency II. The capital required for this purpose is calculated on the basis of the approved, partial internal capital model. The approved internal model or the standard model are applied at the Group or company level. At Group level, we have defined a target range between 150% and 200% for the regulatory SCR ratio.

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

The overall objective of capital management in the Talanx Group – an optimised capital structure for the Group that is appropriate to the risks – is explicitly anchored in our strategy (page 22f.). Except in those cases in which the legal requirements and the rating agencies' capital requirements that must also be satisfied have been met, the Group therefore systematically allocates capital in accordance with risk/return considerations and Talanx's target portfolio. To this end, and in the interests of diversification, investments are channelled into preferred growth markets and business segments.

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

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

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

The Group capital management steering function thus enables us to:

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

EQUITY

EQUITY RATIO AND RETURN ON EQUITY

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

EQUITY RATIO			
EUR MILLION			
	2016	2015	2014
Total equity	14,688	13,431	12,900
of which non-controlling interests in equity	5,610	5,149	4,902
Total assets	156,571	152,760	147,298
Equity ratio	9.4%	8.8%	8.8%

RETURN ON EQUITY

EUR MILLION

	2016	2015	2014
Group net income ¹⁾	907	734	769
Return on equity ²⁾	10.4%	9.0%	10.2%

¹⁾ Net income after non-controlling interests.²⁾ Ratio of net income excluding non-controlling interests to average equity excluding non-controlling interests.

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

CHANGES IN EQUITY

Equity rose by EUR 1,257 million – an increase of 9.4% – to EUR 14,688 (13,431) million in the reporting period just ended.

The Group's portion (equity excluding non-controlling interests) amounted to EUR 9,078 (8,282) million. The increase of EUR 796 million (+9.6%) relates to the net income for the period, EUR 907 million of which is attributable to our shareholders and was allocated in full to retained earnings. The increase in accumulated other comprehensive income and other reserves, compared with 31 December 2015, by EUR 232 million to EUR 721 million also contributed to the increase in the Group's portion of equity. However, the dividend payment totalling EUR 329 million to Talanx AG shareholders in May of the reporting period and other minor effects had an offsetting effect.

The change in "Other reserves" (EUR +232 million) is mainly due to two partially offsetting effects. On the one hand, the significant rise in unrealised gains on investments by EUR 835 million to EUR 3,278 (2,443) million was the cause of the increase in other reserves and was largely due to gains on corporate and government bonds as a result of the further decline in interest rates for long terms since the end of 2015. On the other hand, the decrease in the other changes in equity by EUR 824 million to EUR –3,191 (–2,367) million cancelled out this effect to a large extent. EUR –660 million and thus a major part of this change was attributable to policyholder participations/shadow accounting (in particular policyholder participations in gains on investments) and EUR –171 million was attributable to the increase in provisions for pensions (mainly

caused by the further decline in interest rates for long terms since the end of 2015). The improvement in the cumulative currency translation gains/losses due to exchange rate changes for foreign currencies against the euro of EUR 129 million to EUR 186 (57) million and the increase in the reserve for cash flow hedges of EUR 92 million to EUR 448 million due to changes in interest rates have, however, partly offset the above-mentioned effects. The increase in currency translation gains/losses is due, in particular, to the slight appreciation of the US dollar, the appreciation of the Brazilian real and the Chilean peso and was partly reduced by the devaluation of the Polish zloty, the pound sterling and the Mexican peso against the euro.

Non-controlling interests rose by EUR 461 million – or 9.0% – to EUR 5,610 million. Non-controlling interests in net income for the period were EUR 661 (675) million. The dividend payment to non-Group shareholders totalling EUR 350 (337) million was mainly from the Hannover Re Group.

EQUITY BY DIVISION¹⁾ INCLUDING NON CONTROLLING INTERESTS

EUR MILLION

	31.12.2016	31.12.2015	31.12.2014
Segment			
Industrial Lines	2,189	2,099	1,959
of which non-controlling interests	–	–	–
Retail Germany	2,558	2,590	3,231
of which non-controlling interests	51	46	67
Retail International	2,263	2,201	2,037
of which non-controlling interests	206	244	249
Reinsurance	9,702	8,760	8,240
of which non-controlling interests	5,354	4,862	4,604
Corporate Operations	–2,041	–2,195	–2,531
of which non-controlling interests	–	–	–
Consolidation	17	–24	–36
of which non-controlling interests	–1	–3	–18
Total equity	14,688	13,431	12,900
Group equity	9,078	8,282	7,998
Non-controlling interests in equity	5,610	5,149	4,902

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

The Corporate Operations segment reports a negative value that reflects Talanx AG's debt leverage. As the Group's holding company, Talanx AG performs a financing function for the Group in the primary insurance sector and for the companies in Corporate Operations. The liabilities mainly relate to retirement pension provisions of EUR 1,173 (1,069) million, notes payable in the amount of EUR 1,065 (1,065) million and provisions for taxes of EUR 94 (112) million. These liabilities are offset on Talanx AG's balance sheet by liquid assets and tax refund claims and, above all, by the carrying amounts of its investments in subsidiaries, which are eliminated against the proportionate equity of the subsidiaries in the consolidated financial statements.

CHANGE IN UNRECOGNISED VALUATION RESERVES

The unrecognised valuation reserves shown in the following table do not take technical liabilities into account. Valuation reserves amount to EUR 4.9 (4.9) billion and are primarily attributable to loans and receivables. Further information can be found in the Notes to the consolidated balance sheet relating to "Investment property", "Loans and receivables", "Other investments", "Other assets", "Subordinated liabilities", "Notes payable and loans", "Investments under investment contracts" and "Other liabilities".

EQUITY AND UNRECOGNISED VALUATION RESERVES NOT RECOGNISED IN THE BALANCE SHEET

EUR BILLION

	2016	2015	2014
Group equity	14.7	13.4	12.9
Unrecognised valuation reserves before taxes including shares of policyholders and non-controlling interests	4.9	4.9	5.8

LIQUIDITY AND FINANCING

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

In the second quarter of 2016, a syndicated credit line for EUR 700 million was superseded by a credit line for EUR 250 million at improved terms and with a term of five years. In addition, part of the second credit line was cancelled in the fourth quarter of 2016, which reduced its volume from EUR 550 million to EUR 250 million. As at 31 December 2016, the Group thus had two syndicated variable-rate credit lines with a nominal value of EUR 500 million in total. As in the previous year, these were not drawn down as at the reporting date. The existing syndicated credit lines can be terminated by the lenders if there is a change of control, i.e. if a person or persons acting in concert, other than HDI Haftpflichtverband der Deutschen Industrie V. a. G., gains direct or indirect control over more than 50% of the voting rights or share capital of Talanx AG. Moreover, the notes payable and loans have increased by EUR 52 million to EUR 1,505 (1,441) million, primarily due to an increase in the loans for financing infrastructure projects. Further information can be found in the Notes to the consolidated balance sheet in the section "Notes to individual items of the consolidated balance sheet", Note 26 "Notes payable and loans".

On 21 October 2016, Talanx AG concluded a general agreement with HDI Haftpflichtverband der Deutschen Industrie V. a. G., which gives it the option of tendering subordinated bonds to HDI Haftpflichtverband der Deutschen Industrie V. a. G. for subscription on a

revolving basis for a period of five years and in the amount of up to EUR 500 million. As at 31 December 2016, no bonds had yet been tendered to HDI V.a.G. Further information can be found in the Notes to the consolidated balance sheet in the section "Other disclosures", Note "Related party disclosures".

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

ANALYSIS OF DEBT

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

CHANGES IN STRATEGIC DEBT

EUR MILLION

	2016	2015	2014
Subordinated bonds of Hannover Finance (Luxembourg) S.A.	997	996	1,493
Subordinated bonds of HDI Lebensversicherung AG (formerly HDI-Gerling Lebensversicherung AG)	—	—	110
Subordinated bonds of Talanx Finanz (Luxembourg) S.A.	500	500	612
Subordinated bond of Hannover Rück SE	445	444	444
Subordinated loan of HDI Assicurazioni S.p.A.	27	—	—
Subordinated bond of CBA Vita S.p.A.	13	—	—
Mortgage loans of Hannover Re Real Estate Holdings, Inc., Orlando	212	207	183
Mortgage loans of HR GLL Central Europe GmbH & Co. KG, Munich	102	101	101
Notes payable of Talanx AG	1,065	1,065	1,065
Loans from infrastructure investments	120	68	—
Other	7	2	2
Total	3,488	3,383	4,010

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

ANALYSIS OF THE CONSOLIDATED CASH FLOW STATEMENT

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

SUMMARY OF CASH FLOWS

EUR MILLION

	2016	2015	2014
Cash flows from operating activities	4,260	6,107	5,827
Cash flows from investing activities	-3,132	-4,481	-4,733
Cash flows from financing activities	-799	-1,585	-856
Net change in cash and cash equivalents	329	41	238

Cash inflows from operating activities, which also include inflows from investment income, decreased year on year from EUR 6,107 million to EUR 4,260 million. The calculation essentially adjusts net income (EUR 1,568 [1,409] million) to reflect the decline in "Changes in technical provisions" of EUR 0.8 billion and the decrease in "Changes in funds withheld and in accounts receivable and payable" of EUR 0.3 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 3,142 (2,565) million. In property too, cash outflows for new investments also exceeded cash inflows from sales. Net cash outflow from property sales and new investments (including property companies) was EUR 307 (317) million. Cash outflows from investing

activities totalled EUR 3,132 (4,481) million in the reporting period, EUR 1,349 million lower than the previous year. This effect was mainly due to the change in other investments (in particular, short-term investments) of EUR +827 million, which was recognised in the amount of EUR –730 million in cash flow from investing activities last year. EUR +1.8 billion and thus a large proportion of this change was attributable to the Property/Casualty Reinsurance segment and EUR –0.5 billion to the Life/Health Reinsurance segment, which had an offsetting effect.

In the cash flows from financing activities, the dividend payments increased in the year under review by EUR 26 million to EUR 679 (653) million. The “Net changes attributable to other financing activities” (EUR –120 [–932] million) in the year under review were largely attributable to interest payments of EUR 154 (186) million and the raising of a subordinated loan by HDI Assicurazioni S. p. A. in the amount of EUR 27 million, which had an offsetting effect. In the prior year, cash flows from financing activities were still dominated by cash outflows from the redemption of bonds issued with a nominal amount of EUR 819 million in total (of which EUR 96 million were held internally) within subordinated liabilities. 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. The net cash outflows from financing activities decreased by EUR 786 million year-on-year to EUR –799 (–1,585) million.

Compared with the previous year, cash and cash equivalents, which includes cash at banks, cheques and cash-in-hand, decreased by EUR 346 million in total to EUR 2.6 billion. This increase was essentially due to changes in the cash flows (EUR +329 million).

RATINGS OF THE GROUP

In the year under review, the Talanx Group and its companies were again awarded very good ratings by 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.

FINANCIAL STRENGTH RATINGS OF THE GROUP AND ITS SUBGROUPS

	Standard & Poor’s		A. M. Best	
	Rating	Outlook	Rating	Outlook
Talanx Group ¹⁾	—	—	A	Stable
Talanx Primary Insurance Group ²⁾	A+	Stable	—	—
Hannover Re subgroup ³⁾	AA–	Stable	A+	Stable

¹⁾ Definition used by A. M. Best: “HDI V.a.G., the ultimate mutual parent company of Talanx AG, and various subsidiaries.”

²⁾ The subgroup of primary insurers including HDI V.a.G. (Industrial Lines, Retail Germany and Retail International Divisions) and its major core companies.

³⁾ Hannover Rück SE and its major core companies; corresponds to the Talanx Group Reinsurance Division.

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

A. M. Best awarded the primary insurance companies in the Talanx Group a financial strength rating of A (excellent) with a stable outlook. Compared to the ratings awarded in 2015, Talanx Reinsurance (Ireland) Plc. and HDI-Gerling de México Seguros S. A. have now both attained the group status too, and, like the Talanx Group, were

rated A, outlook stable. Hannover Re's financial stability was assessed as A+ (superior), likewise with a stable outlook. A. M. Best justified the continuing high ratings for the subgroups on the grounds of their healthy earnings situation, excellent capitalisation and very good risk management culture.

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

ISSUER CREDIT RATINGS

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

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

Various specific 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 the Notes to the consolidated balance sheet, Note 18 "Subordinated liabilities".

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

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

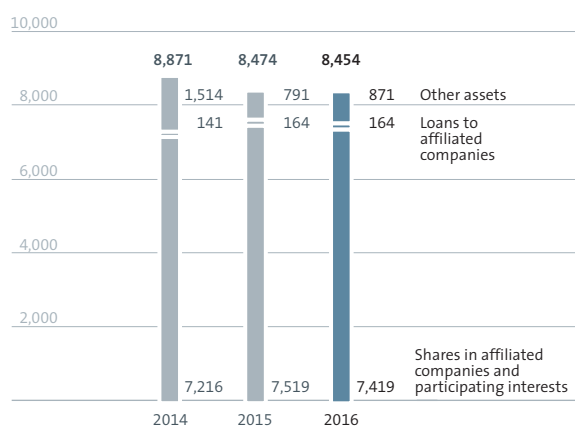
In contrast to the consolidated financial statements, which are prepared in accordance with International Financial Reporting Standards (IFRSs), as adopted by the European Union as at 31 December 2016, Talanx AG's annual financial statements are prepared in accordance with German GAAP as set out in the German Commercial Code (HGB).

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

NET ASSETS

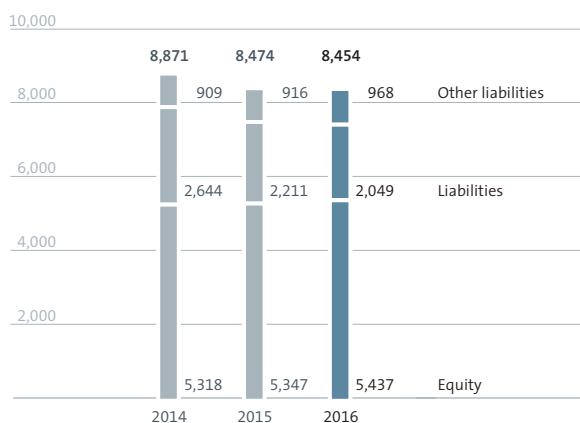
BALANCE SHEET STRUCTURE – ASSETS

EUR MILLION



BALANCE SHEET STRUCTURE – LIABILITIES

EUR MILLION



As in past years, Talanx AG's balance sheet continues to be shaped by its function as a holding company: on the assets side, it is dominated by its euro-denominated investments in subsidiaries. Total assets decreased slightly, by 0.2% to EUR 8,454 (8,474) million. The carrying amount of shares in affiliated companies and participating interests declined by 1.3% to EUR 7,419 (7,519) million due to the return of capital reserves at subsidiaries to Talanx AG that led to a reduction in the carrying amount. Loans to affiliated companies remained at the previous year's level (EUR 164 million). The receivables from affiliated companies increased by 10.4% to EUR 458 (415) million. Bank balances fell by 15.7% to EUR 182 (216) million. Other assets increased by 44.4% to EUR 231 (160) million. This was due inter alia to receivables resulting from the corporation tax/solidarity surcharge.

At the reporting date, Talanx AG had entered into firm agreements with two banking syndicates, in each case for a floating-rate euro-denominated syndicated line of credit that can be drawn down as required. The floating rate is linked to Euribor plus a premium. At EUR 250 million, respectively, the nominal amounts of the credit lines available at the reporting date were lower than in the previous year, meaning that a total of EUR 500 (1,250) million was unused. On 21 October 2016, Talanx AG concluded a cooperation agreement with HDI Haftpflichtverband der Deutschen Industrie V.a.G. which allows Talanx AG to offer HDI subordinated bonds with a maturity of five years and a volume of up to EUR 500 million on a revolving basis. Talanx AG is obliged to convert these bonds into registered shares with voting rights in the event of an increase in capital with

pre-emptive rights. With the conversion of these bonds, HDI Haftpflichtverband der Deutschen Industrie V.a.G. waives its pre-emptive rights resulting from the capital increase that led to the conversion. It does so for that number of new Talanx shares that corresponds to the number of Talanx shares that HDI Haftpflichtverband der Deutschen Industrie V.a.G. will receive in the course of the obligatory conversion of the bond – i.e. only to the extent to which new shares resulting from the capital increase are replaced by shares resulting from the conversion.

Talanx AG's capital structure and the composition of its liabilities are shaped by the fact that it is a holding company. Equity amounted to EUR 5,437 (5,347) million. The increase of EUR 90 million was entirely due to the distributable profit.

Liabilities totalled EUR 2,049 (2,211) million; the key items included were EUR 963 (1,124) million in liabilities to affiliated companies and EUR 1,065 (1,065) million in liabilities relating to bonds. The main reason for the decrease in liabilities to affiliated companies was lower liabilities arising from profit/loss transfer agreements with subsidiaries in the amount of EUR 0 (260) million.

The rise in other liabilities by 5.7% to EUR 968 (916) million was due largely to an increase in provisions for pensions to EUR 758 (697) million, while provisions for taxes fell by 16.1% to EUR 94 (112) 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

STATEMENT OF INCOME (GERMAN GAAP)

EUR MILLION

	2016	2015	2014
Net income from long-term equity investments and other operating income	645	541	637
Net interest income	-104	-104	-125
Other operating expenses, depreciation and impairments	133	127	127
Tax expense	-11	-35	-13
Net income for the financial year	419	345	398

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

The net income from long-term equity investments and other operating income increased to EUR 645 (541) million in the financial year. This increase resulted primarily from a higher contribution to earnings made by Talanx Deutschland AG of EUR 87 (-260) million, whereby the previous year's result had been heavily impacted by impairments of the carrying amounts of long-term equity investments.

Net interest income remained stable at EUR -104 (-104) million. The interest and similar expenses fell to EUR 120 (121) million, in particular due to an internal Group bond reaching its term, and (with an opposite effect) higher interest expenses for tax liabilities. Other interest and similar income remained stable at EUR 5 (5) million. Income from other securities and loans declined to EUR 10 (13) million, in particular through a lower level of income from fixed-income securities held in current assets.

Other operating expenses, depreciation and impairments increased to EUR 133 (127) million. This was due in particular to higher distribution payments for provisions for pensions. During the year under review, Talanx AG carried out a recognised distribution of all outstanding temporary provision differences in accordance with section 67(1) sentence 1 of the Introductory Act to the German Commercial Code (EGHGB). The decrease in the provisions for pensions resulting from the new regulation governing the discounting of such provisions in section 253(2) of the German Commercial Code (HGB) were settled against outstanding temporary provision differences related to the German Accounting Law Modernisation Act (BilMoG). The results through 2015 include an annual extraordinary expense of EUR 14 million relating to a proportional addition to the provision for pensions under the German Accounting Law Modernisation Act (BilMoG). In financial year 2010, the option allowed by section 67(1) sentence 1 of the Introductory Act to the German Commercial Code (EGHGB) to distribute the required amount of additions to pension provisions over a maximum period of 15 years was exercised. The new regulations contained in section 253(2) of the German Commercial Code (HGB) relating to the calculation of the valuation interest rate led to a decline in pension insurance provisions as compared to the previous year. This balance sheet latitude was used to transfer to the provisions for pension insurance obligations the outstanding amount of additions that existed at the beginning of the reporting year.

Tax income in the reporting period amounted to EUR -11 (-35) million, in particular (as was the case in 2015) as a result of the adjustment of tax provisions for the previous years. Net income for the financial year increased year-on-year to EUR 419 (345) million. After addition of retained profits brought forward from the previous year of EUR 406 (390) million, distributable profit totalled EUR 825 (735) million. The proposal for the appropriation of distributable profit can be found in the section of the Notes to the consolidated financial statements entitled "Other disclosures", in the sub-section "Dividends per share".

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

With respect to the target figures for the proportion of women on the Board of Management and in the two management levels below the Board of Management of Talanx AG in accordance with sections 76(4), 111(5) of the German Stock Corporation Act (AktG), please refer to our disclosures in the "Declaration on Corporate Governance in accordance with sections 289a, 315(5) of the German Commercial Code (HGB)" in the section "Corporate Governance", contained in this report.

REMUNERATION REPORT

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

RISK REPORT

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

REPORT ON EXPECTED DEVELOPMENT AND OPPORTUNITIES

As Talanx AG is closely integrated with the Group companies and occupies a correspondingly important position in the Group as its holding company, the statements made in the Group's report on expected developments and on opportunities also reflect expectations for the parent company, Talanx AG. For 2017, we anticipate that net income at Talanx AG will decrease by an amount in the mid-double-digit millions range, among other reasons due to the one-off disposal gain in the amount of EUR 32 million (according to the HGB) that was recorded in 2016 from the sale of our 25.1% share in C-QUADRAT Investment AG.

DEPENDENT COMPANY REPORT

In the dependent company report required to be prepared in accordance with section 312 of the AktG, the Board of Management declared that, based on the circumstances known at the time when the transactions were entered into, Talanx AG received appropriate consideration for each transaction with an affiliated company. There were no reportable measures in the reporting period.

OVERALL ASSESSMENT OF THE ECONOMIC SITUATION

Considering the overall economic environment and the specific conditions prevailing in the industry, the management of Talanx AG assesses business performance in the year under review as successful. Gross premiums declined slightly in line with expectations, while EBIT and Group equity once again surpassed the previous year's figures. Group net income rose significantly to the highest level in the company's history. All of our divisions contributed to this, by each exceeding their expected income levels.

With the exception of the Retail International Division, whose gross premiums rose by double digits, after adjustment for currency effects, all divisions recorded a slight decline in gross premiums. At the same time, however, the Group was able to improve its operating profit. This is due, in particular, to the rise in EBIT in the Industrial Lines and Retail Germany Divisions. In the Retail International and Reinsurance Divisions, on the other hand, EBIT remained slightly below the level of the previous year. The combined ratio too was below expectations, thanks to a lower claims burden, particularly in the Industrial Lines and Property/Casualty Reinsurance segments. The Group return on equity exceeded our minimum target, with the divisions surpassing their respective forecasts by varying degrees.

The Group is financially robust, and its solvency ratio remains significantly above the level required by law. As at the preparation date of the management report, the Board of Management rates the Group's economic situation as sound. The persistent low interest rate environment, motivated by the policies of the central banks, remains a challenge, particularly for life insurance activities in Germany. Global geopolitical changes can also impact the companies of the Talanx Group.

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.

THE TALANX GROUP'S VALUES



Entrepreneurial mindset and action within the Group context



Results and performance orientation



Mutual trust and open communication



Comprehensive customer orientation

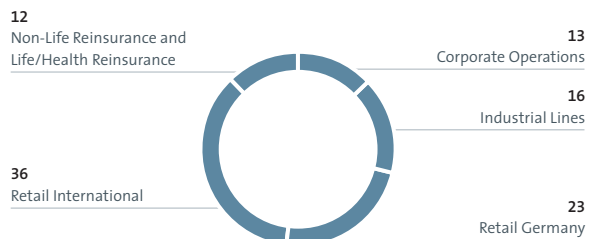
After the successful initiation of a Group-wide discussion about the meaning of the Talanx Values in the form of series of workshops, various subsequent activities were organised in the year under review. These activities are making a contribution to improving the quality of teamwork within the Group, by effectively promoting mutual understanding and a team spirit for the long term. A Talanx Values award was presented for the first time in the summer of 2016 to honour displays of exemplary commitment, where one or more of our Talanx Values have been implemented particularly successfully and brought to life. The inaugural prize went to the Mexican company HDI Seguros S.A. for their project entitled "Our Values". The project impressed with a range of actions – from the dedicated Talanx Values Run through to the patronage of each of the four values by a member of the company's Board of Management.

KEY HUMAN RESOURCES FIGURES

At the end of 2016, 21,649 (21,965) people were employed by the Talanx Group, 7,906 (8,096) of them in the Retail International Division. At 36% (37%), this division accounted for the largest proportion of employees in the Group.

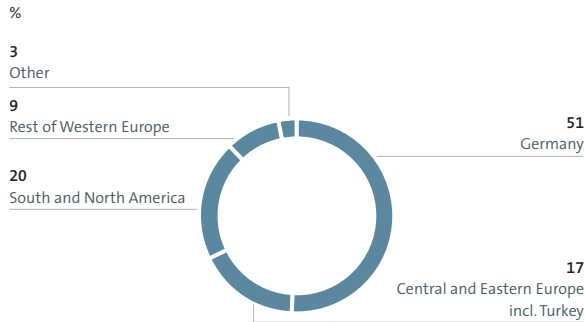
EMPLOYEES BY SEGMENT

%



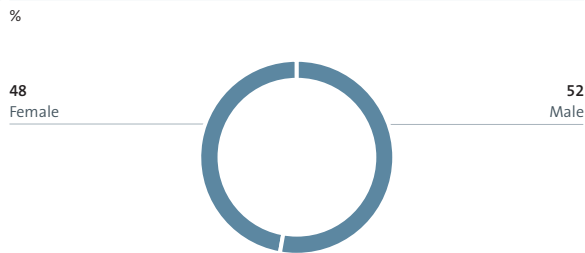
Our employees are located in over 40 countries and on five continents across the world. A good three-quarters of our 10,983 (11,178) staff in Germany work in the federal states of North Rhine-Westphalia and Lower Saxony; in addition, the Talanx Group has 10,666 (10,787) employees in other countries.

EMPLOYEES BY REGION

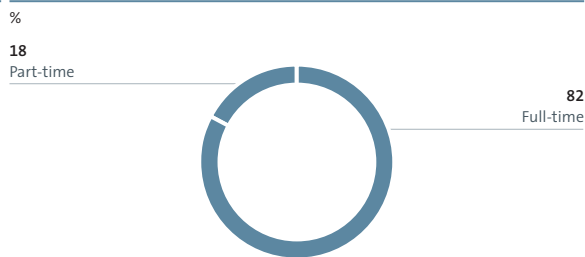


The proportion of female employees in Germany was 48% (48%), while 18% (18%) of employees worked part-time. Both these figures thus remained at the same level as in previous years. 33% (33%) of employees in Germany not subject to collective wage agreements were women. Women accounted for 19% (18%) of positions at senior executive level.

MALE/FEMALE EMPLOYEES IN GERMANY



FULL-TIME/PART-TIME EMPLOYEES IN GERMANY



MAKING CONSCIOUS USE OF DIVERSITY

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

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

Therefore, for us diversity management means consciously promoting employee diversity in order to realise their full power. It also means creating conditions that enable everyone to fully develop their individual potential, talents and abilities, irrespective of their particular background, age, experience or personal situation. Here, we pay particular attention to the areas of demographics, gender and internationality. As part of promoting a better balance between family and working life, the Hannover location has established a parent/child office. The concept is to be implemented in other locations too, in 2017. The balance between family and working life is also supported by the corresponding framework conditions, e.g. flexible working time models and active support of childcare on an employee's return from parental leave.

To strengthen their personal resources, our employees have access to a comprehensive offering of preventive measures in the area of holistic health management. For example, health days were held at the locations in Germany during the year under review. Moreover, an employee assistance program was introduced in 2016. The offering encompasses a free-of-charge, anonymous and immediate advisory service for private, professional and psychological or health-related matters as well as a family service.

WOMEN AT TALANX

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

In Germany, we aim to appoint female employees to at least 25% of vacant management positions on all hierarchical levels in the future. A Group-wide mentoring programme is used to support female employees with the potential to take on more advanced tasks and roles. Various promotion programmes for prospective and already active experts and managers are open to women as well as men. We have recorded a growing number of female participants in recent years. Furthermore, there is a comprehensive seminar offering that aims to strengthen the position of women in the work place as well as the Frauen@Talanx network, a forum that aims to actively promote a corporate culture that supports women in their professional and personal development.

EMPLOYEE DEVELOPMENT AT TALANX – GROWING TALENT FROM WITHIN

INITIAL PROFESSIONAL TRAINING

Initial professional training continues to be of great importance despite the increasing automation and digitalisation of business processes. The Talanx Group had 374 (401) vocational trainees in the primary insurance area in Germany as at 31 December 2016. The Group views vocational training leading to commercial qualifications in insurance and finance as hugely important. Factors such as practical orientation and self-reliant work as part of a team are a key aspect 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 programmes. 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 the industrial and international insurance business or the retail and commercial business. In this context, a further specialisation in sales is possible. The cooperation agreements and information exchange 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 2016.

Regular project work is a particular area of focus in vocational training. The projects which have emerged have earned Talanx's vocational training the German insurance industry training awards (InnoWard) six times since 2005. Talanx is the only company to have submitted at least one entry every year since this training award was introduced, and these have mainly been projects that support social welfare organisations. Our training thus focuses not only on professional and methodological expertise, but also to a large extent on social skills. In 2014, 2015 and 2016, the focus was on future-oriented project themes.

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. The main starting point for applicants is the careers page on the Talanx Group website, which is constantly updated and expanded. Important elements here are the improved visibility of the Group as a multi-brand supplier, the presence of our own employees and the use of brief video clips with employee portraits as an example of the different career paths possible within the Talanx Group and its companies. In 2016, a new applicant management system was put in place which ensures professional and timely communication with applicants.

Furthermore, the company aims to have a targeted presence at relevant career fairs and events, both at universities as well as in-house. 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 "Deutschlandstipendium" scholarships. Editorial articles, experience reports and interviews with employees from all areas of the Company in university and career magazines provide students and graduates with information on the various career fields and prospects within the Group.

In the Reinsurance Division, an Employer Value Proposition was elaborated in 2016. This forms the basis for a revised human resources marketing communication that not only encompasses the established recruitment channels and tools, but also new trends. For example, online chat sessions with personnel officers were introduced as a new instrument to promote recruitment. In order to reach more young professionals and professionals, our presence in the business network Xing was also professionalised.

QUALIFICATION

Employees and managers are trained for their current and future responsibilities via a range of qualification and training courses. In the year under review, a new qualification agreement was concluded at Group level, which systematises and harmonises the qualification process. As a result, a generally valid framework for implementing qualification measures was created.

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.

DEVELOPING POTENTIAL

We offer potential development programmes for employees with potential. Employees are supported in taking on a new function as subject experts, as project managers or as managers, with programmes developed specifically for each of these target groups.

Managers and/or holders of key functions with potential for more advanced tasks are nominated for a management development programme. In this process, the participants work together, across divisions and internationally. Since 2016, this program has existed in a standardised format for national and international participants.

All programmes underline and support the strategy of the Talanx Group to fill key functions predominantly with in-house employees and to build and ensure our skills base for the long-term in these times of change.

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. Under its auspices, the Talanx Values, among other initiatives, were developed in discussions with senior management around the world. The Talanx Corporate Academy 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.

With the “The Learning Organisation” programme (“Die Lernende Organisation”), various internal and external dimensions were implemented in 2016, from which all units of the Group can learn in the long-term. This should also make successful positioning in the market possible for the future. This applies both to strategic and professional content as well as to new impetuses for management behaviour.

EMPLOYEE DEVELOPMENT IN THE DIVISIONS

As part of our systematic support for young talent, the **Industrial Lines** Division continued to run its trainee programmes for 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, and participants can put this knowledge into practice via actual practical activities. The aim here is to guarantee that our specialists are recruited, in as far as possible, from our own ranks.

During our realignment of the **Retail Germany** Division, a small-scale event entitled “Leading Consistently” was introduced and largely implemented. The measure aims to make management staff more sensitive to the consistent performance of their management tasks and to shed light on current developments in the key management tasks as well as in the purposeful use of management instruments. With this, a common understanding of management is expanded and at the same time, one’s own management role is reflected in the context of a strategic realignment and change.

The **Reinsurance** Division conducted an international, Group-wide employee survey for the first time in 2015. Based on the results, initial measures were taken in 2016 to develop the identified potential and to safeguard existing strengths. The focus of activities lay on the areas of communication and information, further training and delegation as well as on the promotion of (international) cooperation. Overall, the first international employee survey was judged a success, both in terms of the positive results of the survey and the quality of the measures initiated.

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 a highly productive and constructive working relationship.

SUSTAINABILITY AND CORPORATE SOCIAL RESPONSIBILITY

The Talanx Group incorporates environmental, social and governance considerations into its business operations. As an 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.

In 2014, Talanx developed a sustainability strategy with fields of action derived from the Group's overarching strategy, and linked to its mission statement and its values. The strategy also takes the requirements and interests of our stakeholders into account, which we determined with a stakeholders survey of our customers, business partners, investors and employees. Actual sustainability objectives for the individual fields of action were also stipulated in 2016. These steps serve to raise the level of sustainability within the enterprise. Furthermore, Talanx issued the first sustainability report in accordance with the recognised guidelines of the Global Reporting Initiative (GRI). The report and further information is available on the company's website at <http://www.talanx.com/sustainability>.

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 exclusive sales 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 divisions for further information.

OTHER REPORTS AND DECLARATIONS

CORPORATE GOVERNANCE

DECLARATION ON CORPORATE GOVERNANCE AND CORPORATE GOVERNANCE REPORT

DECLARATION ON CORPORATE GOVERNANCE IN ACCORDANCE WITH SECTIONS 289A, 315(5) 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").

The last declaration of conformity was issued on 29 February 2016. The Board of Management and Supervisory Board declare in accordance with section 161 of the AktG that since that time Talanx AG, in its implementation of the German Corporate Governance Code in the currently applicable version dated 5 May 2015 and published in the Federal Gazette on 12 June 2015, has 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 on the basis of the price of Talanx shares on the payout date, plus an amount equal to the total dividends per share distributed during the lock-up period. This means that the share awards are aligned with the economic performance of Talanx shares.

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

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

2. Section 4.2.3(4) of the Code (caps on severance payments

in Board of Management contracts)

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

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

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

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

Hannover, 27 February 2017

On behalf of the
Board of Management

On behalf of the
Supervisory Board

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

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

In accordance with the law governing the equal participation of women and men in both the private and public sectors, the Supervisory Board of Talanx AG was obliged to define by 30 September 2015 the desired target proportion of women on the Board of Management of the Company in the period up to 30 June 2017. Following thorough discussions, the Supervisory Board resolved, taking into account the terms of the current Board of Management mandates and contracts of service, to keep the defined proportion of women on the Board of Management of Talanx AG at zero for the aforementioned period – without any prejudice for other decisions as and when required. In the event of a new appointment to the Board of Management as and when required that is not foreseeable at present, the Supervisory Board shall give preference to a female candidate in the event of equivalent personal and specialist qualifications. The female quota on the Supervisory Board of Talanx AG is defined at 30% in accordance with the statutory regulations; this figure applies for any necessary new elections and postings as from 1 January 2016 for filling any individual or multiple places on the Supervisory Board. In the year under review, there were no new elections or postings.

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

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

HOW WE DEFINE CORPORATE GOVERNANCE

The Board of Management and the Supervisory Board define good corporate governance as responsible enterprise management and supervision that is geared towards sustainable value creation for Talanx AG and Talanx Group. 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 and that of the Group as a whole.

CORPORATE GOVERNANCE AT TALANX

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

BOARD OF MANAGEMENT

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

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

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

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

The Board of Management meets at least once a month. It reports regularly, promptly and comprehensively to the Supervisory Board on business developments, the Company's financial position and results of operations, planning and goal achievement, and on current opportunities and risks. The Supervisory Board has set out the Board of Management's information and reporting obligations in more detail in a binding information policy document entitled "Reporting by the Board of Management to the Supervisory Board of Talanx AG". Documents on which a decision must be made, and particularly the 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 Supervisory Board.

SUPERVISORY BOARD

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

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

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

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

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

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

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

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

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

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

To ensure that candidates fulfil the relevant selection criteria, the Nomination Committee 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 starting on page 10 of this Annual Report.

Care is taken when selecting candidates who are to be proposed to the Annual General Meeting for election to the Supervisory Board that these have the necessary knowledge, skills and professional experience. The principle of diversity is also taken into account in the selection process. At present, four women appear on the Supervisory Board. One of them is also a Member of the Personnel Committee. Supervisory Board Members ensure that they have sufficient time available for their activities and avoid potential conflicts of interest. In accordance with the Rules of Procedure of the Supervisory Board, Members of the Supervisory Board should not have reached the age of 72 at the time of their election and, as a rule, they should appear on the Supervisory Board for a maximum of three consecutive periods of office, whereby the next period of office beginning in 2018 – or 2019 for the employee representatives – is the first period of office to be taken into account in this regard. With regard to the number of independent Supervisory Board Members that the Supervisory Board considers appropriate, the latter has decided that it should include two independent members as defined in section 5.4.2 of the German Corporate Governance Code. The Supervisory Board currently meets this target. Employee representatives on the Supervisory Board are not taken into account here. A shareholder representative on the Supervisory Board holds a 25.93% stake in a company that has a business relationship with Talanx AG and Hannover Rück SE (see page 90 of the Annual Report).

REMUNERATION OF THE BOARD OF MANAGEMENT AND SUPERVISORY BOARD

The remuneration report beginning on page 74ff. contains a detailed description of the structure of the remuneration paid to the Board of Management and the Supervisory Board, as well as to senior executives.

DIRECTORS' DEALINGS

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

SHAREHOLDINGS OF THE BOARD OF MANAGEMENT AND SUPERVISORY BOARD

The aggregate shares in Talanx AG and related financial instruments held by all Members of the Board of Management and Supervisory Board amounted to less than 1% of all shares issued by the Company as at 31 December 2016.

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 the Talanx Group as a whole. A dedicated Compliance department was set up in 2011 to successively expand and enhance the existing Group-wide compliance organisation. In terms of staff, Talanx's compliance organisation consists of the Chief Compliance Officer, who is also the Corporate Governance Officer and an authorised representative of Talanx AG, and additional compliance officers responsible for the individual divisions within the Talanx Group. An exception to this is the Hannover Re subgroup, which has its own compliance organisation that liaises closely with Talanx's Compliance department.

A code of conduct serves as the linchpin for internal Group compliance regulations. It contains the key principles and rules for ensuring that all Talanx Group employees act in a legally compliant and responsible manner. It also sets out the high ethical and legal standards on which the Group's global operations are based. The code of conduct is available on the website. All Group employees must ensure that they comply with the code and the laws, guidelines and instructions governing their individual areas of work. The 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 Talanx website, and which employees and third parties can use to report significant breaches of the law and the rules contained in the code of conduct. Complaints can be made anonymously if desired. This enables the Compliance function to take action, limit any damage and avoid further harm. The Group is a member of the cco Forum, which was established in January 2015 and is composed of the Chief Compliance Officers of international insurance companies. In addition to identifying common positions, the work of the Forum also offers an opportunity to identify developments in the regulatory area of compliance at an early stage and examine them appropriately.

The Board of Management submitted the compliance report for the 2016 calendar year, which sets out the Talanx Group's structure and its wide range of activities in this area, to the Finance and Audit Committee before the annual financial statements were adopted.

RISK MONITORING AND MANAGEMENT

Talanx'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 92 of this Annual Report.

TAKEOVER-RELATED DISCLOSURES

STRUCTURE OF SUBSCRIBED CAPITAL

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

RESTRICTIONS ON VOTING RIGHTS AND THE TRANSFER OF SHARES

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

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

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

SHARES CONVEYING SPECIAL CONTROL RIGHTS

There are no shares conveying special control rights.

SYSTEM OF VOTING RIGHTS CONTROL WHERE EMPLOYEES ARE SHAREHOLDERS

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

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

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

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

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

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

POWERS OF THE BOARD OF MANAGEMENT TO ISSUE OR REPURCHASE SHARES

The powers of the Board of Management to issue and repurchase shares are regulated by the Company's Articles of Association and by sections 71ff. of the AktG. In this context, the Annual General Meeting of the Company authorised the Board of Management on 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 Annual General Meeting authorised the Board of Management, subject to the approval of the Supervisory Board, to issue registered bonds on one or more occasions until 14 May 2017, and to impose contingent conversion obligations for no-par value shares of Talanx AG on the creditors of the bonds, without granting them rights of exchange or pre-emptive rights. In the Extraordinary General Meeting on 28 August 2012, the Board of Management was authorised, subject to the approval of the Supervisory Board, to issue both convertible bonds, bonds with warrants, income bonds and profit participation rights on one or more occasions until 27 August 2017, and to grant the holders or creditors of these bonds and rights options or conversion rights. On 29 September 2012, the Extraordinary General Meeting resolved to cancel the authorised capital under article 7(1) of Talanx AG's Articles of Association, as authorised by the Annual 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 2016 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.

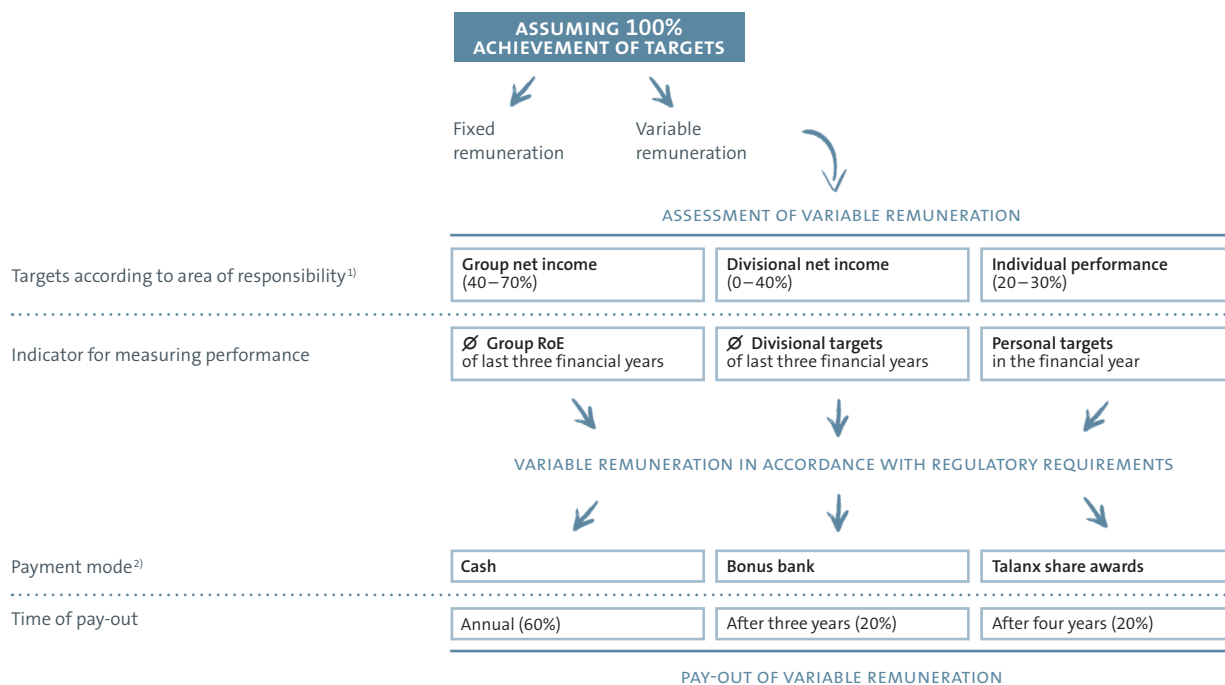
The remuneration report is based on the recommendations of the German Corporate Governance Code and contains information that is included in the Notes to the 2016 Consolidated Financial Statements in accordance with IAS 24 "Related Party Disclosures". In accordance with German commercial law, the information also contains mandatory disclosures from the Notes (section 314 of the HGB) and the management report (section 315 of the HGB). These are all discussed in this remuneration report and, additionally, are summarised in the Notes in accordance with the statutory provisions.

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

REMUNERATION OF THE BOARD OF MANAGEMENT

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

BOARD REMUNERATION MODEL FROM 1 JANUARY 2011



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

STRUCTURE OF REMUNERATION FOR THE BOARD OF MANAGEMENT

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

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

The remuneration of the Board of Management comprises an annual fixed component and a variable component based on a multi-year assessment. The proportion of variable remuneration within the overall remuneration package differs in each individual case and ranges from 50% to 70% in the case of 100% achievement of the Board of Management’s targets.

FIXED REMUNERATION

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

NON-CASH BENEFITS/FRINGE BENEFITS

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

VARIABLE REMUNERATION

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

GROUP BONUS

The Group bonus consists of an individually determined amount for each 0.1 percentage point by which the average return on equity (RoE) for the last three financial years exceeds the risk-free interest rate; the amount in question is set out in the Board member's contract of service. If the average RoE is below the risk-free interest rate or a negative figure, a corresponding penalty amount is deducted for each 0.1 percentage point by which it undershoots the risk-free rate. The underlying 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. The previous regulation stipulated that the underlying risk-free interest rate should be adjusted only insofar as the annually calculated risk-free interest rate has changed to such an extent as to cause a deviation from the underlying reference value (for 2015: 1.8%) of at least one percentage point. This regulation was suspended with effect from the 2016 financial year. From now on, there will be an annual adjustment of the underlying risk-free interest rate (for 2016: 0.9%). The Group bonus is capped at twice the amount granted if the basis of calculation is reached, while the maximum penalty is –100%.

DIVISIONAL BONUS

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

INDIVIDUAL BONUS

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

TOTAL AMOUNT OF VARIABLE REMUNERATION

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

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

BASIS OF ASSESSMENT/PRECONDITIONS FOR PAYMENT OF VARIABLE REMUNERATION

Remuneration component	Basis of assessment/parameters	Preconditions for payment
Group bonus		
<i>Proportion of variable remuneration</i> Chairman of the Board of Management and Chief Financial Officer: 70% Deputy Chairman: 50% Divisional managers: 40% or 70%	<ul style="list-style-type: none"> ■ Group return on equity (RoE); individual basic amount (staggered according to area of responsibility and professional experience) per 0.1 percentage point by which the average return on equity (RoE) for the last three financial years exceeds the risk-free interest rate ■ Calculation basis (= 100%): 10% RoE plus risk-free interest rate; for 2016: 10.9% ■ Max. cap: 200% ■ Min. cap: -100% (penalty) ■ Calculation of the risk-free interest rate as the average market interest rate of the past five years for ten-year German government bonds; annual adjustment since 2016 ■ Calculation of RoE: Group net income in accordance with IFRSs (excluding non-controlling interests) / arithmetical mean of Group equity in accordance with IFRSs (excluding non-controlling interests) at the start and end of the financial year 	<ul style="list-style-type: none"> ■ Average RoE over three years > risk-free interest rate ■ Mathematical calculation
Divisional bonus		
<i>Proportion of variable remuneration</i> Chairman of the Board of Management and Chief Financial Officer: 0% Deputy Chairman: 30% Divisional managers: 0% or 40%	<ul style="list-style-type: none"> ■ Gross premium growth, net combined ratio in property/casualty insurance/value of new business in life insurance, EBIT margin, return on equity, profit transferred/dividend paid; each in comparison to target (three-year average) ■ 100% = targets achieved in full ■ Max. cap: 200% ■ Min. cap: -100% (penalty) 	<ul style="list-style-type: none"> ■ Achievement of three-year targets ■ Amount determined by Supervisory Board after due assessment of extent to which targets were achieved
Individual bonus		
<i>Proportion of variable remuneration</i> Chairman of the Board of Management and Chief Financial Officer: 30% Deputy Chairman and divisional managers: 20% or 30%	<ul style="list-style-type: none"> ■ 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 	<ul style="list-style-type: none"> ■ Achievement of annual targets ■ Amount determined by Supervisory Board after due assessment of extent to which targets were achieved

PAYMENT OF VARIABLE REMUNERATION

Short-term	Medium-term	Long-term
<ul style="list-style-type: none"> ■ 60% of variable remuneration paid together with the monthly salary payment following the resolution by the Supervisory Board 	<ul style="list-style-type: none"> ■ 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 	<ul style="list-style-type: none"> ■ 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 arithmetical 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 a cumulative total of 10% or more due to structural measures
<p>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)</p>		

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 arithmetical mean of the XETRA closing prices of Talanx shares for the period stretching from five trading days before to five trading days after the meeting of the Supervisory Board of Talanx AG that approves

the consolidated financial statements. Share awards are allocated automatically, without the need for a declaration by Talanx AG or the Board member. The total number of share awards allocated is arrived at by dividing the amount to be credited by the value per share, rounded up to the nearest whole share (cap). After expiry of a lock-up period of four years, the value of one Talanx share as calculated on the disbursement date (using the same procedure as for allocation), plus an amount equal to the dividends if dividends are paid out to shareholders, is paid out for each share award. The Board member is not entitled to receive actual shares.

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 lock-up period of four years. The Board member is not entitled to receive actual shares.

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

ANTI-DILUTION PROTECTION

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

PAYMENT IN THE EVENT OF INCAPACITY

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

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

EARLY TERMINATION OF MEMBERSHIP OF THE BOARD OF MANAGEMENT

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

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

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

The contracts of service of members of the Company's Board of Management do not include caps on severance payments as recommended in section 4.2.3(4) of the German Corporate Governance Code. Please see our remarks in the declaration of conformity in the "Corporate Governance" section on page 67 of this Group Annual Report regarding this and the maximum limits on remuneration/the variable remuneration components recommended in section 4.2.3(2) of the German Corporate Governance Code.

SIDELINE ACTIVITIES OF MEMBERS OF THE BOARD OF MANAGEMENT

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

AMOUNT OF REMUNERATION FOR THE BOARD OF MANAGEMENT

The aggregate benefits for all active members of the Board of Management in respect of their activities on behalf of Talanx AG and its affiliated companies amounted to EUR 11,086 (9,788) thousand. The following table shows a breakdown of the remuneration into the components set out in GAS 17.

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

EUR THOUSAND

Name		Non-performance-related remuneration		Performance-related remuneration ^{1),9)}		
		I Fixed remuneration	II Non-cash benefits/ fringe benefits	Short-term		Medium-term
				III Variable remuneration payable	IV of which remuneration from memberships of Group supervisory bodies ²⁾	V Allocated to bonus bank ³⁾
Herbert K Haas	2016	765	21	857	286	286
	2015	765	21	742	279	248
Dr Christian Hinsch	2016	552	15	600	8	200
	2015	540	15	463	43	155
Torsten Leue ⁸⁾	2016	700	115	645	—	215
	2015	633	113	551	—	184
Dr Immo Querner	2016	619	19	559	119	186
	2015	582	19	476	118	158
Ulrich Wallin	2016	596	14	1,014	—	338
	2015	596	15	839	—	280
Dr Jan Wicke	2016	630	5	546	13	182
	2015	630	31	425	8	141
Total	2016	3,862	189	4,221	426	1,407
	2015	3,746	214	3,496	448	1,166

¹⁾ No governing body resolution regarding the amount of performance-related remuneration for 2016 had been taken as at the 2016 reporting date. The amounts are recognised on the basis of estimates and the corresponding provisions.

²⁾ Remuneration for Supervisory Board offices at affiliated companies offset against the variable remuneration payable for 2016.

³⁾ The figure shown represents the nominal amount; payment will be made in full or in part from 2020 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 2021 at the value applicable at that time.

⁵⁾ Total of I, II, III, V, VI, VII.

⁶⁾ Estimate of number of Talanx share awards to be granted, based on the XETRA closing price of Talanx shares as at the reporting date (EUR 31.77 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 2017.

⁷⁾ Estimate of the number of Hannover Re share awards to be granted, based on the XETRA closing price for Hannover Re shares as at the reporting date (EUR 102.80 per share). The actual number of Hannover Re share awards will be calculated on the basis of the arithmetical mean of the XETRA closing prices for Hannover Re shares for the period stretching from five trading days before to five trading days after the Supervisory Board meeting that approves the consolidated financial statements of Hannover Rück SE in March 2017.

⁸⁾ For Mr Leue, non-cash benefits and fringe benefits include the non-performance-related additional payment made together with the fixed remuneration for the month of December.

⁹⁾ Payments for performance-related remuneration in 2015 exceeded the provisions recognised for this by a total of EUR 700 (276) thousand. The total amount recognised for performance-related remuneration in 2016 and the number of share awards for 2016 were increased accordingly.

Performance-related remuneration ^{1),9)}

Long-term

VI

VII

	Talanx share awards granted ⁴⁾	Hannover Re share awards granted ⁴⁾	Aggregate benefits ⁵⁾	No. of Talanx share awards ⁶⁾	No. of Hannover Re share awards ^{7),9)}
	286	—	2,215	8,993	—
	248	—	2,024	8,687	—
	200	—	1,567	6,291	—
	155	—	1,328	5,429	—
	215	—	1,890	6,765	—
	184	—	1,665	6,445	—
	186	—	1,569	5,861	—
	158	—	1,393	5,534	—
	75	263	2,300	2,371	2,556
	63	217	2,010	2,207	2,054
	182	—	1,545	5,729	—
	141	—	1,368	4,939	—
	1,144	263	11,086	36,010	2,556
	949	217	9,788	33,241	2,054

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

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

EUR THOUSAND

Name		Expense for new Talanx share awards granted ¹⁾	Expense for new Hannover Re share awards 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	2016	69	—	185	—	—	—	254
	2015	106	—	535	—	—	—	641
Dr Christian Hinsch	2016	73	—	264	—	—	—	337
	2015	42	—	239	—	—	—	281
Torsten Leue	2016	45	—	255	—	—	—	300
	2015	34	—	293	—	—	—	327
Dr Immo Querner	2016	35	—	226	—	—	—	261
	2015	29	—	228	—	—	—	257
Ulrich Wallin	2016	18	61	60	156	-83	103	315
	2015	21	80	147	633	-339	380	922
Dr Jan Wicke	2016	53	—	89	—	—	—	142
	2015	32	—	24	—	—	—	56
Total	2016	293	61	1,079	156	-83	103	1,703
	2015	264	80	1,466	633	-339	380	2,484

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 2015 and the distribution of expenses for share awards across the individual remaining terms of the contracts of service.

³⁾ The allocation to the provisions for Hannover Re share awards from previous years is calculated on the basis of the increase in the price of Hannover Re shares, the dividend resolved for Hannover Rück SE for 2015 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 payable fixed salary at the time of their scheduled retirement on reaching the age of 65. A non-pensionable fixed remuneration component was introduced as from the 2011 financial year in connection with the new remuneration structure.

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

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

SURVIVORS' PENSIONS

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

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

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

ADJUSTMENTS

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

PENSIONS PAID

Pension commitments for active members of the Board of Management totalled EUR 1,607 (1,531) thousand. The service cost (and/or annual funding contribution) for active members of the Board of Management amounted to EUR 1,325 (1,594) thousand. Individualised disclosures are presented and explained in the following table.

PENSION BENEFIT ENTITLEMENTS OF ACTIVE MEMBERS OF THE BOARD OF MANAGEMENT

EUR THOUSAND

Name		Pension commitment ¹⁾	Present value of DBO ²⁾	Cost of post-employment benefits ³⁾
Herbert K Haas	2016	478	10,495	301
	2015	410	9,563	344
Dr Christian Hinsch	2016	319	7,987	219
	2015	311	6,601	258
Torsten Leue	2016	250	2,597	342
	2015	250	1,734	448
Dr Immo Querner	2016	217	3,872	161
	2015	217	2,952	219
Ulrich Wallin	2016	229	5,370	144
	2015	229	4,533	167
Dr Jan Wicke ⁴⁾	2016	114	389	158
	2015	114	—	158
Total	2016	1,607	30,710	1,325
	2015	1,531	25,383	1,594

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-retirement benefits.

⁴⁾ There is a defined contribution pension commitment, that was valued as a "defined benefit" for the first time as at the reporting date in 2016. The figure shown is the annual funding contribution.

Total payments made to former members of the Board of Management and their surviving dependants, for which there were 7 (7) commitments in force in the year under review, amounted to EUR 752 (750) thousand. Provisions recognised for pension obligations towards this group of people totalled EUR 18,776 (17,937) thousand.

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

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

EUR THOUSAND

		Benefits granted										Total remuneration
		I	II	III	IV	V	VI	VII	VIII	IX	X	
		Fixed remuneration	Fringe benefits	Total (I+II)	One-year variable remuneration	Multi-year variable remuneration (Total VI+VII+VIII)	Bonus bank (3 years)	Talanx share awards (4 years)	Hannover Re share awards (4 years)	Total (III+IV+V)	Pension expense	
Herbert K Haas <i>Chairman of the Board of Management</i>	2016	765	21	786	797	531	266	266	—	2,114	301	2,415
	(Min.) ²⁾	765	21	786	—	-738	-738	—	—	48	301	349
	(Max.) ³⁾	765	21	786	1,593	1,062	531	531	—	3,441	301	3,743
	2015 ¹⁾	765	21	786	797	531	266	266	—	2,114	344	2,458
Dr Christian Hinsch <i>Deputy Chairman of the Board of Management</i>	2016	552	15	567	559	373	186	186	—	1,499	219	1,718
	(Min.) ²⁾	552	15	567	—	-493	-493	—	—	74	219	293
	(Max.) ³⁾	552	15	567	1,118	746	373	373	—	2,431	219	2,650
	2015 ¹⁾	540	15	555	559	373	186	186	—	1,487	258	1,745
Torsten Leue <i>Head of Division</i>	2016	700	115	815	508	338	169	169	—	1,661	342	2,003
	(Min.) ²⁾	700	113	815	—	-546	-546	—	—	251	342	593
	(Max.) ³⁾	700	113	815	1,015	677	338	338	—	2,507	342	2,849
	2015 ¹⁾	633	113	746	508	338	169	169	—	1,592	448	2,040
Dr Immo Querner <i>Chief Financial Officer</i>	2016	619	19	638	491	327	327	164	—	1,456	161	1,617
	(Min.) ²⁾	619	19	638	—	-483	-483	—	—	155	161	316
	(Max.) ³⁾	619	19	638	981	654	327	327	—	2,237	161	2,398
	2015 ¹⁾	582	19	601	491	327	164	164	—	1,419	219	1,638
Ulrich Wallin <i>Head of Division</i>	2016	596	14	610	684	456	228	60	168	1,750	144	1,894
	(Min.) ²⁾	596	14	610	—	-770	-770	—	—	-160	144	-16
	(Max.) ³⁾	596	14	610	1,368	912	456	120	336	2,890	144	3,034
	2015 ¹⁾	596	15	611	684	456	228	60	168	1,751	167	1,918
Dr Jan Wicke <i>Head of Division</i>	2016	630	5	635	510	340	170	170	—	1,485	158	1,643
	(Min.) ²⁾	630	5	635	—	-265	-265	—	—	370	158	528
	(Max.) ³⁾	630	5	635	1,020	680	340	340	—	2,335	158	2,493
	2015 ¹⁾	630	31	661	510	340	170	170	—	1,511	158	1,669

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.

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

EUR THOUSAND

		Fixed remuneration	Fringe benefits	Total	One-year variable remuneration ¹⁾
Herbert K Haas <i>Chairman of the Board of Management</i>	2016	765	21	786	757
	2015	765	21	786	704
Dr Christian Hinsch <i>Deputy Chairman of the Board of Management</i>	2016	552	15	567	490
	2015	540	15	555	498
Torsten Leue <i>Head of Division</i>	2016	700	115	815	592
	2015	633	113	746	559
Dr Immo Querner <i>Chief Financial Officer</i>	2016	619	19	638	501
	2015	582	19	601	483
Ulrich Wallin <i>Head of Division</i>	2016	596	14	610	913
	2015	596	15	611	833
Dr Jan Wicke <i>Head of Division</i>	2016	630	5	635	483
	2015	630	31	661	325

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

REMUNERATION OF THE SUPERVISORY BOARD

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

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

Benefits received

Bonus bank (3 years)	Multi-year variable remuneration ²⁾				Other ⁴⁾	Total	Pension expense	Total remuneration
	Talanx share awards (3 or 4 years) ³⁾	Hannover Re share awards (4 years)	Hannover Re stock appreciation rights (10 years)					
254	422	—	—	—	2,219	301	2,520	
242	450	—	—	—	2,182	344	2,526	
172	280	—	—	—	1,509	219	1,728	
161	270	—	—	—	1,484	258	1,742	
159	246	—	—	—	1,812	342	2,154	
141	225	—	—	—	1,671	448	2,119	
153	252	—	—	—	1,544	161	1,705	
145	360	—	—	—	1,589	219	1,808	
254	82	609	103	—	2,468	144	2,612	
280	225	—	380	—	1,949	167	2,116	
—	—	—	—	—	1,118	158	1,276	
—	—	—	—	—	986	158	1,144	

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

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

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

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

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

The aggregate benefits for all active members of the Supervisory Board amounted to EUR 2,506 (2,414) thousand. The details are given in the following table.

INDIVIDUAL REMUNERATION OF SUPERVISORY BOARD MEMBERS¹⁾

EUR THOUSAND

Name	Function	Type of remuneration	2016 ²⁾	2015 ²⁾
Wolf-Dieter Baumgartl ³⁾	<ul style="list-style-type: none"> ■ Chairman of the Supervisory Board ■ Personnel Committee ■ Finance and Audit Committee ■ Nomination Committee ■ Standing Committee 	Basic remuneration	189	188
		Variable remuneration	159	142
		Remuneration for committee activities	123	123
		Attendance allowances	24	23
			495	476
Ralf Rieger ³⁾	<ul style="list-style-type: none"> ■ Deputy Chairman of the Supervisory Board ■ Member of the Finance and Audit Committee 	Basic remuneration	85	101
		Variable remuneration	69	61
		Remuneration for committee activities	25	25
		Attendance allowances	9	6
		188	193	
Prof Dr Eckhard Rohkamm	<ul style="list-style-type: none"> ■ Deputy Chairman of the Supervisory Board ■ Member of the <ul style="list-style-type: none"> ■ Personnel Committee ■ Finance and Audit Committee ■ Standing Committee 	Basic remuneration	75	75
		Variable remuneration	69	61
		Remuneration for committee activities	50	50
		Attendance allowances	10	11
		204	197	
Antonia Aschendorf	<ul style="list-style-type: none"> ■ Member of the Supervisory Board 	Basic remuneration	66	50
		Variable remuneration	46	41
		Attendance allowances	4	4
		116	95	
Karsten Faber	<ul style="list-style-type: none"> ■ Member of the Supervisory Board 	Basic remuneration	50	50
		Variable remuneration	46	41
		Attendance allowances	4	4
		100	95	
Jutta Hammer ³⁾	<ul style="list-style-type: none"> ■ Member of the Supervisory Board 	Basic remuneration	54	70
		Variable remuneration	46	41
		Attendance allowances	4	4
		104	115	
Dr Herrmann Jung	<ul style="list-style-type: none"> ■ Member of the Supervisory Board 	Basic remuneration	50	50
		Variable remuneration	46	41
		Attendance allowances	3	4
		99	95	
Dr Thomas Lindner	<ul style="list-style-type: none"> ■ Member of the <ul style="list-style-type: none"> ■ Supervisory Board ■ Finance and Audit Committee ■ Nomination Committee 	Basic remuneration	50	50
		Variable remuneration	46	41
		Remuneration for committee activities	25	25
		Attendance allowances	9	9
		130	125	
Dirk Lohmann	<ul style="list-style-type: none"> ■ Member of the <ul style="list-style-type: none"> ■ Supervisory Board ■ Nomination Committee 	Basic remuneration	50	50
		Variable remuneration	46	41
		Attendance allowances	4	5
		100	96	
Christoph Meister	<ul style="list-style-type: none"> ■ Member of the Supervisory Board 	Basic remuneration	50	50
		Variable remuneration	46	40
		Attendance allowances	4	4
		100	94	
Jutta Mück ³⁾	<ul style="list-style-type: none"> ■ Member of the Supervisory Board 	Basic remuneration	60	60
		Variable remuneration	46	41
		Attendance allowances	6	6
		112	107	

INDIVIDUAL REMUNERATION OF SUPERVISORY BOARD MEMBERS¹⁾

EUR THOUSAND

Name	Function	Type of remuneration	2016 ²⁾	2015 ²⁾
Otto Müller ³⁾	<ul style="list-style-type: none"> ■ Member of the ■ Supervisory Board ■ Finance and Audit Committee 	Basic remuneration	80	80
		Variable remuneration	75	67
		Remuneration for committee activities	25	25
		Attendance allowances	13	12
			193	184
Katja Sachtleben-Reimann ³⁾	<ul style="list-style-type: none"> ■ Member of the ■ Supervisory Board ■ Standing Committee ■ Personnel Committee 	Basic remuneration	50	50
		Variable remuneration	46	41
		Remuneration for committee activities	25	25
		Attendance allowances	6	7
			127	123
Dr Erhard Schipporeit ³⁾	<ul style="list-style-type: none"> ■ Member of the ■ Supervisory Board ■ Finance and Audit Committee 	Basic remuneration	80	80
		Variable remuneration	75	67
		Remuneration for committee activities	40	40
		Attendance allowances	16	15
			211	202
Prof Dr Jens Schubert	<ul style="list-style-type: none"> ■ Member of the ■ Supervisory Board ■ Standing Committee 	Basic remuneration	50	50
		Variable remuneration	46	40
		Attendance allowances	4	4
		100	94	
Norbert Steiner	<ul style="list-style-type: none"> ■ Member of the ■ Supervisory Board ■ Personnel Committee 	Basic remuneration	50	50
		Variable remuneration	46	41
		Remuneration for committee activities	25	25
		Attendance allowances	6	7
			127	123
Total⁴⁾			2,506	2,414

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 2015 remuneration exceeded provisions by a total of EUR 47 (22) thousand. The total amount of 2016 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.

The mortgage loan existing on the 2015 reporting date of a member of the Supervisory Board with HDI Lebensversicherung AG was superseded in full during the year under review and no longer existed as at the 2016 reporting date. No loans or advances were granted to members of the Board of Management or Supervisory Board or their dependants in the year under review. No contingent liabilities existed in favour of this group of persons.

One member of the Supervisory Board is Managing Director and Chairman of the Administrative Board of Secquaero Advisors AG, Zurich, and holds an equity interest of 25.93% in this company. Secquaero Advisors AG provided a variety of advisory services to Hannover Rück SE in the year under review and received EUR 49 thousand in fees for 2016 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:

MANAGEMENT REMUNERATION IN ACCORDANCE WITH IAS 24

EUR THOUSAND

	2016	2015
Salaries and other short-term remuneration	10,778	9,870
Other long-term benefits ¹⁾	1,407	1,166
Awards of shares and other equity-based remuneration ²⁾	1,407	1,166
Cost of post-employment benefits ³⁾	1,325	1,594
Total	14,917	13,796

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

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

³⁾ The figure shown represents the service cost (and/or annual funding contribution) recognised in the year under review for pensions and other post-retirement benefits.

REMUNERATION OF SENIOR EXECUTIVES BELOW GROUP BOARD OF MANAGEMENT LEVEL

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

Remuneration for those senior executives below Group Board of Management level who are not classified as risk takers already consists in all divisions of a fixed and a variable component. On average, the share of variable remuneration for 2015, which was paid out in July 2016, stood at 27.3%.

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

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

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

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

REPORT ON POST-BALANCE SHEET DATE EVENTS

Events that may influence our net assets, financial position and results of operations are described in the report on expected developments and opportunities, as well as under "Events after the end of the reporting period" on page 241 of the Notes.

RISK REPORT

RISK STRATEGY

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

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

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

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

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

- There is a probability of 90% that we will achieve positive net income in accordance with IFRS
- The economic capital base must be able to withstand at least an aggregated theoretical 3,000-year shock ("probability of ruin")
- The Group's investment risks 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 Standard & Poor's (S&P) capital model. In addition, we must 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.

It 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 S&P rating and the related confidence level.

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

Both our Group strategy and our risk strategy are subject to an annual review. This re-examination of our assumptions and any necessary adjustment of our underlying strategy resulting from it are designed to ensure that our strategic guidelines are appropriate and up-to-date at all times and that our actions are based on adequate information.

MAPPING OF ALL RISK CATEGORIES IN TERM

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

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

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

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

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

The results of the model run as at 31 December 2016 are not yet available. For the regulatory solvency ratio, before taking into account approved transitional measures, the Group has set a target corridor of 150%–200%. According to current estimates, the ratio on the reporting date will be in this range. We will be publishing the actual ratio in May 2017, together with the results for the first quarter of 2017 and in the Solvency and Financial Condition Report (SFCR) as at 31 December 2016.

KEY ROLES AND TASKS WITHIN RISK MANAGEMENT

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

GROUP RISK MANAGEMENT SYSTEM

Management element	Key tasks within the framework of the corporate management of risks
Supervisory Board	<ul style="list-style-type: none"> ■ 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	<ul style="list-style-type: none"> ■ Overall responsibility for risk management ■ Definition of the risk strategy ■ Responsibility for proper functioning of risk management ■ Model adjustments
Executive Risk Committee (ERC)	<ul style="list-style-type: none"> ■ Management, coordination and prioritisation of Group-wide risk issues ■ Adjustment of limits within fixed materiality thresholds ■ Approval of guidelines and other frameworks in accordance with Group frameworks for the governance of the Group's internal model to the extent that they do not require the approval of the Board of Management as a whole ■ Preliminary examination at cross-segment level of issues that must be submitted to the full Board of Management
Risk Committee	<ul style="list-style-type: none"> ■ Risk monitoring and coordinating body, charged with the following key tasks: <ul style="list-style-type: none"> ■ Critical examination and analysis of the risk position of the Group as a whole, with a particular focus on the risk budget approved by the Board of Management and on the risk strategy ■ Monitoring of management measures within the Group with respect to risks that could threaten the Group's continued existence
Chief Risk Officer	<ul style="list-style-type: none"> ■ 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	<ul style="list-style-type: none"> ■ Group-wide risk monitoring function ■ Methodological expertise, including the following: <ul style="list-style-type: none"> ■ Development of processes/procedures for risk assessment, management and analysis ■ Risk limitation and reporting ■ Overarching risk monitoring and quantification of the necessary risk capital ■ Validation of the Group model
Local Risk Management	<ul style="list-style-type: none"> ■ 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	<ul style="list-style-type: none"> ■ 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	<ul style="list-style-type: none"> ■ Coordinates and comments on calculations of technical provisions ■ Ensures that the calculations and the assumptions and methods used are appropriate
Group Auditing	<ul style="list-style-type: none"> ■ 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 specific issues, e.g. task forces for managing contingencies and crises.

KEY FUNCTIONS UNDER SOLVENCY II

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

RISK MANAGEMENT FUNCTION

Risk Management reports to the Board of Management risks which may have to be classed as material. To this end, the Risk Management function continually identifies and evaluates – based on the risk strategy – any risks that are potentially to be classed as relevant, defines risk limits for approval by the Board of Management and aggregates the identified risks for reporting purposes. It must also report to the Board of Management on other specific risks, either on its own initiative or on request.

The Risk Management function is also responsible for the development and application of the internal Group model and for coordinating joint applications for Group and solo models to the Federal Financial Supervisory Authority (BaFin).

A Group committee handles the rotational coordination of risk management activities at Group and solo level. That committee's main tasks are:

- Drafting recommended resolutions for the Board of Management of HDI V.a.G. or Talanx AG concerning risk management matters
- Supporting the Board of Management in establishing a consistent, Group-wide risk culture
- Approval of the Group risk report for presentation to the Board of Management
- Monitoring the limits and thresholds system and making related recommendations, taking account of the risk budget and the risk strategy approved by the Board of Management
- Continual further development of Group-wide risk management processes
- Communications interface for cross-divisional information on risk management matters

INTERNAL AUDITING

Group Auditing performs the Auditing function in the Group, by undertaking auditing, assessment and advisory activities at all companies in which Talanx AG has a majority holding (except for the Hannover Re subgroup) and supporting the Group management in the fulfilment of its monitoring function.

Group Auditing's audit remit encompasses all activities and processes involved in the governance system and explicitly includes other governance functions. The activities of Group Auditing are based on a comprehensive, risk-oriented audit plan, which it updates annually. As a staff department, Group Auditing is separate from the day-to-day work process, autonomous and organisationally independent. Its process independence is guaranteed by the fact that no line duties are functionally assigned to it.

A written regulation on the tasks, powers and responsibility of Group Auditing is available on the Talanx AG Intranet in the form of a "Company Ordinance for Group Auditing".

Group Auditing performs the following tasks:

- Audit planning
- Performance of audits
- Reporting
- Follow-up/escalation procedures
- Other activities
 - Special audits
 - Supporting key projects (ex-ante)
 - Dealing with offences and special investigations

The periodic activity reports are a source of prompt information for the chairmen/managing directors about auditing activities, audit findings, the material non-conformances identified, their classification, the status of measures to remedy non-conformances and developments and major risks.

COMPLIANCE FUNCTION

The Talanx AG Compliance function seeks to ensure compliance with laws, regulatory requirements and self-imposed rules. Non-compliance with or departure from these requirements can be defined as a compliance risk. As an integral component of the Group's governance system and one of the four key functions under Solvency II, the Compliance function was established in 2009 and is represented within the Group by the Executive Office/Compliance department.

The following tasks can be allocated to the Compliance function under Solvency II:

Risk control task

The Compliance function regularly conducts an analysis of the compliance risks. Compliance risks are defined as risks caused by non-compliance, in particular non-compliance with the compliance requirements.

Early warning task

The Compliance function undertakes regular monitoring at an early stage in order to identify new or changed legal or regulatory requirements relevant to compliance.

Advisory task

The Board of Management of Talanx AG is advised on compliance issues. The Compliance function is also concentrated on the business partners in the Talanx Group. Therefore, the Compliance function offers advice to all divisions on compliance matters.

Monitoring task

The Compliance function is part of the second line of defence. In order to work towards sustained compliance with all relevant legal, regulatory and self-imposed rules, the Compliance function undertakes the appropriate monitoring activities.

COMPLIANCE GUIDELINES

To support a shared understanding of compliance requirements in certain core compliance issues, the central Compliance function established the Code of Conduct compliance guideline. This Code of Conduct contains the Group's general compliance requirements. It sets out the key principles and rules for ensuring that the conduct of all employees within the Group is legal and responsible. It also lays down high ethical and legal standards based on the Group's global activities.

To provide further guidance for the management and employees of the Talanx Group, the Compliance guideline describes in detail the requirements for the following core issues:

- Prevention of corruption
- antitrust law compliance
- sales compliance
- financial sanctions/embargo
- anti-money laundering and prevention of terrorism financing
- investment compliance and
- capital markets compliance

ACTUARIAL FUNCTION

HDI V. a. G. has outsourced the Actuarial function to Talanx AG; according to section 275(1) No. 1 of the Insurance Supervision Act (VAG) in conjunction with section 31(1) VAG, this function must also be established at Group level. Talanx AG has based the function in an independent area; whilst organisationally part of Risk Management, the function operates independently and reports directly to the Board of Management. At HDI V. a. G., the chief financial officer is responsible for acting as outsourcing officer for the Actuarial function; the supervisory authorities have been notified of the outsourcing officer's responsibility for the function. At divisional level, there are separate areas to which the German companies belonging to the divisions have outsourced the Actuarial function at the level of the individual companies. For the Retail International Division, in order to create clear responsibilities an Actuarial function has been voluntarily established at Talanx International AG and an employee has been appointed as the person with internal responsibility for this key function. A Group committee has been formed to coordinate the activity of the actuarial Group and individual functions.

The Board of Management has adopted a framework guideline on the organisation of the Actuarial function, which among other things documents the various roles and responsibilities of the Group and individual functions.

These core tasks of the Group's Actuarial function can be summarised in the following thematic blocks:

Coordination tasks

The Actuarial function coordinates activities to do with the valuation of technical provisions for the purposes of Solvency II. This includes, in particular, setting technically consistent minimum standards for methods, models and data quality at Group level. The Group also obtains external expert opinions when valuing the technical provisions. The process is coordinated by the Actuarial function.

Advisory tasks

The Group's Actuarial function informs and advises the Board of Management from the perspective of the whole Group concerning the reserve situation, underwriting and acceptance policy and the adequacy of the reinsurance agreements.

Monitoring tasks

The Actuarial function monitors the entire process of calculating the technical provisions, ensures compliance with the Solvency II requirements for valuing provisions, identifies potential deviations and ensures that they are remedied.

Support tasks

The Actuarial function supports the Risk Management function in its tasks, in particular in matters concerning the internal model, and makes its actuarial expertise available.

RISK MANAGEMENT PROCESS

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

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

We identify risks throughout the Group using key indicators and various risk surveys. Qualitative risks are gathered systematically using a Group-wide risk capture system. Risks spanning multiple divisions, such as compliance risks, are addressed by involving the areas or experts concerned. To ensure that all risks are identified, they are coordinated using a comprehensive risk categorisation system that is specifically tailored to Talanx and used as the basis for risk identification. The applicable methods and procedures are documented and are subject to adequacy validation procedures and to audits by Group Auditing.

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

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

In principle, TERM takes all material, quantifiable risks for economic management into account (operational risks were modelled with the standard formula from the regulatory point of view). The basis of consolidation as defined in the internal model essentially corresponds to that used in the Group Annual Report, with the exception that the solvency capital requirements for occupational pension scheme providers are still calculated in accordance with the relevant sector requirements.

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

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

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

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

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

The current assessment of the financial strength of the Talanx Group by S&P resulted in A+ (strong, stable outlook), while A.M. Best gave a rating of A (excellent, stable outlook). The risk management was assessed as "strong" by S&P. The internal capital model was also examined during this analysis. In this connection, S&P grants an additional capital buffer when determining the Talanx primary insurance's rating-relevant equity requirements as well as in reinsurance.

Our investment management companies Talanx Asset Management GmbH and Ampega Investment GmbH undergo regular audits in accordance with international audit standard ISAE 3402 (International Standards for Assurance Engagements; previously: SAS 70). This provides proof of an adequately configured control system and its effective implementation. The audit was successfully carried out again in 2016.

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

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

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

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

Potential risks arising from the Group financial reporting process are identified and assessed by Group Accounting. Any action required is derived from this. The risks are included in the Group's risk survey and are monitored by Group Risk Management.

The Group's internal IFRS accounting policies are collected in an accounting manual, which is available to all Group companies in electronic form and provided to all employees directly or indirectly involved in the preparation of the consolidated financial statements. The aim of this manual is to ensure the consistent and correct application of the International Financial Reporting Standards throughout the Group. The manual is regularly updated and amended as standards evolve. To ensure compliance with the rules contained in the manual, the employees of Group Accounting provide support for the local accounting units at subsidiaries.

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

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 eliminated where necessary. Written instructions exist for this to ensure that appropriate procedures are followed. In addition, the consolidation system incorporates an approval process for manual entries that ensures compliance with the dual control principle for items over certain value limits.

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

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
- strategic risks
- reputational risks
- emerging risks
- model risks
- other risks

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

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" in the notes. 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.

RETENTION RATIO IN PROPERTY/CASUALTY INSURANCE BY SEGMENT

%

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Industrial Lines	53.4	51.8	50.9	44.5	45.6	44.1	46.1	43.7	n. a.	n. a.
Retail Germany – Property/Casualty	95.4	95.6	95.6	94.9	94.6	92.9	91.6	85.6	n. a.	n. a.
Retail International	87.9	87.3	88.9	88.5	88.5	88.7	92.4	86.9	n. a.	n. a.
Primary property insurance ¹⁾	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	66.7	61.2
Property/Casualty Reinsurance	88.5	89.3	90.6	89.9	90.2	91.3	88.9	94.1	89.0	82.2
Total property/casualty insurance	80.7	80.7	81.0	79.3	79.8	79.8	78.9	78.7	76.9	71.4

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.

NET LOSS RATIO BY SEGMENT

%

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Industrial Lines	74.9	76.5	81.2	81.8	75.2	66.8	82.0	68.6	n. a.	n. a.
Retail Germany – Property/Casualty	66.7	64.2	74.1	67.0	65.2	67.5	69.4	62.5	n. a.	n. a.
Retail International	65.4	64.9	65.3	66.3	68.9	70.4	75.6	71.6	n. a.	n. a.
Primary property insurance ¹⁾	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	69.1	73.5
Property/Casualty Reinsurance	66.7	69.3	68.9	70.3	70.7	78.8	72.0	72.8	70.5	73.6
Total property/casualty insurance	67.8	69.1	70.8	70.8	70.3	74.4	73.6	70.5	69.9	73.6

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

The loss ratio in the Retail Germany – Property/Casualty segment has risen by 2.5 percentage points, due chiefly to a lower run-off result. The increase of 0.5 percentage points in the loss ratio in the Retail International segment is mainly attributable to the business in Brazil and Mexico. Owing to a lower major loss burden of EUR 236 (316) million, the loss ratio improved by 1.6 percentage points in the Industrial Insurance segment, to 74.9%. In the Property/Casualty Reinsurance segment, the major loss burden increased from EUR 573 million to EUR 627 million, but was still lower than we expected, resulting in a reduction overall in the loss ratio of 2.6%.

The loss ratio dropped overall in comparison to the previous year by 2.1 percentage points to 67.8%. 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:

MAJOR LOSSES (NET) IN THE FINANCIAL YEAR¹⁾

	2016	2015	2014
EUR MILLION			
Major losses (net)	883	922	782
of which natural catastrophes	477	276	268
of which other major losses	406	646	514
%			
Combined ratio in property/casualty insurance and Property/Casualty Reinsurance	95.7	96.0	97.9
of which major losses (net)	6.1	6.4	6.1

¹⁾ Natural catastrophes and other major losses over EUR 10 million gross, for the share accounted for by the Group.

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

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

Reserving risk

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

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

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

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

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

The adequacy of these reserves is usually assessed on the basis of the survival ratio, which expresses the number of years for which the reserves would last if we were to continue to pay claims at the average amount over the last three years. At the end of the year under review, our survival ratio in the Property/Casualty Reinsurance segment was 24.6 (26.9) years; reserves for asbestos-related claims and environmental damage amounted to EUR 246 (239) million.

Licensed scientific simulation models, supplemented by the expertise of the relevant functions, are used to consistently estimate the significant catastrophe risks for the Group arising from natural hazards (earthquakes, storms, flooding). The risk to the portfolio is also calculated under various scenarios in the form of probability distributions. Monitoring of the portfolio's exposure to natural hazards (accumulation control) is rounded by realistic extreme

loss scenarios. The adequacy of the estimates and the simulation models used as a whole is examined by way of a comprehensive and independent validation process. This means that a validation procedure is carried out by the independent risk control function independently of the units assuming the risk.

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

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

Our subsidiary Hannover Rück SE hedges certain inflation risks – like various other Group companies – by holding inflation-linked bonds in its portfolio. These bonds hedge a portion of the loss reserves against inflation risks. Inflation risk stems in particular from the possibility that, due to inflation, liabilities (e.g. loss reserves) may not change as assumed when the reserves were recognised.

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

Given the risks described, a five percentage-point increase in the net loss ratio in property/casualty primary insurance and Property/Casualty Reinsurance would reduce net income after taxes by EUR 492 (491) 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 property insurance, concentration risk results, in particular, from clustering with respect to geographical areas, reinsurance and investments as well as from insured natural catastrophe risks and man-made disasters.

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 are as follows:

ACCUMULATION SCENARIOS, INCLUDING NON-CONTROLLING INTERESTS, BEFORE TAXES^{1),2)}

EUR MILLION	2016	2015
200-year claim – Atlantic hurricane	1,878	1,590
200-year claim – US/Canadian earthquake	1,489	1,446
200-year claim – European storm (winter storm)	1,134	1,206
200-year claim – European earthquake	1,034	1,069
200-year claim – Central and South-American earthquake	1,014	831
200-year claim – Asia-Pacific earthquake ³⁾	886	822
200-year claim – Japanese earthquake	854	829

¹⁾ Actual trends in natural hazards may differ from model assumptions.
²⁾ The previous illustration (maximum claims for the year) has been changed to total claims for the year. The information in the column for 2015 has been recalculated using this approach. Reasons for the change: The limits and thresholds system for the natural catastrophe risk is based on annual total claims, rather than single losses. This applies to both the global and local risk measures and the underwriting capacities. Inasmuch, the new approach is consistent with the approaches used in NatCat risk management.
³⁾ Japanese earthquake is not included.

Other accumulation scenarios are also regularly tested. Carefully and individually selected reinsurance cover is taken out to protect against peak exposures from such 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):

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVE¹⁾

EUR MILLION

	Gross	Re	Net ²⁾
31.12.2016			
Germany	9,101	1,111	7,990
United Kingdom	3,656	596	3,060
Central and Eastern Europe (CEE), including Turkey	1,682	90	1,592
Rest of Europe	7,927	1,637	6,290
USA	8,298	617	7,681
Rest of North America	1,273	692	581
Latin America	1,739	153	1,586
Asia and Australia	2,880	124	2,756
Africa	263	13	250
Total	36,819	5,033	31,786

31.12.2015

Germany	9,114	1,654	7,460
United Kingdom	3,944	605	3,339
Central and Eastern Europe (CEE), including Turkey	1,648	96	1,552
Rest of Europe	7,807	1,429	6,378
USA	7,783	581	7,202
Rest of North America	1,003	560	443
Latin America	1,493	137	1,356
Asia and Australia	2,723	118	2,605
Africa	246	11	235
Total	35,761	5,191	30,570

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

The following table shows the focus of our insurance business in property/casualty primary insurance, broken down by the main types and classes of insurance:

PREMIUMS BY TYPE AND CLASS OF INSURANCE¹⁾

EUR MILLION

	Gross written premiums	Net written premiums
31.12.2016		
Property/casualty primary insurance		
Motor insurance	3,472	3,268
Property insurance	2,609	1,221
Liability insurance	1,696	1,212
Casualty insurance	316	261
Marine	485	341
Other property/casualty insurance	452	268
Property/Casualty Reinsurance	9,205	8,143
Total	18,235	14,714

31.12.2015

Property/casualty primary insurance		
Motor insurance	3,386	3,192
Property insurance	2,621	1,383
Liability insurance	1,712	1,007
Casualty insurance	360	313
Marine	505	332
Other property/casualty insurance	492	297
Property/Casualty Reinsurance	9,338	8,342
Total	18,414	14,866

¹⁾ Before elimination of intragroup cross-segment transactions.**UNDERWRITING RISKS IN LIFE INSURANCE**

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

Typical risks in life insurance are associated with the fact that policies grant guaranteed long-term benefits. Whereas the premium for a given benefit is fixed at the inception of the policy for the entire policy period, the underlying parameters (interest rate

levels, biometric assumptions) may change. This applies to an even greater extent to the legal framework, defined not only by the legislators but also by the courts, underlying the contractual relationship. Changes that can aggravate the risk in this regard are discussed under “Material operational risks”.

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

RETENTION RATIO IN LIFE/HEALTH INSURANCE BY SEGMENT

%

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Retail Germany – Life	95.4	95.8	95.2	93.9	94.4	93.6	92.9	90.4	n. a.	n. a.
Retail International	98.5	97.2	98.0	95.8	89.7	82.8	84.1	83.3	n. a.	n. a.
Life/health primary insurance ¹⁾	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	87.9	86.9
Life/Health Reinsurance	90.4	84.2	83.9	87.7	89.3	91.0	91.7	90.7	89.3	90.8
Total life/health insurance	92.9	89.1	89.6	90.9	91.3	91.8	91.8	90.1	88.4	88.5

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.

Biometric risks and lapse risks in primary life insurance

Biometric actuarial assumptions such as mortality, longevity and morbidity are established at the inception of a contract for calculating premiums and reserves. Over time, however, these assumptions may prove to be no longer accurate, and additional expenditure may be needed to boost the benefit reserve. The adequacy of the underlying biometric actuarial assumptions is therefore regularly reviewed. Epidemics, a pandemic or a global shift in lifestyle habits may pose special risks to contracts under which death is the insured risk. Under annuity insurance, the risk derives first and foremost from steadily improving medical care and social conditions as well as unexpected medical innovations that increase longevity – with the result that 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 in the actuarial assumptions so as to ensure that the actuarial assumptions make sufficient allowance for the risks of error, random fluctuation and change
- Primary life insurance policies are mainly long-term contracts with a discretionary surplus participation feature. Relatively small changes in the assumptions about biometric factors, interest rates and costs that are used as the basis for calculations are absorbed by the safety margins included in the actuarial assumptions. If these safety margins are not required, they generate surpluses, which are to a large extent passed on to policyholders in accordance with statutory requirements. The impact on earnings in the event of a change in risk, cost or interest rate expectations can therefore be limited by adjusting policyholders’ future surplus participation
- We regularly review the lapse behaviour of our policyholders and trends in lapse activity in our insurance portfolio
- Reinsurance contracts provide additional protection against certain assumed – primarily biometric – risks

Reserves are set up to ensure that commitments under these policies can be met at all times; these are calculated, among other things, on the basis of assumptions as to the future development of biometric data such as mortality or occupational disability. Specially trained life actuaries use safety margins to make sure that the actuarial assumptions also make sufficient allowance for risks of change.

In addition, life insurance policies entail lapse risks. In the event of an unusual cluster of cancellations, for example, the liquid assets available might not be sufficient to cover the benefits payable. This could lead to unplanned losses being realised on the disposal of assets. For this reason, the Group's life insurers maintain a sufficiently large portfolio of short-term investments and regularly analyse the situation with regard to cancellations. They also regularly match and manage the duration of their assets and liabilities. Furthermore, insurance intermediaries may default in the event of cancellation and therefore are selected carefully. Cancellations may also create a cost risk if new business drops off significantly and fixed costs – unlike variable costs – cannot be reduced in the short term. In this context, we are monitoring trends resulting from the financial market crisis and the situation in the insurance sector critically. The general market environment is challenging, particularly in the area of retirement products, and there is a trend towards a decline in new business. Cost control and a focus on variable sales costs by using distribution channels such as brokers are used to limit this risk.

Scenario and sensitivity analyses are one risk management instrument also used in primary life insurance to quantify underwriting risks, as part of the internal model in relation to basic own funds. For these, we show ranges within which the Group's primary life insurers sit. These analyses provide pointers as to which areas to focus on from a risk management perspective.

**RANGE OF SENSITIVITIES OF UNDERWRITING RISKS,
PRIMARY LIFE INSURANCE**

	2016
Mortality/morbidity +5% (excluding annuity business)	-3 to -1
Mortality -5% (annuity business only)	-4 to -1
Lapse rate +10%	-2 to -0.5
Expenses +10%	-8 to -3

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 basic own funds. Annuities and death cover are not netted in the sensitivities.

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 lapse rate that differs from expectations may have a negative impact on basic own funds.

Sensitivities to administrative expenses

Higher-than-expected administrative expenses would reduce basic own funds.

**Impact of interest rates, credit spread and equity prices
on underwriting in primary life insurance**

Sensitivities and stresses to the market risk of investments are covered in the "Market risk" section. As the corresponding notes focus on the investments, they do not illustrate the additional impact for German primary life insurance on technical provisions.

In life insurance, a distinction is made between unit-linked policies and traditional policies with guaranteed actuarial interest rates, with traditional policies accounting for the majority of the Group's portfolio. Whereas, under unit-linked policies, the investment risk is borne by the customers, the insurer under traditional policies promises a guaranteed return on the savings elements of the premium. For newly-developed products with significantly curtailed guarantees (modern classic), we took account of the impact of individual products on cover for the solvency capital requirement when developing the products and achieved a solvency-easing influence on the risk profile in favour of higher cover.

In German life insurance, the most significant risk in primary life insurance is that investments do not generate sufficient returns to meet liabilities to customers. The guaranteed returns on savings elements under traditional life insurance policies mainly depend on the actuarial interest rate generation of the policies concerned. The interest rates included in the premium calculations for the various rate generations range between 4% and 1.25% per annum.

Taking into account the additional interest reserve, the average guaranteed interest rate for the German life insurance companies in the Group and for HDI Pensionskasse AG as at 31 December 2016 was 2.35% (2.61%). Due to the limited supply of long-term fixed-income securities on the capital market, it is only possible in some cases to cover the interest liabilities under the policies at matching maturities. As a result, fixed interest rates on the assets side may regularly have a shorter term than those on the liabilities side (duration or asset-liability mismatch). Technical provisions are classified by expected maturity and investments by the remaining term of the contract. This includes a duration (Macaulay duration) of 9.8 (9.6) years for recognised liabilities of the entire Group and 8.0 (7.7) years for fixed-income securities (including interest rate derivatives).

Due to this duration mismatch, basic own funds are sensitive to the discounting assumptions used within the model. Beyond a term of 20 years, these are not derived from the capital market, but instead follow the industry convention that is also used in the Solvency II regime by the European supervisory authorities. If standard industry assumptions about the discount rate for liabilities with a term of more than 20 years are higher than the interest rates actually obtainable in the market at that time, the valuation models used to calculate basic own funds underestimate the liability to policyholders and interest rate sensitivity in life insurance. If, on the other hand, the interest rates actually obtainable are higher than the discount rates, liabilities to policyholders and interest rate risk are overestimated. At present, the interest rates actually obtainable in the illiquid capital market segments for particularly long-term securities tend to suggest that the valuation models underestimate liabilities to policyholders and interest rate sensitivity and therefore overestimate basic own funds.

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]).

The fact that interest rates have been low for several years and are currently extremely low – due among other things to the economic crisis and sovereign debt crisis in the eurozone and the associated low interest rate policy – increases the interest guarantee risk significantly. If interest rates remain low or fall even further, this will heighten even more the already considerable reinvestment risk for life insurance companies offering traditional guarantee products. If this happens, it will then become increasingly difficult to generate the guaranteed return. Furthermore, the Group mitigates this 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 measures. Interest rate hedging instruments such as forward purchases are also used to a certain extent. We also extend the duration on the assets side, adding moderate volumes of higher-yield securities including selected GIIPS issues. 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.

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

Secondly, in the event of a rapid rise in interest rates, risks result from the accounting treatment under the German Commercial Code (HGB) that applies to benefit obligations and their amount. In HGB accounting, the recognition of benefit obligations to policyholders is governed mainly by the Regulation on the Principles Underlying the Calculation of the Premium Reserve (DeckRV). Since 2011, it has been necessary to recognise an additional interest reserve (ZZR) for

rate generations with an actuarial interest rate that exceeds the market reference interest rate formed from a moving average. The expenses incurred in recognising the additional interest reserve require large investment returns, which in some cases can only be provided by releasing valuation reserves. In the event of a rapid rise in interest rates, there is a risk that, due to the moving average used for the reference interest rate, it will still be necessary to allocate large amounts to the additional interest reserve but that it will not be possible to release any further valuation reserves. To reduce the resulting risk of a substantial loss of own funds, the introduction of the IVRG has opened up the option when calculating the minimum allocation to the provision for premium refunds of also using underwriting costs and 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, pension funds and occupational pension scheme providers and thus also represent a significant risk for the Group.

An increase in credit spreads beyond the expected figures could give rise to higher default probabilities for bonds, causing basic own funds to decline. The starting curve for credit spreads for terms of up to ten years is based on observing liquid markets, then extrapolating to an expected long-term mean. If the future spreads realised – and, therefore, the probability of defaults – differ from this long-term target figure, this would impact on net investment income. Due to the typically asymmetric distribution of gains and losses on policyholders and shareholders in life insurance, high credit losses in particular years can lead to a disproportionate reduction in basic own funds. These risks are countered by preserving a spread in the investments and, therefore, the default risk and by investing in bonds with high creditworthiness. We use the credit value at risk (credit VaR) as a parameter for the specific control and investigation of credit spread risks, taking account in particular of clustering effects (see the “Credit risk” section).

For unit-linked life insurance, the technical provisions are set in the same way as the fund volume held for policyholders. Therefore, changes in share prices have a direct impact on the amount of the technical provisions for the unit-linked insurance; however, these are offset by equal effects on the investments. Thus, basic own funds are influenced only by the investments not held for the benefit of holders of life insurance policies. Here, a fall in share prices has a negative influence, but this is very small because of the low equity allocation ratio at present.

The risks associated with the capital market are quantified in the “Material market risks” section.

Technical risks on Life/Health Reinsurance

The biometric risks described above are especially important in Life/Health Reinsurance; this applies in particular to catastrophe risks, such as in the event of pandemics. In our Life/Health Reinsurance business, reserves are largely recognised on the basis of the information provided by our ceding companies. Reliable biometric actuarial assumptions are used to check the plausibility of these figures. The Group uses quality assurance measures to monitor that reserves calculated by ceding companies in accordance with local accounting principles satisfy all requirements with respect to the calculation methods used and assumptions made (e.g. the use of mortality and morbidity tables, and assumptions regarding the lapse rate). All new business written by the Group in all regions complies with our globally applicable framework of underwriting guidelines, which set out detailed rules governing the type, quality, level and origin of risks, and which are revised annually. Specific underwriting guidelines give due consideration to the particular features of individual markets. By monitoring compliance with this framework of underwriting guidelines, the Group minimises the potential credit risk associated with the insolvency or deterioration in the financial status of cedants. Regular reviews and comprehensive analyses (e.g. of lapse risks) are performed whenever new business activities are launched or international portfolios acquired.

We have confidence in our underwriters' business acumen and the responsibilities we confer on them are graduated to reflect this. In our decentralised organisation, we manage risks where they arise, adopting the same approach throughout the Group to gain an overall perspective of the risks involved in Life/Health Reinsurance. Our global underwriting guidelines provide the underwriters with a suitable framework for this. The risks arising from Life/Health Reinsurance are illustrated in the internal capital model.

The interest guarantee risk that is so important in primary life insurance is of little relevance in Life/Health Reinsurance, owing to the structure of the contracts. The risk profile here is dominated by mortality and longevity risks, as some of the contracts have to pay death benefits while others pay survival benefits. Furthermore, Life/Health Reinsurance is exposed to lapse risks, as the payment flows resulting from the reinsurance contracts also depend on the policyholders' lapse behaviour. We prudently calculate the diversification effect between mortality and longevity risks, as the contracts are usually arranged for various regions, age groups and persons.

The sensitivities affecting the Reinsurance Division's basic own funds are as follows:

SENSITIVITIES OF UNDERWRITING RISKS, REINSURANCE DIVISION	
%	2016
Mortality +5% (excluding annuity business)	-9 to -7
Morbidity +5%	-2 to -1
Mortality -5% (annuity business only)	-3 to -2
Lapse rate +10%	-3 to -1
Expenses +10%	-1 to 0

Concentration risk

In life insurance, concentration risk is dominated by interest guarantee risk. Please refer to the "Sensitivity analysis" section and the market risk, in particular the "Credit risk" section for more information on taking account of portfolio concentrations and correlations based on credit VaR.

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.

BENEFIT RESERVE BY REGION¹⁾

EUR MILLION

	Gross	Re	Net
31.12.2016			
Germany	39,477	366	39,111
United Kingdom	4,424	—	4,424
Central and Eastern Europe (CEE), including Turkey	1,178	—	1,178
Rest of Europe	4,805	27	4,778
USA	3,059	245	2,814
Rest of North America	90	8	82
Latin America	24	—	24
Asia and Australia	1,552	914	638
Africa	54	—	54
Total	54,663	1,560	53,103

31.12.2015			
Germany	40,006	437	39,569
United Kingdom	4,776	—	4,776
Central and Eastern Europe (CEE), including Turkey	1,182	—	1,182
Rest of Europe	3,274	109	3,165
USA	3,081	144	2,937
Rest of North America	88	5	83
Latin America	21	—	21
Asia and Australia	2,274	1,105	1,169
Africa	46	—	46
Total	54,748	1,800	52,948

¹⁾ After elimination of intragroup cross-segment transactions.

Derivatives embedded in life insurance contracts and not recognised separately

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

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

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

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

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

With unit-linked products, policyholders may opt to have the units transferred on termination of the contract rather than receive payment of their equivalent value (benefit in kind). In this respect, there is no direct market risk.

Other embedded derivatives are economically insignificant.

In Life/Health Reinsurance, a number of contracts have features that require embedded derivatives to be separated from the underlying insurance contract and recognised separately at fair value in accordance with IAS 39. For further information, please refer to our disclosures in the Notes to the consolidated balance sheet, Note 13 "Derivative financial instruments and hedge accounting".

DEFAULT RISK

Accounts receivable on insurance business always entail default or credit risk. This applies in particular to receivables due from reinsurers, retrocessionaires, policyholders and insurance intermediaries. Value adjustments or write-downs on receivables would be the result.

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

Credit risk also arises in the primary insurance business on accounts receivable from reinsurers and in the reinsurance business on receivables from retrocessionaires, as gross written business is not always fully retained but (retro-)ceded again as necessary. In reinsurance ceded, we ensure that reinsurers are financially extremely sound, especially in the case of accounts with a long run-off period.

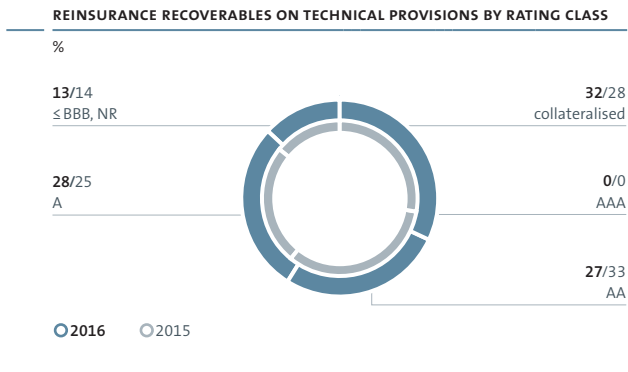
The Group counters the risk of default on accounts receivable from reinsurers and retrocessionaires through Group-wide directives and guidelines. Reinsurance partners are carefully selected by security committees made up of experts and their creditworthiness is continually monitored. A rating information system accessible throughout the Group ensures the consistent and uniform use of rating information as at a specific reporting date. To limit concentrations, an upper limit is set for each reinsurance group's share of the loss reserves. To avoid or limit default risk on reinsurance business, cession limits are stipulated for individual reinsurance partners and if necessary suitable measures taken to collateralise any receivables or other contractual obligations these reinsurance partners may have.

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

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

Claims resulting from reinsurance ceded, i.e. where we pass on risks assumed by ourselves – the reinsurers' share – amounted to EUR 8.0 (8.4) billion.

The reinsurers' share of technical provisions is secured by collateral received, such as deposits and letters of credit, in the amount of EUR 2.6 (2.3) billion. We are also the reinsurer for most of our retrocessionaires (particularly in the Property/Casualty Reinsurance segment), meaning that there is usually some potential for offsetting defaults against our own liabilities. An amount of EUR 5.4 (6.2) billion remains after deducting collateral received. The rating structure here is as follows:



Within the unsecured portion, 81% (81%) of our reinsurance partners/retrocessionaires are rated A or above. The large proportion of reinsurers with a high rating reflects our efforts to avoid default risk in this area.

The carrying amount of financial instruments associated with insurance contracts (policy loans, accounts receivable on insurance business, reinsurance recoverables on technical provisions) – disregarding any collateral or other arrangements that reduce default risk – is equivalent to the maximum exposure to default risk at the reporting date.

Funds withheld by ceding companies represent the collateral furnished by Group companies to cedants outside the Group (e.g. cash deposits and securities accounts), which does not trigger payment flows and cannot be used by those cedants without our companies' consent. The duration of this collateral is generally matched to the corresponding provisions. If a ceding company defaults on funds it has withheld, the technical provisions are reduced by the same amount. Credit risk is therefore limited.

The accounting balance (income for primary insurers), defined as the reinsurers' share of earned premiums less the reinsurers' share of gross claims and claims expenses as well as gross expenses for insurance operations, was EUR -1,188 (-764) million in the year under review.

MARKET RISK

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

Detailed investment guidelines are in force for individual companies, compliance with which is constantly monitored. These investment guidelines define the framework for the investment strategy and are guided in the year under review by the principles set out in section 124 of the Insurance Supervision Act (VAG). The

assets are invested according to the prudent person principle, taking account of the type and duration of the insurance business, the resulting liabilities profiles and the corporate structure, with the aim of achieving the highest possible level of security, quality and profitability while ensuring sufficient 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:

WEIGHTING OF SIGNIFICANT ASSET CLASSES

%

	Value specified in investment guidelines	Position as at 31.12.2016	Position as at 31.12.2015
Bonds (direct holdings and investment funds)	At least 50	90	90
Listed equities (direct holdings and investment funds)	At most 25	2	1
Real estate (direct holdings and investment funds)	At most 7.5	3	3

The limits differ between the divisions of the Primary Group and the reinsurance business. The specified values shown relate to the Primary Group and the utilisation rates to the Group. The percentages for bonds, equities and real estate as at 31 December 2016 were within the limits.

MARKET RISK

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

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

Equity price risks arise from unfavourable changes in the value of equities, equity derivatives and equity index derivatives held in the portfolio.

Currency risk results from exchange rate fluctuations – especially if there is a currency imbalance between the technical liabilities and the assets. We manage currency risk by ensuring that matching currency cover is maintained. Risk is limited by investing capital wherever possible in those currencies in which the obligations under our insurance contracts must be met. By systematically pursuing the principle of matching currency cover, we are also able to reduce foreign currency risk within the Group significantly.

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

INVESTMENTS

%

	31.12.2016	31.12.2015
EUR	67	66
USD	20	20
GBP	3	3
PLN	2	4
Others	8	7
Total	100	100

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

Real estate risks may result from unfavourable changes in the value of real estate held either directly or via fund units. They may be caused by a deterioration in the features of a particular property or by a general downturn in market prices (such as a real estate crash).

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

Market risk is primarily limited by Talanx's system of limits and thresholds and by its investment guidelines, and is continuously monitored. To this end, limits are set at portfolio level. Exceeding these limits (breaches) triggers predefined escalation processes.

One important element in which market risk is monitored and managed is by regularly reviewing the value at risk (VaR), taking into account not only the investments but also the forecast cash flows for technical liabilities and their sensitivity to market risk factors (ALM VaR). The ALM VaR is based on historical market data and represents a model-based forecast of the maximum expected loss within a given holding period (e.g. ten days) that will not be exceeded for a given probability. The ALM VaR is calculated based on a confidence level of 99.5% and a holding period of ten days. This means that there is only a 0.5% probability that this estimated potential loss will be exceeded within ten days. Investment portfolio data are used as the inputs to the calculation and are updated on a daily basis. In addition to these data, the calculations use replicating portfolios for the forecast cash flows from technical liabilities in the form of payment obligations (short positions) so that dependencies between investments and insurance benefits as well as any duration gap in the investment can be taken into account and monitored. A duration gap is a mismatch in the fixed-interest period between assets and liabilities.

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

The model used is a multi-factor model based on a multitude of representative time series such as interest rates, exchange rates and equity indices, from which all risk-related factors can be ascertained by means of a principal component analysis. Correlations between the time series are factored into the risk factor weightings and cumulative and diversification effects are 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 2016, the ALM VaR was EUR 1,507 (1,433) million, or a ratio of 1.4% (1.4%) of the investments under consideration. In comparison to the previous year, the ALM-VaR ratio is virtually unchanged.

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.

The following table shows scenarios for changes in the Group's assets under own management as at the reporting date. The amounts shown are gross amounts; in particular, the effects shown do not reflect taxes or the provision for premium refunds. Effects arising from policyholders' surplus participation in life/health primary insurance are therefore not part of the analysis. Taking these effects into account would reduce the illustrated effects on earnings and equity significantly.

SCENARIOS FOR CHANGES IN THE GROUP'S ASSETS UNDER OWN MANAGEMENT AS AT THE REPORTING DATE

EUR MILLION

Portfolio	Scenario		Recognised in profit or loss ¹⁾	Recognised in other com- prehensive income ²⁾	31.12.2016 Change in the portfolio on a fair value basis ³⁾	31.12.2015 Change in the portfolio on a fair value basis ³⁾
Equities³⁾						
	Equity prices	+20%	84	313	397	259
	Equity prices	+10%	42	156	198	130
	Equity prices	-10%	-42	-156	-198	-130
	Equity prices	-20%	-82	-313	-395	-259
Fixed-income securities						
	Increase in yield	+200 bps	-155	-7,861	-13,559	-12,291
	Increase in yield	+100 bps	-86	-4,226	-7,345	-6,639
	Decrease in yield	-100 bps	106	4,638	7,888	7,126
	Decrease in yield	-200 bps	225	9,801	16,695	15,053
Exchange rate-sensitive investments						
	Appreciation of the EUR ⁴⁾	+10%	-3,310	-184	-3,494	-3,309
	against USD		-2,187	-7	-2,194	-2,001
	against GBP		-305	-9	-314	-347
	against PLN		-169	-4	-173	-217
	against other currencies		-649	-164	-813	-744
	Depreciation of the EUR ⁴⁾	-10%	3,310	184	3,494	3,309
	against USD		2,187	7	2,194	2,001
	against GBP		305	9	314	347
	against PLN		169	4	173	217
	against other currencies		649	164	813	744

¹⁾ Gross (before taxes and surplus participation).

²⁾ Including financial instruments classified as "Loans and receivables" and "Financial assets held to maturity".

³⁾ Including derivatives.

⁴⁾ Exchange rate movements against the euro of +/-10%, based on carrying amounts.

The Group primarily enters into derivative transactions in order to hedge against price risk or interest rate risk affecting existing assets, to prepare for the subsequent purchase of securities or to generate additional earnings from existing securities. The Group also uses OTC derivatives on a minor scale, which involve a counterparty risk. To partially hedge inflation risk, Hannover Re has inflation-dependent securities in its portfolio which protect portions of the loss reserves against inflation risk.

The full boards of management of the Group companies concerned decide on the nature and scope of investments in derivative financial instruments.

Internal guidelines regulate the use of derivative products to ensure the most efficient and low-risk use of forward purchases, derivative financial instruments and structured products, and to satisfy regulatory requirements. The use of such instruments is thus subject to very strict limits. We constantly monitor the requirements set out in the investment guidelines and the statutory provisions governing the use of derivative financial instruments and structured products. 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 limited by Talanx’s system of limits and thresholds and by its investment guidelines, and is continuously monitored. To this end, limits are set at portfolio, issuer/counterparty and in some cases asset class level, ensuring a broad mix and spread in the portfolio. When limits are exceeded, defined escalation processes are triggered.

An issuer’s creditworthiness is the key criterion when deciding whether to invest. Creditworthiness is assessed on the basis of the Group’s own credit risk analyses, which are supplemented by ratings from external agencies such as Standard & Poor’s, Moody’s, Fitch or other rating agencies. New investments are mainly in securities with an investment-grade rating. An early warning system based on market information (such as credit spreads and equity prices) has been put in place to spot initial signs of deteriorating creditworthiness. To reduce counterparty risk, OTC transactions are only entered into with a select group of counterparties, and cross-product master agreements covering both netting and collateral are agreed (see our disclosures in Note 13 “Derivative financial instruments and hedge accounting”). We also use credit default swaps to efficiently manage credit risk.

We use the following features to characterise the counterparty credit risk at individual counterparty level:

- The one-year probability of default, derived from the composite rating (mean rating of the available agency ratings by Standard & Poor’s, Moody’s and Fitch, supplemented with internal quantitative and qualitative methods to assess an issuer’s creditworthiness or the probability of default of a financial instrument)
- The loss given default (LGD), derived from the volume of the collateral or the seniority of an issue.
- Exposure at default (EAD) represents the expected amount of the receivable at the time of default.

For the portfolios, taking account of ratings or the allocated probability of default and the expected loss given default (LGD), an expected loss and a credit value at risk (CVaR) is calculated. The CVaR represents the amount of the (unexpected) loss that, with a probability of 99.5%, will not be exceeded within a year. As well as characteristics specific to each issuer, the stochastic simulation to calculate the credit VaR also takes account of portfolio concentrations (e.g. in industries and countries) as well as correlations of the individual assets. This approach ensures that, in particular, concentration effects and dependencies between the portfolios are captured when measuring the credit risk. The credit VaR calculation takes account in particular of credit risk for European government bonds.

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 2016, the credit VaR for the Group as a whole was EUR 5,127 (4,755) million, or 4.7% (4.6%) of the assets under own management. The takeover of Italian company CBA Vita S.p.A. in the Retail International segment raised the credit VaR by 5 basis points (bps). The internal risk calculations capture all investments as exposed to credit risk. In particular, this also includes all European government bonds which, according to the standard model under Solvency II, are regarded as risk-free.

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

The relative changes observable in the credit VaR stress test largely correspond to the 2015 figures.

CREDIT VAR STRESS TEST

EUR MILLION	31.12.2016	31.12.2015
Rating downgrade by one notch	6,206 (+21%)	5,782 (+22%)
Rating downgrade by two notches	7,516 (+47%)	6,987 (+47%)
Increase in LGD by 10 percentage points	5,847 (+14%)	5,455 (+15%)

The table indicates the sensitivity of the credit VaR for certain credit scenarios. It illustrates both the effect of issuer ratings being downgraded by one or two notches and the reduction in expected recovery rates in the event of default.

Within its portfolio of assets under own management, the Group's exposure to government bonds with a rating of less than A- amounts to EUR 4.4 billion on a fair value basis, or 4.1%.

EXPOSURE TO BONDS WITH A RATING OF LESS THAN A-

EUR MILLION

	Rating	Government bonds	Semi-government bonds	Financial bonds	Industrial bonds	Covered Bonds	Others	Total
31.12.2016								
Italy	BBB	2,188	—	644	627	388	—	3,847
Spain	BBB+	775	427	266	448	299	—	2,215
Brazil	BB	262	—	101	307	—	8	678
Mexico	BBB+	110	5	40	286	—	—	441
Hungary	BBB-	404	—	3	10	8	—	425
Russia	BB+	168	12	77	185	—	—	442
South Africa	BBB-	156	10	14	47	—	6	233
Portugal	BB+	41	—	7	61	12	—	121
Turkey	BB+	18	—	32	23	3	—	76
Others BBB+		32	—	65	80	3	—	180
Others BBB		80	36	51	49	—	—	216
Others <BBB		165	29	71	154	3	337	759
Total		4,399	519	1,371	2,277	716	351	9,633
31.12.2015								
Italy	BBB	1,769	—	604	613	327	—	3,313
Spain	BBB+	779	531	230	411	226	—	2,177
Brazil	BB+	143	3	109	326	—	13	594
Mexico	BBB+	120	5	16	328	—	—	469
Hungary	BB+	298	—	9	8	7	—	322
Russia	BB+	75	—	125	120	—	—	320
South Africa	BBB-	142	9	25	37	—	8	221
Portugal	BB+	39	—	3	38	17	—	97
Turkey	BBB-	33	—	35	2	—	—	70
Others BBB+		23	—	41	62	—	—	126
Others BBB		72	60	47	31	—	—	210
Others <BBB		219	49	199	226	—	326	1,019
Total		3,712	657	1,443	2,202	577	347	8,938

Disregarding collateral or other arrangements that reduce default risk, the maximum exposure to default risk (of our investments, excluding funds withheld by ceding companies) as at the reporting date corresponds to the balance sheet items.

Within the Group, financial assets totalling EUR 846 (749) million serve as collateral for liabilities and contingent liabilities. Of this amount, carrying amounts of EUR 62 (90) million secure existing derivatives transactions for which own investments are held in blocked custody accounts. In addition, Hannover Re Real Estate Holdings has furnished standard collateral to various credit institutions for liabilities related to investments in real estate businesses and real estate transactions. At the reporting date, this collateral amounted to EUR 594 (593) million.

Further information on collateral pledged by the Group can be found under “Contingent liabilities and other financial commitments” in the “Other disclosures” section.

Hannover Rück SE has furnished guarantees from various banks in the form of letters of credit as surety for technical liabilities amounting to EUR 1.3 (1.3) billion. In addition, assets with a fair value of EUR 291 (196) million have been provided to the Group as collateral, which can be sold or transferred as collateral without the owner being in default on payment.

With the exception of mortgage loans secured by charges on property, the portfolio did not contain any past due investments that were not impaired at the reporting date because past due securities are written down immediately. For information on impairment losses charged on investments in the year under review, see Note 30, page 223.

Credit rating structure of the investments: As at the end of the reporting period, 95% (95%) of our investments in fixed-income securities were classed as investment grade (i.e. the composite rating of these portfolios is at least BBB-). 76% (78%) had a rating of category A and better. On acquisition, promissory note loans and registered debt securities are assigned an internal rating derived as a rule from the issuer’s rating. Approximately 64% (53%) 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 structure of our fixed-income securities, broken down by balance sheet item, investment contracts and short-term investments is presented in the “Notes to the consolidated balance sheet – Assets” section.

LIQUIDITY RISK

Liquidity risk from investments

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, occasionally it may not be possible to sell holdings (or at least not without a delay) or to close out open positions (or only at a discount) due to market illiquidity.

We counteract liquidity risk through regular liquidity planning and by continuously matching the maturities of our investments to our financial obligations. A liquid asset structure ensures that the Group is able to make the necessary payments at all times. Planning for technical payment obligations is based, among other things, on the expected due dates, after allowance for the run-off pattern of reserves.

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

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

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

Liquidity risk from business

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

To manage its liquidity, Talanx AG must ensure its solvency at all times during normal operations and in potential crisis situations. It monitors its liquidity position on a daily basis and draws up 12-month liquidity plans and three-year liquidity forecasts, which are presented to the Group Board of Management at regular intervals.

To cushion any short-term liquidity requirements that occur in the Group, Talanx AG holds a minimum level of liquidity, which is placed in money market investments for selected credit institutes. A further component of liquidity management is the availability of a sufficiently large credit line. Talanx AG holds liquid assets, which – if required – can be sold, and it currently maintains two credit lines syndicated by commercial banks with a volume of EUR 500 million in total. There is still a bilateral credit line with HDI V.a.G. with a volume of EUR 500 million. The lines were not drawn down as at the reporting date. Moreover, Talanx AG secures the Group's access to long and, if required, also short-term external financing sources. This access is contingent on various factors, such as the general capital market conditions and the Group's own credit rating. Talanx AG's financing options take the form of equity and external funding. Equity can be generated by issuing registered shares. External funding is procured by issuing senior and subordinated bonds with different terms.

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

At the divisional level, the Group generally generates significant liquidity positions on an ongoing basis because premium income normally accrues well before claims are paid and other benefits rendered.

However, due to its business model, liquidity risk is in principle of less significance to the Group, particularly at divisional level, compared with the banking industry, because regular premium payments and interest income from investments, together with its liquidity-conscious investment policy, generally provide it continuously with an adequate supply of liquid funds. 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.

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 property insurance are all positive.

CASH FLOWS AND LIQUID FUNDS FROM INSURANCE BUSINESS¹⁾

EUR MILLION

	31.12.2016	31.12.2015
Gross written premiums including premiums from unit-linked life and annuity insurance	17,674	17,731
Claims and claims expenses paid (gross)	-10,271	-10,348
Acquisition costs and reinsurance commissions paid plus administrative expenses	-4,591	-4,485
Liquid funds	2,812	2,898

¹⁾ After elimination of intragroup cross-segment transactions.

Life/health insurance: To monitor liquidity risk, the Group's life insurers regularly compare net claims and claims expenses paid during the financial year against existing investments (during the year, budgeted amounts are used for net claims and claims expenses paid in the course of the financial year). In doing so, they make allowance for potential unforeseen increases in net claims and claims expenses paid using appropriate margins and monitor the ability to liquidate the investments.

Other financial arrangements: In addition to the assets available to cover provisions and liabilities, the Group can if necessary continue to use the existing lines of credit, the existing general agreement for the issue of convertible bonds with HDI V.a.G. or capital market-related refinancing options.

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

LoC facilities are also in place with credit institutions on a bilateral basis for the equivalent of EUR 2.8 (2.6) billion. The durations vary and run until 2021 at the latest.

A number of LoC facilities include standard contractual clauses that give the credit institutions the right to terminate the facilities in the event of significant changes in the ownership structure of our Group company Hannover Rück SE, or that trigger a requirement to provide collateral if certain significant events, such as a significant rating downgrade, occur.

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.

MATERIAL OPERATIONAL RISKS

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

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

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

Legal risks may arise in connection with contractual agreements and the broader legal environment dictated by legislators, jurisprudence and, in reality, the supervisory authorities with their interpretive decisions, especially with respect to business-specific uncertainties in the areas of commercial and tax law as they relate to an international life/health and property/casualty (re-)insurer. Primary insurers and reinsurers are also dependent on the general political and economic conditions in the markets on which they operate. Legal risk represents a significant risk for the Talanx Group in the area of life insurance in particular. Generally speaking, legal developments are typified at present by a marked tightening of sanctions law, with significantly higher fines due to the ability to make claims on group parent companies. Mirroring European antitrust law, which is already established in this respect, this is particularly true of the capital market and the future data protection law, which is shaped by the new European data protection regulation.

New developments, such as those in connection with IFRS requirements, insurance contract and supervisory law or tax law are identified early on, in order to meet the more stringent requirements. In addition, developments in supreme court rulings in particular and changes in the law that could affect Group companies are closely monitored by the Group's in-house legal team.

Examples: A number of countries are planning or have already introduced a financial transaction tax as a means of recovering at least part of the cost of the banking crisis. In February 2013, the European Commission presented a proposal for a directive on a financial transaction tax. As agreement could not be reached on its introduction throughout the EU, Germany and ten other EU member states decided in 2014 that they would introduce a financial transaction tax through enhanced cooperation, starting in 2016. The tax is to be phased in successively, with only trading in equities and some derivatives likely to be taxed to begin with.

As there is as yet no concrete agreement on a proposal for a directive, the introduction of a financial transaction tax is no longer expected in 2017. Whether and to what extent retirement provision products might be exempt from the financial transaction tax remains unclear. The potential impact of such a financial transaction tax is not yet certain, as it depends on what form the tax actually takes.

There is a risk of such a tax also affecting our Group. Calculations by the German Insurance Association (GDV) assume an annual charge of around ten basis points on the investments concerned, based on minimum tax rates.

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

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

The legal implications of the judgment of the Federal Court of Justice of 7 May 2014 with regard to objecting to and withdrawing from life insurance contracts between 1994 and 2007 in the absence of sufficient information remain largely uncertain (for detailed information, see the Talanx Group Annual Reports for 2013 and 2015). The outstanding issues are the actual amount of the repayment claim and, in particular, the matter of the extent to which investment income may be netted as benefits payable against expenses borne by the insurer, as well as the options and prerequisites for an objection of bad faith even when insufficient information was provided. Due to the way in which the Group advises policyholders, however, the expectation remains that few will take advantage of this right. A decision of the Federal Court of Justice is also pending on proceedings involving contracts for which the correct information on the right of objection was provided and that have short contract durations. If the forfeiture argument does not apply to these short-term contracts, the Federal Court of Justice will have to clarify whether it will be submitting the issue of the policy model's conformity with European law to the European Court of Justice for a preliminary ruling.

In the previous year's report, we discussed the Austrian "HETA" situation. On the basis of the Austrian Federal Act on the Recovery and Resolution of Banks (BasAG), on 1 March 2015 Austria had imposed a payment moratorium for HETA Asset Resolution ("HETA"); there were serious doubts as to the lawfulness of this approach. Legal steps have been initiated for all the affected companies/investment funds. Following the failure of a repurchase offer with a deadline on 11 March 2016, the responsible supervisory authority, FMA, ordered a bail-in on 10 April 2016. The bail-in amounted to 54% for priority liabilities. As at 18 May 2016, a Memorandum of Understanding (MoU) was concluded by the major creditor groups and the Austrian Ministry of Finance (exchange offer with an economic value of approximately 90% [zero-coupon bond, guaranteed by the Republic of Austria, term of approximately 13.5 years]). On the basis of the

MoU, on 5 September 2016 the Carinthian compensation fund published a repurchase offer. The exchange offer was successful and was accepted by the majority of the creditors. This was followed on 12 October 2016 by the settlement (exchange of the HETA bonds for the Carinthian compensation fund zero-coupon bonds guaranteed by Austria in a ratio of 1:1). There was then a holding period until the end of 30 November 2016. The repurchase then took place from 1 December 2016 onwards, at an economic value of 90% of the nominal value of the HETA securities, based on market data from 12 October 2016. We therefore no longer consider the actual circumstances to present a risk.

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 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. The duration of the proceedings is, unfortunately, not unusual and does not, in itself, indicate an increased risk.

The economic and sovereign debt crisis and the prospect of new regulatory requirements are increasingly driving a trend towards more exacting regulatory requirements, including 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. 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 International Association of Insurance Supervisors (IAIS) are working on insurance capital standards for international insurers. There is always a chance that, eventually, requirements that are supposed to be dependent on a Group's global systemic importance may be extended to any insurance group with international operations. This may, for example, result in discrepancies for the Group versus the solvency requirements inferred from Solvency II. The efforts of the European Systemic Risk Board (ESRB) also appear to go beyond the tightening of solvency requirements.

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

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

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

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

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

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

EMERGING RISKS

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

STRATEGIC RISKS

Strategic risks result from the danger of an imbalance between our corporate strategy and the constantly changing general business environment. Such an imbalance might be caused, for example, by inappropriate strategic decisions, failure to consistently implement strategies once defined, the inadequate implementation of strategic projects or increased management complexity due to handling differing attitudes towards capital and risks. We therefore review our corporate strategy and risk strategy annually and adjust our processes and structures as required.

REPUTATIONAL RISKS

Reputational risks are risks associated with possible damage to the Company's reputation as a consequence of unfavourable public perception (e.g. among clients, business partners or government agencies). These may result, for example, from the inadequate implementation of legal requirements or from delays or errors in the publication of the Company's figures. Our well-established communication channels, professional approach to corporate communications, tried-and-tested processes for defined crisis scenarios and established Code of Conduct help us to manage this risk.

MODEL RISK

At Group level, model risk receives particular attention. For us, it means the risks associated with inappropriate decisions that result from uncertainty due to a partial or total lack of information with regard to the understanding or knowledge of an event, its repercussions or its likelihood. In this context, the term "model" encompasses quantitative methods, processes and procedures that use statistical, economic, financial or mathematical theories, techniques and premises to process inputs (including qualitative data/expert estimates) so as to produce quantitative estimates.

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

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

Furthermore, (on occasion surprising) changes to laws and regulations and the opinions of the relevant supervisory authorities regarding the choice of methods or parameters that are consistent with the standards give rise to an exogenous model risk.

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 latter's 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).

In the referendum on membership of the EU on 23 June 2016, a majority of the voters voted in favour of the United Kingdom leaving the EU (known as "Brexit"). It is unclear when the United Kingdom will submit the application to leave the EU, which is causing additional uncertainty. The United Kingdom could slip into recession in the short term. The Bank of England describes the outlook for the financial stability of the United Kingdom as "challenging". In the long term, the situation could deteriorate further if the new government does not manage to agree any reasonable solutions with the EU. However, despite the uncertainty that has emerged, our analyses indicate that the impact on the assets of Talanx remains manageable.

The Italian banking system has been troubled by a high level of non-performing loans for a number of years, due not least to the continuing weakness of economic growth. Possible approaches to improving the non-performing loan burden of Italy's banks are currently being developed. A few banks have relatively poor capitalisation levels, necessitating the provision of additional equity. In extreme cases, it might be necessary to consult the creditors. Some subsidiaries of the Talanx Group have comparatively high exposure to Italian securities which was recently increased. However, our analyses indicate that the impact on the assets of Talanx remains manageable.

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.

REPORT ON EXPECTED DEVELOPMENT AND OPPORTUNITIES

ECONOMIC ENVIRONMENT

For the year 2017, we anticipate a continuation of global growth, which should accelerate slightly compared to the previous year. Industrial nations should expand slightly above the level of the reporting period, and the growth contribution of the emerging markets should also increase. The political change in the USA leads us to expect demand stimuli worldwide, so that we anticipate an annual growth rate in the global economy of slightly over 3%.

These foreign-policy stimuli, which also include increasing net exports, will probably replace the expected weakening of the consumer dynamic in the eurozone. Despite the persistent political uncertainties in the European election year and the related possible darkening of the business climate, the overall outlook for the eurozone for 2017 remains positive. For the USA, the prospects of stable growth continue to apply, which could be accelerated after the announced tax cuts, increases in investment in the infrastructure and a wave of deregulation following the inauguration of the new US President. As the US labour market is reporting almost full employment, it may be assumed that private consumer spending, as well as any fiscal stimulus, will continue to be a central growth driver here, too. However, due to increasing wages and prices, we anticipate higher inflation (spiral of rising prices and wages).

We expect increasing growth on the emerging markets, though it will begin from a relatively low level. Here, the fundamental stabilisation of commodities prices, particularly in the commodity-exporting emerging markets, should have a supportive effect and should lead to a noticeable export revival in 2017 even after the currency devaluation in several countries. Nevertheless, specific risks will continue to exist: in particular, the transformation of the Chinese economy from an export- and investment-oriented growth model to a modern service society combined with structural problems – such as the high level of debt of the private sector – will continue to act as a drag in 2017. We anticipate a further weakening of the growth in China.

CAPITAL MARKETS

As it will presumably not be possible to achieve the inflation target of the ECB for the eurozone in the foreseeable future, despite initial increases, we assume that the monetary policy of the ECB will remain expansive. Even so, we must assume that the bond purchasing programmes of the central banks will be curtailed. This ought to be carried out gradually, in order to minimise the risk of sudden mark-ups due to the reversal of “yield hunting”. Overall, liquidity and capitalisation to optimise the capital structure will remain the dominating issues in the banking sector during the continued low-interest phase, even if the US Federal Reserve initiated a consistent increase in the key interest rates last December and three to four further interest hikes are expected for 2017.

In this environment, the valuation level of the equity markets in the USA and Europe has increased considerably, whereas profit margins and returns on equity in Europe are very low. However, given a further stabilisation of the European economy, we anticipate that the profit margins and returns on equity will recover, even if uncertainties in the European election year of 2017 and the uncertainty regarding future US policies will lead to greater market volatility.

FUTURE STATE OF THE INDUSTRY

GERMAN INSURANCE INDUSTRY

In light of the persistent economic risk factors – which will also continue into 2017 – forecasts are generally subject to caveats. Assuming that macroeconomic conditions do not deteriorate significantly, the insurance industry will achieve slightly increasing 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 2017. However, premium growth is likely to decline further compared with the level recorded in the year under review. This projection reflects the expected growth in motor insurance – the key driver of positive premium growth in recent years.

Following the decrease in premium volume – in particular in the single premium business – for **German life insurers** in the year under review, the GDV expects a further slight decline in premiums for 2017. In view of the persistently low interest rates and their negative impact on total returns, the profitability of German life insurers is likely to fall again in 2017.

INTERNATIONAL INSURANCE MARKETS

In international property and casualty insurance, we expect low real growth overall in premium income in 2017. For the emerging markets, we anticipate a slightly increasing growth dynamic, whereas real premium growth could fall slightly on the developed markets. In light of the only moderate anticipated macroeconomic improvements and the potential of rising inflation, we must assume that profitability will remain at a low level in 2017.

For both the **eurozone** and the **USA**, we expect slightly increasing premium income for 2017, though at a weaker level than in the reporting period. In **Central and Eastern Europe**, the slow economic recovery should continue and therefore the premium development should remain positive. For 2017, we anticipate comparable growth as in the reporting period. **Latin America** is likely to see a slow improvement in premium growth in 2017 after a modest year in 2016. In this region, positive stimuli could come from the corporate-customer business in Brazil and from Argentina, Chile and Colombia. In the **Asian emerging markets**, we expect the solid premium performance to continue again in 2017. Regulatory initiatives such as the support of natural-disaster insurance in China or the acceleration of infrastructure investments in Southeast Asia, for instance, could be helpful.

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

In **Central and Eastern Europe**, we anticipate an increase in premium growth in conjunction with the newly increasing economic growth, even though the recovery may progress more slowly in some EU Member States such as Poland and Hungary. Following the recent slightly negative performance in **Latin America**, we anticipate premium growth for 2017 on the same level as the year under review, based on the assumption that an improvement in the economic situation will occur in core countries such as Brazil and Argentina. In **Asia**, we predict strong premium growth to continue, dominated by China.

FOCUS AND FORECASTS FOR THE TALANX GROUP IN FINANCIAL YEAR 2017

Our expectations for the Group and its divisions for the current year are presented below. It remains challenging to forecast earnings and to make reliable predictions because the capital market, and in particular the interest-rate and returns environment, and also the general political situation are subject to a considerable degree of uncertainty.

In the Industrial Lines Division we want to continue our strictly income-oriented underwriting policy in the domestic market and to expand our profitable business abroad. In the Retail Germany Division, we are continuing our “KuRS” programme – which we launched in 2015 – to sustainably improve competitiveness. In the Retail International Division, we are focussing on our core markets and plan to continue our profitable growth. Based on steady exchange rates, we expect our premium volumes in Property/Casualty Reinsurance to grow slightly. For the global Life/Health Reinsurance business, we anticipate moderate, organic growth in gross premiums adjusted for currency effects in the current year.

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

Division	Our mission and strategic tasks
Industrial Lines	<ul style="list-style-type: none"> ■ International market growth ■ Become a global player ■ Structural increase in retention ■ Enhance profitability in Germany
Retail Germany	<ul style="list-style-type: none"> ■ Enhance customer benefit through innovative, needs-based products and services ■ Increase efficiency and improve cost structure ■ Increase profitability
Retail International	<ul style="list-style-type: none"> ■ Profitable growth in strategic target markets ■ Optimise business in existing markets
Reinsurance	<ul style="list-style-type: none"> ■ Growing premium volume in Property/Casualty Reinsurance ■ Continue to pursue selective underwriting approach in Property/Casualty Reinsurance ■ Moderate, organic growth in gross premiums adjusted for currency effects in Life/Health Reinsurance

ANTICIPATED FINANCIAL DEVELOPMENT OF THE GROUP

We are making the following assumptions:

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

TALANX GROUP

MANAGEMENT METRICS

	2017
%	
Gross premium growth (adjusted for currency effects)	> 1
Group net income in EUR million	approx. 800
Net return on investment	≥ 3
Payout rate	35–45
Return on equity	> 8

For the Talanx Group, we expect a slight increase in gross premiums for 2017 – based on steady exchange rates. The IFRS net return on investment should amount to at least 3%. We are aiming for Group net income of around EUR 800 million. It follows that we expect our return on equity to be above 8% in 2017, which would be 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 continue to pay out 35% to 45% of Group net income as dividends.

INDUSTRIAL LINES

MANAGEMENT METRICS FOR THE INDUSTRIAL LINES DIVISION

	2017
%	
Gross premium growth (adjusted for currency effects)	≥ 2
Retention	> 53
Combined ratio (net)	~ 96
EBIT margin	~ 10
Return on equity	7–8

HDI Global SE, which manages the Division, sees further significant potential for profitable growth in the international business. For this reason, we intend to continue our efforts in 2017 to expand HDI Global SE's international business. Throughout Europe, we aim to expand our industrial insurance business in the fields of local business, small and medium enterprises and international insurance programmes. Latin America, (South-)East Asia and MENA (Middle East and North Africa) remain our target regions outside Europe. We shall continue with the measures for increasing profitability for domestic business. Overall, we expect slight growth in gross premiums (adjusted for currency effects). In tandem with the anticipated improvement in profitability, we will continue in 2017 to pursue our strategic aim to gradually raise the retention. We are aiming to achieve a retention ratio above the level of the previous year (53%). For the year 2017, we anticipate major losses in the context of our major-loss budget and therefore a combined ratio of approximately 96%. The successful measures to improve profitability in the German property insurance business as well as in the fleet and marine business should also contribute to this. The EBIT margin should therefore lie at about 10% in 2017, and the return on equity should be between 7% and 8%.

RETAIL GERMANY DIVISION

PROPERTY/CASUALTY INSURANCE

MANAGEMENT METRICS FOR THE RETAIL GERMANY DIVISION – PROPERTY/CASUALTY INSURANCE SEGMENT	
	2017
%	
Gross premium growth	-1 to -2
Combined ratio (net)	~ 103
EBIT margin	1-2

For the Property/Casualty Insurance segment, we anticipate a slight decline in the gross premiums for 2017. Moreover, the segment will also be shaped by investive measures from the “KuRS” programme in 2017, so we anticipate a combined ratio of around 103%. Without these “KuRS” investments, we would anticipate a combined ratio of up to 100%, as in the previous financial year. As a result, the EBIT margin should be between 1% and 2%.

LIFE INSURANCE

MANAGEMENT METRICS FOR THE RETAIL GERMANY DIVISION – LIFE INSURANCE SEGMENT	
	2017
%	
Gross premium growth	0
EBIT margin	2-3

For the Life Insurance segment, we intend to expand the share of capital-efficient and biometric products in the new business in 2017. Overall, we therefore anticipate a stable gross premium volume. Due to the move towards capital-efficient products and the persistently low interest rates, there is no forecast for a new business margin. Assuming that there is no further decline in interest rates, we expect an EBIT margin of 2% to 3% for 2017.

RETAIL GERMANY OVERALL

RETURN ON EQUITY MANAGEMENT METRIC FOR THE RETAIL GERMANY DIVISION OVERALL	
	2017
%	
Return on equity	2-3

We consider the return on equity of the Retail Germany Division on an overall basis and expect it to stand between 2% and 3% for 2017.

RETAIL INTERNATIONAL

MANAGEMENT METRICS FOR THE RETAIL INTERNATIONAL DIVISION	
	2017
%	
Gross premium growth (adjusted for currency effects)	~ 10
Growth in value of new business (life) ¹⁾	5-10
Combined ratio (net, property/casualty)	~ 96
EBIT margin	5-6
Return on equity	6-7

¹⁾ Excluding non-controlling interests.

For the Retail International Division, we are aiming at growth in gross written premiums adjusted for currency effects of about 10% in 2017. We anticipate that growth in value of new business is likely to be between 5% and 10% in 2017 and that the combined ratio will probably be around 96%. We expect an EBIT margin of between 5% and 6%. In addition, we anticipate the return on equity for 2017 to be between 6% and 7%.

REINSURANCE

PROPERTY/CASUALTY REINSURANCE

MANAGEMENT METRICS FOR THE PROPERTY/CASUALTY REINSURANCE SEGMENT	
	2017
%	
Gross premium growth (adjusted for currency effects)	slight growth
Combined ratio (net)	< 96
EBIT margin	≥ 10

Based on steady exchange rates, we expect our premium volumes in Property/Casualty Reinsurance to grow slightly. The primary reason for this is the high demand in the business of structured reinsurance. However, in North America too and in the area of credit and security guarantees, there were possibilities to expand the business during the treaty renewals round as at 1 January 2017. However, we must remain true to our selective underwriting policy which is to underwrite, for the most part, only business that meets our margin requirements. For the renewals during the year, we are anticipating solid results once more, thanks to our good ratings and long years of stable customer relationships.

Even if it is to be expected that the market conditions in Property/Casualty Reinsurance will remain soft, we still expect a good underwriting result. The prerequisite for this is that the major-loss burden must fall within the scope of our expectations. Our goal for the combined ratio continues to be a figure below 96%. The EBIT margin for Property/Casualty Reinsurance should amount to at least 10%.

LIFE/HEALTH REINSURANCE

MANAGEMENT METRICS FOR THE LIFE/HEALTH REINSURANCE SEGMENT

	2017
	moderate growth
Gross premium growth (adjusted for currency effects)	> 110
Value of new business ¹⁾ in EUR million	≥ 2
EBIT margin financial solutions	≥ 2
EBIT margin longevity solutions	≥ 6
EBIT margin mortality/morbidity	

¹⁾ Excluding non-controlling interests.

For the global Life/Health Reinsurance business, we anticipate moderate, organic growth in gross premiums adjusted for currency effects in the current year. The forecast EBIT margins for the individual reporting categories will remain unchanged with the following targets: The EBIT margin for the financial solutions and the longevity solutions business is expected to be at least 2%, whereas the planning for the mortality and morbidity business includes an unchanged EBIT margin of at least 6%. The target of over EUR 110 million for the value of new business – excluding non-controlling interests – will also continue to apply.

REINSURANCE DIVISION OVERALL

RETURN ON EQUITY MANAGEMENT METRIC FOR THE REINSURANCE DIVISION OVERALL

	2017
%	
Return on equity	~ 11

The Talanx Group expects the return on equity for the Reinsurance Division overall to be about 11% in 2017, in line with its strategic target of 900 basis points above the five-year average for (risk free) ten-year German government bonds.

OVERALL ASSESSMENT BY THE BOARD OF MANAGEMENT

Talanx AG's Board of Management aims for reliable continuity, a stable and high return on equity, financial strength and sustainable, profitable growth, and as such focuses the Talanx Group on long-term value creation. To achieve these goals, the Talanx Group must have a strong capital basis that provides its clients with effective risk cover. By giving that assurance, we serve the interests of our shareholders, clients, employees and other stakeholders, and create the greatest possible benefit for all concerned. 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 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 create a strategic programme for the entire Group that forms the starting point and framework for the operational aspect of opportunities management.

In the area of operational opportunities management, strategic inputs are translated into operational targets and a detailed schedule of activities, and are also implemented as mandatory goal agreements at levels below division level. The integrated performance metric is also used here. Whether and to what extent opportunities and possibilities actually result in operational success is assessed and tracked using mid-year and end-of-year performance reviews. In turn, these reviews generate forward-oriented management inputs for the next opportunities management cycle.

Two key aspects of opportunities management at the Talanx Group are therefore shifting the focus from short-term performance and purely financial results onto the success factors and actions required in the long term, and monitoring the successful implementation of these value drivers as part of a regular, integrated management and assessment process.

ASSESSMENT OF FUTURE OPPORTUNITIES AND CHALLENGES

OPPORTUNITIES ASSOCIATED WITH DEVELOPMENTS IN THE BUSINESS ENVIRONMENT

Demographic change in Germany: Demographic change is currently creating two markets offering considerable growth potential: firstly, a market for products for senior citizens, and secondly, a market for young customers needing to make additional personal provision in response to the diminishing benefits offered by social welfare systems. It is evident that today's senior citizens can no longer be equated with the "traditional" pensioners of the past. Not only are these customers increasingly making use of services – for which they are willing and able to pay – but, even more significantly, this customer group is increasingly active and is therefore devoting more attention than previous generations to finding the necessary financial cover for various risks. This means that it is not enough for providers simply to add assistance benefits onto existing products; instead, they have to offer innovatively designed products to cater for these newly emerging needs. Examples include products for second homes and extensive foreign travel, for sporting activities pursued well into pensioners' advancing years, and for passing assets on to their heirs. At the same time, younger customers are also becoming increasingly aware of the issue of financial security in old age. It is possible to tap into this potential via a range of (state-subsidised) private retirement products and attractive occupational retirement provision schemes. We currently expect to see a trend in this client group towards increased demand for retirement provision products with more flexible saving and payout phases. Due to their comprehensive range of products, innovative solutions and sales positioning, the Group's life insurance companies may be able to profit from the senior citizen and young customer markets.

Should we be able to benefit more from the sales opportunities arising from demographic change than currently expected, this could have a positive impact on our premium growth and results of operations, and could lead to us exceeding our forecasts.

Change in energy policy: Germany has decided in principle that it will meet its future energy requirements primarily from renewable sources. The change in energy policy and climate protection feature strongly at the federal-government level. The policy of converting the energy system to supplying renewable energy is to be continued, while attention is also to be focused on moderating price increases for the end consumer. In addition to further extending the use of renewable energies within a stable regulatory framework, energy efficiency is becoming increasingly important. We see the changes

to the energy system as an important chance to stimulate innovation and technological progress, thus creating an opportunity to strengthen Germany as a business location. As an insurance group, we are actively supporting this change. We offer tailor-made solutions for our industrial clients for developing, marketing and using new energy technologies. Apart from renewable energy sources, storage technologies, the expansion of the power grid and intelligent control of individual components (smart grid) will make a decisive contribution to the success of the change in energy policy. We are supporting the change with our investments in the energy sector. Building on our existing investments in energy networks, 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 in recent years has severely shaken clients' trust in banks. Policyholders are also experiencing a significant and prolonged burden as well as uncertainty, against the backdrop of current low interest rates and volatility in the capital markets. However, this macroeconomic environment also offers opportunities for insurance companies to develop innovative products designed specifically to address these new concerns. In Europe, the USA and Asia, life insurers have been increasingly concentrating on selling modern, versatile index-linked products. The future of traditional German life insurance, which gives guarantees for the entire term of the policy, is more than questionable. There is a clear trend towards capital-efficient products that have only a minor impact on the equity of the life insurer but at the same time offer the customers additional yield opportunities.

Should the financial markets stabilise more definitively and should innovative products be accepted more quickly than currently expected, this could have a positive impact on our premium growth, net return on investment and results of operations, and could lead to us exceeding our forecasts.

OPPORTUNITIES WITHIN THE GROUP

Internal processes: We are currently in the process of realigning the Retail Germany Division so as to future-proof the Group and improve its competitiveness, and to eliminate cost disadvantages in the German private retail business. Our ultimate aim is to reduce complexity and make our procedures more efficient and customer friendly. Our activities revolve around four key areas: customer benefits, profitable growth, efficiency, and a performance culture. We will only be successful when our clients are fully satisfied, and to this end we are working on making it as simple as possible for both 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.

Digitalisation: Hardly any other development has changed the insurance industry as profoundly as digitalisation. Through digitisation, business processes and models are being redesigned from the ground up using IT systems. This development is particularly critical for the competitiveness of insurance companies. It has created new opportunities for communication with customers, for the processing of insurance claims, the evaluation of data and the opening up of new business fields. We are conducting numerous projects in order to shape this digital change. For example, the business processes in the Retail Germany Division are to be made more efficient, the rate of black box processing will be increased and service quality will be improved. Furthermore, the process and IT landscape in the Industrial Lines Division is to be harmonised across borders. In this way, we intend to be a global leader in the provision of industrial insurance. Digitalisation offers numerous opportunities. It makes processing insurance claims much faster, more cost-effective and much less complicated. We are already using IT systems to enable

us to make customised offers to customers and to determine premiums automatically and in real time. Above all, however, digitalisation offers us the opportunity, as a large internationally active Group, to profit from scale effects.

Should we be able to implement the digitalisation projects in the Group faster than currently expected, this could have a positive impact on our premium growth and results of operations, and could lead to us exceeding our forecasts.

SALES OPPORTUNITIES

Bancassurance: The sale of insurance products via banks, known as bancassurance, has become an established practice in recent years. Bancassurance has been a great success at the Talanx Group and offers encouraging prospects for the future. The basis of this success is a special business model in which the insurance business is fully integrated into the banking partner's business structures. The insurance companies design and develop the insurance products and, in return, banks, savings institutions and post offices provide a variety of sales outlets. This sales channel is established within the Talanx Group both in Germany and in particular in Poland, Italy, Hungary and Russia. In principle, we see the use of this model outside Germany as a means of promoting profitable growth with a focus on the European markets. The success of Talanx's bancassurance model at its current Group companies primarily stems from three core factors: firstly, we draw up exclusive long-term cooperation agreements, enabling insurance products to be sold via our partners' sales outlets. Secondly, the highest possible degree of integration is required, together with excellent products and services: cooperation is part of our partners' strategic focus. The insurance companies design exclusive, tailor-made products for the bank's client segments, and form an integral part of their market presence. Integration with our partners' IT systems also makes it easier to provide all-round advice when selling banking and insurance products. Thirdly, success depends on providing customised sales support to our partners. Bank sales staff are given individual training and exclusive guidance by sales coaches from the insurance companies, allowing them to build up product expertise and experience of sales approaches. The insurance companies also supply readily understandable and supportive sales materials.

Our companies abroad also market their established products via sales cooperation agreements, but often use a number of different banks and are not fully integrated with their partners' market presence.

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 growing digitalisation means that companies are increasingly suffering massive losses as a result of cyber attacks. Most notably, hacking attacks that have recently come to light have demonstrated that the manufacturing industry in particular is not immune to risks from cyber crime, despite excellent defence mechanisms. Attention is also increasingly focused on senior management responsibility. For this reason, HDI Global SE has developed Cyber+, an insurance solution that comprehensively covers the various risks. HDI's all-round protection spans all lines of business and covers both first-party losses arising as a result of cyber crime and also third-party losses by customers, service providers or other third parties, for which companies are liable. In addition, it allows management's civil and criminal responsibilities to be taken into account.

Should we be able to exploit the sales opportunities arising from the need for additional internet risk cover to a greater extent than currently expected, this could have a positive impact on our premium growth and results of operations, and could lead to us exceeding our forecasts.

SUMMARY OF FUTURE OPPORTUNITIES

Talanx AG's Board of Management considers that identifying, managing and taking advantage of opportunities is an integral part of the Talanx Group's range of management tools. Our systematic approach sets out a clear strategy for ensuring the Group's long-term viability and its implementation. This is key to efficient enterprise and group management. We therefore constantly monitor changing external market conditions to enable us to identify opportunities at an early stage, and to respond to them via our flexible internal structure. This allows us to fully exploit future opportunities that are crucial to achieving our corporate goals.

2

**CONSOLIDATED
FINANCIAL STATEMENTS**

CONSOLIDATED BALANCE SHEET OF TALANX AG AS AT 31 DECEMBER 2016

CONSOLIDATED BALANCE SHEET – ASSETS

EUR MILLION

	Notes	31.12.2016	31.12.2015
A. Intangible assets			
a. Goodwill	1	1,039	1,037
b. Other intangible assets	2	903	953
		1,942	1,990
B. Investments			
a. Investment property	3	2,480	2,198
b. Shares in affiliated companies and participating interests	4	139	111
c. Investments in associates and joint ventures	5	290	272
d. Loans and receivables	6/12	29,425	29,754
e. Other financial instruments			
i. Held to maturity	7/12	744	1,287
ii. Available for sale	8/12	68,050	61,271
iii. At fair value through profit or loss	9/12/13	1,352	1,063
f. Other investments	10/12	4,694	4,821
Assets under own management		107,174	100,777
g. Investments under investment contracts	11/12/13	1,091	2,223
h. Funds withheld by ceding companies		10,590	12,611
Investments		118,855	115,611
C. Investments for the benefit of life insurance policyholders who bear the investment risk		10,583	10,104
D. Reinsurance recoverables on technical provisions		7,958	8,372
E. Accounts receivable on insurance business	14	6,192	6,070
F. Deferred acquisition costs	15	5,240	5,078
G. Cash at banks, cheques and cash-in-hand		2,589	2,243
H. Deferred tax assets	28	577	736
I. Other assets	12/13/16	2,620	2,537
J. Non-current assets and assets of disposal groups classified as held for sale ¹⁾		15	19
Total assets		156,571	152,760

¹⁾ For further information see “Non-current assets held for sale and disposal groups” in the Notes.

CONSOLIDATED BALANCE SHEET – EQUITY AND LIABILITIES

EUR MILLION

	Notes	31.12.2016	31.12.2015
A. Equity	17		
a. Subscribed capital		316	316
Nominal value: 316 (previous year: 316)			
Contingent capital: 104 (previous year: 104)			
b. Reserves		8,762	7,966
Equity excluding non-controlling interests		9,078	8,282
c. Non-controlling interests		5,610	5,149
Total equity		14,688	13,431
B. Subordinated liabilities	12/18	1,983	1,943
C. Technical provisions			
a. Unearned premium reserve	19	7,624	7,081
b. Benefit reserve	20	54,758	54,845
c. Loss and loss adjustment expense reserve	21	41,873	40,392
d. Provision for premium refunds	22	5,765	4,138
e. Other technical provisions		409	376
		110,429	106,832
D. Technical provisions for life insurance policies where the investment risk is borne by the policyholders		10,583	10,104
E. Other provisions			
a. Provisions for pensions and other post-employment benefits	23	2,183	1,945
b. Provisions for taxes	24	833	721
c. Miscellaneous other provisions	25	940	850
		3,956	3,516
F. Liabilities			
a. Notes payable and loans	12/26	1,505	1,441
b. Funds withheld under reinsurance treaties		5,129	5,351
c. Other liabilities	12/13/27	6,150	7,844
		12,784	14,636
G. Deferred tax liabilities	28	2,148	2,298
H. Liabilities included in disposal groups classified as held for sale¹⁾		—	—
Total liabilities/provisions		141,883	139,329
Total equity and liabilities		156,571	152,760

¹⁾ For further information see “Non-current assets held for sale and disposal groups” in the Notes.

The accompanying Notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME OF TALANX AG FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2016

CONSOLIDATED STATEMENT OF INCOME

EUR MILLION

	Notes	2016	2015
1. Gross written premiums including premiums from unit-linked life and annuity insurance		31,106	31,799
2. Savings elements of premiums from unit-linked life and annuity insurance		1,198	1,189
3. Ceded written premiums		3,641	4,099
4. Change in gross unearned premiums		-491	-560
5. Change in ceded unearned premiums		34	14
Net premiums earned	29	25,742	25,937
6. Claims and claims expenses (gross)	31	23,085	24,281
Reinsurers' share		1,888	2,835
Claims and claims expenses (net)		21,197	21,446
7. Acquisition costs and administrative expenses (gross)	32	6,578	6,337
Reinsurers' share		599	514
Acquisition costs and administrative expenses (net)		5,979	5,823
8. Other technical income		84	73
Other technical expenses		170	111
Other technical result		-86	-38
Net technical result		-1,520	-1,370
9. a. Investment income	30	4,366	4,327
b. Investment expenses	30	662	781
Net income from assets under own management		3,704	3,546
Net income from investment contracts	30	5	9
Net interest income from funds withheld and contract deposits	30	314	378
Net investment income		4,023	3,933
of which share of profit or loss of equity-accounted associates and joint ventures		25	24
10. a. Other income	33	1,230	1,170
b. Other expenses	33	1,433	1,396
Other income/expenses		-203	-226
Profit before goodwill impairments		2,300	2,337
11. Goodwill impairments		—	155
Operating profit (EBIT)		2,300	2,182
12. Financing costs	34	147	161
13. Taxes on income	35	585	612
Net income		1,568	1,409
of which attributable to non-controlling interests		661	675
of which attributable to shareholders of Talanx AG		907	734
Earnings per share			
Basic earnings per share (EUR)		3.59	2.90
Diluted earnings per share (EUR)		3.59	2.90

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 2016

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR MILLION

	2016	2015
Net income	1,568	1,409
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	-260	279
Tax income (expense)	76	-81
	-184	198
Changes in policyholder participation/shadow accounting		
Gains (losses) recognised in other comprehensive income for the period	13	-14
Tax income (expense)	—	—
	13	-14
Total items that will not be reclassified to profit or loss, net of tax	-171	184
Items that may be reclassified subsequently to profit or loss		
Unrealised gains and losses on investments		
Gains (losses) recognised in other comprehensive income for the period	1,468	-1,269
Reclassified to profit or loss	-414	-409
Tax income (expense)	-49	268
	1,005	-1,410
Exchange differences on translating foreign operations		
Gains (losses) recognised in other comprehensive income for the period	212	258
Reclassified to profit or loss	—	—
Tax income (expense)	-5	-15
	207	243
Changes in policyholder participation/shadow accounting		
Gains (losses) recognised in other comprehensive income for the period	-726	781
Tax income (expense)	-5	-19
	-731	762
Changes from cash flow hedges		
Gains (losses) recognised in other comprehensive income for the period	112	6
Reclassified to profit or loss	-14	-11
Tax income (expense)	—	-2
	98	-7
Changes from equity method measurement		
Gains (losses) recognised in other comprehensive income for the period	—	6
Reclassified to profit or loss	—	—
Tax income (expense)	—	—
	—	6
Total items that may be reclassified subsequently to profit or loss, net of tax	579	-406
Other comprehensive income for the period, net of tax	408	-222
Total comprehensive income for the period	1,976	1,187
of which attributable to non-controlling interests	841	583
of which attributable to shareholders of Talanx AG	1,135	604

The accompanying Notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

CHANGES IN EQUITY

EUR MILLION

	Subscribed capital	Capital reserves	Retained earnings
2015			
Balance at 1.1.2015	316	1,373	5,690
Changes in ownership interest without a change in control	—	—	–1
Other changes in basis of consolidation	—	—	—
Net income	—	—	734
Other comprehensive income	—	—	—
of which not eligible for reclassification	—	—	—
of which actuarial gains or losses on pension provisions	—	—	—
of which changes in policyholder participation/shadow accounting	—	—	—
of which eligible for reclassification	—	—	—
of which unrealised gains and losses on investments	—	—	—
of which currency translation	—	—	—
of which change from cash flow hedges	—	—	—
of which change from equity method measurement	—	—	—
of which other changes ¹⁾	—	—	—
Total comprehensive income	—	—	734
Dividends to shareholders	—	—	–316
Other changes outside profit or loss	—	—	–3
Balance at 31.12.2015	316	1,373	6,104
2016			
Balance at 1.1.2016	316	1,373	6,104
Changes in ownership interest without a change in control	—	—	–10
Other changes in basis of consolidation	—	—	—
Net income	—	—	907
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 ¹⁾	—	—	—
Total comprehensive income	—	—	907
Dividends to shareholders	—	—	–329
Other changes outside profit or loss	—	—	–4
Balance at 31.12.2016	316	1,373	6,668

¹⁾ "Other changes" consist of policyholder participation/shadow accounting.

Unrealised gains/losses on investments	Other reserves			Measurement gains/losses on cash flow hedges	Equity attributable to shareholders of Talanx AG	Non-controlling interests	Total equity
	Currency translation gains/losses	Other changes in equity					
3,538	-33	-3,254		368	7,998	4,902	12,900
-	-	-		-	-1	-2	-3
-	-	-		-	-	-	-
-	-	-		-	734	675	1,409
-1,095	90	887		-12	-130	-92	-222
-	-	177		-	177	7	184
-	-	189		-	189	9	198
-	-	-12		-	-12	-2	-14
-1,095	90	710		-12	-307	-99	-406
-1,095	-	-		-	-1,095	-315	-1,410
-	90	-		-	90	153	243
-	-	-		-12	-12	5	-7
-	-	5		-	5	1	6
-	-	705		-	705	57	762
-1,095	90	887		-12	604	583	1,187
-	-	-		-	-316	-337	-653
-	-	-		-	-3	3	-
2,443	57	-2,367		356	8,282	5,149	13,431
2,443	57	-2,367		356	8,282	5,149	13,431
1	-	-		-	-9	-12	-21
-	-	-		-	-	-18	-18
-	-	-		-	907	661	1,568
834	129	-827		92	228	180	408
-	-	-160		-	-160	-11	-171
-	-	-171		-	-171	-13	-184
-	-	11		-	11	2	13
834	129	-667		92	388	191	579
834	-	-		-	834	171	1,005
-	129	-		-	129	78	207
-	-	-		92	92	6	98
-	-	4		-	4	-4	-
-	-	-671		-	-671	-60	-731
834	129	-827		92	1,135	841	1,976
-	-	-		-	-329	-350	-679
-	-	3		-	-1	-	-1
3,278	186	-3,191		448	9,078	5,610	14,688

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 2016

CONSOLIDATED CASH FLOW STATEMENT

EUR MILLION

	2016	2015
I. 1. Net income	1,568	1,409
I. 2. Changes in technical provisions	2,527	3,306
I. 3. Changes in deferred acquisition costs	-160	-353
I. 4. Changes in funds withheld and in accounts receivable and payable	841	1,098
I. 5. Changes in other receivables and liabilities	-122	69
I. 6. Changes in investments and liabilities under investment contracts	30	3
I. 7. Changes in financial assets held for trading	-34	-7
I. 8. Gains/losses on disposal of investments and property, plant and equipment	-779	-554
I. 9. Change in technical provisions for life insurance policies where the investment risk is borne by the policyholders	464	672
I. 10. Other non-cash expenses and income (including income tax expense/income)	-75	464
I. Cash flows from operating activities¹⁾	4,260	6,107
II. 1. Cash inflow from the sale of consolidated companies	-7	10
II. 2. Cash outflow from the purchase of consolidated companies	54	-234
II. 3. Cash inflow from the sale of real estate	13	50
II. 4. Cash outflow from the purchase of real estate	-320	-367
II. 5. Cash inflow from the sale and maturity of financial instruments	24,057	21,990
II. 6. Cash outflow from the purchase of financial instruments	-27,199	-24,555
II. 7. Changes in investments for the benefit of life insurance policyholders who bear the investment risk	-464	-672
II. 8. Changes in other investments	827	-730
II. 9. Cash outflows from the acquisition of tangible and intangible assets	-103	-113
II. 10. Cash inflows from the sale of tangible and intangible assets	10	140
II. Cash flows from investing activities	-3,132	-4,481
III. 1. Cash inflow from capital increases	—	—
III. 2. Cash outflow from capital reductions	—	—
III. 3. Dividends paid	-679	-653
III. 4. Net changes attributable to other financing activities	-120	-932
III. Cash flows from financing activities	-799	-1,585
Net change in cash and cash equivalents (I. + II. + III.)	329	41
Cash and cash equivalents at the beginning of the reporting period	2,243	2,152
Effect of exchange rate changes on cash and cash equivalents	18	56
Effect of changes in the basis of consolidation on cash and cash equivalents²⁾	-1	-6
Cash and cash equivalents at the end of the reporting period³⁾	2,589	2,243
Additional information		
Taxes paid ¹⁾	373	388
Interest paid ⁴⁾	427	387
Dividends received ¹⁾	261	220
Interest received ¹⁾	3,552	3,608

¹⁾ 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.

²⁾ This item relates primarily to changes in the basis of consolidation, excluding disposals and acquisitions.

³⁾ "Cash and cash equivalents at the end of the reporting period" does not include cash and cash equivalents of disclosed disposal groups.

⁴⁾ EUR 154 (186) million of "Interest paid" is attributable to "Cash flows from financing activities" and EUR 273 (201) million to "Cash flows from operating activities".

The accompanying Notes form an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GENERAL INFORMATION

The consolidated financial statements include Talanx AG, with registered office in Hannover, Germany, and its subsidiaries (referred to collectively as the Talanx Group). The Group, which is active in roughly 150 countries worldwide through Group companies and cooperation arrangements, offers insurance services in property/casualty and life insurance as well as reinsurance, and also conducts business in the asset management sector. However, as a financial and management holding company, Talanx AG does not itself transact insurance business.

Talanx AG, whose majority shareholder with 79.0% is HDI Haftpflichtverband der Deutschen Industrie Versicherungsverein auf Gegenseitigkeit, Hannover (HDI V.a.G.), is the parent company of all Group companies belonging to HDI V.a.G. The company is entered in the commercial register of the Local Court in Hannover under the number HR Hannover B 52546 with its registered address at "Riethorst 2, 30659 Hannover". In accordance with section 341i of the German Commercial Code (HGB), HDI V.a.G. is required to prepare consolidated financial statements that include the financial statements of Talanx AG and its subsidiaries. The consolidated financial statements are published in the Federal Gazette.

BASIS OF PREPARATION AND APPLICATION OF IFRSS

On the basis of section 315a(1) of the HGB, the consolidated financial statements of Talanx AG were prepared in accordance with International Financial Reporting Standards (IFRSs), as adopted by the European Union (EU). The requirements of German commercial law set out in section 315a(1) of the HGB were observed in full. The consolidated financial statements reflect all IFRSS effective as at 31 December 2016 that were required to be applied for financial year 2016 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. 1 of the HGB requires insurance undertakings to disclose in the management report information on how they manage underwriting and financial risks. The disclosures resulting from these requirements are contained in the risk report. We do not present identical disclosures in the notes. Therefore, both the risk report and the relevant disclosures in the notes must be read in order to obtain a comprehensive overview of the risks to which the Group is exposed. Please refer to the corresponding explanations in the risk report and the notes.

The consolidated financial statements were prepared in euros (EUR). The amounts shown have been rounded to millions of euros (EUR million), unless figures in thousands of euros (EUR thousand) are required for reasons of transparency. This may give rise to rounding differences in the tables presented in this report. Amounts in brackets refer to the previous year.

APPLICATION OF NEW AND REVISED STANDARDS/ INTERPRETATIONS

The Group applied the following new or revised IFRSS as at 1 January 2016:

- Amendments to IAS 19 "Employee Benefits": Defined Benefit Plans: Employee Contributions
- Amendments to IFRS 11 "Joint Arrangements": Accounting for Acquisitions of Interests in Joint Operations
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets": Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IAS 16 and IAS 41 "Agriculture": Agriculture: Bearer Plants
- Amendment to IAS 27 "Separate Financial Statements": Equity Method in Separate Financial Statements
- Amendments to IAS 1 "Presentation of Financial Statements": Disclosure Initiative
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures": "Investment Entities: Applying the Consolidation Exception"

- Amendments in the context of the “annual improvements (2010–2012 cycle)”: amendments to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38
- Amendments in the context of the “annual improvements (2012–2014 cycle)”: amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34

The amendments do not have any material effects on the consolidated financial statements.

STANDARDS, INTERPRETATIONS AND REVISIONS TO ISSUED STANDARDS THAT WERE NOT YET EFFECTIVE IN 2016 AND THAT WERE NOT APPLIED BY THE GROUP PRIOR TO THEIR EFFECTIVE DATE

A) ALREADY ENDORSED BY THE EU

IFRS 9 “Financial Instruments”, which was published on 24 July 2014, supersedes the existing guidance in IAS 39 “Financial Instruments: Recognition and Measurement”. IFRS 9 contains revised guidance for the classification and measurement of financial instruments, including a new model for impairing financial assets that provides for expected credit losses, and the new general hedge accounting requirements. It also takes over the existing guidance on recognising and derecognising financial instruments from IAS 39. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. However, the IASB has issued amendments to IFRS 4 “Application of IFRS 9 and IFRS 4”, which allow certain insurance companies to postpone the obligatory application of IFRS 9 until 2021 (cf. our explanations in section B). Due to the major significance of IFRS 9, the Group set up a project to examine the impact of the standard on the consolidated financial statements and to take the necessary steps towards implementation. However, it is already evident that the new classification requirements will affect the accounting for financial assets in 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”. IFRS 15 must be applied for the first time to annual periods beginning on or after 1 January 2018. Earlier application is permissible. Financial instruments and other contractual rights and obligations that need to be accounted for using separate standards and (re)insurance contracts in the area of application of IFRS 4 (core business activity of the Group) are explicitly excluded from the area of applicability of this standard. The Group has analysed its service contracts that fall under the area of application of IFRS 15 and does

not anticipate any material changes to previous practice under IAS 18. The relevant revenue here is particularly revenue from asset management services that does not form an integral part of an insurance contract or an investment contract with surplus participation, commission revenue and other services related to insurance. The control transition for these services primarily relates to a period of time because the customer benefits from the services while they are being provided by the Group. The Group intends to apply IFRS 15 to its consolidated financial statements as at 31 December 2018 and in the process to select the modified retrospective approach, that is, the cumulative effect from the initial application will be recognised in the profit reserves as at 1 January 2018. Moreover, the Group intends to apply the practical simplifications with regard to concluded contracts and contract amendments.

B) NOT YET ENDORSED BY THE EU

The IASB issued its amendments to IFRS 4 “Application of IFRS 9 and IFRS 4” in September 2016. The adjustments relate to the initial application of IFRS 9 for insurers. Without these amendments, the various dates of coming into force for IFRS 9 and the new standard for insurance contracts will lead to increased volatility in the results and duplicated transition expenses during a transition period. The amendments propose two optional solutions. The Group chose the option to postpone the initial application of IFRS 9. As a result, it is permitted to continue applying IAS 39 instead of IFRS 9 for the financial years that begin prior to 1 January 2021. The assessment of whether the Group qualifies to apply this option has already been completed successfully on the basis of the consolidated financial statements as at 31 December 2015. The amendment must be applied to financial years beginning on or after 1 January 2018.

The IASB issued the amendment to IAS 7 “Statement of Cash Flows: Disclosure Initiative” on 29 January 2016. The amendments are designed to improve the information regarding any change in the level of debt of a company. This amendment requires companies to make disclosures about changes to any financial assets and liabilities where incoming and outgoing payments are shown under the cash flows from financing activities in the statement of cash flows. The standard will be effective as from 1 January 2017. Voluntary early application is permitted. In order to comply with the new disclosure obligations, the Group intends to present a statement showing the transition between the starting and ending balance for debts, which will specify any changes in relation to the financing activities.

On 13 January 2016, the IASB published the new requirements governing lease accounting in IFRS 16 “Leases”. IFRS 16 introduces a standardised accounting model, whereby leases must be recognised in the balance sheet of the lessee. A lessee recognises a right-of-use asset that represents their right to use the underlying asset and a liability arising from the lease, representing their obligation to

make lease payments. There are exceptional regulations for short-term leases and leases concerning low-value assets. The accounting at the lessor is comparable to the current standard – that means, that lessors must continue to classify leases as financing or operating leases. IFRS 16 supersedes the existing guidelines on leases, including IAS 17 “Leases”, IFRIC 4 “Determining Whether an Arrangement Contains a Lease”, SIC-15 “Operating Leases – Incentives” and SIC-27 “Evaluating the Substance of Transactions in the Legal Form of a Lease”. The standard must be applied for the first time in the reporting period of a financial year beginning on or after 1 January 2019. An early application is permissible for companies that are applying IFRS 15 before or at the time of the first application of IFRS 16. The Group has not yet begun assessing the possible impact of the application of IFRS 16 on its consolidated financial statements.

Apart from the above-mentioned new standards/amendments that could have a material impact on the consolidated financial statements, a series of other standard amendments and interpretations have been passed, but they are not expected to have any material impact on the net assets, financial position and results of operations of the Group:

APPLICATION OF NEW STANDARDS AND/OR AMENDMENTS – NOT YET ENDORSED

Standard	Title of the standard/ interpretation/amendment	First application ¹⁾
IAS 12 “Income Taxes”	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred indefinitely
IFRS 2 “Share-based Payment”	Classification and Measurement of Share-based Payment Transactions	1 January 2018
IFRS 15	Clarifications of IFRS 15	1 January 2018
Amendments in the context of the “annual improvements (2014–2016 cycle)”	Amendments to IAS 28, IFRS 1 and IFRS 12	1 January 2017 (IFRS 12) 1 January 2018 (IFRS 1 and IAS 28)
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
IAS 40 “Investment Property”	Transfers of Investment Property	1 January 2018

¹⁾ Effective for annual periods beginning on or after the date stated.

ACCOUNTING POLICIES

The essential accounting policies followed for the production of the consolidated financial statements are described below. The described methods were applied consistently to the presented reporting periods, unless otherwise specified. Newly applicable accounting standards in financial year 2016 are described in the “Basis of preparation and application of IFRSs” section, while consolidation principles are described in the “Consolidation” section (pages 141f. and 167ff.).

SIGNIFICANT MANAGEMENT JUDGEMENT AND ESTIMATES

Preparation of the consolidated financial statement requires management to exercise a certain degree of judgement and to make estimates and assumptions that affect the accounting policies applied and the carrying amounts of recognised assets and liabilities, income and expenses, and contingent liabilities disclosed. Actual results may differ from those estimates.

All estimates and underlying assumptions are reassessed continuously and are based in part on historical experience as well as on other factors, including expectations of future events that currently appear reasonable. The processes in place both at the Group level and at the level of the subsidiaries are geared towards calculating the carrying amounts as reliably as possible, taking all relevant information into account. Additionally, uniform Group accounting policies ensure that the standards laid down by the Group are applied in a consistent and appropriate manner.

Information about assumptions, management judgements and estimation uncertainties that may entail a significant risk that a material adjustment will be necessary in the financial year ending 31 December 2017 is particularly relevant for the following items and is stated in the relevant disclosures in the Notes and/or in the relevant sections in the “Summary of significant accounting policies” and in the “Consolidation” section:

- **Goodwill** (Note 1 – Impairment testing and sensitivity analyses with respect to the most important parameters)
- **Fair value and impairments of financial instruments** (Note 12 “Fair value hierarchy for financial instruments” – allocation of financial instruments to the various levels of the fair value hierarchy and disclosures on fair value measurement as well as the assessment of the need to recognise impairment losses in the “Accounting policies” section)

- **Deferred acquisition costs** (Note 15 and review of actuarial assumptions in the section “Accounting policies”)
- **Deferred tax assets** (Notes 28 “Deferred taxes” and 35 “Taxes on income” and the section “Accounting policies” – availability of future taxable profit against which tax loss carryforwards can be utilised)
- **Technical provisions:** Loss and loss adjustment expense reserves (Note 21) are generally calculated on the basis of defined subportfolios (analysis segments) by applying actuarial loss reserving methods. The realistically estimated future settlement amount is recognised. The development of a claim until expected completion of the run-off is projected on the basis of statistical triangles. The actual amounts payable may prove to be higher or lower. Any resulting run-off profits or losses are recognised as income or expenses. In primary life insurance and Life/Health Reinsurance, too, the determination of reserves and assets is crucially dependent on actuarial projections of the business. In this context, key input parameters are either predetermined by the metrics of the insurance plan (e.g. costs included in the calculation, amount of premium, actuarial interest rate) or estimated (e.g. mortality, morbidity and lapse rates). These assumptions are heavily dependent on, among other things, country-specific parameters, the sales channel, the quality of underwriting and the type of reinsurance, and they are reviewed as at each reporting date by specialised life insurance actuaries and subsequently adjusted in line with the actual projection. The resulting effects are reflected, for instance, in true-up adjustments in “Other intangible assets”, “Insurance-related intangible assets” (PVFP), “Deferred acquisition costs”, “Provision for premium refunds” (provision for deferred premium refunds) and, where applicable, “Benefit reserve” (funding of terminal bonuses). Further information on underwriting risks can be found in the risk report in the Group management report, in addition to the explanations in the “Accounting policies” section.
- **Provisions for pensions and other post-employment benefits** (Note 23 – essential actuarial assumptions)
- **Miscellaneous other provisions** (Note 25 and descriptions in “Accounting policies” and, with regard to the accounting for litigation, in the “Litigation” section of the “Other disclosures” section of the notes to the consolidated financial statements)
- **Basis of consolidation** (“Consolidation principles” section – in particular inclusion of investment funds managed by the Group or third parties)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INSURANCE AND INVESTMENT CONTRACTS

IFRS 4 “Insurance Contracts” contains basic principles – but no more far-reaching requirements for the accounting and measurement of insurance and reinsurance contracts. For this reason, all insurance contracts, where the Group assumes a significant insurance risk from policyholders, and investment contracts with a discretionary surplus participation are accounted for in accordance with the relevant requirements of US GAAP as at the date of initial application of IFRS 4 on 1 January 2005, provided IFRS 4 contains no specific provisions to the contrary. We cite certain requirements of US GAAP using the designation valid at that time (Statement of Financial Accounting Standards [SFAS]). Investment contracts that do not contain a discretionary surplus participation feature are recognised as financial instruments in accordance with IAS 39.

ASSETS

Intangible assets

Goodwill resulting from business combinations is tested for impairment at least once a year, and it is measured at initial cost less accumulated impairment losses. For the purposes of impairment testing in accordance with IAS 36 “Impairment of Assets”, goodwill must be allocated to cash-generating units (CGUs) (see Note 1, “Goodwill”, on pages 178ff.). In order to determine possible impairment, the recoverable amount of a CGU/groups of CGUs – defined as the higher of value in use and fair value less costs of disposal – is established and compared with the carrying amounts of that CGU/groups of CGUs in the Group, including goodwill. If the carrying amounts exceed recoverable amount, a goodwill impairment is recognised in the statement of income.

Insurance-related intangible assets: The present value of future profits (PVFP) on acquired insurance portfolios refers to the present value of expected future net cash flows from existing insurance/reinsurance contracts and investment contracts at the date of acquisition. It consists of a shareholders’ portion, in respect of which deferred taxes are recognised, and a policyholders’ portion (for life insurance contracts only). Insurance portfolios are amortised in line with the realisation of the surpluses on which the calculation is based and reflecting the remaining duration of the acquired contracts (Note 2, “Other intangible assets” page 181ff. contains a breakdown by remaining duration). 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 the amortisation of the PVFP associated with investment contracts in "Net income from investment contracts" under "Net investment income". Depreciation/amortisation of the shareholders' portion is reported in "Other technical expenses" in the statement of income.

Purchased intangible assets with a finite useful life as well as internally developed **software** are recognised at cost less accumulated amortisation and accumulated impairment losses. They are amortised over their estimated useful life. As a rule, this is three to ten years for software (linear depreciation), and the duration for the **acquired sales networks and customer relationships** is generally four to 16 years. Intangible assets with an indefinite useful life (e.g. acquired **brand names**) are tested for impairment annually and whenever there is evidence of impairment. Amortisation and impairment losses, as well as reversals of impairment losses, that are required to be recognised in profit or loss are allocated to the insurance-specific functions. If allocation to the functions is not possible, they are reported in "Other income/expenses".

Investments

Investment property is recognised at cost. Depreciation is charged on a straight-line basis over the expected useful life, with a maximum of 50 years. An impairment loss is recognised if the difference between the market value (recoverable amount) determined using recognised valuation techniques and the carrying amount is more than the depreciation charge for a calendar year. Valuations that are based on the discounted cash flow method are generally carried out by internal Group experts for the directly held portfolio (an external report is produced every five years). An external market value report is obtained for real estate special funds every 12 months – the reporting date is the date of the initial valuation.

Gains or losses from the disposal of properties, maintenance costs and repairs, as well as depreciation and any impairment losses or their reversal, are recognised in profit or loss (in "Net investment income"). 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 consolidated material associates and joint ventures measured using the equity method. The accounting principles of these holdings are adjusted, as necessary, in order to guarantee a standardised application of the accounting policies throughout the Group. After the initial approach, the consolidated financial statements contain the share of the Group in the overall result of these financial assets. Tests for impairment are carried out at each reporting date. If impairment is identified, the difference between the carrying amount and recoverable amount is recognised as an impairment loss in "Net investment income". Further information can be found in the "Consolidation principles" subsection of the "Consolidation" section.

In accordance with IAS 39, **financial assets and liabilities, including derivative financial instruments** are recognised/derecognised at the time of their acquisition or disposal at the settlement date. Financial assets are classified at initial recognition into one of four categories, depending on their purpose: "Loans and receivables", "Financial assets held to maturity", "Financial assets available for sale" or "Financial assets at fair value through profit or loss". Financial liabilities are classified either as "Financial liabilities at fair value through profit or loss" or at amortised cost. Depending on the categorisation, transaction costs directly connected with the acquisition of the financial instrument may be recognised.

Financial instruments are subsequently measured at either amortised cost or fair value, depending on the purpose determined for them (see above). Amortised cost is calculated on the basis of the original cost of the instrument, after allowing for redemption amounts, premiums or discounts amortised using the effective interest rate method and recognised in income, and any impairment losses or reversals of impairment losses.

Shares in affiliated companies and participating interests include investments in subsidiaries as well as in associates and joint ventures that are not consolidated or accounted for using the equity method because of their insignificance for the presentation of the Group's net assets, financial position and results of operations, as well as other participating interests. Investments in listed companies are recognised at their fair value. Other investments are measured at cost, less impairments where applicable.

Loans and receivables consist primarily of fixed-income securities in the form of promissory note loans, registered bonds and mortgage loans. They are measured at amortised cost, applying the effective interest rate method. An impairment loss is recognised if a repayment in full or at all is no longer expected (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 are financial instruments where the Group has the positive intention and the ability to hold these securities to maturity. The procedures for measuring and testing these financial instruments for impairment are the same as for “Loans and receivables”.

Financial assets available for sale consist of fixed-income and variable-yield financial instruments that the Group does not immediately intend to sell and that cannot be allocated to any other category. These securities are recognised at fair value. Premiums and discounts are amortised over the term of the assets using the effective interest rate method. Unrealised gains and losses from changes in fair value are recognised in “Other comprehensive income” and reported in equity (“Other reserves”) after allowing for accrued interest, deferred taxes and amounts that life insurers owe to policyholders upon realisation (provision for deferred premium refunds).

Financial instruments at fair value through profit or loss comprise the trading portfolio and those financial instruments that are designated upon initial acquisition as at fair value through profit or loss.

The trading portfolios contain all fixed-income and variable-yield securities that the Group has acquired for trading purposes with the aim of generating short-term gains. This item includes all derivative financial instruments with positive fair values, including derivatives embedded in hybrid financial instruments that are required to be separated and derivatives related to insurance contracts, unless they qualify as hedges (hedge accounting under IAS 39). Derivatives with negative fair values are recognised in “Other liabilities”.

Financial instruments classified at fair value through profit or loss consist of structured products that are recognised using the fair value option under IAS 39. These relate to structured financial instruments – whose fair value can be reliably established – that are required to be separated into their constituent parts (underlying plus one or more embedded derivatives) on classification in the other categories. The Group only uses the fair value option for selected parts of the investment portfolio.

All securities recognised at fair value through profit or loss are carried at their fair value at the reporting date. If quoted prices are not available for determining fair value, the carrying amounts are determined using recognised valuation techniques. All unrealised gains and losses from this measurement are recognised in profit or loss (in “Net investment income”), in the same way as realised gains and losses.

Derivatives that are designated as **hedging instruments** (hedge accounting) are recognised at their fair value under “Other assets” or “Other liabilities”. The method used to recognise gains and losses in the course of subsequent measurement depends on the type of hedged risk. The Group designates certain derivatives as hedges of the fair value of certain assets (fair value hedges) and others as hedges of exposures to variability in cash flows attributable to a particular risk associated with a recognised liability or recognised asset, or a highly probable forecasted transaction (cash flow hedges). Further information is provided in Note 13, “Derivative financial instruments and hedge accounting”.

Fair value measurement: Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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. In the event that no current market price is available, financial instruments are measured on the basis of current and observable market data using established financial models. The following table shows the valuation techniques used to measure fair values. Financial assets for which publicly available prices or observable market data are not available (financial instruments in level 3 of the fair value hierarchy) are mainly measured on the basis of documented valuations prepared by independent professional experts, e.g. audited net asset values that have been previously subjected to systematic plausibility checks. For further explanations, see our disclosures in Note 12, “Fair value hierarchy”.

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 values (NAV) ¹⁾	NAV method ¹⁾
Other investments			
Private equity funds/ private equity real estate funds	Theoretical price	Audited net asset values (NAV) ¹⁾	NAV method ¹⁾
Derivative financial instruments			
Listed equity options	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, forward sales)	Theoretical price	Yield curve	Present value method
Inflation swaps	Theoretical price	Inflation swap rates (Consumer price index), historical index fixings, yield curve	Present value method with seasonality adjustment
Swaptions	Theoretical price	Yield curve, implied volatilities	Black76
Credit default swaps	Theoretical price	Yield curves, recovery rates	ISDA model
Insurance derivatives	Theoretical price	Fair values of CAT bonds, yield curve	Present value method
Other			
Real estate	Theoretical value	Location, year of construction, rental space, type of use, term of leases, amount of rent	Extended discounted cash flow method
Infrastructure debt financing	Theoretical price	Yield curve	Present value method

¹⁾ NAV: net asset value.

Impairment: At each reporting date, the Group tests whether there is objective evidence of impairment among our financial assets that are not recognised at fair value through profit or loss.

In the case of held equity instruments, a significant or relatively long-lasting decline in the fair value below the acquisition costs is considered to be objective evidence of an impairment. The Group considers a decline of 20% to be significant and a period of nine

months to be relatively long-lasting. We apply the same principles to investments in funds that invest in private equity. In order to account for the specific character of these funds (in this case, initially negative trends in yield and liquidity as a result of the “J curve” effect during the investment period of the funds), we wait two years before recognising an impairment loss on net asset value, as an approximation of fair value, in cases where there has been a significant or prolonged decline in value.

Indicators for determining whether fixed-income securities and loans are impaired include financial difficulties being experienced by the issuer/debtor, failure to receive or pay interest income or capital gains, and the likelihood that the issuer/debtor will initiate bankruptcy proceedings, as well as the current market situation. A case-by-case qualitative analysis is carried out in making this determination. First and foremost, we factor in the rating of the security, the rating of the issuer or borrower, and a specific market assessment.

Impairment losses are recognised in profit or loss and the securities are written down to their fair value, which is generally the published exchange price. In this context, we generally deduct impairment losses on investments directly from the relevant asset items rather than using an allowance account. Reversals of impairment losses on debt instruments are recognised in profit or loss up to the amount of amortised cost. Reversals of impairment losses on equity instruments, on the other hand, are recognised in “Other comprehensive income”.

Financial assets and liabilities are only **offset** and recognised as a net amount if there is a legally enforceable right to set off the amounts and the entity intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Securities loaned under **securities lending transactions** continue to be recognised, since the principal opportunities and risks resulting from such securities still remain within the Group. Cash securities are recognised under “Other liabilities”, whereas securities (that are included as collateral) are not recognised as the related risks and opportunities are not transferred.

Under genuine **securities repurchase transactions** (repo transactions), the Group sells securities with a simultaneous obligation to repurchase them at a later date at an agreed price. Since the principal risks and opportunities associated with the financial assets remain within the Group, we continue to recognise these investments. We recognise the repurchase obligation in “Other liabilities” in the amount of the payment received. The difference between the amount received for the transfer and the amount agreed for the return is allocated in accordance with the effective interest rate method for the term of the repurchase transaction and recognised in profit or loss (in “Net investment income”).

Other investments are recognised primarily at fair value. If these financial instruments are not listed on public markets (e.g. investments in private equity firms), they are recognised at the latest available net asset value as an approximation of fair value. Non-current assets from infrastructure investments (primarily from consolidated wind farm project companies) are accounted for at cost. Depreciation is charged on a straight-line basis over a useful life of 20 years. Any provision to be recognised for restoration obligations is reported in “Miscellaneous other provisions”. We also test these assets for impairment as at the reporting date. Impairment losses, reversals of impairment losses, depreciation charges and revenue relating to these assets are recognised in “Net investment income”.

Investments under investment contracts

Investment contracts that do not contain a discretionary participation feature are recognised as financial instruments in accordance with IAS 39. Payments for these contracts therefore do not lead to a disclosure of premiums, but rather to deposit liabilities in the amount of the corresponding financial instruments. Financial assets arising from investment contracts are reported in a separate “Investments under investment contracts” line item under “Investments”, while financial liabilities (i.e. liabilities arising from investment contracts) are recognised in the “Other liabilities” liability item. Our disclosures on the recognition of financial assets and liabilities apply, with the necessary modifications. The effects on earnings resulting from these contracts (e.g. fluctuations in the value of financial assets or liabilities) and the fees collected from asset management activities, net of the relevant administrative expenses, are presented as a separate item in “Net income from investment contracts” under “Net investment income”. The resulting cash flows are reported in the cash flow statement under “Cash flows from operating activities”.

Funds withheld by ceding companies, funds withheld under reinsurance treaties and contracts without sufficient technical risk

“Funds withheld by ceding companies” are receivables from the reinsurance business with our customers. “Funds withheld under reinsurance treaties” represent cash deposits provided to us by our retrocessionaires. Funds withheld by ceding companies and funds withheld under reinsurance treaties are recognised at cost (nominal amount). Appropriate allowance is made for credit risks.

Insurance contracts that satisfy the test of a significant risk transfer to the reinsurer as required by IFRS 4 but fail to meet the test of risk transfer required by US GAAP are recognised using the deposit accounting method and eliminated from the technical account. The compensation paid for risk assumption under these contracts is recognised in profit or loss (in "Other income/expenses").

Investments for the benefit of life insurance policyholders who bear the investment risk

This item consists of policyholders' investments under unit-linked life insurance contracts. The insurance benefits under these policies are linked to the unit prices of investment funds or to a portfolio of separate financial instruments. They are recognised at fair value. Unrealised gains or losses are offset by changes in technical provisions. Policyholders are entitled to generated profits and are likewise liable for incurred losses.

Reinsurance recoverables on technical provisions

Reinsurance recoverables on technical provisions are calculated in this item from the gross technical provisions in accordance with the contractual conditions. Appropriate allowance is made for credit risks.

Receivables

Receivables are generally recognised at amortised cost in "Accounts receivable on insurance business" and "Other receivables". Where necessary, impairment losses are recognised on an individual basis. Impairment losses are recognised for groups of similar receivables if the receivables have not been individually impaired. We use allowance accounts for impairment losses on accounts receivable on insurance business. In all other cases, the underlying assets are written down directly. If the reasons for a recognised impairment loss no longer apply, it is reversed to profit or loss directly, or by adjusting the allowance account, up to a maximum of the original amortised cost.

Deferred acquisition costs

Commissions and other variable costs that are closely connected with the renewal or conclusion of contracts are recognised in "Deferred acquisition costs". In the case of property/casualty primary insurance companies and Property/Casualty Reinsurance, acquisition costs are normally amortised at a constant rate over the

average contract period. In the case of short-duration contracts, premiums are amortised as they are collected to reflect the time-based amortisation of unearned premiums. In primary life insurance and Life/Health Reinsurance, deferred acquisition costs are calculated on the basis of the contract duration, anticipated surrenders, lapse expectations and anticipated interest income. The amortisation amount generally depends on the gross margins for the respective contracts that were calculated for the corresponding year of the contract duration. Depending on the type of contract, amortisation is charged in proportion either to premium income or to anticipated profit margins. In the case of Life/Health Reinsurance contracts classified as "universal life-type contracts", deferred acquisition costs are amortised on the basis of the anticipated profit margins for the reinsurance contracts, making allowance for the duration of the insurance contracts. A discount rate based on the interest rate for medium-term government bonds is applied to such contracts. In the case of annuity contracts with a single premium payment, these values refer to the anticipated contract or annuity payment period. The deferred acquisition costs are regularly tested for impairment using an adequacy test in accordance with IFRS 4. The actuarial bases are also subject to ongoing review and adjusted if necessary.

Deferred tax assets

Deferred tax assets are recognised if the carrying amounts of assets are lower or those of liabilities are higher in the consolidated balance sheet than in the tax base of the relevant Group company, and where these temporary differences will reduce future tax liabilities. Deferred tax assets are also recognised in respect of tax credits and tax loss carryforwards. Valuation allowances are recognised for impaired deferred tax assets.

The measurement of deferred tax assets is prepared by local tax and finance experts in the countries concerned. The earnings projections are based on business plans that have been duly reviewed and approved and that are also used for managing the companies. Uniform Group principles place particularly high demands on the level of evidence required if the Group company concerned has reported a loss in the current or in a prior period. The recognition and recoverability of material deferred tax assets are reviewed by the Group Tax department.

Deferred taxes are based on current country-specific tax rates. In the event of a change in the tax rates on which the calculation of deferred taxes is based, this is reflected in the year in which the change in the tax rate becomes effective. Deferred taxes at Group level are generally recognised using the Group tax rate of 32.2%, unless they can be allocated to specific companies.

We always account for **other assets** using the amortised cost, with the exception of hedging instruments. Property, plant and equipment is recognised at cost less straight-line depreciation and impairment losses. The maximum useful life for real estate held and used is 50 years. The useful life of operating and office equipment is normally between two and ten years. The principles that apply to the presentation of investment property generally also apply to the measurement and impairment testing of own-use real estate. Impairments/valuation allowances are allocated to the technical functions or recognised in “Other income/expenses”.

Cash at banks, cheques and cash-in-hand is/are recognised at their nominal amounts.

Disposal groups in accordance with IFRS 5

Non-current assets held for sale (or groups of assets and liabilities held for sale) are classified as held for sale in accordance with IFRS 5 if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. The sale must be highly probable. These assets are measured at the lower of carrying amount and fair value less costs to sell and are recognised separately in the balance sheet. Depreciation and amortisation charges are recognised until the date of classification as held for sale. Impairment losses are recognised in profit or loss. Any subsequent increase in fair value less costs to sell leads to the recognition of a gain up to the amount of the cumulative impairment loss. If the impairment losses to be recognised for a disposal group exceed the carrying amount of the corresponding non-current assets, the Group examines whether there is a need to recognise a provision.

CASH FLOW STATEMENT

The cash flow from operating activities is presented using the indirect method. Cash funds are limited to cash and cash equivalents and always correspond to the balance sheet item “Cash at banks, cheques and cash-in-hand”. Company acquisitions are shown in the line “Cash outflow from the purchase of consolidated companies”. The total amount of the purchase prices paid less cash and cash equivalents acquired is presented here.

EQUITY AND LIABILITIES

Equity consists of subscribed capital, capital reserves, retained earnings and other reserves. Subscribed capital and capital reserves contain the amounts paid in for shares by shareholders of Talanx AG.

In addition to allocations from net income, **retained earnings** consist of reinvested profits that Group companies have generated since becoming members of the Group. Moreover, in the event of a retrospective change in accounting policies, an adjustment for previous periods is made to the opening balance of retained earnings.

Other reserves: Unrealised gains and losses from changes in the fair value of available-for-sale financial assets are recognised in “Unrealised gains/losses on investments”; differences resulting from the translation of the financial statements of foreign subsidiaries as well as unrealised gains and losses from equity method measurement are also recognised in “Other reserves”. In addition, reversals of impairment losses on variable-yield securities classified as available for sale are recognised in this equity account, as well as the effective part of the gain or loss attributed to hedging instruments in the context of cashflow hedges.

The **share of net income attributable to non-controlling interests** is presented in the consolidated statement of income after net income. It is followed by non-controlling interests in equity, which are recognised as part of equity and relate to interests in the equity of subsidiaries that are held by non-Group third parties.

Subordinated liabilities consist of financial obligations that, in the event of liquidation or bankruptcy, will only be settled after the claims of other creditors. These financial obligations are measured at amortised cost using the effective interest rate method.

Technical provisions

Technical provisions are reported gross in the balance sheet, i.e. before deduction of the reinsurers’ share. Measurement of technical provisions is based on US GAAP (SFAS 60, SFAS 97 and SFAS 120).

In the case of short-duration insurance contracts, those portions of premiums already collected that are attributable to future risk periods are deferred on a time-proportion basis and recognised in “**Unearned premium reserves**”. These premiums are recognised as earned – and thus recognised as income – over the duration of the insurance contracts in proportion to the amount of insurance cover provided or as they fall due. For insurance contracts, this premium

income is generally deferred to a specific date (predominantly in primary insurance). In the reinsurance business, assumptions are made if the data required for a time-proportion calculation is unavailable.

The **benefit reserve** in the life insurance business, which covers commitments arising out of guaranteed claims of policyholders under life primary insurance policies and of cedants in Life/Health Reinsurance, is calculated using actuarial methods. It is calculated as the difference between the present value of future expected payments to policyholders and cedants and the present value of future expected net premiums still to be collected from policyholders and cedants. The calculation includes assumptions relating to mortality and morbidity as well as to lapse rates, the return on investment and costs. The actuarial bases used in this context are estimated when the contract is entered into and allow for an adequate safety margin for the risks of change, error and random fluctuation.

In the case of life insurance contracts that do not provide for surplus participation, the method draws on assumptions (based on customer and industry data) as to the best estimate, allowing for a risk margin. In the case of life insurance contracts that provide for surplus participation, assumptions are used that are contractually guaranteed or based on the determination of surrender values. The biometric actuarial assumptions are based on current mortality tables; if no entity-specific mortality tables are available, industry mortality tables are used.

The measurement of the benefit reserve depends on the relevant product category. Accordingly, life insurance products must be divided into the following categories:

In the case of primary life insurance contracts with “natural” surplus participation (SFAS 120), the benefit reserve is composed of the net level premium reserve and a reserve for terminal bonuses. The net level premium reserve is calculated based on the present value of future insurance benefits (including earned bonuses, but excluding loss adjustment expenses) less the present value of the future premium reserve. The premium reserve is calculated as net premiums less the portion of premiums earmarked to cover loss adjustment expenses. The reserve for terminal bonuses is generally created from a fixed portion of the gross profit generated in the financial year from the insurance portfolio.

In the case of primary life insurance contracts that do not provide for surplus participation (SFAS 60), the benefit reserve is calculated as the difference between the present value of future benefits and the present value of the future net level premium. The net level premium corresponds to the portion of the gross premium used to fund future insurance benefits.

In the case of primary life insurance contracts classified according to the “universal life” model, unit-linked life insurance contracts or similar life reinsurance contracts (SFAS 97), a separate account is maintained to which premium payments are credited, less costs and plus interest. In the life insurance field, we recognise benefit reserves separately in item D of “Liabilities”, insofar as the investment risk is borne by the policyholders.

The **loss and loss adjustment expense reserve** is established for payment obligations relating to primary insurance and reinsurance claims that have occurred but have not yet been settled. They are subdivided into reserves for claims that have been reported as at the reporting date and reserves for claims that have been incurred but not yet reported as at the reporting date (IBNR reserve).

The loss and loss adjustment expense reserve is generally calculated on the basis of recognised actuarial methods. These are used to estimate future claims expenditures, including expenses associated with loss adjustment, provided no estimates for individual cases need to be taken into account. The realistically estimated future settlement amount is recognised according to a long-established practice, which is generally calculated for the reinsurance on the basis of information provided by cedants. Receivables arising from subrogation, salvage and claim sharing agreements are taken into account. In order to assess the ultimate liability, anticipated ultimate loss ratios are calculated for all lines of Property/Casualty Reinsurance as well as primary property insurance using actuarial methods such as the chain ladder method. In such cases, the development of all claims in an occurrence year or an underwriting year until the presumed completion of the run-off is projected on the basis of statistical triangles. In addition, experiences from the past, currently known facts and circumstances and other assumptions regarding the future development are taken into account. More recent underwriting years and occurrence years are subject to greater uncertainty in actuarial projections, although this is reduced with the aid of a variety of additional information. Particularly in reinsurance business, a considerable period of time may elapse between the occurrence of an insured loss, notification by the primary insurer and pro-rata payment of the loss by the reinsurer. 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 or underwriting 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. In these instances, appropriate reserves are created after analysing the portfolio exposed to such risks and, where appropriate, after individual scrutiny. These reserves represent the Group's realistic estimates. In addition, an individually determined reserve is created for a portion of known insurance claims. These estimates, which are based on facts that were known at the time the reserve was established, are made on a case-by-case basis by the employees responsible for loss adjustment and take into account general principles of insurance practice, the loss situation and the agreed-upon scope of coverage. Reserves are regularly remeasured when warranted by new findings.

With the exception of a few partial reserves, such as pension benefit reserves, the loss and loss adjustment expense reserve is generally not discounted.

The **provision for premium refunds** is established in life insurance for obligations that relate to surplus participation by policyholders that have not yet been definitively allocated to individual insurance contracts at the reporting date. It consists of amounts allocated to policyholders in accordance with national regulations or contractual provisions and amounts resulting from temporary differences between the IFRS consolidated financial statements and the local GAAP annual financial statements (provision for deferred premium refunds, shadow provision for premium refunds) that will have a bearing on future surplus participation calculations.

At least once a year, we subject all technical provisions to an **adequacy test in accordance with IFRS 4**. If the test indicates that future income will probably not cover the anticipated expenses at the level of the calculation cluster, a provision is recognised for anticipated losses after writing off the related deferred acquisition costs and PVFP. The calculation of the unearned premium reserve and the loss reserve on the basis of the current realistically estimated future settlement amount is generally based on each line's business model and takes into account future modifications of terms and conditions, reinsurance cover and, where appropriate, the ability to control the profitability of individual contractual relationships. Investment income is not included in this calculation. We test the adequacy of the benefit reserve on the basis of current assumptions about the actuarial bases, including pro-rata net investment income and (where relevant) future surplus participations.

Shadow accounting: IFRS 4 allows unrealised gains and losses deriving from changes in the fair value of financial assets classified as "available for sale" to be included in the measurement of technical items. This approach is applied so that unrealised gains and losses are treated in the same way as realised gains and losses – when determining income trends, for example. This may affect deferred acquisition costs, PVFP, provisions for terminal bonuses for policyholders, provisions for deferred costs and the provision for premium refunds. The resulting adjustments are reported – as "shadow adjustments" of the affected items – as a contra item in "Other comprehensive income" to reflect the underlying changes in value.

Technical provisions for life insurance policies where the investment risk is borne by the policyholders

In the case of life insurance products under which policyholders themselves bear the investment risk (e.g. in unit-linked life insurance contracts), the benefit reserve and other technical provisions reflect the fair value of the corresponding investments. See our disclosures on the asset item "Investments for the benefit of life insurance policyholders who bear the investment risk" on page 149.

Other provisions

Provisions for pensions and other post-employment benefits: Group companies have made benefit commitments to their employees based on defined contributions or defined performance. The nature and amount of provision commitments depend on the terms of the pension plan in effect at the time the commitment was made. They are based principally on length of service and salary level. In addition, various German companies have long offered the opportunity to obtain pension commitments through deferred compensation. The employee-funded commitments included in the provisions for accrued pension rights are insured under pension liability insurance contracts with various insurance companies, mainly within the Group.

If pension liabilities are offset by assets of a legally independent entity (e.g. a fund or benefit commitments funded by external assets) that may only be used to settle the pension promises given and are exempt from attachment by any creditors, such pension liabilities are recognised net of those assets. If the fair value of such assets exceeds the associated pension liabilities, the net amount is recognised in "Other accounts receivable" after adjustment for effects from the application of the asset ceiling.

Liabilities under defined benefit pension plans are calculated separately for each plan according to actuarial principles. They are valued using the projected unit credit method. Measurement reflects benefit entitlements and current pension payments at the reporting date, together with their future trends. The interest rate used for discounting pension liabilities is based on the rates applicable to high-quality corporate bonds. The used discount rate is a payment-weighted average interest rate, where the maturities, the amount and the currency of the due payments reflect each other.

The cost components resulting from changes to defined benefit plans are recognised in profit or loss for the period, insofar as they relate to service costs and net interest on the net liability. Past service costs resulting from plan amendments or curtailments as well as gains and losses from plan settlements are recognised in profit or loss at the time they occur. All remeasurement effects are recognised in "Other comprehensive income" and presented in equity. Remeasurements of pension liabilities consist of actuarial gains or losses on gross pension liabilities and the difference between the actual return on plan assets and the interest income on plan assets. Moreover, where plans are in surplus, the remeasurement components include the difference between the interest rate on the effect of the asset ceiling and the total changes in net assets from the effect of the asset ceiling.

Partial retirement obligations are recognised at their present value in accordance with actuarial principles. Under the "block model", a provision for outstanding settlement amounts is recognised during the working phase in the amount of the unremunerated portion of the service rendered. Bonus payments are attributed over the periods of service until the end of the employee's working phase. The liability item is then reversed during the periods in which the employee is remunerated without having to work, in accordance with the partial retirement arrangements. In calculating the net liability, the fair value of the plan assets is deducted from the liability recognised for the partial retirement obligation.

Miscellaneous other provisions, tax and restructuring provisions are recognised in the amount that is likely to be required to settle the obligations, based on best estimates. These provisions are discounted if the effect of the time value of money is material. Restructuring provisions are recognised if a detailed, formal restructuring plan has been approved by the Group and the main features of the restructuring have been publicly announced. Among other

things, the provisions reflect assumptions in respect of the number of employees affected by redundancy, the amount of severance payments and costs in connection with terminating contracts. Expenses related to future business activities (e.g. relocation costs) are not included in the recognition of provisions.

Liabilities

Financial liabilities, including "Notes payable and loans", are recognised at amortised cost if they do not relate to liabilities from derivatives or liabilities under investment contracts at fair value through profit or loss.

Liabilities from derivatives are measured in the Group at fair value. In respect of written put options on non-controlling interests, the Group recognises a liability in the amount of the present value of the repurchase amount of the interests. It is charged to non-controlling interests in equity. Effects from subsequent measurement are recognised as income or expenses in "Other income/expenses". Unwinding of the discount on these financial liabilities is reported in "Financing costs".

The fair value of **investment contracts** is generally calculated using surrender values for policyholders and account balances. In addition, the Group uses the fair value option for a selected portion of the portfolio in order to eliminate or significantly reduce accounting mismatches relating to assets from investment contracts that cover liabilities. The impact on earnings resulting from the measurement of these liabilities is recognised in "Net income from investment contracts".

Share-based payments in the Group are exclusively cash-settled. Liabilities for cash-settlement share-based payment plans are measured at each reporting date and at the settlement date at fair value. The fair value of each of these plans is recognised as an expense and distributed over the vesting period. Thereafter, any change in the fair value of plans that have not yet been exercised is recognised in the statement of income.

Deferred tax liabilities are recognised if the carrying amounts of assets are higher or those of liabilities are lower in the consolidated balance sheet than in the tax base, and where these temporary differences will increase future tax liabilities. See our disclosures on deferred tax assets.

FINANCIAL INSTRUMENTS DISCLOSURES

The following table presents a reconciliation of the classes of financial instruments formed in the Group in accordance with IFRS 7 to the balance sheet line items and provides information about the corresponding measurement basis. The grouping of our financial instruments into classes is based on the requirements of our portfolios; the level of detail of the classes disclosed may vary depending on the information required to be disclosed.

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:	Fair value
▪ Fixed-income securities	
▪ Variable-yield securities	
Financial instruments at fair value through profit or loss:	Fair value
▪ Financial instruments classified at fair value through profit or loss	
▪ Financial assets held for trading	
Other investments	Fair value or amortised cost ¹⁾
Investment contracts – loans and receivables	Amortised cost
Investment contracts:	Fair value
▪ Financial instruments classified at fair value through profit or loss	
▪ Financial assets held for trading (derivatives)	
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:	Fair value
▪ Financial instruments classified at fair value through profit or loss	
▪ Derivatives	

¹⁾ For a separate presentation of financial instruments measured at amortised cost or at fair value, see Note 10, "Other investments" on page 188.

KEY PERFORMANCE INDICATORS

The amount that the insurer has declared due either once or on a continual basis during the financial year in exchange for providing insurance coverage is recognised under **written premiums**. Premiums include instalment payment surcharges, ancillary payments and cash payments for assumed portions of technical provisions (portfolio accessions). Payments received for premium receivables that lapsed or were written down in prior years, as well as income resulting from the reversal or reduction of impairment losses on accounts receivable from policyholders, are also recognised under this item. Increases in impairment losses are deducted from written premiums.

Deducting ceded written premiums produces the **net written premiums**.

Premiums for insurance contracts are recognised as earned – and thus as income – over the duration of the contracts in proportion to the amount of insurance cover provided or as they fall due. **Earned premiums** consist of the portion of written premiums that will be deferred in accordance with the terms of the insurance contracts. Savings elements under life insurance contracts are deducted from earned premiums. Please refer to our disclosures on the "Unearned premium reserve".

Claims and claims expenses include claims paid during the financial year as well as claims paid in prior years (including terminal bonuses in life insurance). They also include changes in the loss and loss adjustment expense reserve and changes in the benefit reserve. Expenses for premium refunds are also recognised in this item. These consist of direct credits from the allocation to the provision for premium refunds, as well as changes to the provision for deferred premium refunds that are recognised as an expense, including amortisation of PVFP in favour of policyholders. Please refer to our disclosures on the corresponding technical liability items.

Acquisition costs mainly comprise commissions paid to individuals and organisations engaged to sell insurance products, reinsurance commissions paid and changes in deferred acquisition costs and in provisions for commissions. Other cost elements that are closely related to the acquisition of new insurance contracts and to the extension of existing insurance contracts, such as costs for health examinations, are also recognised here. **Administrative expenses** primarily consist of expenses for contract management, such as collection of premiums when due. All costs directly attributable to this function, including personnel costs, depreciation, amortisation and impairment losses and rents are recognised here.

Premiums, claims and claims expenses, acquisition costs and administrative expenses are recognised both gross and net, i.e. after taking reinsurance items into account.

The composition of “**Net investment income**” and of “**Other income/expenses**” can be found in the relevant comments in the Notes.

Taxes on income: Tax expenditures consist of the current taxes levied on the results of Group companies to which local tax rates are applied, as well as changes in deferred tax assets and deferred tax liabilities. Expenses for and income from interest or penalties payable to the tax authorities are shown in “**Other income/expenses**”.

EXCHANGE DIFFERENCES ON TRANSLATING FOREIGN OPERATIONS

The consolidated financial statements are prepared in euros, which is the parent company’s functional currency.

Transactions in foreign currencies are generally translated into the functional currency of the units of the Company in question at the exchange rates prevailing at the transaction date.

Monetary assets and liabilities denominated in foreign currencies on the reporting date are translated into the functional currency using the exchange rate prevailing on the reporting date. Gains and losses from this translation are recognised in “**Other income/expenses**” in the statement of income. Currency translation differences relating to non-monetary assets whose changes in fair value are recognised

in profit or loss are recognised together with those fair value changes as gains or losses from fair value measurement in the statement of income. Exchange rate gains or losses from non-monetary items, such as equity instruments classified as available for sale, are initially recognised in “**Other comprehensive income**” and subsequently reclassified to profit or loss when the instrument is sold or impaired.

The foreign Group companies’ statements of income prepared in national currencies are translated into euros at average exchange rates and taken over into the consolidated financial statements. Foreign currency items in the balance sheets of the individual companies, including goodwill, are translated and then taken over into the consolidated financial statements at the middle rates at the reporting date. Unless the translation difference is attributable to non-controlling interests, all resulting currency translation differences are recognised in “**Other comprehensive income**” and presented in equity in the currency translation reserve. If the gain or loss from the sale of a foreign subsidiary is recognised, a reclassification that is recognised in profit or loss is carried out.

EXCHANGE RATES FOR OUR KEY FOREIGN CURRENCIES

EUR 1 corresponds to	Balance sheet (reporting date)		Statement of income (average)	
	2016	2015	2016	2015
AUD Australia	1.4591	1.4981	1.4858	1.4840
BRL Brazil	3.4292	4.2314	3.8516	3.6913
CAD Canada	1.4191	1.5158	1.4630	1.4241
CNY China	7.3206	7.0970	7.3246	6.9934
GBP United Kingdom	0.8553	0.7381	0.8162	0.7289
JPY Japan	123.4100	131.6600	121.2923	134.5431
MXN Mexico	21.7854	18.8613	20.5402	17.6792
PLN Poland	4.4097	4.2392	4.3638	4.1914
USD USA	1.0540	1.0927	1.1025	1.1128
ZAR South Africa	14.4632	16.8447	16.1886	14.2609

SEGMENT REPORTING

IDENTIFICATION OF REPORTABLE SEGMENTS

In accordance with IFRS 8 “Operating Segments”, the reportable segments were identified in line with the Group’s internal reporting and management that the Group Board of Management uses to regularly assess the performance of the segments and decide on the allocation of resources to them. The Group classifies its business activities into Insurance and Corporate Operations. Due to the change in management implemented as at 30 June 2016, insurance activities are now subdivided into six, rather than the previous 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.

Moreover, with effect from 31 December 2016, the Property/Casualty Reinsurance and Life/Health Reinsurance divisions, which still each corresponded to one reportable segment, were merged to form a single Reinsurance division. Subsequently, the presentation of the consolidated balance sheet and the consolidated statement of income by divisions was adjusted and the presentation of the condensed statement of income by segments was expanded to include the two reinsurance segments.

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** were previously organised into three reportable segments: “Industrial Lines”, “Retail Germany” and “Retail International”. The Group altered the management of the German retail and commercial customer business as at 30 June 2016 and introduced an organisation by line of business that is customary in the industry (property insurance and life insurance). The “Retail Germany” division therefore no longer corresponds to one, but rather to two reportable segments – “Retail Germany – Property/Casualty” and “Retail Germany – Life”. This segmentation also corresponds to the responsibilities of the Members of the Board of Management. In order to reflect this change in the segment structure of the Group, the comparison period was adjusted retrospectively.

Reinsurance business is handled solely by the Hannover Re Group and is divided into the two segments of Property/Casualty Reinsurance and Life/Health Reinsurance in accordance with the Hannover Re Group’s internal reporting system. In a departure from the segmentation used in the consolidated financial statements of Hannover Rück SE, however, we also allocate its holding company functions to its Property/Casualty Reinsurance segment. By contrast, cross-segment loans within the Hannover Re Group are allocated to the two reinsurance segments in the consolidated financial statements of the Talanx Group (in the consolidated financial statements of Hannover Rück SE, these loans are shown in the consolidation column). Differences between the segment results for reinsurance business as presented in the consolidated financial statements of Talanx AG and those reported in the financial statements of Hannover Rück SE are thus unavoidable.

The major products and services from which these reportable segments generate income are described in the following.

Industrial Lines: We report our worldwide industrial business in the Industrial Lines segment. The scope of business operations encompasses a wide selection of insurance products such as liability, motor, casualty, fire, property, legal protection, marine, financial lines and engineering insurance for large and mid-sized enterprises in Germany and abroad. In addition, reinsurance is provided in various classes of insurance.

Retail Germany – Property/Casualty: This reportable segment manages property and casualty insurance services for German retail and commercial customers. The product portfolio ranges from insurance products for price- and service-conscious customers to tailor-made products for customers who seek consulting and even employees’ personal lines. The sales channels in this segment include not only the Group’s own field organisation, but also sales through independent brokers and multiple agents, cooperations and direct sales.

Retail Germany – Life: This reportable segment manages life insurance activities including our Germany-wide bancassurance business activities – i.e. insurance products sold over the counter at banks. This segment also provides cross-border insurance services in Austria. The product portfolio ranges from capital-efficient to individually customised insurance solutions. They include unit-linked life insurance, annuity and risk insurance and also occupational incapacity and disability insurance. The Group employs a wide range of sales channels, including its own exclusive sales organisation as well as sales through independent brokers and multiple agents and partnerships with banks.

Retail International: The scope of operations in this segment encompasses insurance business transacted across the various lines of insurance with retail and commercial customers, including bancassurance activities in foreign markets. The range of insurance products includes motor insurance, property and casualty insurance and marine and fire insurance, as well as many products in the field of life insurance. A large part of our international business is transacted by brokers and agents. Additionally, many companies in this segment use post offices and banks as sales channels.

Property/Casualty Reinsurance: The most important activities are property and casualty business with retail, commercial and industrial customers (first and foremost in the US and German markets), marine and aviation business, credit/surety business, structured reinsurance, and facultative and NatCat business.

Life/Health Reinsurance: This segment bundles together the global activities of the Hannover Re Group in all lines of life, health and annuity insurance, as well as personal accident insurance, insofar as they are underwritten by life/health insurers. The Group also has Sharia-compliant retakaful reinsurance.

Corporate Operations: In contrast to the six operating segments, the Corporate Operations segment encompasses management and other functional activities that support the business conducted by the Group; these mainly relate to asset management and, in the primary insurance sector, the run-off and placement of portions of reinsurance cessions (Talanx Reinsurance Broker GmbH, Hannover), including intragroup reinsurance (Talanx Reinsurance Ltd., Dublin), as well as Group financing. Asset management by Ampega Investment GmbH, Cologne, for non-Group private and institutional investors is also shown in this segment. This segment also includes centralised service companies that provide specific billable services – such as IT, collection, personnel and accounting services – mainly to the Group's primary insurers based in Germany. A portion of the in-house business written by Talanx Reinsurance Ltd. and the operating profit of Talanx Reinsurance Broker GmbH are reallocated to the ceding segments in the course of segment allocation.

MEASUREMENT BASES FOR THE PERFORMANCE OF THE REPORTABLE SEGMENTS

All transactions between reportable segments are measured on the basis of standard market transfer prices that are calculated on an arm's length basis. Cross-segment transactions within the Group are eliminated in the consolidation column, whereas income from dividend payments and profit/loss transfer agreements attributable to the Group holding company is eliminated in the applicable segment. We have adjusted the statement of income by division/reportable segment to the consolidated statement of income for reasons of consistency and comparability. The same applies to the balance sheet broken down by division and the consolidated balance sheet.

For the segments "Retail Germany – Property/Casualty" and "Retail Germany – Life", neither the taxes on income nor the financing costs are determined at segment level and reported to the main decision makers, with the result that the statement of income ends with the EBIT and no segment balance sheet can be drawn up. The EBIT of the Retail Germany division can be found by adding the figures from the two reportable segments.

Depending upon the nature and time frame of the commercial activities, various management metrics and performance indicators are used to assess the financial performance of the reportable segments within the Group. However, operating profit (EBIT) – determined on the basis of IFRS earnings contributions – is used as a consistent measurement basis. Net profit or loss for the period before income taxes is highlighted as a means of capturing true operating profitability and to enhance comparability. In addition, the result is adjusted for interest charges incurred for borrowing (financing costs).

CONSOLIDATED BALANCE SHEET BY DIVISION AS AT 31 DECEMBER 2016

EUR MILLION

Assets	Industrial Lines		Retail Germany	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
A. Intangible assets				
a. Goodwill	153	153	248	248
b. Other intangible assets	8	7	520	554
	161	160	768	802
B. Investments				
a. Investment property	77	52	984	824
b. Shares in affiliated companies and participating interests	12	13	13	18
c. Investments in associates and joint ventures	150	130	53	65
d. Loans and receivables	1,054	1,208	25,092	24,797
e. Other financial instruments				
i. Held to maturity	77	81	170	170
ii. Available for sale	5,625	5,312	21,420	19,942
iii. At fair value through profit or loss	72	92	346	295
f. Other investments	684	666	1,532	1,279
Assets under own management	7,751	7,554	49,610	47,390
g. Investments under investment contracts	—	—	—	—
h. Funds withheld by ceding companies	20	19	3	15
Investments	7,771	7,573	49,613	47,405
C. Investments for the benefit of life insurance policyholders who bear the investment risk	—	—	9,727	9,323
D. Reinsurance recoverables on technical provisions	5,014	5,292	2,170	2,313
E. Accounts receivable on insurance business	1,259	1,267	331	400
F. Deferred acquisition costs	45	42	2,179	2,123
G. Cash at banks, cheques and cash-in-hand	478	391	633	539
H. Deferred tax assets	69	233	78	60
I. Other assets	387	410	1,226	1,305
J. Non-current assets and assets of disposal groups classified as held for sale ¹⁾	—	—	—	—
Total assets	15,184	15,368	66,725	64,270

¹⁾ For further information see "Non-current assets held for sale and disposal groups" in the Notes.

²⁾ The (former) Property/Casualty Reinsurance and Life/Health Reinsurance divisions were merged to form a single Reinsurance division.

Retail International		Reinsurance ²⁾		Corporate Operations		Consolidation		Total	
31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
618	618	20	18	—	—	—	—	1,039	1,037
156	186	128	126	91	80	—	—	903	953
774	804	148	144	91	80	—	—	1,942	1,990
17	19	1,402	1,303	—	—	—	—	2,480	2,198
—	2	97	58	17	20	—	—	139	111
—	—	114	128	—	—	-27	-51	290	272
700	867	2,564	2,870	15	12	—	—	29,425	29,754
305	323	485	1,008	2	1	-295	-296	744	1,287
7,373	5,475	33,478	30,440	154	102	—	—	68,050	61,271
636	527	298	149	—	—	—	—	1,352	1,063
327	569	3,235	3,055	261	334	-1,345	-1,082	4,694	4,821
9,358	7,782	41,673	39,011	449	469	-1,667	-1,429	107,174	100,777
1,091	2,223	—	—	—	—	—	—	1,091	2,223
—	—	11,844	13,990	1	1	-1,278	-1,414	10,590	12,611
10,449	10,005	53,517	53,001	450	470	-2,945	-2,843	118,855	115,611
856	781	—	—	—	—	—	—	10,583	10,104
832	893	2,843	2,936	—	—	-2,901	-3,062	7,958	8,372
1,142	1,004	3,678	3,666	2	7	-220	-274	6,192	6,070
589	602	2,198	2,095	—	1	229	215	5,240	5,078
455	373	814	792	209	148	—	—	2,589	2,243
59	71	127	133	244	239	—	—	577	736
471	477	1,286	1,423	738	660	-1,488	-1,738	2,620	2,537
—	—	15	—	—	19	—	—	15	19
15,627	15,010	64,626	64,190	1,734	1,624	-7,325	-7,702	156,571	152,760

CONSOLIDATED BALANCE SHEET BY DIVISION AS AT 31 DECEMBER 2016

EUR MILLION

Equity and liabilities	Industrial Lines		Retail Germany	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
B. Subordinated liabilities	200	200	161	161
C. Technical provisions				
a. Unearned premium reserve	1,094	1,062	1,160	988
b. Benefit reserve	—	—	39,515	39,214
c. Loss and loss adjustment expense reserve	9,353	9,571	3,098	2,990
d. Provision for premium refunds	19	10	5,473	3,930
e. Other technical provisions	42	39	2	4
	10,508	10,682	49,248	47,126
D. Technical provisions for life insurance policies where the investment risk is borne by the policyholders	—	—	9,727	9,323
E. Other provisions				
a. Provisions for pensions and other post-employment benefits	612	553	150	117
b. Provisions for taxes	97	125	118	120
c. Miscellaneous other provisions	84	87	372	304
	793	765	640	541
F. Liabilities				
a. Notes payable and loans	16	17	104	91
b. Funds withheld under reinsurance treaties	49	39	1,748	1,858
c. Other liabilities	1,257	1,273	2,251	2,303
	1,322	1,329	4,103	4,252
G. Deferred tax liabilities	172	293	288	277
H. Liabilities included in disposal groups classified as held for sale ¹⁾	—	—	—	—
Total liabilities/provisions	12,995	13,269	64,167	61,680

Retail International		Reinsurance ²⁾		Corporate Operations		Consolidation		Total		
31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015	
42	3	1,683	1,561	530	530	-633	-512	1,983	1,943	
2,199	2,053	3,341	3,159	1	2	-171	-183	7,624	7,081	
5,124	3,603	10,290	12,207	—	—	-171	-179	54,758	54,845	
2,592	2,588	28,130	26,557	41	27	-1,341	-1,341	41,873	40,392	
273	198	—	—	—	—	—	—	5,765	4,138	
10	10	362	326	—	—	-7	-3	409	376	
10,198	8,452	42,123	42,249	42	29	-1,690	-1,706	110,429	106,832	
856	781	—	—	—	—	—	—	10,583	10,104	
21	19	181	151	1,219	1,105	—	—	2,183	1,945	
109	88	409	271	100	117	—	—	833	721	
100	87	199	192	185	181	—	-1	940	850	
230	194	789	614	1,504	1,403	—	-1	3,956	3,516	
21	—	810	690	1,535	1,483	-981	-840	1,505	1,441	
163	177	5,532	5,948	—	—	-2,363	-2,671	5,129	5,351	
1,752	3,118	2,425	2,736	161	373	-1,696	-1,959	6,150	7,844	
1,936	3,295	8,767	9,374	1,696	1,856	-5,040	-5,470	12,784	14,636	
102	84	1,562	1,632	3	1	21	11	2,148	2,298	
—	—	—	—	—	—	—	—	—	—	
13,364	12,809	54,924	55,430	3,775	3,819	-7,342	-7,678	141,883	139,329	
								Equity³⁾	14,688	13,431
								Total equity and liabilities	156,571	152,760

¹⁾ For further information see "Non-current assets held for sale and disposal groups" in the Notes.

²⁾ The (former) Property/Casualty Reinsurance and Life/Health Reinsurance divisions were merged to form a single Reinsurance division.

³⁾ Equity attributable to Group shareholders and non-controlling interests.

CONSOLIDATED STATEMENT OF INCOME BY DIVISION/REPORTABLE SEGMENT FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2016¹⁾

EUR MILLION

	Industrial Lines		Retail Germany	
	2016	2015	2016	2015
1. Gross written premiums including premiums from unit-linked life and annuity insurance	4,266	4,295	6,286	6,667
of which attributable to other divisions/segments	56	69	34	68
with third parties	4,210	4,226	6,252	6,599
2. Savings elements of premiums from unit-linked life and annuity insurance	—	—	942	945
3. Ceded written premiums	1,989	2,069	246	243
4. Change in gross unearned premiums	-22	4	-173	-51
5. Change in ceded unearned premiums	12	17	4	10
Net premiums earned	2,243	2,213	4,921	5,418
6. Claims and claims expenses (gross)	2,615	3,255	5,613	5,987
Reinsurers' share	942	1,558	97	93
Claims and claims expenses (net)	1,673	1,697	5,516	5,894
7. Acquisition costs and administrative expenses (gross)	867	819	1,177	1,110
Reinsurers' share	378	318	85	119
Acquisition costs and administrative expenses (net)	489	501	1,092	991
8. Other technical income	8	7	43	46
Other technical expenses	16	4	56	42
Other technical result	-8	3	-13	4
Net technical result	73	18	-1,700	-1,463
9. a. Investment income	303	315	2,156	2,062
b. Investment expenses	61	109	251	314
Net income from assets under own management	242	206	1,905	1,748
Net income from investment contracts	—	—	—	—
Net interest income from funds withheld and contract deposits	—	—	-16	-17
Net investment income	242	206	1,889	1,731
of which share of profit or loss of equity-accounted associates and joint ventures	16	5	7	8
10. a. Other income	105	121	215	253
b. Other expenses	124	137	314	363
Other income/expenses	-19	-16	-99	-110
Profit before goodwill impairments	296	208	90	158
11. Goodwill impairments	—	—	—	155
Operating profit/loss (EBIT)	296	208	90	3
12. Financing costs	9	9	9	10
13. Taxes on income	51	72	8	66
Net income	236	127	73	-73
of which attributable to non-controlling interests	—	—	5	3
of which attributable to shareholders of Talanx AG	236	127	68	-76

¹⁾ With the exception of the Retail Germany division and the Reinsurance division, the statements of income of the other divisions are the same as those of the reportable segments.

²⁾ The (former) Property/Casualty Reinsurance and Life/Health Reinsurance segments have been merged to form the Reinsurance Division.

Retail International		Reinsurance ²⁾		Corporate Operations		Consolidation		Total	
2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
4,918	4,643	16,354	17,069	25	35	-743	-910	31,106	31,799
1	—	628	738	25	35	-744	-910	—	—
4,917	4,643	15,726	16,331	—	—	1	—	31,106	31,799
256	244	—	—	—	—	—	—	1,198	1,189
414	443	1,750	2,221	8	8	-766	-885	3,641	4,099
-124	-234	-157	-259	1	7	-16	-27	-491	-560
2	16	30	-3	—	—	-14	-26	34	14
4,122	3,706	14,417	14,592	18	34	21	-26	25,742	25,937
3,291	3,054	11,974	12,619	25	22	-433	-656	23,085	24,281
211	372	1,083	1,443	—	—	-445	-631	1,888	2,835
3,080	2,682	10,891	11,176	25	22	12	-25	21,197	21,446
1,085	1,071	3,677	3,596	4	6	-232	-265	6,578	6,337
81	79	268	268	—	—	-213	-270	599	514
1,004	992	3,409	3,328	4	6	-19	5	5,979	5,823
32	20	—	1	—	—	1	-1	84	73
61	59	8	13	—	—	29	-7	170	111
-29	-39	-8	-12	—	—	-28	6	-86	-38
9	-7	109	76	-11	6	—	—	-1,520	-1,370
393	439	1,531	1,550	40	17	-57	-56	4,366	4,327
78	109	297	271	88	87	-113	-109	662	781
315	330	1,234	1,279	-48	-70	56	53	3,704	3,546
5	9	—	—	—	—	—	—	5	9
-1	-1	331	396	—	—	—	—	314	378
319	338	1,565	1,675	-48	-70	56	53	4,023	3,933
—	—	9	19	—	7	-7	-15	25	24
94	135	749	603	787	767	-720	-709	1,230	1,170
210	249	722	552	708	690	-645	-595	1,433	1,396
-116	-114	27	51	79	77	-75	-114	-203	-226
212	217	1,701	1,802	20	13	-19	-61	2,300	2,337
—	—	—	—	—	—	—	—	—	155
212	217	1,701	1,802	20	13	-19	-61	2,300	2,182
4	-2	76	89	86	89	-37	-34	147	161
67	43	391	459	59	-25	9	-3	585	612
141	176	1,234	1,254	-125	-51	9	-24	1,568	1,409
18	28	639	648	—	—	-1	-4	661	675
123	148	595	606	-125	-51	10	-20	907	734

CONDENSED CONSOLIDATED STATEMENT OF INCOME FOR THE RETAIL GERMANY DIVISION – REPORTABLE SEGMENTS PROPERTY/CASUALTY AND LIFE – AS WELL AS THE REINSURANCE DIVISION FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2016

EUR MILLION

	Retail Germany Division – Property/Casualty		Retail Germany Division – Life		Property/Casualty Reinsurance		Life/Health Reinsurance	
	2016	2015	2016	2015	2016	2015	2016	2015
1. Gross written premiums including premiums from unit-linked life and annuity insurance	1,498	1,500	4,788	5,167	9,205	9,338	7,149	7,731
of which attributable to other segments	—	—	34	68	479	579	149	159
with third parties	1,498	1,500	4,754	5,099	8,726	8,759	7,000	7,572
2. Savings elements of premiums from unit-linked life and annuity insurance	—	—	942	945	—	—	—	—
3. Ceded written premiums	69	66	177	177	1,062	996	688	1,225
4. Change in ceded unearned premiums	-27	-8	-146	-43	-129	-245	-28	-14
5. Reinsurers' share in change in ceded unearned premiums	-3	2	7	8	30	-3	—	—
Net premiums earned	1,405	1,424	3,516	3,994	7,984	8,100	6,433	6,492
6. Claims and claims expenses (gross)	946	940	4,667	5,047	5,819	5,977	6,155	6,642
Reinsurers' share	10	24	87	69	489	361	594	1,082
Claims and claims expenses (net)	936	916	4,580	4,978	5,330	5,616	5,561	5,560
7. Acquisition costs and administrative expenses (gross)	533	516	644	594	2,384	2,248	1,293	1,348
Reinsurers' share	20	16	65	103	210	192	58	76
Net acquisition and administrative costs	513	500	579	491	2,174	2,056	1,235	1,272
8. Other technical income	3	3	40	43	—	1	—	—
Other technical expenses	3	1	53	41	-1	2	9	11
Other technical result	—	2	-13	2	1	-1	-9	-11
Net technical result	-44	10	-1,656	-1,473	481	427	-372	-351
9. a. Investment income	105	123	2,051	1,939	1,137	1,126	394	424
b. Investment expenses	17	14	234	300	233	180	64	91
Net income from assets under own management	88	109	1,817	1,639	904	946	330	333
Net income from investment contracts	—	—	—	—	—	—	—	—
Net interest income from funds withheld and contract deposits	-1	—	-15	-17	24	20	307	376
Net investment income	87	109	1,802	1,622	928	966	637	709
of which share of profit or loss of equity-accounted associates and joint ventures	1	2	6	6	8	15	1	4
10. a. Other income	68	70	147	183	245	345	504	258
b. Other expenses	113	138	201	225	283	347	439	205
Other income/expenses	-45	-68	-54	-42	-38	-2	65	53
Profit before goodwill impairments	-2	51	92	107	1,371	1,391	330	411
11. Goodwill impairments	—	—	—	155	—	—	—	—
Operating profit/loss (EBIT)	-2	51	92	-48	1,371	1,391	330	411

INVESTMENTS (EXCLUDING FUNDS WITHHELD BY CEDING COMPANIES AND EXCLUDING INVESTMENTS UNDER INVESTMENT CONTRACTS) BY GEOGRAPHICAL ORIGIN¹⁾

ASSETS UNDER OWN MANAGEMENT BY GEOGRAPHICAL ORIGIN

EUR MILLION

	2016	2015
Germany	28,606	27,588
United Kingdom	6,792	6,695
Central and Eastern Europe (CEE), including Turkey	3,845	3,842
Rest of Europe	37,878	35,785
USA	16,959	14,960
Rest of North America	2,633	2,237
Latin America	3,263	2,935
Asia and Australia	6,817	6,425
Africa	381	310
Total	107,174	100,777

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.

NON-CURRENT ASSETS BY GEOGRAPHICAL ORIGIN

EUR MILLION

	2016	2015
Germany	3,780	3,656
United Kingdom	6	2
Rest of Europe	354	391
USA	694	570
Latin America	180	168
Asia and Australia	2	1
Africa	10	12
Total	5,026	4,800

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.

GROSS WRITTEN PREMIUMS BY GEOGRAPHICAL ORIGIN

EUR MILLION

	Primary insurance	Reinsurance	Total
2016			
Germany	7,823	969	8,792
United Kingdom	199	2,532	2,731
Central and Eastern Europe (CEE), including Turkey	2,109	375	2,484
Rest of Europe	2,670	2,111	4,781
USA	559	4,305	4,864
Rest of North America	43	766	809
Latin America	1,661	883	2,544
Asia and Australia	268	3,330	3,598
Africa	48	455	503
Total	15,380	15,726	31,106
2015			
Germany	8,248	993	9,241
United Kingdom	191	2,760	2,951
Central and Eastern Europe (CEE), including Turkey	2,181	286	2,467
Rest of Europe	2,295	2,098	4,393
USA	531	4,070	4,601
Rest of North America	47	772	819
Latin America	1,673	890	2,563
Asia and Australia	254	3,958	4,212
Africa	48	504	552
Total	15,468	16,331	31,799

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 LEVEL¹⁾

GROSS WRITTEN PREMIUMS BY TYPE AND CLASS OF INSURANCE

EUR MILLION

	2016	2015
Property/Casualty Primary Insurance	8,949	8,973
Primary Life Insurance	6,431	6,495
Property/Casualty Reinsurance	8,726	8,759
Life/Health Reinsurance	7,000	7,572
Total	31,106	31,799

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 annual financial statements included in the consolidated financial statements are subject to standardised accounting policies and were mostly prepared as at 31 December of the reporting date. In accordance with IFRS 10, the preparation of interim financial statements for Group companies with differing reporting dates was not required because their reporting dates are no more than three months prior to the Group reporting date. The effects of significant transactions between the non-standard reporting dates and the Group reporting date were taken into account.

Subsidiaries are all entities that are controlled by the Group. The Group controls an entity if the Group directly or indirectly has decision-making powers over a Group company from voting rights or other rights and is thereby exposed, or has rights, to positive and negative variable returns from the Group company and has the ability to affect those returns through its decision-making powers over the investee. All of these criteria must be met. The Group holds the majority of voting rights in all of its subsidiaries. When assessing whether control exists, potential voting rights are considered if they are substantive. A separate audit of the principal-agent relationship is carried out in particular on investment funds – both for investment funds managed by the Group and also funds managed by third parties where the Group holds an interest. In this audit, an analysis of the decision-making processes is used to check whether the control of the decisive business activities lies with the fund management or the investors. Apart from the level of variability of the fee of the fund management, in particular substantial rights for dismissing the management or for initiating the liquidation of the fund and the role of the investors in various entities and committees of the investment fund are taken into account.

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. Assets, liabilities and contingent liabilities that can be identified in a business combination are measured in the course of initial consolidation at their acquisition date fair values. Any positive difference arising when the acquisition costs are eliminated against the fair value of the net assets is recognised as goodwill in intangible assets.

Non-controlling interests in acquired companies are generally reported based on the proportionate interest in the net assets of the acquired companies. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as an equity transaction.

If the Group loses control of a subsidiary, the subsidiary's assets and liabilities and all related non-controlling interests and other components of equity are derecognised. Any gain or loss arising is recognised in "Other income/expenses" in the statement of income. Any investment retained in the former subsidiary is measured at the fair value applicable when control is lost.

Internal Group balances and transactions are 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. Based on the assumption that a significant influence exists if a company belonging to the Group directly or indirectly holds at least 20% – but no more than 50% – of the voting rights, an individual analysis of the actual possibilities of influence of the Group is carried out for every material holding.

A **joint venture** is an arrangement of which the Group has joint control, giving it rights to the net assets of the arrangement rather than rights to its assets and obligations for its liabilities. These entities are always accounted for using the equity method.

Equity method accounting ends when the Group ceases to have significant influence or joint control. For further information, please see our disclosures in the "Accounting policies" section.

Structured entities as defined in IFRS 12 are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. In the Group, the requirement to consolidate structured entities is examined in the course of an analysis that covers both transactions in which the Group initiates a structured entity, either by itself or together with third parties, and transactions in which it enters into a contractual relationship, either by itself or with third parties, with an existing structured entity. The decision whether or not to consolidate depends on the circumstances and is reviewed at least each year. 2 (2) structured entities were consolidated as at the reporting date.

BASIS OF CONSOLIDATION

Only subsidiaries, associates and joint ventures that are insignificant both individually and in the aggregate for the net assets, financial position and results of operations of the Group are exempted from consolidation or application of the equity method. The Group assesses whether a Group entity is insignificant by comparing its total assets and net income with the corresponding average figures for the Group as a whole over the last three years. For this reason, 35 (39) subsidiaries whose business purpose is primarily the rendering of services for insurance companies within the Group were not consolidated in the reporting period. A further 11 (8) associates and 3 (2) joint ventures were not accounted for using the equity method due to insignificance. Altogether, the total assets of these entities amount to less than 1% of the average total assets of the Group over the last three years; the net income of these companies amounts altogether to less than 2% of the average net income of the Group over the last three years. In subsequent periods, the entities not included in the basis of consolidation on grounds of insignificance are examined at each reporting date to establish whether they should be fully consolidated or accounted for using the equity method in light of a reassessment of their materiality.

For information on the composition of the Group, including the complete list of all shareholdings, please consult the separate section of these notes on pages 242ff. 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.

BASIS OF CONSOLIDATION

	2016	2015
Number of consolidated subsidiaries		
Domestic ¹⁾	85	87
Foreign ²⁾	103	104
Subtotal	188	191
Number of consolidated investment funds (subsidiaries)³⁾		
Domestic	16	17
Foreign	9	11
Subtotal	25	28
Number of consolidated structured entities		
Domestic	—	—
Foreign	2	2
Subtotal	2	2
Total number of consolidated entities		
Domestic	101	104
Foreign	114	117
Total	215	221
Number of equity-accounted associates and joint ventures		
Domestic	3	3
Foreign ^{4),5)}	5	9
Total	8	12

¹⁾ Consists of: 83 (85) individual entities and two (two) entities consolidated in one (one) subgroup.

²⁾ Consists of: 59 (57) individual entities and 44 (47) entities consolidated in three (four) subgroups.

³⁾ Control is exercised through voting or similar rights, so these investment funds do not constitute structured entities.

⁴⁾ Consists of four (six) individual entities and one (three) equity-accounted investments included in a subgroup.

⁵⁾ Includes one (one) foreign joint venture.

DISCLOSURES ON THE NATURE AND EXTENT OF SIGNIFICANT RESTRICTIONS

Statutory, contractual or regulatory restrictions, as well as protective rights of non-controlling interests, can restrict the Group's ability to access or use the assets, to transfer them to or from other entities in the Group without restriction, and to settle the liabilities of the Group. The following significant restrictions (as defined in IFRS 12.13) applied to the following subsidiaries with non-controlling interests at the reporting date because of protective rights in favour of those shareholders.

SIGNIFICANT RESTRICTIONS APPLYING TO MATERIAL SUBSIDIARIES

Company	Nature and extent of significant restrictions
neue leben Lebensversicherung AG, Hamburg	In certain circumstances, the sale of the shares held by the Group may require the approval of the annual 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 Wrocław, 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.

Other restrictions on transferring assets between Group companies may arise from local minimum capital and solvency requirements and, to a lesser extent, from currency restrictions in certain countries.

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 interests are reported separately in equity. They amounted to EUR 5,610 (5,149) million at the reporting date.

SUBSIDIARIES WITH SIGNIFICANT NON-CONTROLLING INTERESTS¹⁾

EUR MILLION

	Hannover Rück SE subgroup ²⁾		Towarzystwo Ubezpieczeń i Reasekuracji WARTA S.A.		Towarzystwo Ubezpieczeń Europa S.A. ³⁾	
	2016	2015	2016	2015	2016	2015
Domicile/country of formation	Hannover/ Germany	Hannover/ Germany	Warsaw/ Poland	Warsaw/ Poland	Wrocław/ Poland	Wrocław/ Poland
Non-controlling interests	49.78%	49.78%	24.26%	24.26%	50.00%	50.00%
Investments	53,637	53,337	1,630	1,685	270	302
Reinsurance recoverables on technical provisions	2,843	2,935	226	268	3	2
Accounts receivable on insurance business	3,678	3,666	311	307	33	33
Total assets	63,529	63,215	2,399	2,477	508	589
Subordinated liabilities	1,491	1,490	—	—	—	—
Technical provisions	42,122	42,248	1,620	1,592	241	307
Other provisions	789	614	17	17	7	8
Equity	9,741	8,777	555	581	223	231
of which non-controlling interests ⁴⁾	5,355	4,862	135	141	75	77
Total debt	53,788	54,438	1,844	1,896	285	358
Gross written premiums	16,354	17,069	937	854	68	152
Net premiums earned	14,418	14,593	757	716	120	121
Underwriting result	116	94	30	26	20	19
Net investment income	1,550	1,665	48	53	3	2
Operating profit/loss (EBIT)	1,689	1,755	68	72	17	17
Net income	1,226	1,215	60	62	13	20
of which non-controlling interests ⁴⁾	639	648	15	15	4	7
Other comprehensive income	360	-132	-23	-8	-2	1
Total comprehensive income	1,586	1,083	37	54	11	21
of which non-controlling interests ⁴⁾	827	560	9	13	4	7
Cash flows from operating activities	2,331	3,105	101	21	2	38
Cash flows from investing activities	-1,712	-2,108	-29	42	22	-1
Cash flows from financing activities	-627	-1,055	-62	-67	-19	-31
Cash and cash equivalents at the end of the reporting period	849	821	11	12	11	2
Dividends paid to non-controlling interests during the year⁵⁾	285	255	15	16	10	15

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 interests 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

With effect from 8 January 2016, Funis GmbH & Co. KG (“Funis”), a 100% subsidiary of Hannover Rück SE, increased its share of the registered capital of Glencar Underwriting Managers Inc., Chicago, USA (“Glencar”) from 49% to 100% and thereby gained control of the company. Having previously been recognised in the consolidated financial statements using the equity method, Glencar was therefore fully consolidated as a subsidiary starting from the first quarter of 2016. As a result of the derecognition of the assets and liabilities and the recognition of the previous interests at fair value, a loss of EUR 1 million was recognised in “Net investment income”. In addition, currency translation losses resulted in accumulated other comprehensive income of EUR 1 million. A purchase price in the amount of EUR 6 million was paid to acquire the remaining capital shares. In the course of the purchase-price allocation, goodwill in the amount of EUR 3 million resulted from the assessment of the fair values of the acquired assets and liabilities, which was carried out for the initial consolidation.

By way of purchase agreements dated 11 December 2015 and a supplement dated 15 December 2015, the Group purchased the wind farm special purpose vehicle “Infrastruktur Ludwigsau GmbH & Co. KG”, Wörrstadt, through the acquisition of all the shares by TD Real Assets GmbH & Co. KG, Cologne (Retail Germany segment). The acquisition was subject to conditions precedent, which were met on 22 January 2016 (initial consolidation date). The purchase price stood at EUR 5 thousand. No goodwill was generated. This transaction does not result in any tax-deductible goodwill in the tax accounts (share deal). Acquisition-related costs (< EUR 0.5 million) are reported in “Other income/expenses”. The planned investment amounts to EUR 34 million. The company’s revenue (included in “Net investment income”) of EUR 3 million and profit of EUR 71 thousand were included in the financial statements. No material revenue or income was generated in the 2016 financial year prior to the initial consolidation date.

By way of purchase agreements dated 16 December 2015, the Group purchased the two wind farm special purpose vehicles “UGE Rehai Ems GmbH & Co. KG Umweltgerechte Energie” (WPR), Meißen, and “UGE Parchim Drei GmbH & Co. KG Umweltgerechte Energie” (WPP),

Meißen, through the acquisition of all the shares by TD Real Assets GmbH & Co. KG, Cologne. The acquisition was subject to conditions precedent, which were met on 1 February 2016 in the case of WPP and on 9 February 2016 in the case of WPR (initial consolidation dates). Following the acquisition, WPR was renamed as Windpark Rehai GmbH & Co. KG and WPP was renamed as Windpark Parchim GmbH & Co. KG, and the registered office of the companies was changed to Cologne. The purchase price for the complete wind farm project, which was settled entirely in cash, amounted to EUR 3 million. No material goodwill was generated in the process. This transaction does not result in any tax-deductible goodwill in the tax accounts (share deal). Acquisition-related costs (< EUR 0.5 million) are reported in “Other income/expenses”. The total planned investment amounts to EUR 55 million. The companies’ revenue of EUR 7 million and profit of EUR 77 thousand were included in the financial statements. If the company had already been acquired as at 1 January 2016, the revenue and the profit would have amounted to EUR 8 million and EUR 476 thousand, respectively.

No material contingent liabilities were identified for the wind farm special purpose vehicles that would have to be recognised under IFRS 3.23. In addition, no contingent liabilities were identified that were not recognised because their fair value could not be measured reliably. No further contingent consideration, indemnification assets or separate transactions within the meaning of IFRS 3 were recognised.

ACQUIRED ASSETS AND ASSUMED LIABILITIES OF THE WIND FARM SPECIAL PURPOSE VEHICLES AT THE INITIAL CONSOLIDATION DATE IN EACH CASE IN ACCORDANCE WITH IFRS5

EUR MILLION			
	Infrastruktur Ludwigsau GmbH & Co. KG	Windpark Rehai GmbH & Co. KG	Windpark Parchim GmbH & Co. KG
Investments	17	35	56
Cash at banks, cheques and cash-in-hand	—	3	7
Other assets	3	3	6
Total assets	20	41	69
Other provisions	—	3	1
Other liabilities	20	38	65
Total liabilities	20	41	66
Acquired net assets (before consolidation)	—	—	3

With effect from 1 April 2016, HDI Seguros S.A., Santiago, Chile, was merged with Aseguradora Magallanes S.A., Las Condes, Chile. At the same time, this company was renamed as HDI Seguros S.A. (registered office unchanged: Las Condes, Chile).

On 10 May 2016, Hannover Re acquired, via its subsidiary International Insurance Company of Hannover SE, Hannover, 100% of the shares in the company Congregational and General Insurance Company plc. (CGI), Bradford, United Kingdom. The purchase price for the shares was EUR 11 million. With this company, Hannover Re also acquired its 25% share in Integra Insurance Solutions Limited, Bradford, United Kingdom. Hannover Re therefore now holds a total of 100% of the shares via various subsidiaries. The business was included in the consolidated financial statements for the first time as at 1 May 2016. As part of initial consolidation, the fair values of the assets and liabilities acquired were calculated using appropriate valuation techniques and based in some cases on estimates and assumptions. The assumptions and estimates used were defined at the reporting date meaning the initial consolidation was finalised within the valuation period.

The assets and liabilities of the acquired business are as follows at the initial consolidation date:

**ACQUIRED ASSETS AND ASSUMED LIABILITIES OF CGI AS AT 1 MAY 2016
IN ACCORDANCE WITH IFRS5**

EUR MILLION

Investments	20
Reinsurance recoverables on technical provisions	6
Accounts receivable on insurance business	3
Deferred acquisition costs	1
Cash at banks, cheques and cash-in-hand	3
Deferred tax assets	1
Other assets	2
Total assets	36
Technical provisions	9
Provisions for pensions and other post-employment benefits	3
Other liabilities	2
Total liabilities	14
Net assets acquired	22

As the fair values of the recognised, identifiable assets, liabilities and contingent liabilities exceed the purchase price of the transaction, a negative goodwill in the amount of EUR 11 million before taking into account any non-controlling interests resulted from the consolidation, which had to be recognised immediately in profit or loss in accordance with IFRS 3.34. This one-off effect from the transaction is reported in the consolidated statement of income in "Other income/expenses". The negative goodwill results primarily from the limiting of the revaluation of the assumed pension provisions to the amount to be recognised in accordance with IAS 19 as required by IFRS 3.26.

The gross written premiums of the acquired business amounted to EUR 2 million between the initial consolidation date and the reporting date. A profit in the amount of EUR 800 thousand was recognised for the acquired business for the same period. The income disclosed in "Other income/expenses" from the reversal of the negative goodwill is not included in this figure.

On 27 November 2015, the Group signed a purchase agreement for 100% of the shares in the life insurer CBA Vita S.p.A. (CBA Vita), Milan, Italy, including the shares held by this company in Sella Life Ltd., Dublin, Ireland (100%) and in InChiaro Assicurazioni S.p.A., Rome, Italy (49%). Based on the agreements entered into, the Group has therefore recognised the acquisition as at the date of initial consolidation (30 June 2016). The acquisition was conducted via HDI Assicurazioni S.p.A., Rome, Italy (Retail International segment) which is taking over 100% of CBA Vita S.p.A. and which also holds the remaining 51% of the property insurer InChiaro Assicurazioni S.p.A. The purchase price (EUR 70 million) was settled in the amount of EUR 43 million in cash and in the amount of EUR 27 million through drawing down a loan. Of the purchase price, EUR 38 million was attributable to the acquisition of CBA Vita and EUR 22 million to Sella Life Ltd. The increase in the equity interest in InChiaro Assicurazioni S.p.A. from 51% to 100% is recognised as a majority-protecting increase. EUR 10 million of the purchase price was attributed to this transaction. Upon the acquisition, Sella Life Ltd. was renamed "InChiaro Life Designated Activity Company" (InChiaro Life DAC).

The acquired net assets (after adjustment of the provisional carrying amounts at the acquisition date) exceed the paid purchase price by EUR 1 million. The difference was recognised in profit or loss in the financial year. This transaction does not result in any tax-deductible goodwill in the tax accounts (share deal).

The increase in the already existing majority interest in InChiaro Assicurazioni S.p.A. was recognised as a transaction between owners. The difference between the pro-rata purchase price for the minority interests – EUR 10 million – and the equity attributed to the minorities – EUR 5 million – was recognised outside profit or loss in the equity.

Acquisition-related costs of the transaction (EUR 0.7 million) are reported in “Other income/expenses”.

ACQUIRED ASSETS AND ASSUMED LIABILITIES OF CBA VITA S. P. A. AND INCHIARO LIFE DAC AS AT 30 JUNE 2016 IN ACCORDANCE WITH IFRS5

EUR MILLION

	CBA Vita S.p.A.	InChiaro Life DAC
Intangible assets	18	7
Investments	918 ¹⁾	614 ²⁾
Investments for the benefit of life insurance policyholders who bear the investment risk	43	—
Reinsurance recoverables on technical provisions	3	—
Accounts receivable on insurance business ³⁾	2	—
Cash at banks, cheques and cash-in-hand	124	4
Deferred tax assets	32	8
Other assets	—	2
Total assets	1,140	635
Subordinated liabilities	13	—
Technical provisions	977	1
Technical provisions for life insurance policies where the investment risk is borne by the policyholders	43	—
Other provisions	32	—
Other liabilities	4	612
of which tax liabilities	—	1
of which insurance-related	2	610 ²⁾
Total liabilities	1,069	613
Acquired net assets (before consolidation)	71	22

¹⁾ This also includes the carrying amounts for the interest in InChiaro Life DAC and in InChiaro Assicurazioni S.p.A. in the total amount of EUR 32 million.

²⁾ This also includes investments under investment contracts in the amount of EUR 610 million, which are offset by insurance-related liabilities in the same amount.

³⁾ Gross accounts receivable on insurance business before impairment losses amount to EUR 2 million.

The amount reported for accounts receivable corresponds to their fair value. Further credit losses are not expected. The acquired intangible assets include distribution networks and customer relationships. No material contingent liabilities were identified that would have to be recognised under IFRS 3.23. In addition, no contingent liabilities were identified that were not recognised because their fair value could not be measured reliably. No contingent considerations, indemnification assets or separate transactions within the meaning of IFRS 3 were recognised.

The companies' gross premiums of EUR 214 million and net income of EUR 100 thousand were included in the financial statements. If the group had already been acquired as at 1 January 2016, the gross premiums and net income for the period to be included would have amounted to EUR 503 million and EUR 2 million, respectively.

Towarzystwo Ubezpieczeń Europa S.A., Wrocław, Poland, sold its shares (51%) in Open Life Towarzystwo Ubezpieczeń Życie S.A., Warsaw, Poland (Retail International segment) to LC Corp B.V., Amsterdam, Netherlands; the transfer of the shares was executed on 20 December 2016. For details, please refer to the section “Non-current assets held for sale and disposal groups”.

MATERIAL CHANGES TO THE EQUITY-ACCOUNTED ASSOCIATES AND JOINT VENTURES

C-QUADRAT Investment AG, Vienna, Austria was divested in the second quarter (for further details, see the section “Non-current assets held for sale and disposal groups”).

DISCLOSURES ON CONSOLIDATED STRUCTURED ENTITIES

The following structured entities were consolidated as at the reporting date:

- Kaith Re Ltd., Hamilton, Bermuda
- LI RE, Hamilton, Bermuda

Kaith Re Ltd. is a “segregated accounts company” (SAC) whose sole purpose is to securitise reinsurance risks in investment products. In the course of this transformation, the risk is transferred in its entirety to the relevant investor in all cases. SACs also have segregated accounts in addition to their general account; these segregated accounts are legally entirely separate in terms of liability from each other and from the general account and are used for the above-mentioned securitisation transactions for the investors.

In accordance with IFRS 10, we classify the general account and segregated accounts as separate entities to which the principles of “silo accounting” are applied. In line with this concept, Hannover Rück SE is required to consolidate Kaith Re Ltd.’s general account and is contractually obliged to pay the costs of external service providers, to

be covered from the funds in the general account. Each individual segregated account must be examined separately by the parties involved (investors) in terms of the requirement to consolidate and must be consolidated depending on the contractual arrangements in each case.

LI RE is a segregated account of Kaith Re Ltd. 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:

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)	
	<p>Investments: As part of its asset management activities, the Group is invested in various funds, which themselves transact certain types of equity and debt investments, and whose fund/corporate management has been outsourced to a fund manager. The investments consist of special funds, private equity funds, fixed income funds, collateralised debt obligations, real estate funds, index funds and other retail funds. However, in some cases, Talanx companies also act as fund managers (as an agent) in order to collect management fees on behalf of the investors. Material risks consist of the risk of loss of capital invested that is typical for funds. The maximum loss exposure corresponds to the carrying amounts. With regard to the fund management for non-Group investors, the loss exposure is limited to any default on the future administration fees. The volume of assets managed for non-Group investors stands at EUR 11.0 (9.7) billion and the generated commissions total EUR 76 (72) million.</p> <p>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 70 (108) million at the reporting date. The maximum loss exposure corresponds to the carrying amounts.</p>
Unit-linked life insurance contracts	
	<p>There are unit-linked life insurance contracts at the reporting date resulting from the life insurance business of Group companies.</p> <p>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. or which the policyholder makes the investment decision; there is therefore no requirement to consolidate them.</p>

Investments including investments in CAT bonds (ILS)

Unit-linked life insurance contracts

UNCONSOLIDATED STRUCTURED ENTITIES, INCLUDING PRESENTATION OF LOSS EXPOSURE

Type of entity	Nature and purpose of the business relationship or investment
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Collateralised fronting (ILS)

As part of its extended insurance-linked securities (ILS) activities, Hannover Rück SE has entered into collateralised fronting arrangements, under which risks assumed from ceding companies are passed on to institutional investors outside the Group using structured entities. The purpose of such transactions is to directly transfer clients' business. The volume of the transactions is measured by reference to the reinsurance layer of the underlying retrocession agreements and amounted to EUR 4,914 (4,701) million at the reporting date. A portion of the reinsurance layer is funded and collateralised by contractually defined investments in the form of cash and cash equivalents, a further portion remains uncollateralised or is collateralised by less liquid securities. The maximum loss exposure of these transactions is defined as the uncollateralised reinsurance layer and the credit risk of the collateralisations, and amounted to EUR 2,861 (2,780) million at the reporting date. However, this does not correspond to the economic loss exposure measured in accordance with recognised actuarial methods. The worst-case modelled expected loss in 10,000 years is a maximum of EUR 50 (50) million.

Retrocessions and securitisation of reinsurance risks

The securitisation of reinsurance risks is largely performed using structured entities.

The CAT bond Eurus III was issued by Hannover Rück SE 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 had a nominal volume of EUR 100 million, ran until 31 March 2016 and was placed by Eurus III, a special purpose entity domiciled in Hamilton, Bermuda. The structured entity was fully funded by contractually defined investments in the form of cash and cash equivalents. As the maximum liability of the structured entity was thus fully collateralised, there was no loss exposure for Hannover Re in this respect. The transaction was ended at the reporting date.

K Cession: Through its "K" transactions, Hannover Rück SE secured underwriting capacity for catastrophe risks on the capital market. The "K Cession", which was placed with institutional investors from North America, Europe and Asia, involves a quota share cession on its worldwide natural catastrophe business as well as aviation and marine risks. From the total volume of the "K Cession", an amount converted as at the reporting date of EUR 384 (304) million was securitised through structured entities. The transaction has an indefinite term and can be called annually by the investors. Segregated accounts of Kaith Re Ltd. are being used as a transformer in relation to part of this transaction. Hannover Rück SE also uses further segregated accounts of Kaith Re Ltd. and other structured entities outside the Group for various retrocessions both of its traditional cover and also its ILS cover that are both passed on to institutional investors in the form of securitised transactions. The volume of these transactions is measured by reference to the reinsurance layer of the underlying retrocession agreements and amounted to EUR 1,845 (1,873) million at the reporting date. The structured entities are in all cases fully funded by contractually defined investments in the form of cash and cash equivalents. As the entire reinsurance layer of the structured entities is thus fully collateralised in each case, there is no underwriting loss exposure for Hannover Rück SE in this respect.

"Unterstützungskassen" (provident funds)

"Unterstützungskassen" are provident funds with legal capacity that assume responsibility for performing a benefit commitment for an employer. The Group's relationship with these entities is based on the support it provides to establish these entities and the insurance business it concludes. As the Group cannot direct the relevant activities of the "Unterstützungskassen" and has no rights to variable returns from them, there is no requirement for the Group to consolidate these entities. These entities do not result in assets, liabilities or non-performance risk for the Group.

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.

BUSINESS RELATIONSHIPS WITH UNCONSOLIDATED STRUCTURED ENTITIES

EUR MILLION

Type of unconsolidated structured entity	31.12.2016				31.12.2015			
	General investment activity/ investments	Unit-linked life insurance contracts	Investments in CAT bonds (ILS)	Retrocession: securitisations of reinsurance risks	General investment activity/ investments	Unit-linked life insurance contracts	Investments in CAT bonds (ILS)	Retrocession: securitisations of reinsurance risks
ASSETS								
Loans and receivables	13	—	—	—	17	—	—	—
Other financial instruments – financial assets available for sale	3,695	—	—	—	3,177	—	—	—
Other financial instruments – financial instruments at fair value through profit or loss	162	—	70	—	177	—	108	—
Investment contracts	433	—	—	—	866	—	—	—
Other investments	1,974	—	—	—	1,551	—	—	—
Investments for the benefit of life insurance policyholders who bear the investment risk	—	10,583	—	—	—	10,104	—	—
Reinsurance recoverables on technical provisions	—	—	—	447	—	—	—	138
Accounts receivable on insurance business	—	—	—	8	—	—	—	30
Total asset items	6,277	10,583	70	455	5,788	10,104	108	168
EQUITY AND LIABILITIES								
Technical provisions for life insurance policies where the investment risk is borne by the policyholders	—	10,583	—	—	—	10,104	—	—
Other liabilities – reinsurance payables	—	—	—	242	—	—	—	32
Total liabilities	—	10,583	—	242	—	10,104	—	32

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”).

NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS

C-QUADRAT INVESTMENT AG, VIENNA, AUSTRIA (CORPORATE OPERATIONS SEGMENT)

As at 31 December 2015, the Group recognised the associate C-QUADRAT Investment AG, Vienna, Austria, as a non-current asset held for sale with a carrying amount of EUR 19 million. The transaction was completed on 13 June 2016 with a profit in the amount of EUR 26 million after tax, which is recognised in "Other income/expenses". The cooperation with C-QUADRAT Investment AG will not be affected by this sale, and will continue as before.

OPEN LIFE TOWARZYSTWO UBEZPIECZEŃ ŻYCIE S. A., WARSAW, POLAND (RETAIL INTERNATIONAL SEGMENT)

In the first quarter of 2016, the Group decided to sell its 51% share in Open Life Towarzystwo Ubezpieczeń Życie S. A., Warsaw, Poland, held by Towarzystwo Ubezpieczeń Europa S. A., Wrocław, Poland, for a price in the single-digit millions of euros and at that time classified it as a disposal group in accordance with IFRS 5. The transaction was completed on 20 December 2016. The sale had a negative impact of around EUR 10 million on the EBIT (item: "Other income/expenses"). The disposal group contained assets in the amount of

EUR 1,881 million and liabilities in the amount of EUR 1,852 million, of which investments and liabilities from investment contracts in the amount of EUR 1,708 million and EUR 1,718 million respectively. In the course of the deconsolidation, the goodwill of the Europe CGU that was attributable to this company in the amount of EUR 2 million was deducted; accumulated other comprehensive income of EUR -0.3 million arising from the translation of currency was realised ("Other comprehensive income"). By selling this holding, the Group aims to streamline its portfolio in Eastern Europe.

REAL ESTATE

As at 31 December 2016, we classified real estate portfolios in the amount of EUR 15 (0) million as held for sale. They are attributed entirely to the Property/Casualty Reinsurance segment. The fair value of the total portfolio (corresponding to the expected selling prices) amounts to EUR 16 million. Fair values are largely determined internally within the Group using discounted cash flow methods and, in individual cases, on the basis of external expert opinions. The purchase price is used in cases where a binding sale agreement is entered into. Intentions to sell depended on specific factors associated with the real estate market and the properties themselves, taking into account current and future opportunity and risk profiles.

NOTES TO THE CONSOLIDATED BALANCE SHEET – ASSETS

(1) GOODWILL

SEGMENT BREAKDOWN OF GOODWILL

EUR MILLION

	Industrial Lines	Retail Germany – Property/Casualty	Retail Germany – Life	Retail International	Property/Casualty Reinsurance	Corporate Operations	2016	2015
Gross carrying amount as at 31.12. of the previous year	159	325	202	650	18	3	1,357	1,255
Currency translation as at 1.1. of the financial year	—	—	—	2	—1	—	1	—10
Gross carrying amount after currency translation as at 1.1. of the financial year	159	325	202	652	17	3	1,358	1,245
Additions due to business combinations	—	—	—	—	3	—	3	123
Disposals	—	—	—	2	—	—	2	—
Exchange rate changes	—	—	—	—	—	—	—	—11
Gross carrying amount as at 31.12. of the financial year	159	325	202	650	20	3	1,359	1,357
Accumulated impairment losses as at 31.12. of the previous year	5	77	202	33	—	3	320	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	77	202	33	—	3	320	165
Impairments	—	—	—	—	—	—	—	155
Accumulated impairment losses as at 31.12. of the financial year	5	77	202	33	—	3	320	320
Carrying amount as at 31.12. of the previous year	154	248	—	617	18	—	1,037	1,090
Carrying amount as at 31.12. of the financial year	154	248	—	617	20	—	1,039	1,037

IMPAIRMENT TESTING

Goodwill is allocated to cash-generating units (CGUs) or groups of CGUs in accordance with IFRS 3 in conjunction with IAS 36. It is allocated to those CGUs or groups of CGUs that are expected to derive economic benefits in the form of cash flows from the business combination that gave rise to the goodwill. Each CGU to which goodwill is allocated represents the lowest organisational level at which goodwill is monitored for internal management purposes.

The Group has therefore allocated all goodwill to CGUs or groups of CGUs. In the case of the Industrial Lines, Retail Germany – Property/Casualty – and Property/Casualty Reinsurance segments, the CGUs correspond to the segments of the same name in accordance with IFRS 8. In the Retail International segment, each foreign market essentially represents a separate CGU, although the lowest goodwill monitoring level corresponds to the geographical regions, which represent corresponding groups of CGUs.

CGUs TO WHICH GOODWILL IS ALLOCATED

EUR MILLION (MEASURED AT THE CLOSING RATE)

	31.12.2016	31.12.2015
Industrial Lines segment	154	154
Retail Germany – Property/Casualty segment	248	248
Retail International segment		
Latin America	227	210
Europe	390	407
Property/Casualty Reinsurance segment	20	18

The Group tests goodwill for impairment in the fourth quarter of each year, based on data as at 30 September of that year. As at the reporting date, there was no evidence of impairment for any of the CGUs or groups of CGUs, so that it was not necessary to carry out an unscheduled impairment test.

In order to establish whether an impairment loss needs to be recognised, the carrying amount of the CGU or the group of CGUs, including its allocated goodwill, is compared with its recoverable amount. Recoverable amount is the higher of fair value less costs of disposal and value in use. With the exception of the two reinsurance segments, the recoverable amount for all CGUs or groups of CGUs is always measured on the basis of value in use, which is calculated by the Group using a recognised valuation technique, specifically the discounted cash flow method. In individual cases, though not currently for any of the CGUs or groups of CGUs, the fair value less costs to sell is also used. If CGUs or groups of CGUs comprise more than one Group company, a sum-of-the-parts approach is used. Recoverable amount for the reinsurance segment is measured on the basis of fair value less costs to sell (Level 1 of the fair value hierarchy).

Material assumptions for determining the recoverable amount (value in use)

When it comes to measuring the value of the property/casualty insurers and the life insurers using the discounted cash flow method, the present value of future cash flows is calculated based on the projected income statements approved by the management of the companies concerned. The projections are prepared on a stand-alone basis, based on a going concern assumption that the entity will continue to operate a generally unchanged concept. As a rule, they project after-tax net income for the subsequent five years and, starting in the sixth year, extrapolate to perpetuity. The constant growth rates shown below – based on conservative assumptions – are used to extrapolate cash flows beyond the period of detailed planning.

The bancassurance property insurers are measured at the present value of future cash flows, whereby only the future earnings until the end of the relevant cooperation period are factored into the calculation. This is followed by assumed, linearly decreasing earnings over three years and notional liquidation proceeds.

In connection with the forecasting of future company-specific cash flows for individual CGUs or groups of CGUs, macroeconomic assumptions were made with respect to economic growth, inflation, interest rate trends and the market environment that correspond to the economic forecasts for the countries of the units to be measured and conform to market expectations and sector forecasts.

The combined ratio is an indicator of business performance in the area of property/casualty insurance, and results from projected premium development and expenses. It therefore expresses the overall assumptions made with regard to the premium, claim and cost performance. In planning the premiums and expenses, estimates are made in particular of the growth opportunities in the market environment as well as the trends in claims and costs in the context of planned measures at the company level. The projection of the investment income is carried out in relation to the respective asset portfolio, including the respective term structure and currency distribution, and based on the assumptions regarding the interest-rate performance. The net return on investment therefore varies widely by CGU or group of CGUs, depending on the interest-rate level of the currency area in question. In the field of life insurance, the assumption regarding the interest-rate performance represents the essential planning assumption.

The essential assumptions shown above result from the aggregation of the individual company plans of the companies in a CGU or a group of CGUs. The values assigned to the material parameters are arrived at from past experience and future expectations. The values assigned to the assumptions regarding the interest-rate performance per country are defined as standard for the whole Group and are derived from publicly available information sources. Any present values calculated in local currency are translated at the exchange rate as at the reporting date.

The discounted cash flow method is always applied to the evaluation of the life insurance companies (relevant only for the “Europe” group of CGUs). In order to take the particular characteristics of the life insurance business into account, the conventional appraisal-value method is also used to check the plausibility of any impairment if a determined MCEV value (including value of new business) is available. In the year under review, the application of the appraisal-value method for plausibility purposes – with the exception of an Italian life insurance company within the “Europe” group of CGUs – did not lead to any further application cases.

The discount factor (capitalisation rate) for the Group companies is calculated on the basis of the capital asset pricing model. The assumptions underlying the calculation of the capitalisation rate, including the risk-free base interest rate, the market risk premium and the beta factor, are determined on the basis of publicly available information and/or capital market data. The constant, long-term growth rates used are arrived at from past experience and future expectations, and do not exceed long-term average growth rates for the respective markets in which the companies operate.

CAPITALISATION RATES AND LONG-TERM GROWTH RATES¹⁾

	Capitalisation rate	Long-term growth rate
%		
Industrial Lines		
Eurozone	6.00–6.11	1.00
Other countries	7.50–12.50	1.00–4.00
Retail Germany – Property/Casualty	5.50–6.00	0.00–1.00
Retail International		
Europe		
Poland	8.50–10.70	2.00
Italy	6.88	1.00
Other countries	6.00–15.00	0.00–4.00
Latin America		
Chile	9.50	2.00
Mexico	11.00	4.00
Other countries	11.00–28.00	2.00–4.00

¹⁾ The figures relate to the reference date of the regular impairment test, namely 30 September 2016.

Impairment losses in the reporting period

There was no need to recognise goodwill impairment losses in the financial year. In the previous year, the goodwill of the Retail Germany division – Life segment in the amount of EUR 155 million was impaired.

Sensitivity analyses

The Group performed sensitivity analyses with respect to the most important parameters when calculating the recoverable amounts for all CGUs or groups of CGUs to which goodwill is allocated.

In order to cover key risks when calculating value in use, such as underwriting risk (combined ratio), interest rate parameters (interest rate risk), currency parameters (foreign exchange risk) and equity parameters (equity risk), a variety of conceivable scenarios complete with the relevant parameter changes were defined and studied in detail. In each case, one of the parameters was changed (all other things being equal) when calculating the value in use, whereas the other assumptions (in the medium-term planning and in the extrapolation) were left unchanged, and the resulting change in fair value was calculated. The calculations are based on value in use calculated when the impairment test is performed.

Unless indicated otherwise in the following, the calculations concerning the conceivable changes of parameters did not lead to any potential impairment. For the “Latin America” group of CGUs, the recoverable amount determined as the value in use exceeds the carrying amount by EUR 102 million. Depending on the country, detailed planning was based on combined ratios of approximately 85%–100% for the essential companies in the group of CGUs. A change in the combined ratio of +0.64 percentage points for the “Latin America” group of CGUs in the detailed planning would have led to the recoverable amount of the group of CGUs coming close to its carrying amount.

(2) OTHER INTANGIBLE ASSETS

CHANGES IN OTHER INTANGIBLE ASSETS

EUR MILLION

	Finite useful life					Indefinite useful life	2016	2015
	Insurance-related intangible assets	Software		Acquired sales networks and customer relationships	Other	Acquired brand names		
		Purchased	Developed					
Gross carrying amount as at 31.12. of the previous year	2,385	414	117	137	68	38	3,159	3,139
Change in basis of consolidation (additions)								
Business combinations	10	3	—	14	—	—	27	52
Additions	6	34	2	—	29	—	71	89
Disposals	—	5	4	—	3	—	12	88
Reclassifications	—	24	—	—	-27	—	-3	-31
Disposal groups in accordance with IFRS 5	-51	-2	—	-7	-1	—	-61	—
Exchange rate changes	-2	—	-2	-4	2	-1	-7	-2
Gross carrying amount as at 31.12. of the financial year	2,348	468	113	140	68	37	3,174	3,159
Accumulated amortisation and impairment losses as at 31.12. of the previous year	1,686	277	110	112	21	—	2,206	2,133
Change in basis of consolidation (additions)								
Business combinations	—	3	—	—	—	—	3	—
Disposals	—	5	4	—	1	—	10	82
Reversals of impairment losses	35	—	—	—	—	—	35	—
Amortisation/impairment losses								
Amortisation	32	37	2	6	3	—	80	87
Impairment losses ¹⁾	59	—	—	—	—	1	60	70
Disposal groups in accordance with IFRS 5	-19	-1	—	-6	—	—	-26	—
Exchange rate changes	-2	—	-1	-4	—	—	-7	-2
Accumulated amortisation and impairment losses as at 31.12. of the financial year	1,721	311	107	108	23	1	2,271	2,206
Carrying amount as at 31.12. of the previous year	699	137	7	25	47	38	953	1,006
Carrying amount as at 31.12. of the financial year	627	157	6	32	45	36	903	953

¹⁾ The impairment losses on insurance-related intangible assets (EUR 59 [65] million) can be attributed in full to the Retail Germany – Life segment.

Insurance-related intangible assets (= PVFP) consist of a shareholders' portion and a policyholders' portion. Only amortisation of the shareholders' portion reduces future earnings. The PVFP in favour of policyholders is recognised by life insurance companies that are required to enable their policyholders to participate in all results by establishing a provision for deferred premium refunds.

PVFP FOR PRIMARY LIFE INSURANCE COMPANIES

EUR MILLION

	31.12.2016	31.12.2015
Shareholders' portion	219	298
Policyholders' portion	322	319
Carrying amount	541	617

The amortisation of/impairment losses on the PVFP – including the impairment losses due to changes in the assumptions regarding the long-term interest-rate level – totalling EUR 91 (88) million are attributable as follows: EUR 58 (56) million to the shareholders' portion and EUR 33 (32) million to the policyholders' portion. These amounts are essentially attributable to the following segments as follows: Retail Germany – Life EUR (73 [63]) million, Retail International EUR (14 [19]) million and Life/Health Reinsurance EUR (4 [5]) million.

The reversals of impairment (EUR 35 [0] million) due to amendments in the accounting principles resulted in entirely from the Retail Germany – Life segment and can be allocated with EUR 5 million to the shareholders' portion and with EUR 30 million to the policyholders' portion.

PVFP BY POLICY TERM

EUR MILLION

	Term				Total
	Up to 10 years	Up to 20 years	Up to 30 years	More than 30 years	
Shareholders' portion	122	81	55	47	305
of which investment contracts	17	5	—	—	22
Policyholders' portion	132	88	61	41	322
Carrying amount as at 31.12.2016	254	169	116	88	627

The acquired brand names worth EUR 36 (38) million (essentially "WARTA" [EUR 30 million]) are indefinite-lived intangible assets since, based on an analysis of all relevant factors (including anticipated use, control, dependence on other assets), there is no foreseeable limitation on the period during which the asset can be expected to generate net cash flows.

(3) INVESTMENT PROPERTY

INVESTMENT PROPERTY

EUR MILLION

	2016	2015
Gross carrying amount as at 31.12. of the previous year	2,419	2,076
Change in basis of consolidation (additions)		
Business combinations	—	5
Additions	316	356
Disposals	7	61
Disposal groups in accordance with IFRS 5	-17	—
Reclassification	—	—
Exchange rate changes	27	43
Gross carrying amount as at 31.12. of the financial year	2,738	2,419
Accumulated depreciation and impairment losses as at 31.12. of the previous year	221	203
Disposals	1	24
Reversal after impairment	9	7
Depreciation and impairment losses		
Depreciation	45	39
Impairment losses	2	8
Disposal groups in accordance with IFRS 5	-2	—
Reclassification	—	—
Exchange rate changes	2	2
Accumulated depreciation and impairment losses as at 31.12. of the financial year	258	221
Carrying amount as at 31.12. of the previous year	2,198	1,873
Carrying amount as at 31.12. of the financial year	2,480	2,198

Additions in the reporting period were attributable in particular to the Retail Germany – Life (EUR 154 million), Property/Casualty Reinsurance (EUR 119 million) and Industrial Lines (EUR 28 million) segments.

The fair value of investment property amounted to EUR 2,814 (2,418) million as at the reporting date. EUR 14 (13) million of this amount is attributable to Level 2 of the fair value hierarchy and EUR 2,800 (2,405) 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 59 (64) million. Operating expenses of EUR 22 (5) million were incurred on properties with which no rental income is generated.

In the case of investment property, there were restrictions on disposal and guarantee assets in the amount of EUR 876 (785) million as at 31 December 2016. Contractual obligations to buy, create or develop investment property as well as those for repairs, maintenance and improvements amounted to EUR 86 (44) million as at the reporting date.

(4) SHARES IN AFFILIATED COMPANIES AND PARTICIPATING INTERESTS

SHARES IN AFFILIATED COMPANIES AND PARTICIPATING INTERESTS

EUR MILLION

	2016	2015
Affiliated companies	15	31
Participating interests	124	80
Carrying amount as at 31.12. of the financial year	139	111

(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.

INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

EUR MILLION

	2016	2015
Carrying amount as at 31.12. of the previous year	272	262
Change in basis of consolidation	-26	-6
Additions	13	47
Disposals	—	—
Disposal groups in accordance with IFRS 5	19	-19
Depreciation and impairment losses	—	31
Adjustment recognised in profit or loss	11	12
Adjustment recognised outside profit or loss	-6	6
Exchange rate changes	7	1
Carrying amount as at 31.12. of the financial year	290	272

The goodwill of all companies measured using the equity method amounted to EUR 128 (126) million at the year-end. Shares of losses totalling EUR 0 (0) million were not recognised in the financial year.

For further information on the Group's interest in associates and joint ventures, and on the equity and net income or loss for the year of these entities, please refer to the list of shareholdings on pages 242ff.

There were no obligations from contingent liabilities of associates and joint ventures at the reporting date.

INVESTMENTS IN ASSOCIATES

EUR MILLION

	2016	2015
Carrying amount as at 31.12. of the financial year	282	264
Profit from continuing operations	68	56
Profit after tax from discontinued operations	—	—
Other comprehensive income	-13	13
Total comprehensive income	55	69

INVESTMENTS IN JOINT VENTURES

EUR MILLION

	2016	2015
Carrying amount as at 31.12. of the financial year	8	8
Profit from continuing operations	1	-1
Profit after tax from discontinued operations	—	—
Other comprehensive income	—	—
Total comprehensive income	1	-1

(6) LOANS AND RECEIVABLES**LOANS AND RECEIVABLES**

EUR MILLION

	Amortised cost		Unrealised gains/losses		Fair value	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Mortgage loans	425	558	34	48	459	606
Loans and prepayments on insurance policies	142	175	—	—	142	175
Loans and receivables due from government or quasi-governmental entities ¹⁾	10,416	9,692	1,421	1,513	11,837	11,205
Corporate bonds	5,029	5,862	402	436	5,431	6,298
Covered bonds/asset-backed securities	13,413	13,450	3,071	2,894	16,484	16,344
Profit participation rights	—	17	—	3	—	20
Total	29,425	29,754	4,928	4,894	34,353	34,648

¹⁾ Loans and receivables due from government or quasi-governmental entities include securities of EUR 3,201 (3,241) 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 13,401 (13,434) million, which corresponds to 99% (99%) of the total amount.

CONTRACTUAL MATURITIES

EUR MILLION

	Amortised cost		Fair value	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Due within one year	2,191	2,650	2,245	2,721
More than one year, up to two years	1,098	1,904	1,147	1,990
More than two years, up to three years	1,436	1,101	1,558	1,188
More than three years, up to four years	1,320	1,429	1,475	1,598
More than four years, up to five years	1,186	1,520	1,334	1,742
More than five years, up to ten years	6,431	5,912	7,690	7,051
More than ten years	15,763	15,238	18,904	18,358
Total	29,425	29,754	34,353	34,648

RATING STRUCTURE OF LOANS AND RECEIVABLES

EUR MILLION

	Amortised cost	
	31.12.2016	31.12.2015
AAA	15,880	14,601
AA	6,150	6,771
A	2,862	3,644
BBB or lower	3,766	3,658
Not rated	767	1,080
Total	29,425	29,754

The rating categories are based on the classifications used by the leading international rating agencies. Unrated loans and receivables consist principally of mortgage loans and policy loans.

(7) FINANCIAL ASSETS HELD TO MATURITY

FINANCIAL ASSETS HELD TO MATURITY

EUR MILLION

	Amortised cost		Unrealised gains/losses		Fair value	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Government debt securities of EU member states	171	287	12	18	183	305
US treasury notes	10	83	—	—	10	83
Other foreign government debt securities	112	98	1	—	113	98
Debt securities issued by quasi-governmental entities ¹⁾	102	236	5	8	107	244
Corporate bonds	103	142	4	4	107	146
Covered bonds/asset-backed securities	246	441	25	36	271	477
Total	744	1,287	47	66	791	1,353

¹⁾ Debt securities issued by quasi-governmental entities include securities of EUR 27 (80) 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 244 (440) million, which corresponds to 99% (99%) of the total amount.

CONTRACTUAL MATURITIES

EUR MILLION

	Amortised cost		Fair value	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Due within one year	251	622	252	629
More than one year, up to two years	176	211	181	216
More than two years, up to three years	58	142	62	148
More than three years, up to four years	42	49	48	54
More than four years, up to five years	140	41	163	48
More than five years, up to ten years	62	207	68	240
More than ten years	15	15	17	18
Total	744	1,287	791	1,353

RATING STRUCTURE OF FINANCIAL ASSETS HELD TO MATURITY

EUR MILLION

	Amortised cost	
	31.12.2016	31.12.2015
AAA	312	605
AA	120	220
A	133	232
BBB or lower	179	230
Not rated	—	—
Total	744	1,287

The rating categories are based on the classifications used by the leading international rating agencies.

(8) FINANCIAL ASSETS AVAILABLE FOR SALE**FINANCIAL ASSETS AVAILABLE FOR SALE**

EUR MILLION

	Amortised cost		Unrealised gains/losses		Fair value	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Fixed-income securities						
Government debt securities of EU member states	8,805	8,536	1,174	1,005	9,979	9,541
US treasury notes	6,882	5,450	-131	-19	6,751	5,431
Other foreign government debt securities	2,609	2,370	-11	-16	2,598	2,354
Debt securities issued by quasi-governmental entities ¹⁾	9,579	8,033	943	798	10,522	8,831
Corporate bonds	23,339	22,694	1,078	490	24,417	23,184
Investment funds	719	664	99	84	818	748
Covered bonds/asset-backed securities	9,541	8,525	684	603	10,225	9,128
Profit participation certificates	123	178	—	1	123	179
Others	2	—	—	—	2	—
Total fixed-income securities	61,599	56,450	3,836	2,946	65,435	59,396
Variable-yield securities						
Equities	914	531	150	61	1,064	592
Investment funds	1,282	1,088	205	142	1,487	1,230
Profit participation certificates	64	52	—	1	64	53
Total variable-yield securities	2,260	1,671	355	204	2,615	1,875
Total securities	63,859	58,121	4,191	3,150	68,050	61,271

¹⁾ Debt securities issued by quasi-governmental entities include securities of EUR 3,187 (2,702) 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 8,748 (7,725) million, which corresponds to 86% (85%) of the total amount.

CONTRACTUAL MATURITIES OF FIXED-INCOME SECURITIES

EUR MILLION

	Fair value		Amortised cost	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Due within one year	3,652	2,943	3,638	2,927
More than one year, up to two years	4,467	4,700	4,416	4,654
More than two years, up to three years	4,203	5,098	4,115	5,019
More than three years, up to four years	5,510	3,880	5,328	3,767
More than four years, up to five years	5,250	5,613	5,079	5,425
More than five years, up to ten years	24,217	21,120	22,987	20,084
More than ten years	18,136	16,042	16,036	14,574
Total	65,435	59,396	61,599	56,450

RATING STRUCTURE OF FIXED-INCOME SECURITIES

EUR MILLION

	Fair value	
	31.12.2016	31.12.2015
AAA	22,850	19,571
AA	13,715	12,759
A	11,102	12,225
BBB or lower	16,947	14,294
Not rated	821	547
Total	65,435	59,396

The rating categories are based on the classifications used by the leading international rating agencies.

(9) FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

EUR MILLION

	Fair value	
	31.12.2016	31.12.2015
Fixed-income securities		
Government debt securities of EU member states	30	26
Other foreign government debt securities	174	76
Debt securities issued by quasi-governmental entities ¹⁾	6	—
Corporate bonds	682	526
Investment funds	147	140
Covered bonds/asset-backed securities	2	—
Profit participation certificates	46	38
Other	—	1
Total fixed-income securities	1,087	807
Investment funds (variable-yield securities)	18	30
Other variable-yield securities	1	37
Total financial assets classified at fair value through profit or loss	1,106	874
Fixed-income securities		
Government debt securities of EU member states	—	2
Other foreign government debt securities	3	1
Corporate bonds	—	3
Total fixed-income securities	3	6
Investment funds (variable-yield securities)	174	135
Derivatives	69	48
Total financial assets held for trading	246	189
Total	1,352	1,063

¹⁾ Debt securities issued by quasi-governmental entities include securities of EUR 6 (0) 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 2 (0) million, which corresponds to 100% (0%) of the total amount.

CONTRACTUAL MATURITIES OF FIXED-INCOME SECURITIES

EUR MILLION

	Fair value	
	31.12.2016	31.12.2015
Due within one year	136	118
More than one year, up to two years	350	115
More than two years, up to three years	87	145
More than three years, up to four years	85	65
More than four years, up to five years	75	43
More than five years, up to ten years	181	60
More than ten years	176	267
Total	1,090	813

RATING STRUCTURE OF FIXED-INCOME SECURITIES

EUR MILLION

	Fair value	
	31.12.2016	31.12.2015
AAA	—	—
AA	7	—
A	196	186
BBB or lower	401	298
Not rated	486	329
Total	1,090	813

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 (1) million in the reporting period and EUR 3 (2) million on an accumulated basis. There are no credit derivatives or similar hedging instruments for these securities.

(10) OTHER INVESTMENTS**CLASSIFICATION OF OTHER INVESTMENTS**

EUR MILLION

	Carrying amounts	
	31.12.2016	31.12.2015
Loans and receivables	117	38
Available for sale	3,969	4,321
Financial assets at fair value through profit or loss	55	80
Non-current assets from infrastructure investments	553	382
Total	4,694	4,821

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.

AVAILABLE FOR SALE

EUR MILLION

	Amortised cost		Unrealised gains/losses		Fair value	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Investments in partnerships	1,610	1,378	510	500	2,120	1,878
Other participating interests	270	126	18	19	288	145
Other short-term investments	1,561	2,298	—	—	1,561	2,298
Total	3,441	3,802	528	519	3,969	4,321

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.

RATING STRUCTURE OF OTHER SHORT-TERM INVESTMENTS

EUR MILLION

	Fair value	
	31.12.2016	31.12.2015
AAA	—	—
AA	73	85
A	925	1,126
BBB or lower	349	558
Not rated	214	529
Total	1,561	2,298

Financial assets at fair value through profit or loss relate to purchased life insurance policies.

“Non-current assets from infrastructure investments” relate to wind farm assets. There are no restrictions on disposal of the assets, which have not been pledged as collateral.

INFRASTRUCTURE INVESTMENTS

EUR MILLION

	2016	2015
Gross carrying amount as at 31.12. of the previous year	310	60
Change in basis of consolidation	120	182
Additions	166	68
Disposals	—	—
Reclassification	—	—
Exchange rate changes	—	—
Gross carrying amount as at 31.12. of the financial year	596	310
Accumulated depreciation and impairment losses as at 31.12. of the previous year	12	—
Change in basis of consolidation	6	—
Disposals	—	—
Reversal after impairment	—	—
Depreciation and impairment losses		
Depreciation	25	12
Impairment losses	—	—
Reclassification	—	—
Exchange rate changes	—	—
Accumulated depreciation and impairment losses as at 31.12. of the financial year	43	12
Carrying amount as at 31.12. of the previous year	298	60
Carrying amount as at 31.12. of the financial year	553	298

“Non-current assets from infrastructure investments” include assets under construction amounting to EUR 0 (84) million.

(11) INVESTMENTS UNDER INVESTMENT CONTRACTS**CLASSIFICATION OF INVESTMENTS UNDER INVESTMENT CONTRACTS**

EUR MILLION

	Carrying amounts	
	31.12.2016	31.12.2015
Loans and receivables	62	854
Financial liabilities classified at fair value through profit or loss	1,026	1,316
Derivatives	3	53
Total	1,091	2,223

LOANS AND RECEIVABLES

CONTRACTUAL MATURITIES

EUR MILLION

	Amortised cost		Fair value	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Due within one year	20	118	20	118
More than one year, up to two years	6	208	6	208
More than two years, up to three years	—	124	—	124
More than three years, up to four years	—	33	—	33
More than four years, up to five years	36	—	36	—
More than five years, up to ten years	—	339	—	339
More than five years, up to ten years	—	32	—	32
Total	62	854	62	854

RATING STRUCTURE

EUR MILLION

	Amortised cost	
	31.12.2016	31.12.2015
AAA	—	—
AA	—	—
A	—	27
BBB or lower	55	758
Not rated	7	69
Total	62	854

FINANCIAL ASSETS CLASSIFIED AT FAIR VALUE THROUGH PROFIT OR LOSS AND DERIVATIVES

CONTRACTUAL MATURITIES

EUR MILLION

	Fair value	
	31.12.2016	31.12.2015
Due within one year	51	25
More than one year, up to two years	32	14
More than two years, up to three years	15	2
More than three years, up to four years	18	61
More than four years, up to five years	29	11
More than five years, up to ten years	260	219
More than ten years	624	1,037
Total	1,029	1,369

RATING STRUCTURE

EUR MILLION

	Fair value	
	31.12.2016	31.12.2015
AAA	27	1
AA	34	21
A	135	151
BBB or lower	695	172
Not rated	138	1,024
Total	1,029	1,369

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 (un-adjusted) 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% (6%).

In total, 89% (89%) of financial instruments measured at fair value were allocated to Level 2 at the reporting date.

At the reporting date, the Group allocated 5% (5%) of financial instruments measured at fair value to Level 3.

There were no material transfers between Levels 1 and 2 during the financial year (2015: EUR 24 million).

Liabilities in the amount of EUR 3 (6) million issued with an inseparable third-party credit enhancement within the meaning of IFRS 13.98 existed as at the reporting date. The credit enhancements are not reflected in the measurement of the fair value.

FAIR VALUE HIERARCHY – FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

EUR MILLION

Carrying amount of financial instruments recognised at fair value by class	Level 1	Level 2	Level 3 ¹⁾	Carrying amount
31.12.2016				
Financial assets measured at fair value				
Financial assets available for sale				
Fixed-income securities	82	65,353	—	65,435
Variable-yield securities	1,643	65	907	2,615
Financial assets at fair value through profit or loss				
Financial liabilities classified at fair value through profit or loss	15	1,036	55	1,106
Financial assets held for trading	180	66	—	246
Other investments	1,560	5	2,459	4,024
Other assets, derivative financial instruments (hedging instruments)	—	336	—	336
Investment contracts				
Financial assets classified at fair value through profit or loss	835	4	187	1,026
Derivatives	—	—	3	3
Total financial assets measured at fair value	4,315	66,865	3,611	74,791
Financial liabilities measured at fair value				
Other liabilities (negative fair values from derivative financial instruments)				
Negative fair values from derivatives	2	28	221	251
Negative fair values from hedging instruments	—	—	—	—
Other liabilities (investment contracts)				
Financial liabilities classified at fair value through profit or loss	224	616	187	1,027
Derivatives	—	—	3	3
Total financial liabilities measured at fair value	226	644	411	1,281
31.12.2015				
Financial assets measured at fair value				
Financial assets available for sale				
Fixed-income securities	87	59,309	—	59,396
Variable-yield securities	994	78	803	1,875
Financial assets at fair value through profit or loss				
Financial liabilities classified at fair value through profit or loss	60	770	44	874
Financial assets held for trading	143	43	3	189
Other investments	2,266	37	2,098	4,401
Other assets, derivative financial instruments (hedging instruments)	—	225	—	225
Investment contracts				
Financial assets classified at fair value through profit or loss	396	739	181	1,316
Derivatives	—	48	5	53
Total financial assets measured at fair value	3,946	61,249	3,134	68,329
Financial liabilities measured at fair value				
Other liabilities (negative fair values from derivative financial instruments)				
Negative fair values from derivatives	6	16	208	230
Negative fair values from hedging instruments	—	11	—	11
Other liabilities (investment contracts)				
Financial liabilities classified at fair value through profit or loss	416	731	181	1,328
Derivatives	—	48	5	53
Total financial liabilities measured at fair value	422	806	394	1,622

¹⁾ Categorisation in Level 3 does not represent any indication of quality. No conclusions may be drawn as to the credit quality of the issuers.

ANALYSIS OF FINANCIAL INSTRUMENTS FOR WHICH SIGNIFICANT INPUTS ARE NOT BASED ON OBSERVABLE MARKET DATA (LEVEL 3)

The following table shows a reconciliation of the financial instruments (abbreviated in the following to FI) included in Level 3 at the beginning of the reporting period to the carrying amounts as at 31 December of the financial year.

RECONCILIATION OF FINANCIAL INSTRUMENTS¹⁾ (FINANCIAL ASSETS) INCLUDED IN LEVEL 3 AT THE BEGINNING OF THE REPORTING PERIOD TO CARRYING AMOUNTS AS AT 31 DECEMBER 2016

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
2016							
Opening balance at 1.1.2016	803	44	3	2,098	181	5	3,134
Change in basis of consolidation	—	—	—	—	—	—	—
Income and expenses							
recognised in the statement of income	-12	3	—	-19	9	-1	-20
recognised in other comprehensive income	25	—	—	-5	—	—	20
Transfers into Level 3	4 ²⁾	—	—	—	—	—	4
Transfers out of Level 3	9 ³⁾	—	—	—	—	—	9
Additions							
Purchases	230	33	—	619	22	1	905
Disposals							
Sales	141	12	3	282	18	2	458
Repayments/redemptions	—	13	—	—	—	—	13
Exchange rate changes	7	—	—	48	-7	—	48
Ending balance at 31.12.2016	907	55	—	2,459	187	3	3,611
2015							
Opening balance at 1.1.2015	657	37	6	1,662	158	5	2,525
Change in basis of consolidation	68	—	—	—	—	—	68
Income and expenses							
recognised in the statement of income	-42	2	—	29	9	1	-1
recognised in other comprehensive income	4	—	—	-24	—	—	-20
Transfers into Level 3	—	1 ²⁾	—	—	—	—	1
Transfers out of Level 3	2 ³⁾	—	—	—	—	—	2
Additions							
Purchases	265	29	2	577	94	1	968
Disposals							
Sales	166	6	5	242	82	2	503
Repayments/redemptions	—	17	—	—	—	—	17
Exchange rate changes	19	-2	—	96	2	—	115
Ending balance at 31.12.2015	803	44	3	2,098	181	5	3,134

¹⁾ The term “financial instruments” is abbreviated to “FI” in the following.

²⁾ Trading in an active market discontinued.

³⁾ Trading in an active market commenced.

**RECONCILIATION OF FINANCIAL INSTRUMENTS³⁾ (FINANCIAL LIABILITIES) INCLUDED IN LEVEL 3
AT THE BEGINNING OF THE REPORTING PERIOD TO CARRYING AMOUNTS AS AT 31 DECEMBER 2016**

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
2016				
Opening balance at 1.1.2016	208	181	5	394
Income and expenses				
recognised in the statement of income	20	-9	1	12
recognised in other comprehensive income	—	—	—	—
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	—	—	—
Additions				
Purchases	29	22	1	52
Disposals				
Sales	—	18	2	20
Repayments/redemptions	—	—	—	—
Exchange rate changes	4	-7	—	-3
Ending balance at 31.12.2016	221	187	3	411
2015				
Opening balance at 1.1.2015	189	158	5	352
Income and expenses				
recognised in the statement of income	20	-9	-1	10
recognised in other comprehensive income	—	—	—	—
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	—	—	—
Additions				
Purchases	54	94	1	149
Disposals				
Sales	31	82	2	115
Repayments/redemptions	—	—	—	—
Exchange rate changes	16	2	—	18
Ending balance at 31.12.2015	208	181	5	394

³⁾ The term "financial instruments" is abbreviated to "FI" in the following.

Income and expenses for the period that were recognised in the consolidated statement of income, including gains and losses on Level 3 assets and liabilities held in the portfolio at the end of the reporting period, are shown in the following table.

EFFECT ON PROFIT OR LOSS OF LEVEL 3 FINANCIAL INSTRUMENTS¹⁾ (FINANCIAL ASSETS) MEASURED AT FAIR VALUE

EUR MILLION

	Available for sale FI/ variable-yield securities	FI classified at fair value through profit or loss	FI held for trading	Other investments	Investment contracts/ FI classified at fair value through profit or loss	Investment contracts/ derivatives	Total amount of financial assets measured at fair value
2016							
Gains and losses in financial year 2016							
Investment income	—	3	1	14	40	2	60
Investment expenses	-12	—	-1	-33	-31	-3	-80
of which attributable to financial instruments included in the portfolio as at 31.12.2016							
Investment income ²⁾	—	3	1	6	40	2	52
Investment expenses ³⁾	-10	—	-1	-24	-31	-4	-70
2015							
Gains and losses in financial year 2015							
Investment income	—	4	5	36	64	6	115
Investment expenses	-42	-2	-5	-7	-55	-5	-116
of which attributable to financial instruments included in the portfolio as at 31.12.2015							
Investment income ²⁾	—	3	5	8	64	6	86
Investment expenses ³⁾	-42	-2	-4	-7	-55	-5	-115

¹⁾ The term “financial instruments” is abbreviated to “FI” in the following.

²⁾ Of which EUR 52 (86) million attributable to unrealised gains.

³⁾ Of which EUR 38 (-65) million attributable to unrealised losses.

EFFECT ON PROFIT OR LOSS OF LEVEL 3 FINANCIAL INSTRUMENTS¹⁾ (FINANCIAL LIABILITIES) MEASURED AT FAIR VALUE

EUR MILLION

	Other liabilities/ negative fair values from derivatives	Investment contracts/ FI classified at fair value through profit or loss	Investment contracts/ derivatives	Total amount of financial liabilities measured at fair value
2016				
Gains and losses in financial year 2016				
Investment income	23	31	3	57
Investment expenses	—	-40	-2	-42
Financing costs	-3	—	—	-3
of which attributable to financial instruments included in the portfolio as at 31.12.2016				
Investment income ²⁾	23	31	3	57
Investment expenses ³⁾	—	-40	-2	-42
Financing costs ⁴⁾	-3	—	—	-3
2015				
Gains and losses in financial year 2015				
Investment income	18	55	5	78
Investment expenses	—	-64	-6	-70
Financing costs	2	—	—	2
of which attributable to financial instruments included in the portfolio as at 31.12.2016				
Investment income ²⁾	18	55	5	78
Investment expenses ³⁾	—	-64	-6	-70
Financing costs	2	—	—	2

¹⁾ The term “financial instruments” is abbreviated to “FI” in the following.

²⁾ Of which EUR 57 (78) million attributable to unrealised gains.

³⁾ Of which EUR 42 (-70) million attributable to unrealised losses.

⁴⁾ Of which EUR -3 (2) million attributable to unrealised gains.

ADDITIONAL INFORMATION ABOUT THE MEASUREMENT OF LEVEL 3 FINANCIAL INSTRUMENTS

EUR MILLION

	Fair value at 31.12.2016	Fair value at 31.12.2015	Measurement method	Unobservable inputs	Fluctuation (weighted average)
CDOs/CLOs ¹⁾	27	28	Present value method	Prepayment speed Risk premiums Default rates Recovery rates Redemptions	n. a. ⁴⁾
Unlisted equities, real estate and bond funds ²⁾	1,518	947	NAV method ³⁾	n. a.	n. a.
Private equity funds/private equity real estate funds ²⁾	1,645	1,873	NAV method ³⁾	n. a.	n. a.
Written put options for minority interests ²⁾	52	51	Discounted NAV ³⁾	Risk-free interest rate	5.6% (5.6%)
Unlisted bond funds ²⁾	33	18	NAV method ³⁾	n. a.	n. a.
Insurance contracts ¹⁾	299	239	Present value method	Fair values of CAT bonds, yield curve	n. a. ⁴⁾
Investment contracts	380	372	—	—	—
Interest swaps	68	—	Present value method	Interest rate	7.1–7.5% (7.4%)

¹⁾ These financial instruments are classified in Level 3, since unobservable inputs were used to measure them.

²⁾ These financial instruments are classified in Level 3, since they are neither based on market prices nor measured by the Group on the basis of observable inputs. They are measured using the NAV method.

³⁾ NAV: net asset value – alternative inputs within the meaning of IFRS 13 cannot be reasonably established.

⁴⁾ Fluctuations cannot be reasonably established without disproportionate effort due to the distinct character of the individual inputs.

If Level 3 financial instruments are measured using models in which the use of reasonable alternative inputs leads to a material change in fair value, IFRS 7 requires disclosure of the effects of these alternative assumptions. Of the Level 3 financial instruments with fair values amounting to a total of EUR 4.0 (3.5) billion at the reporting date, the Group generally measured financial instruments with a volume of EUR 3.2 (2.9) 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 190 (186) 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 299 (239) 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 95 (28) million, the effects of alternative inputs and assumptions are immaterial.

MEASUREMENT PROCESS

The measurement process consists of using either publicly available prices in active markets or measurements with economically established models that are based on observable inputs in order to ascertain the fair value of financial investments (Level 1 and Level 2 assets). For assets for which publicly available prices or observable market data are not available (Level 3 assets), measurements are primarily made on the basis of documented measurements prepared by independent professional experts (e.g. audited net asset value) that have previously been subjected to systematic plausibility checks. The organisational unit entrusted with measuring investments is independent from the organisational units that enter into investment risks, thus ensuring the separation of functions and responsibilities. The measurement processes and methods are documented in full. Decisions on measurement questions are taken by the Talanx Valuation Committee, which meets monthly.

We do not make use of the portfolio measurement option allowed by IFRS 13.48.

BREAKDOWN OF FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE WITH FAIR VALUES DISCLOSED IN THE NOTES

FAIR VALUE HIERARCHY – FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

EUR MILLION

Fair values of financial instruments not recognised at fair value, by balance sheet item	Level 1	Level 2	Level 3 ¹⁾	Fair value
31.12.2016				
Financial assets not measured at fair value				
Loans and receivables	68	33,405	880	34,353
Financial assets held to maturity	—	791	—	791
Other investments	—	22	95	117
Investment contracts – loans and receivables	1	61	—	62
Total financial assets not measured at fair value	69	34,279	975	35,323
Financial liabilities not measured at fair value				
Subordinated liabilities	—	2,265	14	2,279
Notes payable	—	1,553	120	1,673
Other commitments under investment contracts	—	73	—	73
Total financial liabilities not measured at fair value	—	3,891	134	4,025
31.12.2015				
Financial assets not measured at fair value				
Loans and receivables	100	34,415	133	34,648
Financial assets held to maturity	—	1,353	—	1,353
Other investments	—	24	14	38
Investment contracts – loans and receivables	781	73	—	854
Total financial assets not measured at fair value	881	35,865	147	36,893
Financial liabilities not measured at fair value				
Subordinated liabilities	—	2,233	3	2,236
Notes payable	—	1,462	67	1,529
Other commitments under investment contracts	763	79	—	842
Total financial liabilities not measured at fair value	763	3,774	70	4,607

¹⁾ Categorisation in Level 3 does not represent any indication of quality. No conclusions may be drawn as to the credit quality of the issuers.

(13) DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

DERIVATIVES

We use derivative financial instruments to hedge against interest rate, currency and other market risks and, to a limited extent, also to optimise income and realise intentions to buy and sell. In this context, the applicable regulatory requirements and the standards set out in the Group's internal investment guidelines are strictly observed, and prime-rated counterparties are always selected.

In addition, embedded derivatives in structured products and insurance contracts are separated from the host contracts and recognised separately at fair value where this is required by IAS 39 or IFRS 4.

Derivative financial instruments are initially measured at the fair value attributable to them at the transaction date. Thereafter, they are measured at the fair value applicable at each reporting date. For information on the valuation techniques used, see the "Fair value measurement" subsection in the "Accounting policies", pages 146ff.

The method for recognising gains and losses depends on whether the derivative financial instrument is used as a hedging instrument in hedge accounting in accordance with IAS 39 and, if it is, on the nature of the hedged item/risk. In the case of derivatives that are not used as hedging instruments, changes in value are recognised as income or expenses in "Net investment income". This approach also applies to separated embedded derivatives associated with structured financial instruments and insurance contracts. With regard to hedging instruments, the Group divides the derivatives into fair value hedges and cash flow hedges according to their particular purpose.

DERIVATIVE FINANCIAL INSTRUMENTS, BY BALANCE SHEET ITEM

EUR MILLION

	Hedging instrument under IAS 39	31.12.2016	31.12.2015
Balance sheet item (positive fair values)			
Financial assets at fair value through profit or loss, financial assets held for trading (derivatives)	No	69	48
Investment contracts, financial assets held for trading (derivatives)	No	3	53
Other assets, derivative financial instruments (hedging instruments)	Yes	336	225
Balance sheet item (negative fair values)			
Other liabilities:			
Liabilities from derivatives	No	-251	-230
Liabilities from derivatives (hedging instruments)	Yes	—	-11
Investment contracts, derivatives	No	-3	-53
Total (net)		154	32

Derivative financial instruments – excluding hedging instruments – generated an unrealised gain of EUR 46 (–22) million in the financial year. The loss realised on positions closed out in 2016 amounted to EUR –6 (–36) million.

The fair values of our open derivative positions at the reporting date, including their associated notional amounts, are disclosed in the table “Maturities of derivative financial instruments”, classified by risk type and maturity. Positive and negative fair values are offset in the table. This shows that open positions from derivatives amounted to EUR 154 (32) million at the reporting date, corresponding to 0.1% (0.02%) of total assets.

DISCLOSURES ON OFFSETTING FINANCIAL ASSETS AND LIABILITIES

The Group enters into derivatives transactions on the basis of standardised master agreements that contain master netting arrangements. The netting arrangements described in table “Netting arrangements” do not generally meet the criteria for offsetting in the balance sheet because the Group has no enforceable right of set-off relating to the recognised amounts at the present time. The right of set-off is generally enforceable only when certain defined future events occur. Depending on the counterparty, collateral pledged or received is taken into account up to the amount of the related net liability or net asset.

HEDGE ACCOUNTING

The Group uses hedge accounting to compensate for changes in an underlying transaction’s fair value or cash flows that are caused by changes in market prices by entering into a hedging instrument (derivative) whose changes in fair value or cash flows approximately offset those of the hedged item. Hedging is carried out for individual transactions (micro hedges). When a hedge is entered into, we document the hedging relationship between the hedged item and the hedging instrument, the risk management objective and the underlying hedging strategy. In addition, at the inception of the hedging relationship, we document our assessment of the extent to which the hedging instruments will be highly effective in offsetting the changes in the fair value or cash flows of the hedged items. There is documented evidence of the effectiveness of the hedges.

MATURITIES OF DERIVATIVE FINANCIAL INSTRUMENTS

EUR MILLION

	Due within one year	More than one year, up to five years	More than five years, up to ten years	More than ten years	Others	31.12.2016	31.12.2015
Interest rate hedges							
Fair value	138	189	-2	—	—	325	209
Notional amount	798	490	17	—	—	1,305	1,168
Currency hedges							
Fair value	11	-3	—	—	—	8	12
Notional amount	857	30	2	—	—	889	774
Equity and index hedges							
Fair value	5	—	-51	—	—	-46	-42
Notional amount	117	6	-20	—	—	103	177
Derivatives associated with insurance contracts¹⁾							
Fair value	-14	-30	—	19	-121	-146	-142
Other risks							
Fair value	2	2	—	4	5	13	-5
Notional amount	59	303	168	4	5	539	198
Total hedges							
Fair value	142	158	-53	23	-116	154	32
Notional amount	1,831	829	167	4	5	2,836	2,317

¹⁾ Financial instruments relate to embedded derivatives mainly in connection with reinsurance business, which are required by IFRS 4 to be separated from the underlying insurance contract and recognised separately. Due to the characteristics of these derivatives, it is not reasonably possible to disclose the notional amounts, and this information has therefore been omitted. These derivatives are recognised at fair value.

NETTING ARRANGEMENTS

EUR MILLION

	Fair value	Netting arrangement	Cash collateral received/provided	Other collateral received/provided	Net amount
31.12.2016					
Derivatives (positive fair values)	364	8	1	253	102
Derivatives (negative fair values)	23	6	—	8	9
31.12.2015					
Derivatives (positive fair values)	246	13	2	169	62
Derivatives (negative fair values)	23	13	5	2	3

Fair value hedges

In order to partially hedge the changes in the fair value resulting from the interest rate-change and spread risk in fixed-income securities, the Group has designated forward sales as hedging derivatives. Due to the comparable risks involved in the designated underlying transactions and the hedging derivatives, the latter qualify to be recognised in the balance sheet as fair value hedges. Any changes in the fair value of the hedge derivatives are recognised through

profit or loss in the net investment income with the changes in the fair value of the underlying transactions (forward prices) that can be allocated to the hedged risk.

With regard to the fair value hedges, losses were recognised through profit or loss in the reporting period in the amount of EUR 14 million from the hedge derivatives, but there were gains of EUR 14 million from the underlying transactions. These hedges did not involve any material ineffectiveness.

Cash flow hedges

The Group hedged interest rate risk exposures in highly probable forecast transactions. To do so, it recognised hedges combining forward securities transactions (forward purchases) and planned securities purchases. Forward purchases are used to hedge the risk that future returns on firmly committed reinvestments may be low due to falling interest rates. The underlying transaction for the hedging instruments is the future investment at the returns/prices applicable at the time. In accordance with IAS 39, hedging forecast transactions is accounted for as a cash flow hedge.

To hedge against price risks in connection with the stock appreciation rights granted under its share award plan, Hannover Rück SE has been purchasing hedging instruments in the form of equity swaps (cash flow hedges) since 2014.

The effective portion of hedging instruments measured at fair value is recognised in equity in the reserve for cash flow hedges, net of deferred taxes and any policyholder participation. By contrast, the ineffective portion of such changes in fair value is recognised directly in "Net investment income" in the statement of income in cases where the hedged items are financial instruments (hedges of forecast transactions). If the hedged items are not financial instruments, the ineffective portion is recognised in "Other income/expenses" (hedges of price risks in connection with stock appreciation rights granted). If hedged transactions result in the recognition of financial assets, the amounts recognised in equity are amortised over the life of the acquired asset.

The following table presents changes in the reserve for cash flow hedges (before taxes and policyholder participation).

CHANGES IN THE RESERVE FOR CASH FLOW HEDGES

EUR MILLION

	2016	2015
Carrying amount as at 31.12. of the previous year (before taxes)	408	413
Additions (hedges of forecast transactions)	118	-4
Additions (hedges of price risks)	-1	6
Additions (hedges of currency risks relating to long-term investments)	-5	4
Reversals into the statement of income (hedges of forecast transactions)	-14	-11
Carrying amount as at 31.12. of the financial year (before taxes)	506	408

The reserve for cash flow hedges changed by EUR 98 (-5) million before taxes and by EUR 98 (-7) million net of taxes in the reporting period. In connection with forward purchases falling due, a total amount of EUR 14 (11) million was amortised in the statement of income in 2016, realising gains (in "Net investment income").

The amount of EUR 2 (-4) million was recognised in income in the reporting period owing to the ineffectiveness of cash flow hedges (in "Net investment income").

The expected cash flows from cash flow hedges were as follows; see table "Cash flows of hedged forecast transactions".

There were no forecast transactions in 2016 that had been previously included in a hedging relationship that is no longer likely to occur in the future.

Hedges of a net investment in a foreign business

As at the reporting date, the Group held derivative financial instruments in the area of reinsurance in the form of currency forwards, that were concluded as hedges of currency risks relating to long-term investments in foreign businesses.

The amount of EUR -1 (-1) million was recognised in income in the reporting period owing to the ineffectiveness of hedges for currency risks relating to long-term investments (in "Net investment income").

Fair values of hedging instruments

At the reporting date, the fair values of derivative financial instruments designated in connection with hedge accounting were as follows:

HEDGING INSTRUMENTS

EUR MILLION

	31.12.2016	31.12.2015
Fair value hedges		
Forward sale	14	—
Cash flow hedges		
Forward securities transactions	323	209
Equity swaps	1	2
	324	211
Hedges of currency risks relating to long-term investments		
Currency forwards	-2	3
Total	336	214

In the reporting period, the net gains or losses on hedging derivatives recognised in the statement of income amounted to EUR 1 (6) million and related to the amortisation of equity amounts in connection with forward purchases falling due (EUR 14 [11] million), changes in fair value recognised in income as a result of ineffectiveness (EUR 1 [-5] million) and changes in fair value from fair value hedges of EUR -14 (0) million, respectively.

CASH FLOWS OF HEDGED FORECAST TRANSACTIONS

EUR MILLION	31.12.2016	31.12.2015
Cash flows of hedged items	-813	-1,087
Due within one year	-327	-289
More than one year, up to five years	-486	-748
More than five years, up to ten years	—	-50

DERIVATIVES ASSOCIATED WITH INSURANCE CONTRACTS

A number of contracts in the Life/Health Reinsurance segment have characteristics requiring application of the IFRS 4 requirements governing embedded derivatives. According to these requirements, certain derivatives embedded in reinsurance contracts must be separated from the host insurance contract and recognised separately in accordance with IAS 39 in “Net investment income”. Fluctuations in the fair value of the derivative components must be recognised in income in the following periods.

In connection with the recognition of reinsurance contracts involving modified coinsurance and coinsurance funds withheld (“ModCo”), where securities accounts are held by cedants and payments are made on the basis of the income from certain securities, elements of interest rate risk are clearly and closely linked with the underlying reinsurance contracts. Consequently, embedded derivatives result exclusively from the credit risk of the underlying securities portfolio. Hannover Rück SE uses information available at the measurement date to measure the fair values of derivatives embedded in ModCo contracts based on a credit spread method, under which the derivative has a value of zero on the date when the contract is entered into and then fluctuates over time depending on how the credit spread changes for the securities. The derivative had a positive fair value of EUR 25 (23) million at the reporting date. Over the course of the year, the derivative’s fair value changed by EUR 1 (26) million before taxes, resulting in an expense.

A derivative financial instrument was also unbundled from another, similarly structured transaction. This led to the disclosure of a positive value in the amount of EUR 4 (4) million. In the financial year, the performance of this derivative led to an improvement in earnings of EUR 8 (-4) million.

A number of transactions underwritten in the previous year for the Life/Health Reinsurance segment involved Hannover Rück SE companies offering their contract partners coverage for risks associated with possible future payment obligations under hedging instruments. These transactions are also required to be classified as derivative financial instruments. The payment obligations result from contractually defined events and relate to changes in an underlying group of primary insurance contracts with statutory reserving requirements. In accordance with IAS 39, the contracts are classified and recognised as free-standing credit derivatives. These derivative financial instruments were initially recognised outside profit or loss because receivables were recognised in the same amount. At the reporting date, the fair value of these instruments amounted to EUR 169 (156) 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 23 (18) million in the financial year.

A retrocession agreement was concluded in the Life/Health Reinsurance segment during the financial year, whereby the premiums were deposited with Hannover Re and invested in a structured bond where the retrocessionaire issued a guarantee for the fair value. This guarantee had to be decoupled from the retrocession agreement in accordance with the provisions of IFRS 4 and was recognised as a derivative financial instrument at fair value. The derivative was recognised with a positive fair value of EUR 11 million at the reporting date. Over the course of the year, the change in the fair value of the derivative led to earnings of EUR 10 million. In contrast, the performance of the structured bond, which was also valued at the fair value, led to an expense in the same amount.

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 41 (25) million and of liabilities associated with derivatives resulting from technical items in the amount of EUR 174 (163) million. Increases in earnings of EUR 41 (19) million and decreases in earnings of EUR 2 (30) million were recorded in the reporting period from all insurance derivatives required to be measured separately.

FINANCIAL GUARANTEE CONTRACTS

Structured transactions were entered into in the Life/Health Reinsurance segment in order to finance statutory reserves (“Triple x” or “AXXX” reserves) for US cedants. These structures required the use of a special purpose entity in each case. The special purpose entities carry extreme mortality risks securitised by cedants above a contractually defined retention ratio and transfer these risks by way of a fixed/variable-rate swap to a Group company of Hannover Rück SE. The total amount of the contractually agreed capacities of the transactions is equivalent to EUR 3,675 (3,544) million, of which the equivalent of EUR 2,746 (2,483) million had been underwritten at the reporting date. The variable payments to the special purpose

entities guaranteed by companies of Hannover Rück SE cover their payment obligations. For some of the transactions, payments resulting from swaps in the event of a claim are reimbursed by the cedants' parent companies by way of compensation agreements. In this case, reimbursement claims under the compensation agreements are capitalised separately from and up to the amount of the provision.

Under IAS 39, these transactions are recognised at fair value as financial guarantee contracts. To do this, Hannover Rück SE uses the net method, under which the present value of the agreed fixed swap premiums is netted with the present value of the guarantee commitment. The fair value on initial recognition therefore amounted to zero. The higher of adjusted historical cost and the amount carried as a provision on the liabilities side in accordance with IAS 37 is recognised at the time when utilisation is considered probable. This was not the case as at the reporting date.

(14) ACCOUNTS RECEIVABLE ON INSURANCE BUSINESS

ACCOUNTS RECEIVABLE ON INSURANCE BUSINESS

EUR MILLION

	2016	2015
Accounts receivable on direct written insurance business	2,313	2,342
of which		
from policyholders	1,447	1,415
from insurance intermediaries	866	927
Accounts receivable from reinsurance business	3,879	3,728
Carrying amount as at 31.12. of the financial year	6,192	6,070

ACCOUNTS RECEIVABLE ON INSURANCE BUSINESS THAT WERE PAST DUE BUT NOT IMPAIRED AT THE REPORTING DATE

EUR MILLION

	> 3 months < 1 year	> 1 year
31.12.2016		
Accounts receivable from policyholders	96	56
Accounts receivable from insurance intermediaries	98	30
Accounts receivable from reinsurance business	299	286
Total	493	372

31.12.2015

Accounts receivable from policyholders	148	58
Accounts receivable from insurance intermediaries	98	42
Accounts receivable from reinsurance business	335	406
Total	581	506

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 280 (346) million, of which EUR 86 (100) million was more than one year past due. This means that accounts receivable more than one year past due accounted for 3.7% (4.3%) of total accounts receivable. The combined average default rate in the past three years was 0.9% (1.0%). The default rate in 2016 was 1.2% (1.1%).

Accounts receivable from reinsurance business more than 90 days past due amounted to a total of EUR 585 (741) million, of which EUR 286 (406) million was more than one year past due; accounts receivable more than one year past due therefore accounted for 7.4% (10.9%) of total accounts receivable. The average default rate on reinsurance business in the past three years was 0.7% (0.7%).

Impaired accounts receivable relate to the following items:

INDIVIDUALLY IMPAIRED ASSETS RESULTING FROM INSURANCE CONTRACTS

EUR MILLION

	Risk provision	of which attributable to 2016/2015	Carrying amount after risk provision
31.12.2016			
Accounts receivable from policyholders	57	1	1,447
Accounts receivable from insurance intermediaries	31	-9	866
Accounts receivable from reinsurance business	56	10	3,879
Total	144	2	6,192

31.12.2015

Accounts receivable from policyholders	56	-3	1,415
Accounts receivable from insurance intermediaries	40	21	927
Accounts receivable from reinsurance business	46	-23	3,728
Total	142	-5	6,070

Impairments of accounts receivable on insurance business that we recognise in separate allowance accounts changed as follows in the reporting period:

IMPAIRMENTS OF ACCOUNTS RECEIVABLE ON INSURANCE BUSINESS

EUR MILLION

	2016	2015
Accumulated impairments as at 31.12. of the previous year	142	147
Change in basis of consolidation	—	2
Impairments in financial year	41	35
Reversals of impairment losses	39	37
Exchange rate changes	-1	-4
Other changes	1	-1
Accumulated impairments as at 31.12. of the financial year	144	142

The credit risk associated with accounts receivable on insurance business was generally measured on the basis of individual analyses. Impairments were not recognised to the extent that the credit risk exposure of the assets was reduced by collateral (e.g. letters of credit, cash deposits, securities accounts). Impaired accounts receivable accounted for 2.3% (2.3%) of total accounts receivable.

Accounts receivable from passive reinsurance business in the three primary insurance segments amounted to EUR 522 (510) million (after deduction of impairments). 67% (64%) of these accounts receivable had a rating of category A or better at the reporting date. 49% (44%) of the total accounts receivable amounting to EUR 3.9 (3.7) billion had a rating of category A or better.

IMPAIRMENT RATES

%

	31.12.2016	31.12.2015
Accounts receivable from policyholders	3.8	3.8
Accounts receivable from insurance intermediaries	3.4	4.2
Accounts receivable from reinsurance business	1.4	1.2

ANNUAL DEFAULT RATES

%

	31.12.2016	31.12.2015
Accounts receivable from policyholders	1.4	1.2
Accounts receivable from insurance intermediaries	0.5	0.6
Accounts receivable from reinsurance business	0.1	0.6

(15) DEFERRED ACQUISITION COSTS

DEFERRED ACQUISITION COSTS

EUR MILLION

	2016			2015		
	Gross business	Reinsurers' share	Net business	Gross business	Reinsurers' share	Net business
Carrying amount as at 31.12. of the previous year	5,359	281	5,078	4,888	243	4,645
Change in basis of consolidation	1	—	1	-1	—	-1
Portfolio entries/withdrawals	—	—	—	1	—	1
Additions	1,134	182	952	1,187	152	1,035
Amortised acquisition costs	1,050	252	798	775	119	656
Currency adjustments	6	-5	11	61	7	54
Other changes	-4	—	-4	-2	-2	—
Carrying amount as at 31.12. of the financial year	5,446	206	5,240	5,359	281	5,078

(16) OTHER ASSETS**OTHER ASSETS**

EUR MILLION

	2016	2015
Real estate held and used	604	612
Tax assets	419	362
Operating and office equipment	141	156
Interest and rent due	14	11
Derivative financial instruments – hedging instruments, hedge accounting	336	225
Miscellaneous assets	1,106	1,171
Carrying amount as at 31.12. of the financial year	2,620	2,537

The fair value of real estate held and used amounted to EUR 708 (702) million as at the reporting date. EUR 131 (132) million of this amount is attributable to Level 2 of the fair value hierarchy and EUR 577 (570) 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 493 (497) million as at 31 December 2016. There were no expenditures capitalised for property, plant and equipment under construction (prior year: EUR 14 million) as at the reporting date. Contractual commitments to acquire property, plant and equipment totalled EUR 247 (192) million as at the reporting date.

CHANGES IN REAL ESTATE HELD AND USED

EUR MILLION

	2016	2015
Gross carrying amount as at 31.12. of the previous year	817	866
Change in basis of consolidation (additions)		
Business combinations	1	6
Additions	3	12
Disposals	3	66
Exchange rate changes	-1	-1
Gross carrying amount as at 31.12. of the financial year	817	817
Accumulated depreciation and impairment losses as at 31.12. of the previous year	205	200
Disposals	—	10
Depreciation and impairment losses		
Depreciation	15	16
Impairment losses	—	1
Reversal after impairment	7	2
Accumulated depreciation and impairment losses as at 31.12. of the financial year	213	205
Carrying amount as at 31.12. of the previous year	612	666
Carrying amount as at 31.12. of the financial year	604	612

CHANGES IN OPERATING AND OFFICE EQUIPMENT

EUR MILLION

	2016	2015
Gross carrying amount as at 31.12. of the previous year	465	464
Change in basis of consolidation (additions)		
Business combinations	1	1
Additions	32	38
Disposals	23	36
Reclassifications	2	—
Exchange rate changes	2	-2
Gross carrying amount as at 31.12. of the financial year	479	465
Accumulated depreciation and impairment losses as at 31.12. of the previous year	309	290
Disposals	16	33
Depreciation and impairment losses		
Depreciation	45	52
Accumulated depreciation and impairment losses as at 31.12. of the financial year	338	309
Carrying amount as at 31.12. of the previous year	156	174
Carrying amount as at 31.12. of the financial year	141	156

MISCELLANEOUS ASSETS

EUR MILLION

	31.12.2016	31.12.2015
Trade accounts receivable	76	63
Receivables relating to investments	118	89
Receivables from non-Group-led business	139	147
Other tangible assets	13	12
Claims under pension liability insurance/surrender values	105	107
Prepaid insurance benefits	120	129
Deferred income	91	145
Other miscellaneous assets	444	479
Total	1,106	1,171

NOTES TO THE CONSOLIDATED BALANCE SHEET – EQUITY AND LIABILITIES

(17) EQUITY

CHANGES IN EQUITY AND NON-CONTROLLING INTERESTS

COMPOSITION OF EQUITY

EUR MILLION

	31.12.2016	31.12.2015
Subscribed capital	316	316
Capital reserve	1,373	1,373
Retained earnings	5,761	5,370
Other reserves	721	489
Group net income	907	734
Non-controlling interests in equity	5,610	5,149
Total	14,688	13,431

Retained earnings include equalisation reserves of EUR 1,652 (1,684) million (after deferred taxes).

Other reserves include gains and losses from currency translation amounting to EUR 186 (57) million.

UNREALISED GAINS AND LOSSES INCLUDED IN OTHER RESERVES¹⁾

EUR MILLION

	31.12.2016	31.12.2015
From available-for-sale investments	3,700	2,817
From cash flow hedges	461	368
From the measurement of associates using the equity method	14	10
Other changes	-937	-699
less/plus		
Policyholder participation/shadow accounting ¹⁾	-2,576	-1,921
Deferred taxes recognised directly in equity	-126	-143
Non-controlling interests in equity	830	650
Total	1,366	1,082

¹⁾ Includes provisions recognised directly in equity for deferred premium refunds.

“Non-controlling interests in equity” refers principally to shares held by non-Group companies in the equity of the Hannover RE subgroup.

RECONCILIATION ITEMS FOR NON-CONTROLLING INTERESTS IN EQUITY

EUR MILLION

	31.12.2016	31.12.2015
Unrealised gains and losses on investments	746	575
Share of net income	661	675
Other equity	4,203	3,899
Total	5,610	5,149

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:

EFFECT OF FAIR VALUE MEASUREMENT ON OTHER COMPREHENSIVE INCOME

EUR MILLION

	31.12.2016	31.12.2015
Allocation of gains/losses from fair value measurement of “Financial assets available for sale” (unrealised gains and losses)	1,433	-1,168
Transfers of gains/losses from fair value measurement of “Financial assets available for sale” to net income	-368	-550

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 the equity, see the “Consolidated statement of changes in equity”.

CONTINGENT CAPITAL

On 15 May 2012, the Annual 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 Annual 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 Annual General Meeting on 21 November 2011, and to replace it with a new article 7(1), which authorises the Board of Management, subject to the approval of the Supervisory Board, to increase the share capital in the period up to 28 September 2017 on one or more occasions by a maximum of EUR 146 million by issuing new no-par value registered shares in exchange for cash or non-cash contributions. Subject to the approval of the Supervisory Board, shareholders' pre-emptive rights may be disapplied for certain listed purposes in the case of cash capital increases, provided that the notional amount of share capital attributable to the new shares does not exceed 10% of the share capital. Subject to the approval of the Supervisory Board, EUR 1 million of this may be used to issue employee shares. Subject to the approval of the Supervisory Board, pre-emptive rights may be disapplied for non-cash capital increases if their disapplication is in the Company's overriding interest. The amendment to the Articles of Association took effect on its entry in the commercial register on 1 October 2012.

When the greenshoe option was exercised on 8 October 2012 in the course of the IPO, authorised capital was reduced to EUR 143 million in accordance with the Articles of Association. In the course of the employee share programme, authorised capital was reduced by EUR 0.2 million. After its partial utilisation, the authorised capital amounts to EUR 142,307,260, of which a further EUR 785,060 can be used for employee shares.

CAPITAL MANAGEMENT

IAS 1 "Presentation of Financial Statements" requires detailed disclosures in the Notes that enable readers of financial statements to understand the objectives, methods, and processes of capital management and that provide supplementary information on changes in Group equity.

In this context, see the following remarks as well as the information contained in the section "Net assets and financial position" in the management report.

Capital management takes into account the economic capital that is derived from the surplus of the assets over the liabilities in the solvency balance sheet of the Talanx Group, including any subordinated liabilities. An essential strategic target of the Group is to ensure an optimised capital structure that is commensurate with the associated risk, in order to reinforce the Group's financial strength.

This target is achieved by consistently aligning the capital resources of the Talanx Group with the following specific criteria:

- Firstly, the confidence level chosen (99.97% in relation to the economic capital) exceeds the regulatory level of solvency capital stipulated under Solvency II (99.5%). Secondly, the level of solvency capital at least satisfies the requirements of Standard & Poor's capital model for an "AA" rating. Capital resources in excess of this requirement are established only if they enable us to boost our earnings potential above and beyond the return we would gain from reinvested funds, e.g. by providing additional risk capacity and cover or because they allow us to achieve greater independence from the reinsurance and retrocession markets
- Through the use of suitable equity substitutes and financing instruments to optimise the capital structure

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

In terms of its capital resources, the Group satisfies the expectations of the agencies rating it. Some Group companies are also subject to additional national capital and solvency requirements. All Group companies met the applicable local minimum capital requirements in the reporting period.

As part of its Group-wide capital management, Talanx AG monitors the capital resources of its subsidiaries with the utmost diligence.

(18) SUBORDINATED LIABILITIES

In order to optimise the Group's capital structure and to ensure the liquidity (solvency) required by regulators, various Group companies have in the past issued long-term subordinated debt instruments that in some cases are listed on exchanges.

COMPOSITION OF LONG-TERM SUBORDINATED DEBT

EUR MILLION

	Nominal amount	Coupon	Maturity	Rating ²⁾	Issue	31.12.2016	31.12.2015
Hannover Finance (Luxembourg) S. A.	500	Fixed (5.75%), then floating rate	2010/2040	(a+; A)	These guaranteed subordinated bonds were issued in 2010 on the European capital market. They cannot be called for ten years.	499	499
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.	498	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.	445	444
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
HDI Assicurazioni S. p. A.	27	Fixed (5.5%)	2026	(–; –)	Subordinated loans	27	–
CBA Vita S. p. A.	14	Fixed (4.15%)	2020	(–; –)	These subordinated bonds in the amount of EUR 15 million were issued in 2010 on the European capital market; securities with a nominal value of EUR 1.5 million have already been repurchased.	13	–
Magyar Posta Életbiztosító Zrt. (Open Life Towarzystwo Ubezpieczeń Życie S. A.)	1(4)	Fixed (7.57%)	2025 (2018)	(–; –)	Subordinated loans	1	3
Total						1,983	1,943

¹⁾ At the reporting date, Group companies additionally held bonds with a nominal value of EUR 50 million (consolidated in the consolidated financial statements).

²⁾ (Debt rating A. M. Best; debt rating S&P).

FAIR VALUES OF SUBORDINATED LIABILITIES MEASURED AT AMORTISED COST

EUR MILLION

	31.12.2016	31.12.2015
Amortised costs	1,983	1,943
Unrealised gains/losses	296	293
Fair value	2,279	2,236

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 –113 (–131) million from subordinated liabilities in the reporting period consisted of interest expenses in the amount of EUR 112 (128) million and amortisation expenses (EUR 1 [3] million).

SUBORDINATED LIABILITIES: MATURITIES

EUR MILLION

	31.12.2016	31.12.2015
Due within one year	–	–
More than one year, up to five years	13	2
More than five years, up to ten years	28	–
More than ten years, up to 20 years	–	–
More than 20 years	1,497	1,497
Without fixed maturity	445	444
Total	1,983	1,943

In the context of the acquisition of CBA Vita, HDI Assicurazioni S. p. A. took out a subordinated loan of EUR 27 million in July 2016 from the selling company, Banca Sella Holding S. p. A. The maturity loan with a fixed interest rate of 5,5% p.a. has a term of ten years and can be repaid prematurely in 2021 at the earliest. Moreover, the acquired company CBA Vita had issued a subordinated bond in 2010 in the amount of EUR 15 million, of which EUR 1.5 million were repaid early in March 2013. The bond is subject to an interest rate of 4.15% and has a term until 2020.

(19) UNEARNED PREMIUM RESERVE

UNEARNED PREMIUM RESERVE

EUR MILLION

	2016			2015		
	Gross	Re	Net	Gross	Re	Net
Balance at 31.12. of the previous year	7,081	706	6,375	6,316	662	5,654
Change in basis of consolidation	5	3	2	159	52	107
Portfolio entries/withdrawals	-8	-6	-2	3	—	3
Additions	2,525	218	2,307	2,660	87	2,573
Reversals	2,035	251	1,784	2,096	97	1,999
Reclassifications	-5	—	-5	—	-2	2
Exchange rate changes	61	13	48	39	4	35
Balance at 31.12. of the financial year	7,624	683	6,941	7,081	706	6,375

The unearned premium reserve covers that portion of gross written premiums that is required to be attributed as income to the following financial year(s) for a certain period after the reporting date. Since the unearned premium reserve essentially does not involve future cash flows that affect liquidity, we have elected to dispense with information about maturities.

(20) BENEFIT RESERVE**BENEFIT RESERVE**

EUR MILLION

	2016			2015		
	Gross	Re	Net	Gross	Re	Net
Balance at 31.12. of the previous year	54,845	1,799	53,046	52,679	1,185	51,494
Change in basis of consolidation	923	2	921	1	—	1
Portfolio entries/withdrawals	-1,281	-328	-953	-690	244	-934
Additions	4,933	122	4,811	5,419	424	4,995
Reversals	4,083	69	4,014	3,348	98	3,250
Reclassifications	-11	—	-11	—	—	—
Exchange rate changes	-568	34	-602	784	44	740
Balance at 31.12. of the financial year	54,758	1,560	53,198	54,845	1,799	53,046

IFRS 4 requires disclosures that help explain the amount and timing of future cash flows from insurance contracts. The following table shows the benefit reserve classified by expected maturities. In connection with the analysis of maturities, we directly deducted deposits provided for the purpose of hedging this reserve, since cash inflows and outflows from these deposits are attributable directly to cedants.

BENEFIT RESERVE

EUR MILLION

	2016			2015		
	Gross	Re	Net	Gross	Re	Net
Due within one year	2,696	166	2,530	3,451	484	2,967
More than one year, up to five years	11,110	940	10,170	10,849	906	9,943
More than five years, up to ten years	11,981	141	11,840	11,116	143	10,973
More than ten years, up to 20 years	13,408	108	13,300	12,861	146	12,715
More than 20 years	10,726	201	10,525	10,343	116	10,227
Deposits	4,837	4	4,833	6,225	4	6,221
Total	54,758	1,560	53,198	54,845	1,799	53,046

(21) LOSS AND LOSS ADJUSTMENT EXPENSE RESERVE**LOSS AND LOSS ADJUSTMENT EXPENSE RESERVE**

EUR MILLION

	2016			2015		
	Gross	Re	Net	Gross	Re	Net
Balance at 31.12. of the previous year	40,392	5,562	34,830	37,256	5,222	32,034
Change in basis of consolidation	4	3	1	78	39	39
Portfolio entries/withdrawals	2	—	2	—	—	—
Plus						
claims and claims expenses incurred (net); financial year	15,450	1,739	13,711	15,721	2,288	13,433
claims and claims expenses incurred (net); previous year	2,275	26	2,249	2,735	126	2,609
Total claims expenses	17,725	1,765	15,960	18,456	2,414	16,042
Less						
claims and claims expenses incurred (net); financial year	5,973	451	5,522	6,060	809	5,251
claims and claims expenses incurred (net); previous year	10,677	1,591	9,086	10,700	1,426	9,274
Total	16,650	2,042	14,608	16,760	2,235	14,525
Other changes	-1	-1	—	-21	-13	-8
Exchange rate changes	401	61	340	1,383	135	1,248
Balance at 31.12. of the financial year	41,873	5,348	36,525	40,392	5,562	34,830

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 insurance claims that have not yet been run off for the years 2006 to 2016 for our main property/casualty insurance companies in the primary insurance segments, including Corporate Operations, and in the

Group's Property/Casualty Reinsurance segment ("run-off triangle"). The charts show the run-off of the net loss reserves established at each reporting date for the current and preceding occurrence years. It is not the run-off of the reserve for individual occurrence years that is presented, but rather the run-off of the reserve recognised annually as at the reporting date.

The net loss reserve and its run-off are presented for primary insurance segments, including Corporate Operations, and the Property/Casualty Reinsurance segment after allowance for consolidation effects for each area presented, but before elimination of intragroup relationships between primary insurance segments, including Corporate Operations, and reinsurance. The values reported for the 2006 financial year also include values for previous years that are no longer shown separately in the run-off triangle. The published run-off results reflect the changes in the final losses for the individual run-off years that crystallised in financial year 2016.

Net loss reserves in the Group amount to a total of EUR 36.5 (34.8) billion. Of these, EUR 10.2 (8.8) billion is attributable to our property/casualty insurance companies in the primary insurance area, including Corporate Operations, and EUR 21.6 (21.8) billion to the Property/Casualty Reinsurance segment. The remaining EUR 4.7 (4.2) billion is attributable to the Life/Health Reinsurance segment (EUR 3.8 [3.3] billion) and life primary insurance business (EUR 0.9 [0.9] billion).

NET LOSS RESERVE AND ITS RUN-OFF IN THE
PRIMARY INSURANCE SEGMENTS, INCLUDING
CORPORATE OPERATIONS

NET LOSS RESERVE AND ITS RUN-OFF IN THE PRIMARY INSURANCE SEGMENTS, INCLUDING CORPORATE OPERATIONS

EUR MILLION

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Loss and loss adjustment expense reserve	6,026	6,384	6,291	6,389	6,905	6,976	7,130	7,872	8,510	8,819	9,015
Cumulative payments for the specific year and previous years											
One year later	983	1,373	961	1,175	1,345	1,538	1,171	1,734	1,830	1,980	
Two years later	1,678	1,705	1,556	1,792	2,154	1,884	1,976	2,492	2,707		
Three years later	1,829	2,117	2,006	2,411	2,274	2,437	2,483	3,060			
Four years later	2,135	2,497	2,509	2,436	2,669	2,826	2,929				
Five years later	2,462	2,938	2,482	2,783	2,993	3,195					
Six years later	2,857	2,864	2,771	3,046	3,296						
Seven years later	2,763	3,118	2,995	3,303							
Eight years later	2,990	3,291	3,213								
Nine years later	3,128	3,475									
Ten years later	3,274										
Loss and loss adjustment expense reserve (net) for the specific year and previous years, plus payments made to date into the original reserve											
At the end of the year	6,026	6,384	6,291	6,389	6,905	6,976	7,130	7,872	8,510	8,819	9,015
One year later	5,560	6,050	5,793	6,233	6,560	6,609	6,798	7,607	8,043	8,506	
Two years later	5,305	5,296	5,198	6,009	6,328	6,432	6,679	7,251	7,850		
Three years later	4,937	5,368	5,476	5,823	6,256	6,365	6,473	7,213			
Four years later	4,935	5,482	5,373	5,850	6,122	6,197	6,447				
Five years later	5,040	5,400	5,515	5,740	5,962	6,227					
Six years later	5,006	5,523	5,394	5,601	6,005						
Seven years later	5,043	5,430	5,258	5,688							
Eight years later	4,990	5,279	5,352								
Nine years later	4,777	5,385									
Ten years later	4,879										
Change year-on-year											
of the final loss reserve ¹⁾											
= run-off result	-102	-4	12	7	44	13	56	12	155	120	
%	-2	-	-	-	1	-	1	-	2	1	

¹⁾ Example: Calculate the difference for 2006 (EUR 4,777 million minus EUR 4,879 million = EUR -102 million). This figure is recorded and then updated in each subsequent period, e.g. in 2007, with the change from e.g. 2006 to 2007 being carried forward. Hence, in 2007 the first step involves calculating the difference between the two amounts for 2007 and then subtracting the result from the value for 2006 (calculation for 2007: EUR 5,279 million less EUR 5,385 million = EUR -106 million, from which total the amount of EUR -102 million is subtracted, resulting in an amount of EUR -4 million for 2007). The process is then repeated for each subsequent year.

In the reporting period, the Group reported a positive run-off result of EUR 313 million in its primary insurance segments, including Corporate Operations, which represents the total run-off result of the individual balance-sheet years.

NET LOSS RESERVE AND ITS RUN-OFF IN THE PROPERTY/CASUALTY REINSURANCE SEGMENT

NET LOSS RESERVE AND ITS RUN-OFF IN THE PROPERTY/CASUALTY REINSURANCE SEGMENT

EUR MILLION

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Loss and loss adjustment expense reserve	13,647	13,017	13,882	14,179	15,466	16,823	17,439	18,029	19,859	21,851	22,760
Cumulative payments for the specific year and previous years											
One year later	2,643	2,569	3,042	2,833	2,521	3,220	2,999	3,265	3,588	3,353	
Two years later	4,447	4,428	4,722	4,086	4,203	5,002	4,655	5,096	5,365		
Three years later	5,827	5,576	5,494	4,924	5,221	5,955	5,873	6,233			
Four years later	6,655	6,133	6,092	5,584	5,882	6,908	6,736				
Five years later	7,056	6,575	6,582	6,096	6,655	7,636					
Six years later	7,401	6,943	6,916	6,604	7,208						
Seven years later	7,677	7,223	7,265	6,957							
Eight years later	7,907	7,516	7,530								
Nine years later	8,144	7,729									
Ten years later	8,309										
Loss and loss adjustment expense reserve (net) for the specific year and previous years, plus payments made to date into the original reserve											
At the end of the year	13,647	13,017	13,882	14,179	15,466	16,823	17,439	18,029	19,859	21,851	22,760
One year later	12,911	13,308	14,977	13,643	14,774	16,520	16,984	17,769	19,342	21,047	
Two years later	12,494	13,239	13,690	12,832	14,137	16,144	16,571	17,128	18,297		
Three years later	12,420	12,747	12,764	12,234	13,717	15,650	16,057	16,126			
Four years later	11,989	11,829	12,255	11,814	13,234	15,030	15,332				
Five years later	11,146	11,473	11,917	11,336	12,668	14,322					
Six years later	10,871	11,167	11,408	10,806	12,094						
Seven years later	10,593	10,755	10,918	10,385							
Eight years later	10,273	10,336	10,541								
Nine years later	9,857	10,059									
Ten years later	9,656										
Change year-on-year											
of the final loss reserve ¹⁾											
= run-off result	201	76	100	44	153	134	17	277	43	-241	
%	1	1	1	-	1	1	-	2	-	-1	

¹⁾ Example: Calculate the difference for 2006 (EUR 9,857 million minus EUR 9,656 million = EUR 201 million). This figure is recorded and then updated in each subsequent period, e.g. in 2007, with the change from e.g. 2006 to 2007 being carried forward. Hence, in 2007 the first step involves calculating the difference between the two amounts for 2007 and then subtracting the result from the value for 2006 (calculation for 2007: EUR 10,336 million less EUR 10,059 million = EUR 277 million, from which total the amount of EUR 201 million is subtracted, resulting in an amount of EUR 76 million for 2007). The process is then repeated for each subsequent year.

In financial year 2015, Property/Casualty Reinsurance recorded a positive run-off result in the total amount of EUR 804 million, which represents the total run-off result of the individual balance-sheet years.

The carrying amount of the reinsurers' share of loss reserves amounts to EUR 5.3 (5.6) billion and includes accumulated specific valuation allowances of EUR 1.4 (0.1) 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.

RESERVE DURATIONS

EUR MILLION

	Gross	Re	Net	Gross	Re	Net
	31.12.2016			31.12.2015		
Due within one year	12,097	2,201	9,896	11,911	2,427	9,484
More than one year, up to five years	15,738	1,603	14,135	15,828	1,719	14,109
More than five years, up to ten years	6,056	592	5,464	5,820	636	5,184
More than ten years, up to 20 years	3,795	392	3,403	3,644	407	3,237
More than 20 years	2,679	485	2,194	2,050	286	1,764
Deposits	1,508	75	1,433	1,139	87	1,052
Total	41,873	5,348	36,525	40,392	5,562	34,830

(22) PROVISION FOR PREMIUM REFUNDS

PROVISION FOR PREMIUM REFUNDS

EUR MILLION

	Gross	Re	Net	Gross	Re	Net
	2016			2015		
Balance at 31.12. of the previous year	4,138	—	4,138	4,484	1	4,483
Change in basis of consolidation	52	—	52	—	—	—
Allocations/reversals (—) recognised in profit or loss	1,137	5	1,132	868	—	868
Changes attributable to other comprehensive income from investments	715	—	715	—695	—	—695
Disposals						
Life insurance policies	266	—	266	468	—	468
Liability/accident policies with a premium refund	—	—	—	4	—	4
Other changes	—11	—	—11	—48	—1	—47
Exchange rate changes	—	—	—	1	—	1
Balance at 31.12. of the financial year	5,765	5	5,760	4,138	—	4,138

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 1,407 (1,217) million is attributable to obligations for surplus participation and EUR 4,358 (2,921) million to deferred premium refunds, including the shadow provision for premium refunds.

(23) PROVISIONS FOR PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

In general, Group companies have made benefit commitments to their employees based on defined contributions or defined benefits. The type of benefit commitment depends on the relevant pension plan. In terms of amounts paid, the majority of commitments are based on defined benefit pension plans.

These are primarily **final salary plans that depend on length of service** that are fully employer financed and provide retirement, disability and survivor benefits in the form of a monthly pension, as a rule without a lump-sum option. Events that cause benefits to become due (e.g. retirement age, disability, death) closely follow the eligibility requirements for statutory pension insurance. The benefit amount is based on a percentage of the final salary. The calculation includes the number of service years completed at the time benefits become due, as well as the amount of salary at that time (where appropriate as an average over several years). In some

cases, the relevant components of income below the contribution assessment ceiling for statutory pension insurance are weighted differently than those above the ceiling.

These pension plans are closed to new employees. Some existing commitments have been frozen at the levels acquired with salary trends. The plans are largely not funded by plan assets.

Plans based on annual pension modules involve fully employer-funded commitments for retirement, disability and survivor benefits in the form of a monthly pension without a lump-sum option. Events that cause benefits to become due (e.g. retirement age, disability, death) closely follow the eligibility requirements for statutory pension insurance. The benefit amount is based on the sum of annual pension modules, which are derived from a transformation table. The level of employment, the amount of the relevant salary and, in some cases, the business result of the employer company making the commitment are taken into account. The relevant components of income below the contribution assessment ceiling for statutory pension insurance are weighted differently than those above the ceiling.

The most significant pension plan of this type in terms of volume is closed to new employees and is not funded by plan assets. However, pension liability insurance was taken out for a large sub-portfolio.

Contribution-based plans with guarantees involve fully employer-funded commitments for retirement, disability and survivor benefits in the form of a monthly pension from the “HDI Unterstützungskasse” (an occupational pension scheme). Instead of a retirement pension, a lump-sum payment of the pension capital can be demanded. This involves defined contribution benefit commitments within the meaning of German labour law that are classified economically as a defined benefit plan. The pension amount paid by the employer to the “Unterstützungskasse” is used by the latter as a contribution toward taking out pension liability insurance that reflects the committed range of benefits (matching pension liability insurance). The committed benefits result from the rates under the pension liability insurance policy. The associated assets of the “Unterstützungskassen” are recognised as plan assets.

In addition, there are pension commitments in the event of death or survival upon reaching the retirement age that provide a lump-sum benefit from the one-time deferral of compensation by employees. In this case, the amount deferred is used as a one-time premium for a pension liability insurance policy. There is no right to choose the type of annuity. No plan assets are allocated to these commitments.

Employees also have the option of obtaining insurance-style pension commitments through deferred compensation. In economic terms, these are defined contribution plans for which provisions for pensions are not recognised.

The risks arising from future changes in pension liabilities consist of general actuarial risks such as interest rate risk, inflation risk and biometric risks. No unusual risks or material risk clusters are evident.

FUNDED STATUS OF PENSION PLANS

EUR MILLION		
Type of plan	2016	2015
Final salary plans that depend on length of service	-74	-56
■ Plan assets		
■ Present value of defined benefit obligation	2,051	1,836
■ Effect of asset ceiling surplus (net asset)	—	—
■ shortfall (net liability)	1,977	1,780
Plan based on pension modules	—	-18
■ Plan assets		
■ Present value of defined benefit obligation	111	125
■ Effect of asset ceiling surplus (net asset)	—	1
■ shortfall (net liability)	111	108
Contribution-based plans with guarantees	-98	-37
■ Plan assets		
■ Present value of defined benefit obligation	192	93
■ Effect of asset ceiling surplus (net asset)	1	1
■ shortfall (net liability)	95	57
Balance at 31.12. of the financial year (net asset value)	—	—
Balance at 31.12. of the financial year (net liability)	2,183	1,945

The change in the net liability and net asset for the Group's various defined benefit pension plans is shown in the following table. In addition to the main components – the defined benefit obligation (DBO) and plan assets – the change in the asset adjustment from the calculation of the asset ceiling for any asset resulting from a plan surplus must be reported. The recoverability of the economic benefit associated with any plan surplus is reviewed at the level of the individual pension plan, resulting in a reduction in the carrying amount for the net asset both as at 31 December 2016 and as at 31 December 2015.

CHANGE IN NET LIABILITY AND NET ASSET FOR THE VARIOUS DEFINED BENEFIT PENSION PLANS

EUR MILLION

	Defined benefit obligation		Fair value of plan assets		Asset adjustment	
	2016	2015	2016	2015	2016	2015
Balance at 1.1. of the financial year	2,055	2,366	-111	-116	1	1
Changes recognised in net income						
Current service cost	15	20	—	—	—	—
Past service cost and plan curtailments	-1	2	—	—	—	—
Net interest component	45	38	-3	-3	—	—
Gain or loss from settlements	—	—	—	—	—	—
	59	60	-3	-3	—	—
Other comprehensive income						
Remeasurements						
Actuarial gains (-)/losses (+) from change in biometric assumptions	—	-1	—	—	—	—
Actuarial gains (-)/losses (+) from change in financial assumptions	243	-271	—	—	—	—
Experience adjustments	71	-10	—	—	—	—
Return on plan assets (excluding interest income)	—	—	-54	2	—	—
Change from asset adjustment	—	—	—	—	—	—
Exchange rate changes	-9	3	9	-2	—	—
	305	-279	-45	—	—	—
Other changes						
Employer contributions	—	—	-5	-10	—	—
Employee contributions and deferred compensation	1	1	-1	—	—	—
Benefits paid during the year	-78	-91	4	18	—	—
Business combinations and disposals	12	-2	-11	—	—	—
Effect of plan settlements	—	—	—	—	—	—
	-65	-92	-13	8	—	—
Balance at 31.12. of the financial year	2,354	2,055	-172	-111	1	1

The structure of the investment portfolio underlying the plan assets was as follows:

PORTFOLIO STRUCTURE OF PLAN ASSETS

%

	2016	2015
Cash and cash equivalents	—	—
Equity instruments	3	—
Fixed-income securities	6	7
Real estate	2	4
Securities funds	24	39
Qualifying insurance contracts	65	50
Total	100	100

Since all equity instruments, fixed-income securities and securities funds are listed in an active market, market prices are available for them.

The fair value of plan assets does not include any amounts for own financial instruments.

The actual return on plan assets amounted to EUR 57 million in the reporting period. Income of EUR 1 million was recognised in the previous year.

Defined benefit obligations were measured on the basis of the following weighted assumptions:

ASSUMPTIONS FOR DEFINED BENEFIT OBLIGATIONS

MEASUREMENT PARAMETERS/ASSUMPTIONS, WEIGHTED IN %

	2016	2015
Discount rate	1.61	2.27
Expected rate of salary increase	2.50	2.50
Pension increase	1.91	1.90

The “2005G” mortality tables published by Prof 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 ANALYSES

An increase or decrease in key actuarial assumptions would have the following effect on the present value of the defined benefit obligation as at 31 December 2016:

EFFECT OF CHANGE IN ACTUARIAL ASSUMPTIONS

EUR MILLION

	Effect on defined benefit obligation			
	Parameter increase		Parameter decrease	
	2016	2015	2016	2015
Discount rate (+/- 0.5%)	-177	-148	201	165
Salary increase rate (+/- 0.25%)	12	9	-11	-9
Pension adjustment rate (+/- 0.25%)	61	57	-68	-59

A change in the underlying mortality rates and longevities is also possible. For the purposes of calculating longevity risk, the underlying mortality tables were adjusted by lowering mortalities by 10%. This extension in longevities would have led to the pension obligation being higher by EUR 83 (70) 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 2017, the Group anticipates employer contributions of EUR 15 (6) million, which will be paid into the defined benefit plans shown here.

The defined contribution plans are funded through external pension funds or similar institutions. In this case, fixed contributions (e.g. based on the relevant income) are paid to these institutions, and the beneficiary’s claim is against those institutions. In effect, the employer has no further obligation beyond payment of the contributions. The expense recognised in the financial year for these commitments amounted to EUR 38 (46) million. They mainly consist of state pension schemes, of which EUR 1 (1) million was attributable during the reporting period to commitments to employees in key positions.

(24) PROVISIONS FOR TAXES

BREAKDOWN OF PROVISIONS FOR TAXES

EUR MILLION

	31.12.2016	31.12.2015
Provisions for income tax	645	527
Other tax provisions	188	194
Total	833	721

(25) MISCELLANEOUS OTHER PROVISIONS**MISCELLANEOUS OTHER PROVISIONS (EXPECTED SETTLEMENT AMOUNT)**

EUR MILLION

	Restructuring	Assumption of third-party pension commitments in return for payment	Bonuses and incentives	Anniversary bonuses	Early retirement/ Partial retirement	Other personnel expenses	Outstanding invoices	Other	Total
Carrying amount as at 31.12.2015	93	49	140	27	43	84	114	300	850
2016									
Change in basis of consolidation	—	—	—	—	—	—	3	2	5
Additions	52	1	100	4	8	76	169	151	561
Unwinding of discounts	7	—	—	—	—	—	—	—	7
Utilisation	8	—	78	5	14	75	139	90	409
Reversals	25	—	3	—	—	1	13	29	71
Change in fair value of plan assets	—	—	—	—	-1	—	—	—	-1
Other changes	-10	—	-1	—	9	—	—	-2	-4
Exchange rate changes	—	—	1	—	—	—	3	-2	2
Carrying amount as at 31.12. 2016	109	50	159	26	45	84	137	330	940

The provisions for restructuring disclosed in the financial statements refer essentially to restructuring measures for implementing the realignment of the Retail Germany Division. The provision amounted to EUR 103 (88) million at the reporting date. EUR 52 million were added to this provision in the reporting period, and EUR 23 million for expiring programmes were reversed. Moreover, the unwinding of discounts amounted to EUR -6 million and EUR 5 million were utilised.

The remaining provisions (EUR 330 [300] 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 129 (117) million, provisions for commissions amounting to EUR 50 (48) million, provisions for expected losses amounting to EUR 2 (4) million and provisions for administrative expenses amounting to EUR 11 (11) million. This item also includes provisions for litigation expenses (see the "Litigation" section), for outstanding contributions to the "Unterstützungskasse" (provident fund) and for surcharges for non-employment of disabled persons.

DURATIONS OF MISCELLANEOUS OTHER PROVISIONS

EUR MILLION

	31.12.2016			Total
	Due within one year	Due between one and five years	Due after more than five years	
Restructuring	24	85	—	109
Assumption of third-party pension obligations in return for payment ¹⁾	—	—	50	50
Bonuses and incentives	120	39	—	159
Anniversary bonuses ¹⁾	—	—	26	26
Early retirement/partial retirement ¹⁾	—	45	—	45
Other personnel expenses	67	16	1	84
Outstanding invoices	137	—	—	137
Other	230	89	11	330
Total	578	274	88	940
Total, previous year	521	248	81	850

¹⁾ Weighted average.

(26) NOTES PAYABLE AND LOANS

The following items were reported under this heading at the reporting date:

NOTES PAYABLE AND LOANS		
EUR MILLION		
	31.12.2016	31.12.2015
Talanx AG notes payable	1,065	1,065
Mortgage loans of Hannover Re Real Estate Holdings, Inc.	212	207
Mortgage loans of HR GLL Central Europe GmbH & Co. KG	102	101
Loans from infrastructure investments	120	68
Inversiones HDI Limitada	6	—
Total	1,505	1,441

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 credit line was partially terminated in the fourth quarter of 2016, i.e. its volume was reduced to EUR 250 million as at 31 December 2016. The second credit line (EUR 700 million) was replaced in the second quarter of 2016 by a new credit line, again with a term of five years, at improved terms and with a reduced volume of EUR 250 million. This means that there were credit lines with a total nominal value of EUR 500 million as at 31 December 2016. They had not been drawn down at the reporting date.

Net expenses from notes payable and loans totalled EUR 46 (42) million and consisted of interest expenses relating to Talanx AG bonds (EUR 30 [29] million) and net expenses from mortgage loans (EUR 12 [11] million) and loans from infrastructure investments (EUR 4 [2] million).

NOTES PAYABLE							
EUR MILLION							
	Nominal amount	Coupon	Maturity	Rating ¹⁾	Issue	31.12.2016	31.12.2015
Talanx AG ²⁾	565	Fixed (3.125%)	2013/2023	(—; A–)	These senior unsecured bonds have a fixed term and may be called only for extraordinary reasons.	565	565
Talanx AG	500	Fixed (2.5%)	2014/2026	(—; A–)	These senior unsecured bonds have a fixed term and may be called only for extraordinary reasons.	500	500
Total						1,065	1,065

¹⁾ (Debt rating A. M. Best; debt rating S&P).

²⁾ At the reporting date, Group companies additionally held bonds with a nominal value of EUR 185 million.

FAIR VALUE OF NOTES PAYABLE AND LOANS

EUR MILLION		
	31.12.2016	31.12.2015
Amortised costs	1,505	1,441
Unrealised gains/losses	168	88
Fair value	1,673	1,529

NOTES PAYABLE AND LOANS: MATURITIES

EUR MILLION		
	31.12.2016	31.12.2015
Due within one year	116	44
More than one year, up to five years	232	266
More than five years, up to ten years	1,139	612
More than ten years, up to 20 years	18	519
More than 20 years	—	—
Total	1,505	1,441

(27) OTHER LIABILITIES**OTHER LIABILITIES**

EUR MILLION

	2016	2015
Liabilities under the direct written insurance business	1,869	2,113
of which to policyholders	1,262	1,377
of which to insurance intermediaries	607	736
Reinsurance payables	1,965	2,080
Trade payables	307	250
Liabilities relating to investments	188	341
Liabilities relating to non-Group lead business	74	83
Liabilities from derivatives	251	241
of which negative fair values from derivative hedging instruments	—	11
Deferred income	41	40
Interest	75	74
Liabilities to social insurance institutions	19	18
Miscellaneous other liabilities	258	381
Total other liabilities (not including liabilities relating to investment contracts)	5,047	5,621
Other liabilities relating to investment contracts		
Other obligations measured at amortised cost	73	842
Financial liabilities classified at fair value through profit or loss	1,027	1,328
Derivatives	3	53
Total other liabilities relating to investment contracts	1,103	2,223
Carrying amount as at 31.12. of the financial year	6,150	7,844

OTHER LIABILITIES (NOT INCLUDING LIABILITIES RELATING TO INVESTMENT CONTRACTS)

Liabilities relating to investments include interim distributions of EUR 85 (127) 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 251 (241) million mainly consist of instruments used to hedge interest rate, currency and equity risks, as well as embedded derivatives separated from the host insurance contract and accounted for at fair value. Please refer to our disclosures in Note 13, "Derivative financial instruments and hedge accounting".

The following table shows the maturities of other liabilities, not including liabilities under the direct written insurance business and reinsurance payables, since the latter two liabilities are directly related to insurance contracts and thus cannot be considered separately.

OTHER LIABILITIES (NOT INCLUDING LIABILITIES RELATING TO INVESTMENT CONTRACTS)¹⁾: MATURITIES

EUR MILLION

	31.12.2016	31.12.2015
Due within one year	961	1,121
More than one year, up to five years	186	225
More than five years, up to ten years	65	74
More than ten years, up to 20 years	—	2
More than 20 years	1	6
Without fixed maturity	—	—
Total	1,213	1,428

¹⁾ For reasons of materiality, undiscounted cash flows are not presented for corresponding derivatives. Instead, the fair values (negative fair values) of the derivative financial instruments are taken into account (maturity of up to one year: EUR 24 [24] million; 1–5 years: EUR 170 [161] million; 5–10 years: EUR 57 [52] million; 10–20 years: EUR 0 [0] million; more than 20 years: EUR 0 [4] million).

LIABILITIES RELATING TO INVESTMENT CONTRACTS

Other liabilities relating to investment contracts are recognised on their addition at amortised cost or at the policyholder's account balance, less acquisition costs that can be directly attributed to the conclusion of the contract. These contracts are measured at amortised cost in subsequent periods.

OTHER OBLIGATIONS MEASURED AT AMORTISED COST: MATURITIES

EUR MILLION

	Amortised cost		Fair value	
	31.12. 2016	31.12. 2015	31.12. 2016	31.12. 2015
Due within one year	30	106	30	106
More than one year, up to five years	42	365	42	365
More than five years, up to ten years	—	339	—	339
More than ten years, up to 20 years	—	27	—	27
Without fixed maturity	1	5	1	5
Total	73	842	73	842

The fair value of investment contracts is generally calculated using surrender values for policyholders and their account balances. See our remarks in the "Accounting policies" section.

FINANCIAL LIABILITIES CLASSIFIED AT FAIR VALUE THROUGH PROFIT OR LOSS AND DERIVATIVES¹⁾: MATURITIES

EUR MILLION

	31.12.2016	31.12.2015
Due within one year	7	28
More than one year, up to five years	42	81
More than five years, up to ten years	201	195
More than ten years, up to 20 years	66	112
More than 20 years	84	73
Without fixed maturity	630	892
Total	1,030	1,381

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 1 [4] million; 1–5 years: EUR 2 [8] million; 5–10 years: EUR 0 [13] million; more than 10 years: EUR 0 [28] million).

The change in fair value attributable to changes in the credit risk of financial assets classified at fair value through profit or loss was insignificant.

(28) DEFERRED TAXES

CHANGE IN RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES DURING THE YEAR

EUR MILLION

	Deferred tax assets at 31.12.2016	Deferred tax liabilities at 31.12.2016	Net balance at 31.12.2016	Deferred tax assets at 31.12.2015	Deferred tax liabilities at 31.12.2015	Net balance at 31.12.2015
Deferred tax assets and liabilities						
Other intangible assets (PVFP)	1	-76	-75	2	-86	-84
Investments	203	-688	-485	204	-660	-456
Funds withheld by ceding companies/funds withheld under reinsurance treaties	21	-94	-73	567	-892	-325
Accounts receivable on insurance business	53	-65	-12	101	-65	36
Deferred acquisition costs ¹⁾	107	-353	-246	111	-415	-304
Equalisation reserves	—	-1,409	-1,409	—	-1,472	-1,472
Loss and loss adjustment expense reserves	354	-118	236	646	-318	328
Other technical provisions	260	-250	10	983	-473	510
Other provisions	418	-9	409	339	-95	244
Consolidation of intercompany balances	—	-21	-21	—	-11	-11
Others	350	-429	-79	257	-489	-232
Loss carryforwards	349	—	349	309	—	309
Impairments	-175	—	-175	-105	—	-105
Tax assets (liabilities) before offsetting	1,941	-3,512	-1,571	3,414	-4,976	-1,562
Recognised amounts set off	-1,364	1,364	—	-2,678	2,678	—
Tax assets (liabilities) after offsetting	577	-2,148	-1,571	736	-2,298	-1,562

¹⁾ Deferred taxes on deferred acquisition costs relate to the net amount, i.e. after allowance for reinsurers' shares.

The (net) change of EUR -9 (-64) million was recognised in the amount of EUR -19 (170) million in other comprehensive income, thereby reducing equity, and in the amount of EUR 30 (-213) million as earnings under profit and loss. The other changes resulted from changes in the basis of consolidation and from exchange differences on translating foreign operations.

NOTES TO THE CONSOLIDATED STATEMENT OF INCOME

(29) NET PREMIUMS EARNED

NET PREMIUMS EARNED

EUR MILLION

	Industrial Lines	Retail Germany		Retail International	Property/Casualty Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
		Property/Casualty	Life					
2016¹⁾								
Gross written premiums, including premiums from unit-linked life and annuity insurance	4,211	1,498	4,754	4,918	8,725	7,000	—	31,106
Savings elements of premiums from unit-linked life and annuity insurance	—	—	942	256	—	—	—	1,198
Ceded written premiums	1,536	30	56	304	1,055	654	6	3,641
Change in gross unearned premiums	-21	-27	-146	-124	-145	-28	—	-491
Change in ceded unearned premiums	-2	-3	7	—	32	—	—	34
Net premiums earned	2,656	1,444	3,603	4,234	7,493	6,318	-6	25,742
2015¹⁾								
Gross written premiums, including premiums from unit-linked life and annuity insurance	4,226	1,499	5,100	4,643	8,759	7,572	—	31,799
Savings elements of premiums from unit-linked life and annuity insurance	—	—	945	244	—	—	—	1,189
Ceded written premiums	1,550	25	58	318	985	1,156	7	4,099
Change in gross unearned premiums	—	-8	-43	-234	-261	-14	—	-560
Change in ceded unearned premiums	3	—	7	7	-3	—	—	14
Net premiums earned	2,673	1,466	4,047	3,840	7,516	6,402	-7	25,937

¹⁾ After elimination of intragroup cross-segment transactions.

(30) NET INVESTMENT INCOME

NET INVESTMENT INCOME IN THE REPORTING PERIOD

EUR MILLION

	Industrial Lines	Retail Germany		Retail International	Property/Casualty Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
		Property/Casualty	Life					
2016¹⁾								
Income from real estate	17	2	71	1	143	—	—	234
Dividends ²⁾	24	1	10	2	36	1	2	76
Current interest income	159	80	1,331	289	634	252	2	2,747
Other income	47	11	82	2	100	3	—	245
Ordinary investment income	247	94	1,494	294	913	256	4	3,302
Income from reversal of impairment losses	—	—	14	—	—	—	—	14
Realised gains on disposal of investments	44	5	501	71	204	90	27	942
Unrealised gains on investments	7	—	23	27	3	48	—	108
Investment income	298	99	2,032	392	1,120	394	31	4,366
Realised losses on disposal of investments	15	3	46	20	67	20	1	172
Unrealised losses on investments	1	—	8	24	—	24	—	57
Total	16	3	54	44	67	44	1	229
Depreciation of/impairment losses on investment property								
Depreciation	1	—	15	—	29	—	—	45
Impairment losses	2	—	—	—	—	—	—	2
Impairment losses on equity securities	10	1	10	10	30	—	2	63
Impairment losses on fixed-income securities	6	—	4	2	1	—	—	13
Amortisation of/impairment losses on other investments								
Amortisation	4	3	18	—	—	—	—	25
Impairment losses	5	—	9	2	17	—	—	33
Investment management expenses	6	1	14	5	22	5	85	138
Other expenses	5	4	58	7	34	6	—	114
Other investment expenses/impairment losses	39	9	128	26	133	11	87	433
Investment expenses	55	12	182	70	200	55	88	662
Net income from assets under own management	243	87	1,850	322	920	339	-57	3,704
Net income from investment contracts	—	—	—	5	—	—	—	5
Interest income from funds withheld and contract deposits	—	—	—	—	25	423	—	448
Interest expense from funds withheld and contract deposits	—	—	12	—	2	120	—	134
Net interest income from funds withheld and contract deposits	—	—	-12	—	23	303	—	314
Net investment income	243	87	1,838	327	943	642	-57	4,023

¹⁾ After elimination of intragroup cross-segment transactions.

²⁾ Income from investments in associates and joint ventures amounted to EUR 25 million and is reported in "Dividends".

NET INVESTMENT INCOME IN THE PREVIOUS PERIOD

EUR MILLION

	Industrial Lines	Retail Germany		Retail International	Property/Casualty Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
		Property/Casualty	Life					
2015¹⁾								
Income from real estate	7	2	64	2	141	—	—	216
Dividends ²⁾	10	1	9	2	17	4	9	52
Current interest income	184	96	1,391	295	667	252	2	2,887
Other income	26	4	76	—	140	43	—	289
Ordinary investment income	227	103	1,540	299	965	299	11	3,444
Income from reversal of impairment losses	3	—	8	—	1	—	—	12
Realised gains on disposal of investments	74	13	363	90	142	93	—	775
Unrealised gains on investments	5	—	8	50	1	32	—	96
Investment income	309	116	1,919	439	1,109	424	11	4,327
Realised losses on disposal of investments	38	4	74	34	59	39	—	248
Unrealised losses on investments	8	—	21	15	—	32	—	76
Total	46	4	95	49	59	71	—	324
Depreciation of/impairment losses on investment property								
Depreciation	1	—	14	—	24	—	—	39
Impairment losses	1	—	3	—	4	—	—	8
Impairment losses on equity securities	8	—	9	34	2	—	—	53
Impairment losses on fixed-income securities	15	—	40	3	3	—	1	62
Amortisation of/impairment losses on other investments								
Amortisation	2	1	9	—	—	—	—	12
Impairment losses	20	—	24	1	7	—	—	52
Investment management expenses	5	1	15	4	19	5	86	135
Other expenses	4	2	44	11	28	7	—	96
Other investment expenses/ impairment losses	56	4	158	53	87	12	87	457
Investment expenses	102	8	253	102	146	83	87	781
Net income from assets under own management	207	108	1,666	337	963	341	-76	3,546
Net income from investment contracts	—	—	—	9	—	—	—	9
Interest income from funds withheld and contract deposits	—	—	—	—	25	433	—	458
Interest expense from funds withheld and contract deposits	—	—	12	—	5	63	—	80
Net interest income from funds withheld and contract deposits	—	—	-12	—	20	370	—	378
Net investment income	207	108	1,654	346	983	711	-76	3,933

¹⁾ After elimination of intragroup cross-segment transactions.

²⁾ Income from investments in associates and joint ventures amounted to EUR 24 million and is reported in "Dividends".

Of the impairment losses totalling EUR 111 (175) million, EUR 13 (62) million was attributable to fixed-income securities, EUR 63 (53) million to equities, EUR 7 (17) million to real estate and real estate funds and EUR 21 (38) million to private equity capital. Reversals of impairment losses on investments that had been written down in previous periods amounted to EUR 14 (12) million. EUR 4 (5) million of this amount was attributable to fixed-income securities. In addition, impairment losses of EUR 10 (7) million on investment property were reversed.

Net income from the disposal of securities amounted to EUR 770 (527) million. This is principally attributable to the disposal of portfolio securities as part of regular portfolio rebalancing.

Over and above this, the portfolio did not contain any other securities past due but not impaired at the reporting date because past due securities are written down immediately.

INTEREST INCOME FROM INVESTMENTS

EUR MILLION	2016	2015
Loans and receivables	1,070	1,162
Financial instruments held to maturity	47	89
Financial assets available for sale	1,520	1,529
Financial assets at fair value through profit or loss		
Financial liabilities classified at fair value through profit or loss	61	59
Financial assets held for trading	—	—
Others	41	47
Loans and receivables – investment contracts	16	18
Financial instruments classified at fair value through profit or loss – investment contracts	25	20
Financial instruments available for sale – investment contracts	—	—
Total	2,780	2,924

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 154ff.).

After allowance for “Expenses for assets under own management” (EUR 138 [135] million) as well as for “Other expenses on assets under own management” (EUR 114 [96] million), “Net investment income” as at the reporting date amounted to EUR 4,023 (3,933) million in total.

NET GAINS AND LOSSES ON INVESTMENTS – REPORTING PERIOD

EUR MILLION

	Ordinary investment income	Amortisation	Gains on disposal	Losses on disposal	Write-downs	Reversals of impairment losses	Unrealised gains	Unrealised losses	Total ³⁾
2016¹⁾									
Shares in affiliated companies and participating interests	9	—	10	—	3	—	—	—	16
Loans and receivables	1,027	43	200	5	1	—	—	—	1,264
Financial instruments held to maturity	40	7	—	—	—	—	—	—	47
Financial assets available for sale									
Fixed-income securities	1,578	-58	561	89	12	4	—	—	1,984
Variable-yield securities	88	—	42	13	66	—	—	—	51
Financial assets at fair value through profit or loss									
Financial liabilities classified at fair value through profit or loss									
Fixed-income securities	61	—	14	2	—	—	23	21	75
Variable-yield securities	—	—	1	3	—	—	2	—	—
Financial assets held for trading									
Fixed-income securities	—	—	—	—	—	—	—	—	—
Variable-yield securities	—	—	5	5	—	—	—	1	-1
Derivatives	2	—	21	30	—	—	18	11	—
Other investments, insofar as they are financial assets	285	1	45	12	50	—	14	13	270
Other ²⁾	219	—	43	13	49	10	51	11	250
Assets under own management	3,309	-7	942	172	181	14	108	57	3,956
Loans and receivables (assets)	16	—	—	—	—	—	—	—	16
Financial assets classified at fair value through profit or loss	22	—	20	9	—	—	94	56	71
Financial assets available for sale	—	—	—	—	—	—	—	—	—
Financial assets held for trading – (derivatives)	—	—	2	4	—	—	16	13	1
Other liabilities measured at amortised cost	-32	—	—	—	—	—	—	—	-32
Financial liabilities classified at fair value through profit or loss	10	—	—	—	—	—	47	89	-32
Liabilities held for trading – (derivatives)	—	—	—	—	—	—	13	16	-3
Other ⁴⁾	-6	-10	—	—	—	—	—	—	-16
Net income from investment contracts	10	-10	22	13	—	—	170	174	5
Funds withheld by ceding companies/funds withheld under reinsurance treaties	314	—	—	—	—	—	—	—	314
Total	3,633	-17	964	185	181	14	278	231	4,275

¹⁾ After elimination of intragroup cross-segment transactions.

²⁾ For the purposes of reconciliation to the consolidated statement of income, the "Other" item combines the gains on investment property and the income from infrastructure investments, associates and derivative financial instruments where the fair values are negative. Derivatives held for hedging purposes included in hedge accounting (see Note 13) are not included in the list if they do not relate to hedges of investments.

³⁾ Excluding investment administration expenses and other expenses.

⁴⁾ "Other" contains income (EUR 44 million) and expenses (EUR 50 million) from the management of investment contracts. Amortisation of PVFP totalled EUR 10 million.

NET GAINS AND LOSSES FROM INVESTMENTS – PREVIOUS YEAR

EUR MILLION

	Ordinary investment income	Amortisation	Gains on disposal	Losses on disposal	Write-downs	Reversals of impairment losses	Unrealised gains	Unrealised losses	Total ³⁾
2015¹⁾									
Shares in affiliated companies and participating interests	7	—	7	1	20	—	—	—	-7
Loans and receivables	1,095	67	84	5	47	—	—	—	1,194
Financial instruments held to maturity	86	3	1	—	2	—	—	—	88
Financial assets available for sale									
Fixed-income securities	1,598	-69	512	68	13	5	—	—	1,965
Variable-yield securities	69	—	44	5	63	—	—	—	45
Financial assets at fair value through profit or loss									
Financial liabilities classified at fair value through profit or loss									
Fixed-income securities	59	—	8	2	—	—	13	12	66
Variable-yield securities	1	—	—	1	—	—	5	2	3
Financial assets held for trading									
Fixed-income securities	—	—	—	—	—	—	—	—	—
Variable-yield securities	—	—	13	9	—	—	—	1	3
Derivatives	3	—	93	117	—	—	14	44	-51
Other investments, insofar as they are financial assets	292	1	2	18	19	—	35	-1	294
Other ²⁾	232	—	11	22	62	7	29	18	177
Assets under own management	3,442	2	775	248	226	12	96	76	3,777
Loans and receivables (assets)	17	1	—	—	—	—	—	—	18
Financial assets classified at fair value through profit or loss	17	—	30	11	—	—	85	76	45
Financial assets available for sale	—	—	—	—	—	—	—	—	—
Financial assets held for trading – (derivatives)	—	—	2	3	—	—	14	21	-8
Other liabilities measured at amortised cost	-41	-1	—	—	—	—	—	—	-42
Financial liabilities classified at fair value through profit or loss	10	—	—	—	—	—	75	88	-3
Liabilities held for trading – (derivatives)	—	—	—	—	—	—	21	14	7
Other ⁴⁾	4	-12	—	—	—	—	—	—	-8
Net income from investment contracts	7	-12	32	14	—	—	195	199	9
Funds withheld by ceding companies/funds withheld under reinsurance treaties	378	—	—	—	—	—	—	—	378
Total	3,827	-10	807	262	226	12	291	275	4,164

¹⁾ After elimination of intragroup cross-segment transactions.

²⁾ For the purposes of reconciliation to the consolidated statement of income, the "Other" item combines the gains on investment property and the income from infrastructure investments, associates and derivative financial instruments where the fair values are negative. Derivatives held for hedging purposes included in hedge accounting (see Note 13) are not included in the list if they do not relate to hedges of investments.

³⁾ Excluding investment administration expenses and other expenses.

⁴⁾ "Other" contains income (EUR 51 million) and expenses (EUR 47 million) from the management of investment contracts. Amortisation of PVFP totalled EUR 12 million.

(31) CLAIMS AND CLAIMS EXPENSES**CLAIMS AND CLAIMS EXPENSES – REPORTING PERIOD**

EUR MILLION

	Industrial Lines	Retail Germany		Retail International	Property/ Casualty Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
		Property/ Casualty	Life					
2016¹⁾								
Gross								
Claims and claims expenses paid	2,859	875	3,464	2,679	4,584	5,595	—	20,056
Change in loss and loss adjustment expense reserve	-274	69	38	25	891	309	20	1,078
Change in benefit reserve	—	-1	72	575	—	201	—	847
Expenses for premium refunds	14	3	1,075	12	—	—	—	1,104
Total	2,599	946	4,649	3,291	5,475	6,105	20	23,085
Reinsurers' share								
Claims and claims expenses paid	952	4	87	192	336	535	—	2,106
Change in loss and loss adjustment expense reserve	-333	-2	10	-30	154	-76	—	-277
Change in benefit reserve	—	—	-59	-5	—	117	—	53
Expenses for premium refunds	6	—	—	—	—	—	—	6
Total	625	2	38	157	490	576	—	1,888
Net								
Claims and claims expenses paid	1,907	871	3,377	2,487	4,248	5,060	—	17,950
Change in loss and loss adjustment expense reserve	59	71	28	55	737	385	20	1,355
Change in benefit reserve	—	-1	131	580	—	84	—	794
Expenses for premium refunds	8	3	1,075	12	—	—	—	1,098
Total	1,974	944	4,611	3,134	4,985	5,529	20	21,197

¹⁾ After elimination of intragroup cross-segment transactions.

CLAIMS AND CLAIMS EXPENSES – PREVIOUS YEAR

EUR MILLION

	Industrial Lines	Retail Germany		Retail International	Property/ Casualty Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
		Property/ Casualty	Life					
2015¹⁾								
Gross								
Claims and claims expenses paid	3,034	885	3,036	2,454	4,638	5,760	—	19,807
Change in loss and loss adjustment expense reserve	182	60	47	254	834	322	—	1,699
Change in benefit reserve	—	–1	1,216	342	—	515	—	2,072
Expenses for premium refunds	5	–4	699	3	—	—	—	703
Total	3,221	940	4,998	3,053	5,472	6,597	—	24,281
Reinsurers' share								
Claims and claims expenses paid	1,012	14	105	188	370	639	—	2,328
Change in loss and loss adjustment expense reserve	95	–7	9	107	–16	–7	—	181
Change in benefit reserve	—	—	–69	–6	—	401	—	326
Expenses for premium refunds	—	—	—	—	—	—	—	—
Total	1,107	7	45	289	354	1,033	—	2,835
Net								
Claims and claims expenses paid	2,022	871	2,931	2,266	4,268	5,121	—	17,479
Change in loss and loss adjustment expense reserve	87	67	38	147	850	329	—	1,518
Change in benefit reserve	—	–1	1,285	348	—	114	—	1,746
Expenses for premium refunds	5	–4	699	3	—	—	—	703
Total	2,114	933	4,953	2,764	5,118	5,564	—	21,446

¹⁾ After elimination of intragroup cross-segment transactions.

(32) ACQUISITION COSTS AND ADMINISTRATIVE EXPENSES**ACQUISITION COSTS AND ADMINISTRATIVE EXPENSES**

EUR MILLION

	Industrial Lines	Retail Germany		Retail International	Property/Casualty Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
		Property/Casualty	Life					
2016¹⁾								
Gross								
Acquisition costs and reinsurance commissions	542	299	611	882	2,090	997	—	5,421
Changes in deferred acquisition costs and in provisions for commissions	—	4	-64	1	-49	17	—	-91
Total acquisition costs	542	303	547	883	2,041	1,014	—	5,330
Administrative expenses	318	231	91	202	203	202	1	1,248
Total acquisition costs and administrative expenses	860	534	638	1,085	2,244	1,216	1	6,578
Reinsurers' share								
Acquisition costs and reinsurance commissions	261	5	19	64	205	-25	—	529
Changes in deferred acquisition costs and in provisions for commissions	-1	—	-6	-5	4	78	—	70
Total acquisition costs	260	5	13	59	209	53	—	599
Net								
Acquisition costs and reinsurance commissions	281	294	592	818	1,885	1,022	—	4,892
Changes in deferred acquisition costs and in provisions for commissions	1	4	-58	6	-53	-61	—	-161
Total acquisition costs	282	298	534	824	1,832	961	—	4,731
Administrative expenses	318	231	91	202	203	202	1	1,248
Total acquisition costs and administrative expenses	600	529	625	1,026	2,035	1,163	1	5,979
2015¹⁾								
Gross								
Acquisition costs and reinsurance commissions	540	303	615	974	1,952	1,130	—	5,514
Changes in deferred acquisition costs and in provisions for commissions	-32	7	-118	-102	-71	-67	—	-383
Total acquisition costs	508	310	497	872	1,881	1,063	—	5,131
Administrative expenses	306	205	91	198	207	197	2	1,206
Total acquisition costs and administrative expenses	814	515	588	1,070	2,088	1,260	2	6,337
Reinsurers' share								
Acquisition costs and reinsurance commissions	194	3	9	58	191	90	—	545
Changes in deferred acquisition costs and in provisions for commissions	-14	—	6	-2	—	-21	—	-31
Total acquisition costs	180	3	15	56	191	69	—	514
Net								
Acquisition costs and reinsurance commissions	346	300	606	916	1,761	1,040	—	4,969
Changes in deferred acquisition costs and in provisions for commissions	-18	7	-124	-100	-71	-46	—	-352
Total acquisition costs	328	307	482	816	1,690	994	—	4,617
Administrative expenses	306	205	91	198	207	197	2	1,206
Total acquisition costs and administrative expenses	634	512	573	1,014	1,897	1,191	2	5,823

¹⁾ After elimination of intragroup cross-segment transactions.

(33) OTHER INCOME/EXPENSES

COMPOSITION OF OTHER INCOME/EXPENSES

EUR MILLION

	2016	2015
Other income		
Foreign exchange gains	600	579
Income from services, rents and commissions	256	248
Recoveries on receivables previously written off	28	27
Income from contracts recognised in accordance with the deposit accounting method	106	98
Income from the sale of property, plant and equipment	—	10
Income from the reversal of other non-technical provisions	66	26
Interest income ¹⁾	62	72
Miscellaneous income	112	110
Total	1,230	1,170
Other expenses		
Foreign exchange losses	553	440
Other interest expenses ²⁾	96	132
Depreciation, amortisation and impairment losses ³⁾	94	128
Expenses for the company as a whole	262	251
Personnel expenses	48	64
Expenses for services and commissions	136	115
Expenses from contracts recognised in accordance with the deposit accounting method	35	36
Other taxes	70	48
Additions to restructuring provisions	52	66
Miscellaneous other expenses	87	116
Total	1,433	1,396
Other income/expenses	-203	-226

¹⁾ The "Interest income" is attributable to the segments as follows: Industrial Lines EUR 1 (5) million, Retail Germany – Property/Casualty EUR 2 (1) million, Retail Germany – Life EUR 16 (12) million, Retail International EUR 8 (7) million, Property/Casualty Reinsurance EUR 4 (21) million, Life/Health Reinsurance EUR 32 (24) million and Corporate Operations EUR 4 (3) million. Of this, EUR 5 (1) million is consolidated.

²⁾ "Other interest expenses" is attributable to the segments as follows: Industrial Lines EUR 18 (8) million, Retail Germany – Property/Casualty EUR 4 (9) million, Retail Germany – Life EUR 16 (11) million, Retail International EUR 2 (2) million, Property/Casualty Reinsurance EUR 17 (38) million, Life/Health Reinsurance EUR 24 (49) million and Corporate Operations EUR 30 (23) million. Of this, EUR 15 (8) million is consolidated.

³⁾ This figure includes depreciation and amortisation of EUR 45 (55) million. These amounts are essentially attributable to the following segments as follows: Retail International EUR 18 (21) million, Property/Casualty Reinsurance EUR 15 (20) million and Life/Health Reinsurance EUR 10 (11) million.

"Other income/expenses" do not in general include the personnel expenses incurred by our insurance companies, to the extent that these expenses are attributed to the functions by means of cost object accounting and allocated to investment expenses, claims and claims expenses, and acquisition costs and administrative expenses. This also applies to depreciation and amortisation of, and impairment losses on, intangible and other assets at our insurance companies.

(34) FINANCING COSTS

The financing costs of EUR 147 (161) million consist exclusively of interest expenses from borrowings that are not directly related to the operational insurance business. EUR 113 (131) million of these interest expenses is attributable to our issued subordinated liabilities and EUR 30 (28) million to issued bonds of Talanx AG.

(35) TAXES ON INCOME

This item includes both domestic income taxes and comparable taxes on income generated by foreign subsidiaries. The measurement of taxes on income includes the calculation of deferred taxes. The principles used to recognise deferred taxes are set out in the "Summary of significant accounting policies". Deferred taxes are recognised in respect of retained earnings of significant affiliated companies in cases where a distribution is specifically planned.

TAXES ON INCOME – CURRENT AND DEFERRED

EUR MILLION

	2016	2015
Current taxes for the reporting period	612	432
Prior-period current taxes	2	-33
Deferred taxes in respect of temporary differences	-72	230
Deferred taxes in respect of loss carryforwards	46	-41
Change in deferred taxes due to changes in tax rates	-3	24
Reported tax expense	585	612

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 17 (151) million.

The following table presents a reconciliation of the expected expense for income taxes that would be incurred by applying the German income tax rate, based on pre-tax profit, to the actual tax expense:

RECONCILIATION OF EXPECTED AND REPORTED INCOME TAX EXPENSE

EUR MILLION		
	2016	2015
Profit before income taxes	2,153	2,021
Expected tax rate	32.2%	31.6%
Expected tax expense	694	639
Change in rates applicable to deferred taxes	-3	24
Difference due to foreign tax rates	-120	-125
Non-deductible expenses	123	151
Tax-exempt income	-131	-94
Valuation allowances on deferred tax assets	72	-8
Prior-period tax expense	7	11
Other	-57	14
Reported tax expense	585	612

Calculation of the expected tax expense is based on the German income tax rate of 32.2% (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 27.17% (30.28)% 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 123 (138) 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 190 (221) million are expected to be realised in the amount of EUR 55 (48) million within one year and in the amount of EUR 135 (173) million after one year.

Current income taxes declined by EUR 2 (1) 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 89 (1) million in the reporting period. On the other hand, the reversal of previous impairment losses resulted in deferred tax income of EUR 19 (8) 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 188 (164) million.

AVAILABILITY OF UNRECOGNISED LOSS CARRYFORWARDS

An impairment loss was recognised on deferred tax assets in respect of gross loss carryforwards of EUR 812 (346) million and gross deductible temporary differences of EUR 73 (79) million because their realisation is not sufficiently certain. The impaired deferred tax assets for these items total EUR 175 (105) million.

AVAILABILITY OF IMPAIRED LOSS CARRYFORWARDS AND TEMPORARY DIFFERENCES

EUR MILLION										
	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
	2016					2015				
Loss carryforwards	—	—	12	800	812	11	—	13	322	346
Temporary differences	—	—	—	73	73	—	—	—	79	79
Total	—	—	12	873	885	11	—	13	401	425

OTHER DISCLOSURES

NUMBER OF EMPLOYEES AND PERSONNEL EXPENSES

NUMBER OF EMPLOYEES

AVERAGE ANNUAL NUMBER OF EMPLOYEES

	2016	2015
Industrial Lines	3,324	3,210
Retail Germany	4,916	4,976
Retail International	7,761	7,806
Reinsurance companies	2,804	2,747
Corporate Operations	2,737	2,779
Total excluding vocational trainees	21,542	21,518
Vocational trainees	566	568
Total	22,108	22,086

The Group's total workforce at the reporting date numbered 21,649 (21,965).

PERSONNEL EXPENSES

The personnel expenses set out in the following mainly comprise expenses for insurance operations, claims management (loss adjustment) and investment management.

BREAKDOWN OF PERSONNEL EXPENSES

EUR MILLION

	2016	2015
Wages and salaries	1,202	1,181
Social security contributions and other employee benefit costs		
Social security contributions	157	137
Post-employment benefit costs	60	70
Other employee benefit costs	24	24
	241	231
Total	1,443	1,412

RELATED PARTY DISCLOSURES

The related parties defined by IAS 24 "Related Party Disclosures" include parents and subsidiaries, subsidiaries of a common parent, associates, legal entities under the influence of management and the management of the company itself.

Related parties in the Talanx Group include HDI Haftpflichtverband der Deutschen Industrie Versicherungsverein auf Gegenseitigkeit (HDI V.a.G.), Hannover, which directly holds the majority of the shares of Talanx AG, all subsidiaries that are not consolidated on the grounds of insignificance, as well as associates and joint ventures. In addition, there are the provident funds that pay benefits in favour of employees of Talanx AG or one of its related parties after termination of their employment.

A person or a close member of that person's family is related to the reporting entity if that person has control or joint control of the reporting entity, has significant influence over the reporting entity or is a member of the key management personnel of the reporting entity or of a parent of the reporting entity. Key management personnel are the Members of the Board of Management and the Supervisory Board of Talanx AG and HDI V.a.G.

Transactions between Talanx AG and its subsidiaries including structured entities are eliminated in the course of consolidation and hence not disclosed in the Notes. In addition, HDI V.a.G. conducts primary insurance business in the form of co-insurance, with the lead insurers being HDI Global SE (HG), Hannover, and HDI Versicherung AG (HV), Hannover. In accordance with the Articles of Association of HDI V.a.G., insurance business is split uniformly in the ratio 0.1% (HDI V.a.G.) to 99.9% (HG/HV).

On 21 October 2016, Talanx AG concluded a cooperation agreement with HDI Haftpflichtverband der Deutschen Industrie V.a.G. which allows Talanx AG to offer HDI subordinated bonds with a maturity of five years and a volume of up to EUR 500 million on a revolving basis. Talanx AG is obliged to convert these bonds into registered shares with voting rights in the event of an increase in capital with pre-emptive rights. With the conversion of these bonds, HDI Haftpflichtverband der Deutschen Industrie V.a.G. waives its pre-emptive rights resulting from the capital increase that led to the conversion. It does so for that number of new Talanx shares that corresponds to the number of Talanx shares that HDI Haftpflichtverband der Deutschen Industrie V.a.G. will receive in the course of the obligatory conversion of the bond – i.e. only to the extent to which new shares resulting from the capital increase are replaced by shares resulting from the conversion.

Other business relationships with unconsolidated companies or with associates and joint ventures are insignificant overall.

In addition, there are contracts for services with a company in which a Member of the Supervisory Board is invested. Revenues generated with Group companies under these contracts during the reporting period stood at less than EUR 0.1 million.

For details of the remuneration received by Members of the Board of Management and Supervisory Board of Talanx AG, please see the disclosures in the remuneration report on page 74ff and the "Remuneration of the governing bodies of the parent" section.

SHARE-BASED PAYMENTS

The following share-based payment schemes were operating within the Group in financial year 2016:

- Stock appreciation rights scheme (SAR) at Hannover Rück SE (operating since 2000, terminated successively from 2011 onwards and in the process of being wound up)
- Share award scheme (share-based payment in the form of virtual shares, operating since 2011)

These schemes and their effects on net income for the year and on the Group's net assets, financial position and results of operations are described in the following.

STOCK APPRECIATION RIGHTS SCHEME AT HANNOVER RÜCK SE

With the approval of the Supervisory Board, the Board of Management of Hannover Rück SE introduced a virtual stock option scheme with effect from 1 January 2000 that grants stock appreciation rights (SARs) to certain executives. The content of the stock option scheme is based solely on the terms and conditions for the grant of stock appreciation rights. All members of the Group's senior management are eligible for the award of stock appreciation rights. Exercising stock appreciation rights does not entitle the holder to demand delivery of Hannover Rück SE shares, but only to be paid a cash amount linked to the performance of Hannover Rück SE's shares.

The terms and conditions for the grant of stock appreciation rights have been revoked for all eligible executives. Stock appreciation rights that have already been allocated may be exercised until their expiration date.

Stock appreciation rights were first granted for financial year 2000 and, until the scheme was terminated, were awarded separately for each subsequent financial year (allocation year), provided that the performance criteria defined in the terms and conditions for the grant of stock appreciation rights were satisfied.

The term of the stock appreciation rights is ten years in each case, commencing at the end of the year in which they are awarded. Stock appreciation rights lapse if they are not exercised by the end of the ten-year period. Stock appreciation rights may only be exercised after a vesting period and then only within four exercise periods each year. Upon expiry of a four-year vesting period, a maximum of 60% of the SARs awarded for any allocation year may be exercised. The vesting period for each further 20% of the SARs awarded to an executive for that allocation year is an additional one year in each case. Each exercise period lasts for ten trading days, commencing on the sixth trading day after the date of publication of each quarterly report of Hannover Rück SE.

The amount paid out to the executive exercising a stock appreciation right is the difference between the strike price and the current quoted market price of Hannover Rück SE shares at the exercise date. In this context, the strike price corresponds to the arithmetic mean of the closing prices of Hannover Rück SE shares on all trading days of the first full calendar month of the allocation year in question. The current quoted market price of Hannover Rück SE shares at the date when stock appreciation rights are exercised is the arithmetic mean of the closing prices of Hannover Rück SE shares on the last 20 trading days prior to the first day of the exercise period.

The amount paid out is limited to a maximum calculated by dividing the total volume of remuneration to be granted in the allocation year by the total number of stock appreciation rights awarded in that year. If the holder's employment with the company is terminated by either party or by mutual agreement or ends upon expiry of a fixed term, the holder is entitled to exercise all of their stock appreciation rights in the first exercise period thereafter. Any stock appreciation rights not exercised within this period and any for which the vesting period has not yet expired will lapse. Retirement, incapacity or death of the executive does not constitute termination of employment for the purpose of exercising stock appreciation rights.

The allocations for the years 2007 and 2009 to 2011 gave rise to the commitments in financial year 2016 shown in the table below. No allocations were made for 2005 and 2008.

HANNOVER RÜCK SE STOCK APPRECIATION RIGHTS

	Allocation year			
	2011	2010	2009	2007
Award date	15.3.2012	8.3.2011	15.3.2010	28.3.2008
Term	10 years	10 years	10 years	10 years
Lock-up period	4 years	4 years	2 years	2 years
Strike price (in EUR)	40.87	33.05	22.70	34.97
Participants in year of issue	143	129	137	110
Number of rights granted	263,515	1,681,205	1,569,855	926,565
Fair value as at 31.12.2016 (in EUR)	32.13	8.92	8.76	10.79
Maximum value (in EUR)	32.21	8.92	8.76	10.79
Weighted exercise price (in EUR)	32.21	8.92	8.76	10.79
Number of rights as at 31.12.2016	110,310	398,639	42,159	8,356
Provision as at 31.12.2016 (in EUR million)	3.25	3.56	0.37	0.09
Amounts paid out in FY 2016 (in EUR million)	4.40	2.73	0.18	0.03
Expense in FY 2016 (in EUR million)	0.65	0.54	—	-0.05

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 103.00 as at 15 December 2016, an expected volatility of 21.09% (historical volatility on a five-year basis), an expected dividend yield of 4.61% and a risk-free interest rate of -0.79% for the 2007 allocation year, -0.71% for the 2009 allocation year, -0.59% for the 2010 allocation year and -0.43% for the 2011 allocation year.

In financial year 2016, the vesting period expired for 100% of the stock appreciation rights granted for the years 2007 and 2009, for 80% of those granted for 2010 and for 60% of those granted for 2011. A total of 2,443 stock appreciation rights from the 2007 allocation year, 20,809 stock appreciation rights from the 2009 allocation year, 305,726 stock appreciation rights from the 2010 allocation year and 136,746 stock appreciation rights from the 2011 allocation year were exercised. The total amount paid out was EUR 7 million.

On this basis, the aggregate provisions, which are recognised in other non-technical provisions, amounted to EUR 7 (14) million for financial year 2016. The total expenditure amounted to EUR 1 (4) million.

SHARE AWARD SCHEME

Effective financial year 2011, a share award scheme was introduced for Talanx AG and the significant Group companies including Hannover Rück SE, initially for the members of the boards of management and subsequently for certain executives; this grants stock appreciation rights in the form of virtual shares, known as

“share awards”. This share award scheme comes in two versions, which in turn vary in certain parts:

- Talanx share awards (for members of the boards of management of Talanx and of the significant Group companies and, with effect from the 2012 or 2015 financial year, for certain executives, other than Hannover Rück SE)
- Hannover Re share awards (for members of the Board of Management of Hannover Rück SE and, starting in financial year 2012, also for certain executives of Hannover Rück SE. This share award scheme replaces Hannover Re’s terminated stock appreciation rights scheme. Please refer to our disclosures in “Stock appreciation rights scheme at Hannover Rück SE”)

The share awards do not entitle participants to demand actual shares, but only the payment of a cash amount subject to the following conditions.

The share award scheme is open to all persons contractually entitled to share awards and, in the case of members of boards of management, whose contract of service is still in force at the time of allocation of the share awards and will not end due to termination by either party or by mutual agreement before expiry of the lock-up period.

Share awards have been issued as from financial year 2011 for members of boards of management and as from financial year 2012 or 2015 for certain executives and thereafter separately for each subsequent financial year (allocation year). Share awards issued to eligible Board of Management members in financial year 2011 were paid out for the first time in financial year 2016.

The 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 up to five trading days after the meeting of the Supervisory Board that approves the consolidated financial statements for the previous financial year. The Talanx share awards are based on the value per share of Talanx AG, while the Hannover Re share awards are based on the value per share of Hannover Rück SE. For Hannover Rück SE executives, the period stipulated is 20 trading days before until ten trading days after the meeting of the Supervisory Board that approves the consolidated financial statements for the previous financial year. The share values thus calculated also determine the payout value of the share awards as they come due. The total number of share awards to be allocated is arrived at by dividing the amount available for allocation of share awards to each beneficiary by the value per share, rounded up to the next full share. For the executives of the Talanx Group (excluding Hannover Rück SE), an additional virtual share is allocated for every four full shares. For members of the boards of management of Talanx AG and of significant Group companies as well as of Hannover Rück SE, 20% of the individual's defined variable remuneration is allocated in share awards, while for Group executives (including Hannover Rück SE) the figure is 30% to 40% depending on their management level.

The share awards are allocated automatically without the need for a declaration by either party. For each share award, the value of one share determined according to the above definition on the payout date is paid out after a lock-up period of four years. The value per share is calculated using the procedure described in the previous paragraph. This amount is paid by bank transfer in the month following the end of the period designated for calculating the value per share as described in the previous paragraphs. For Talanx Group executives who have participated in the allocation of share awards since 2015, the payout will take place after the expiry of the lock-up period in July until further notice.

If dividends were distributed to shareholders, an amount equal to the corresponding dividend is paid in addition to the payment of the value of the share awards. The amount of the dividend due equals the sum of all dividends distributed per share during the term of the share awards multiplied by the number of share awards paid out to each beneficiary at the payout date. If the share awards are paid out ahead of time, only the value of the dividends for the period up to the occurrence of the event triggering the early payout will be paid. Proportionate interests in dividends not yet distributed are not taken into account. For executives, the payout is carried out on the respective contractual terms or pro rata temporis in the event of a departure during the year.

If a beneficiary's term of office or service contract as a Member of the Board of Management ends, the beneficiary remains entitled to payment of the value of any share awards already granted at the time of expiry of the relevant lock-up period, unless that termination is based on the resignation of the beneficiary or on termination/dismissal for cause. In the event of the death of the beneficiary, the entitlement to share awards already allocated or still to be allocated passes to his or her heirs. For the executives (excluding Hannover Rück SE), non-forfeiture applies to the claims already acquired.

In principle, no share awards may be allocated to members of the boards of management after the beneficiary has left the company, except if the beneficiary has left the company due to non-reappointment, retirement or death, and then only in respect of entitlements to variable remuneration earned by the beneficiary in the last year – or part-year – of his or her activity.

The share award scheme is accounted for in the Group as a cash-settled share-based payment transaction as defined by IFRS 2. Due to the different calculation bases used for the Talanx share awards and the Hannover Re share awards, the further characteristics of the two versions are described separately in the following:

TALANX SHARE AWARDS

DETAILS OF THE TALANX SHARE AWARDS

	2016	2015	
	Anticipated allocation in 2017 for 2016	Final allocation in 2016 for 2015	Anticipated allocation
Measurement date	30.12.2016	22.03.2016	30.12.2015
Value per share award (in EUR)	31.77	28.39	28.55
Total number of share awards	673,688	588,044	596,167
Number allocated in year	195,122	199,497	207,619
of which: Talanx AG Board of Management	36,010	35,615	33,241
of which: Other boards of management	51,929	51,293	48,577
of which: Executives ²⁾	107,183	112,589	125,801
Share awards paid out	109,478	—	—
Personnel expenses ¹⁾ (in EUR million)	7.2		7.5
of which: Dividend payments taken into consideration ³⁾ (in EUR million)	0.6		0.6
Amount paid	3.5		—
Amount terminated	0.1		—
Total amount of provisions (in EUR million)	17.5		14.2

¹⁾ The personnel expenses in respect of the share award scheme for the Board of Management are distributed over the term of the share awards or the shorter term of the service contracts.

²⁾ A further group of persons is also registered among the executives (risk takers) who have been receiving share awards since the 2013 financial year. Slightly modified allocation schemes exist for these risk takers, which are not explained in detail for reasons of materiality.

³⁾ Distributed dividends for the allocation year – anticipated dividend payments are not taken into consideration; the dividend claims are discounted before recognition.

HANNOVER RE SHARE AWARDS

DETAILS OF THE HANNOVER RE SHARE AWARDS

	2016	2015	
	Anticipated allocation in 2017 for 2016	Final allocation in 2016 for 2015	Anticipated allocation
Measurement date for Board of Management	30.12.2016	17.03.2016	30.12.2015
Value per share award (in EUR)	102.80	97.64	105.65
Measurement date for executives	30.12.2016	24.03.2016	30.12.2015
Value per share award (in EUR)	102.80	95.30	105.65
Total number of share awards	502,169	432,375	418,825
Number allocated in year	92,026	90,343	74,462
of which: Board of Management	10,704	11,244	9,355
of which: Executives	81,322	79,383	65,107
of which: Other adjustments	—	– 284	—
Share awards paid out	22,232	—	—
Personnel expenses ¹⁾ (in EUR million)	10.6		15.1
of which: Dividend payments taken into consideration ²⁾ (in EUR million)	2.0		1.4
Amount paid	2.0		—
Amount terminated	0.1		—
Total amount of provisions (in EUR million)	35.8		27.8

¹⁾ The personnel expenses are in respect of the share award scheme for the Board of Management distributed over the term of the share awards or the shorter term of the service contracts, and for executives over the relevant term of the share awards.

²⁾ Distributed dividends for the allocation year – anticipated dividend payments are not taken into consideration; the dividend claims are discounted before recognition.

LITIGATION

The usual business activities of Group companies may entail court and regulatory proceedings as well as arbitration proceedings. Depending on the probability of any resulting outflow of resources, and in line with the extent to which the amount of such an outflow can be reliably estimated, either a provision is recognised or a contingent commitment is disclosed (in the Notes). In accordance with the subject matter of the proceedings, these are usually technical provisions within the scope of IFRS 4 and, in exceptional cases, miscellaneous other provisions. Litigation costs (such as attorney's fees, court costs and other ancillary costs) are only recognised as a liability once a well-founded action becomes known. A contingent liability is recognised for litigation where utilisation is unlikely.

The Group uses a number of assessment criteria to estimate the amount and probability of any outflow of resources. These include the type of dispute concerned, the status of the proceedings, assessments by legal advisors, decisions by the courts or by arbitrators, expert opinions, 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.

Group companies and public funds at Ampega Investment GmbH received bearer bonds and promissory note loans issued by HETA Asset Resolution AG in the nominal amount of EUR 101 million. The Austrian federal state of Carinthia has issued a deficit guarantee for these securities/loans. The Austrian Financial Market

Authority (FMA) imposed a payment moratorium on HETA Asset Resolution AG on 1 March 2015. The affected companies/investment funds subsequently undertook write-downs in their portfolios and initiated legal steps. Following the failure of a repurchase offer with a deadline on 11 March 2016, the FMA ordered a bail-in on 10 April 2016. The bail-in amounted to 54% for priority liabilities. The bail-in was followed by negotiations with the Federal Ministry of Finance. These negotiations resulted on 5 September 2016 in a significantly improved exchange/repurchase offer on the part of the Carinthian compensation fund with an economic value of approximately 90%. All affected Group companies and investment funds agreed to accept this improved offer, and on 12 October 2016, the HETA bonds were, as was stipulated in the offer, exchanged 1:1 for zero-coupon bonds from the Carinthian compensation fund that were guaranteed by the Republic of Austria. The holding period expired on 30 November 2016, after which all zero-coupon bonds were returned to the Carinthian compensation fund in December 2016. This transaction yielded total revenue of EUR 93 million. This figure corresponds to the economic value of the exchange offer of 90% plus the accrued interest that had not yet been paid by the beginning of the moratorium. It was thus possible to bring the legal dispute to an end in December 2016.

In our view, the provisions recognised for litigation risk in each case, and the contingent liabilities disclosed for litigation are sufficient to cover the expected expenses.

EARNINGS PER SHARE

Earnings per share are calculated by dividing net income attributable to the shareholders of Talanx AG by the average number of outstanding shares. There were no dilutive effects, which have to be recognised separately when calculating earnings per share, either at the reporting date or in the previous year. In the future, earnings per share may be potentially diluted as a result of the share or rights issues from contingent or authorised capital.

EARNINGS PER SHARE

	2016	2015
Net income attributable to shareholders of Talanx AG for calculating earnings per share (in EUR million)	907	734
Weighted average number of ordinary shares outstanding	252,797,634	252,797,634
Basic earnings per share (in EUR)	3.59	2.90
Diluted earnings per share (in EUR)	3.59	2.90

DIVIDEND PER SHARE AND APPROPRIATION OF DISTRIBUTABLE PROFITS

A dividend for financial year 2015 amounting to EUR 1.30 per share was paid in the reporting period, resulting in a total distribution of EUR 329 million. A proposal will be made to the Annual General Meeting to be held on 11 May 2017 to distribute a dividend for financial year 2016 in the amount of EUR 1.35 per share, resulting in a total distribution of EUR 341 million. The remainder of the distributable profit at Talanx AG (EUR 484 million) will become part of retained profits brought forward.

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:

CONTINGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS FROM CONTRACTS, MEMBERSHIPS AND TAXES

EUR MILLION

	2016	2015
Trust accounts in the United States (master trust funds, supplemental trust funds and single trust funds) as security for technical liabilities to US cedants ¹⁾ (this amount includes a converted total of EUR 1,329 (1,281) million, which is provided as collateral for technical liabilities arising from ILS transactions by investors)	5,754	5,349
Guarantees for subordinated bonds issued by Group companies: the guarantees cover the relevant bond volumes as well as interest due	1,500	1,500
Blocked custody accounts and other trust accounts as collateral in favour of reinsurers and cedants; generally outside the USA ¹⁾	3,056	2,847
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	2,033	1,743
Commitments under rental/lease agreements ²⁾	445	428
Funding commitments and contribution payments in accordance with sections 124 ff. of the Insurance Supervision Act (VAG) as a member of the Statutory Guarantee Fund for Life Insurance Undertakings	520	488
Collateral for liabilities to various credit institutions in connection with investments in real estate companies and real estate transactions	594	593
Commitments under service agreements – primarily in connection with IT outsourcing contracts	337	229
Other	303	448
Total	14,542	13,625

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⁾ Fresh data is collected only at year-end.

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 "Verkehrsoferhilfe 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

The Talanx Group uses leased properties and office facilities in many locations. These properties and facilities are generally rented on the basis of various long-term operating leases.

Outstanding commitments under non-cancellable contractual relationships amounted to EUR 445 (428) million at the reporting date.

FUTURE LEASE OBLIGATIONS

EUR MILLION

	2017	2018	2019	2020	2021	Subsequent years
Payments	65	59	56	52	46	167

Operating leases resulted in expenses of EUR 70 (65) million for minimum lease payments in the reporting period.

Finance lease expenses at the reporting date were minimal, amounting to EUR 3 (1) million.

LEASES UNDER WHICH GROUP COMPANIES ARE THE LESSOR

The total amount of income due under non-cancellable leases in subsequent years is EUR 785 (795) million.

FUTURE RENTAL INCOME

EUR MILLION

	2017	2018	2019	2020	2021	Subsequent years
Income	150	143	133	120	108	131

Rental income in the reporting period totalled EUR 166 (148) million. This resulted principally from property companies renting out properties in the Property/Casualty Reinsurance segment as well as from primary insurance companies renting out properties in Germany (mainly in the Retail Germany – Life segment).

REMUNERATION OF THE GOVERNING BODIES OF THE PARENT COMPANY

The Board of Management comprised 6 (6) active members at the reporting date.

The total remuneration of the Board of Management amounted to EUR 11,086 (9,788) 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 1,144 (949) thousand, corresponding to 36,010 (33,241) shares, under the Talanx Share Award scheme and a fair value of EUR 263 (217) thousand, corresponding to 2,556 (2,054) shares, under the Hannover Re Share Award scheme.

Former members of the Board of Management and their surviving dependants received total remuneration of EUR 752 (750) thousand. An amount of EUR 18,776 (17,937) 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 2,506 (2,414) thousand. There are no pension commitments to former members of the Supervisory Board or their surviving dependants.

The mortgage loan existing on the 2015 reporting date for a member of the Supervisory Board was superseded in full during the year under review and no longer existed as at the 2016 reporting date. No loans or advances were granted to Members of the Board of Management or Supervisory Board or their dependants in the year under review. No contingent liabilities existed in favour of this group of persons.

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 74 ff. 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.

BREAKDOWN OF KPMG FEES

EUR MILLION

	KPMG worldwide		of which KPMG AG	
	2016	2015	2016	2015
Financial statement audit services	18.3	15.5	8.2	5.6
Other assurance services	0.4	0.9	0.3	0.6
Tax advisory services	0.9	1.4	0.5	0.2
Other services	3.6	5.0	3.2	4.7
Total	23.2	22.8	12.2	11.1

The lead auditor responsible for performing the audit within the meaning of section 38(2) of the Professional Code of Conduct for German Public Auditors and Sworn Auditors is Mr Florian Möller. He was first responsible for the audit of the annual and consolidated financial statements as at 31 December 2016.

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

The declaration of conformity with the German Corporate Governance Code in accordance with section 161 of the German Stock Corporation Act (AktG) has been issued and made permanently available to shareholders on Talanx AG's website (<http://www.talanx.com/investor-relations/corporate-governance>) as described in the Board of Management's corporate governance declaration in the Group management report ("Corporate Governance" section).

On 9 November 2016, 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 2 December 2016, the Standard & Poors (S&P) rating agency lowered South Africa's local currency debt rating to BBB. As a result, the ratings of two subsidiaries, Hannover Reinsurance Africa Limited and Hannover Life Reassurance Africa Limited (both domiciled in Johannesburg and part of the Life/Health Reinsurance segment), were given Credit Watch Negative status on 12 December 2016. In order to avoid a possible rating downgrade, Hannover Rück SE (guarantor) issued a guarantee for each company, effective 1 January 2017. The guarantees cover all payment obligations relating to primary insurance and reinsurance claims at both companies. The guarantees are not linked to any conditions, are ongoing and binding for the guarantor, and the ensuing obligations have equal standing with all of the guarantor's other unsecured liabilities. After recognising the guarantees, S&P removed the Credit Watch Negative status on 8 February 2017, after which the two companies were issued an AA-/Stable Outlook rating.

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). As part of the first-time application of the amended requirements resulting from the German Accounting Directive Implementation Act (BilRUG), all companies in which a participating interest is held, which is

intended to serve the Company's own business by establishing a lasting connection, were included in this list in the year under review. Previously applicable investment thresholds no longer apply. As a result, the number of companies to be listed in the consolidated financial statements has increased slightly.

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
Domestic					
Alstertor Erste Beteiligungs- und Investitionssteuerungs-GmbH & Co. KG, Hamburg ¹⁴⁾	100.00	EUR	4,175	EUR	577
Alstertor Zweite Beteiligungs- und Investitionssteuerungs-GmbH & Co. KG, Hamburg ¹⁴⁾	100.00	EUR	8,622	EUR	-24
Ampega Investment GmbH, Cologne ¹⁵⁾	100.00	EUR	7,936	EUR	16,162
Ampega-nl-Euro-DIM-Fonds, Cologne ¹⁷⁾	100.00	EUR	471,878	EUR	2,604
Ampega-nl-Global-Fonds, Cologne ¹⁷⁾	100.00	EUR	45,448	EUR	361
Ampega-nl-Rent-Fonds, Cologne ¹⁷⁾	100.00	EUR	712,603	EUR	87,726
Ampega-Vienna-Bonds-Master-Fonds Deutschland, Cologne ¹⁷⁾	100.00	EUR	285,243	EUR	15,264
E+S Rückversicherung AG, Hannover ¹⁴⁾	64.79	EUR	696,413	EUR	125,000
EURO RENT 3 Master, Cologne ¹⁷⁾	100.00	EUR	1,054,195	EUR	53,905
FUNIS GmbH & Co. KG, Hannover ¹⁴⁾	100.00	EUR	75,123	EUR	3,875
Gerling Immo Spezial 1, Cologne ¹⁷⁾	100.00	EUR	304,567	EUR	6,186
GERLING Pensionsenthaftungs- und Rentenmanagement GmbH, Cologne	100.00	EUR	2,401	EUR	-836
GKL SPEZIAL RENTEN, Cologne ¹⁷⁾	100.00	EUR	980,952	EUR	55,903
Hannover America Private Equity Partners II GmbH & Co. KG, Hannover ¹⁴⁾	100.00	EUR	237,381	EUR	40,194
Hannover Beteiligungsgesellschaft mbH, Hannover ¹⁴⁾	100.00	EUR	2,053	EUR	-833
Hannover Euro Private Equity Partners II GmbH & Co. KG, Cologne ¹⁴⁾	100.00	EUR	1,226	EUR	1,044
Hannover Euro Private Equity Partners III GmbH & Co. KG, Cologne ¹⁴⁾	100.00	EUR	633	EUR	11,738
Hannover Euro Private Equity Partners IV GmbH & Co. KG, Cologne ¹⁴⁾	100.00	EUR	5,434	EUR	10,848
Hannover Insurance-Linked Securities GmbH & Co. KG, Hannover	100.00	EUR	20,388	EUR	53
Hannover Life Re AG, Hannover ^{14),15)}	100.00	EUR	1,873,188	EUR	139,427
Hannover Re Euro PE Holdings GmbH & Co. KG, Hannover ¹⁴⁾	100.00	EUR	251,203	EUR	20,291
Hannover Re Euro RE Holdings GmbH, Hannover ¹⁴⁾	100.00	EUR	886,721	EUR	21,602
Hannover Re Global Alternatives GmbH & Co. KG, Hannover ¹⁴⁾	100.00	EUR	41,628	EUR	2,852
Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover ^{14),15)}	100.00	EUR	2,341,925	EUR	275,612
Hannover Rück SE, Hannover ¹⁴⁾	50.22	EUR	2,665,716	EUR	949,232
HAPEP II Holding GmbH, Hannover ¹⁴⁾	100.00	EUR	6,010	EUR	909
HAPEP II Komplementär GmbH, Hannover ¹⁴⁾	100.00	EUR	39	EUR	3
HDI AI EUR Beteiligungs-GmbH & Co. KG, Cologne ^{6),14)}	100.00	EUR	456,519	EUR	19,131
HDI AI USD Beteiligungs-GmbH & Co. KG, Cologne ^{6),14)}	100.00	EUR	116,448	EUR	19,729
HDI Direkt Service GmbH, Hannover ^{5),14),15)}	100.00	EUR	51	EUR	-2
HDI-Gerling Friedrich Wilhelm AG, Cologne ¹⁴⁾	100.00	EUR	528,151	EUR	66,728
HDI-Gerling Sach Industrials Master, Cologne ¹⁷⁾	100.00	EUR	293,063	EUR	20,656
HDI Globale Equities, Cologne ¹⁷⁾	100.00	EUR	269,609	EUR	80,472
HDI Global Network AG, Hannover ^{14),15)}	100.00	EUR	187,664	EUR	29,510
HDI Global SE, Hannover ^{14),15)}	100.00	EUR	406,536	EUR	67,785

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
Domestic					
HDI Kundenservice AG, Cologne ^{5),15)}	100.00	EUR	362	EUR	72
HDI Lebensversicherung AG, Cologne	100.00	EUR	440,897	EUR	17,750
HDI Pensionskasse AG, Cologne ¹⁴⁾	100.00	EUR	39,605	EUR	—
HDI Risk Consulting GmbH, Hannover ^{5),14),15)}	100.00	EUR	1,626	EUR	1,599
HDI Versicherung AG, Hannover ^{14),15)}	100.00	EUR	163,159	EUR	-12,405
HDI Vertriebs AG, Hannover ^{5),14),15)}	100.00	EUR	533	EUR	-557
HEPEP II Holding GmbH, Cologne ¹⁴⁾	100.00	EUR	22	EUR	-1,760
HEPEP III Holding GmbH, Cologne ¹⁴⁾	100.00	EUR	2,627	EUR	1,618
HEPEP II Komplementär GmbH, Cologne ¹⁴⁾	100.00	EUR	48	EUR	5
HEPEP IV Komplementär GmbH, Cologne ¹⁴⁾	100.00	EUR	20	EUR	—
HGLV-Financial, Cologne ¹⁷⁾	100.00	EUR	1,543,684	EUR	66,463
HILSP Komplementär GmbH, Hannover	100.00	EUR	33	EUR	3
HNG Hannover National Grundstücksverwaltung GmbH & Co. KG, Hannover ⁶⁾	100.00	EUR	49,097	EUR	-551
HR GLL Central Europe GmbH & Co. KG, Munich ^{9),14)}	99.99	EUR	326,930	EUR	4,334
HR GLL Central Europe Holding GmbH, Munich ^{12),14)}	100.00	EUR	61,419	EUR	1,183
HR Verwaltungs-GmbH, Hannover ¹⁴⁾	100.00	EUR	12	EUR	-1
HV Aktien, Cologne ¹⁷⁾	100.00	EUR	10	EUR	10
Infrastruktur Ludwigsau GmbH & Co. KG, Cologne ^{6),14)}	100.00	EUR	33,882	EUR	218
International Insurance Company of Hannover SE, Hannover ^{14),15)}	100.00	EUR	165,845	EUR	—
IVEC Institutional Venture and Equity Capital GmbH, Cologne	100.00	EUR	58,470	EUR	24,618
Lifestyle Protection AG, Hilden ^{14),15)}	100.00	EUR	5,749	EUR	-803
Lifestyle Protection Lebensversicherung AG, Hilden ^{14),15)}	100.00	EUR	7,496	EUR	-1,339
neue leben Holding AG, Hamburg	67.50	EUR	70,316	EUR	11,778
neue leben Lebensversicherung AG, Hamburg ¹⁵⁾	100.00	EUR	65,608	EUR	6,628
neue leben Unfallversicherung AG, Hamburg ^{14),15)}	100.00	EUR	3,596	EUR	5,313
NL Master, Cologne ¹⁷⁾	100.00	EUR	58,325	EUR	3,140
PB Lebensversicherung AG, Hilden ¹⁵⁾	100.00	EUR	136,666	EUR	17,317
PB Pensionsfonds AG, Hilden ^{14),15)}	100.00	EUR	3,058	EUR	933
PB Versicherung AG, Hilden ^{14),15)}	100.00	EUR	9,499	EUR	6,242
PBVL-Corporate, Cologne ¹⁷⁾	100.00	EUR	276,600	EUR	128,726
Riethorst Grundstücksgesellschaft AG & Co. KG, Hannover ⁶⁾	100.00	EUR	159,325	EUR	5,274
TAL Aktien, Cologne ¹⁷⁾	100.00	EUR	23,437	EUR	16,019
Talanx Asset Management GmbH, Cologne ^{5),15)}	100.00	EUR	83,600	EUR	83,396
Talanx Beteiligungs-GmbH & Co. KG, Hannover ^{6),14)}	100.00	EUR	19,984	EUR	126
Talanx Deutschland AG, Hannover ^{5),15)}	100.00	EUR	1,643,521	EUR	71,751
Talanx Deutschland Bancassurance Communication Center GmbH, Hilden ^{5),15)}	100.00	EUR	630	EUR	-252
Talanx Deutschland Bancassurance GmbH, Hilden ^{5),15)}	100.00	EUR	650,419	EUR	73,763
Talanx Deutschland Bancassurance Kundenservice GmbH, Hilden ^{5),15)}	100.00	EUR	75	EUR	78
Talanx Deutschland Real Estate Value, Cologne ¹⁷⁾	100.00	EUR	91,386	EUR	77,370
Talanx Direct Infrastructure 1 GmbH, Cologne ¹⁴⁾	100.00	EUR	40	EUR	22
Talanx Immobilien Management GmbH, Cologne ^{5),15)}	100.00	EUR	2,837	EUR	657

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
Domestic					
Talanx Infrastructure France 1 GmbH, Cologne	100.00	EUR	57,184	EUR	396
Talanx Infrastructure France 2 GmbH, Cologne	100.00	EUR	98,804	EUR	880
Talanx Infrastructure Portugal 2 GmbH, Cologne	100.00	EUR	829	EUR	-2
Talanx Infrastructure Portugal GmbH, Cologne	100.00	EUR	52,295	EUR	70
Talanx International AG, Hannover ^{5),15)}	100.00	EUR	1,848,846	EUR	40,839
Talanx Pensionsmanagement AG, Cologne ^{5),15)}	100.00	EUR	1,817	EUR	460
Talanx Reinsurance Broker GmbH, Hannover ^{5),14),15)}	100.00	EUR	100	EUR	19,008
Talanx Service AG, Hannover ^{5),14),15)}	100.00	EUR	1,746	EUR	—
Talanx Systeme AG, Hannover ^{5),14),15)}	100.00	EUR	140	EUR	—
TAL-Corp, Cologne ¹⁷⁾	100.00	EUR	130,623	EUR	85,944
TAM AI Komplementär GmbH, Cologne ¹⁴⁾	100.00	EUR	51	EUR	8
TARGO Lebensversicherung AG, Hilden ¹⁵⁾	100.00	EUR	33,655	EUR	31,700
TARGO Versicherung AG, Hilden ^{14),15)}	100.00	EUR	29,742	EUR	14,554
TD-BA Private Equity GmbH & Co. KG, Cologne ^{6),14)}	100.00	EUR	182,348	EUR	3,961
TD-BA Private Equity Sub GmbH, Cologne ¹⁴⁾	100.00	EUR	82,508	EUR	8,408
TD Real Assets GmbH & Co. KG, Cologne ¹⁴⁾	100.00	EUR	438,821	EUR	4,723
TD-Sach Private Equity GmbH & Co. KG, Cologne ^{6),14)}	100.00	EUR	49,584	EUR	5,040
Windfarm Bellheim GmbH & Co. KG, Cologne	100.00	EUR	66,528	EUR	1,470
Windpark Mittleres Mecklenburg GmbH & Co. KG (formerly: Windpark Dalwitz GmbH & Co. KG), Cologne ¹⁴⁾	100.00	EUR	13,493	EUR	1,877
Windpark Parchim GmbH & Co. KG, Cologne ^{6),14)}	100.00	EUR	11,491	EUR	114
Windpark Rehain GmbH & Co. KG, Cologne ⁶⁾	100.00	EUR	1	EUR	56
Windpark Sandstruth GmbH & Co. KG, Cologne ¹⁴⁾	100.00	EUR	6,244	EUR	103
Windpark Vier Fichten GmbH & Co. KG, Cologne ¹⁴⁾	100.00	EUR	6,095	EUR	184
WP Berngerode GmbH & Co. KG, Cologne ¹⁴⁾	100.00	EUR	49,919	EUR	636
WP Mörsdorf Nord GmbH & Co. KG, Cologne ¹⁴⁾	100.00	EUR	37,759	EUR	800
Foreign					
101BOS LLC, Wilmington, USA ^{10),14)}	100.00	USD	51,322	USD	445
111ORD, LLC, Wilmington, USA ^{10),14)}	100.00	USD	73,529	USD	2,418
11 Stanwix, LLC, Wilmington, USA ^{10),14)}	100.00	USD	36,373	USD	1,411
1225 West Washington, LLC, Wilmington, USA ^{10),14)}	100.00	USD	24,082	USD	1,020
140EWR, LLC, Wilmington, USA ^{10),14)}	100.00	USD	79,402	USD	-2,589
300 California, LLC, Wilmington, USA ^{7),10),14)}	100.00	USD	—	USD	—
3290ATL LLC, Wilmington, USA ^{10),14)}	100.00	USD	69,861	USD	160
402 Santa Monica Blvd, LLC, Wilmington, USA ^{10),14)}	100.00	USD	775	USD	823
7550IAD LLC, Wilmington, USA ^{10),14)}	100.00	USD	76,260	USD	1,151
975 Carroll Square, LLC, Wilmington, USA ^{10),14)}	100.00	USD	51,145	USD	1,156
Akvamarin Beta, s. r. o., Prague, Czech Republic ^{12),14)}	100.00	CZK	87,899	CZK	34,132
ASPECTA Assurance International Luxembourg S.A., Luxembourg, Luxembourg	100.00	EUR	14,975	EUR	1,897
Bonn FI Renda Fixa Crédito Privado (vormals: HDI Crédito FI RF Privado LP), São Paulo, Brazil ¹⁷⁾	100.00	BRL	169,775	BRL	25,037
Broadway 101, LLC, Wilmington, USA ^{10),14)}	100.00	USD	12,518	USD	626
Cargo Transit Insurance (Pty) Ltd., Helderkruijn, South Africa ^{8),11)}	80.00	ZAR	-4,499	ZAR	—
Commercial & Industrial Acceptances (Pty) Ltd., Johannesburg, South Africa ¹¹⁾	100.00	ZAR	6,680	ZAR	25,811
Compagnia de Banche e Assicurazioni per le Assicurazioni Sulla Vita S. p. A., Milan, Italy	100.00	EUR	47,472	EUR	2,233
Compass Insurance Company Ltd., Johannesburg, South Africa ^{11),14)}	100.00	ZAR	195,883	ZAR	33,692
The Congregational & General Insurance Public Limited Company, Bradford, United Kingdom ¹⁴⁾	100.00	GBP	11,920	GBP	2,891
Construction Guarantee (Pty) Ltd., Johannesburg, South Africa ^{8),11)}	60.00	ZAR	—	ZAR	—

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
Foreign					
Eisenach FI Renda Fixa Crédito Privado, (formerly: BNP-HDI Credit FI Renda Fixa Crédito Privado), São Paulo, Brazil ¹⁷⁾	100.00	BRL	154,746	BRL	-69,322
Envirosure Underwriting Managers (Pty) Ltd., Durban, South Africa ¹¹⁾	51.00	ZAR	3,212	ZAR	1,944
Ferme Eolienne des Mignaudieres SNC, Toulouse, France	100.00	EUR	—	EUR	-66
Ferme Eolienne du Confolentais SNC, Toulouse, France ¹⁴⁾	100.00	EUR	21,832	EUR	265
Film & Entertainment Underwriters SA (Pty) Ltd., Johannesburg, South Africa ^{11),14)}	51.00	ZAR	-709	ZAR	583
Firedart Engineering Underwriting Managers (Pty) Ltd., Johannesburg, South Africa ^{11),14)}	70.00	ZAR	610	ZAR	127
FI Renda Fixa Hannover (vormals: HSBC FI Renda Fixa Hannover), São Paulo, Brazil ¹⁷⁾	100.00	BRL	192,898	BRL	52,116
FRACOM FCP, Paris, France ¹⁷⁾	100.00	EUR	1,219,664	EUR	68,582
Fundo de Investimento Imobiliário Hannover, São Paulo, Brazil ¹⁷⁾	100.00	BRL	12,882	BRL	12,882
Garagesure Consultants and Acceptances (Pty) Ltd., Johannesburg, South Africa ^{11),14)}	70.00	ZAR	1,464	ZAR	2,887
Gente Compañía de Soluciones Profesionales de México, S.A. de C.V., León, Mexico	100.00	MXN	10,554	MXN	761
Glencar Underwriting Managers, Inc., Chicago, USA	100.00	USD	5,985	USD	757
GLL HRE CORE Properties, L.P., Wilmington, USA ^{10),14)}	99.90	USD	557,316	USD	-310
Hannover Finance, Inc., Wilmington, USA ^{9),14)}	100.00	USD	163,451	EUR	7,617
Hannover Finance (Luxembourg) S.A., Luxembourg, Luxembourg ¹⁴⁾	100.00	EUR	34,647	EUR	288
Hannover Finance (UK) Ltd., London, United Kingdom ¹⁴⁾	100.00	GBP	2,703	GBP	-18
Hannover Life Reassurance Africa Ltd., Johannesburg, South Africa ^{11),14)}	100.00	ZAR	555,797	ZAR	31,770
Hannover Life Reassurance Bermuda Ltd., Hamilton, Bermuda ¹⁴⁾	100.00	USD	391,271	USD	34,588
Hannover Life Reassurance Company of America (Bermuda) Ltd., Hamilton, Bermuda ¹⁴⁾	100.00	USD	9,233	USD	2,395
Hannover Life Reassurance Company of America, Orlando, USA ¹⁴⁾	100.00	USD	333,442	USD	25,033
Hannover Life Re of Australasia Ltd., Sydney, Australia ¹⁴⁾	100.00	AUD	480,863	AUD	2,466
Hannover Re (Bermuda) Ltd., Hamilton, Bermuda ¹⁴⁾	100.00	USD	1,237,845	USD	201,363
Hannover Reinsurance Africa Ltd., Johannesburg, South Africa ^{11),14)}	100.00	ZAR	728,000	ZAR	59,243
Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg, South Africa ^{9),14)}	100.00	ZAR	219,820	ZAR	209,916
Hannover Re (Ireland) Designated Activity Company (formerly: Hannover Re (Ireland) Ltd.), Dublin, Ireland ¹⁴⁾	100.00	USD	1,709,897	USD	105,225
Hannover Re Real Estate Holdings, Inc., Orlando, USA ⁹⁾	100.00	USD	654,438	USD	8,864
Hannover ReTakaful B.S.C. (c), Manama, Bahrain ¹⁴⁾	100.00	BHD	65,810	BHD	4,080
Hannover Services (UK) Ltd., London, United Kingdom ¹⁴⁾	100.00	GBP	794	GBP	-66
HDI Assicurazioni S.p.A., Rome, Italy	100.00	EUR	217,710	EUR	16,443
HDI-Gerling de Mexico Seguros S.A., Mexico-Stadt, Mexico	100.00	MXN	163,798	MXN	14,983
HDI-Gerling Verzekeringen N.V., Rotterdam, Netherlands	100.00	EUR	132,615	EUR	-2,212
HDI Global Insurance Company, Chicago, USA	100.00	USD	132,717	USD	11,358
HDI Global SA Ltd. (formerly: HDI Gerling Insurance of South Africa Ltd.), Johannesburg, South Africa	100.00	ZAR	48,200	ZAR	4,662
HDI Global Seguros S.A. (formerly: HDI-Gerling Seguros Industriais S.A.), São Paulo, Brazil	100.00	BRL	39,000	BRL	-7,760
HDI Immobiliare S.r.L., Rome, Italy	100.00	EUR	67,131	EUR	302
HDI Seguros de Garantía y Crédito S.A., Las Condes, Chile	99.82	CLP	5,020,474	CLP	1,119,450
HDI Seguros de Vida S.A., Las Condes, Chile	100.00	CLP	3,095,981	CLP	-167,512
HDI Seguros S.A., Buenos Aires, Argentina	100.00	ARS	297,051	ARS	60,344
HDI Seguros S.A. de C.V., León, Mexico	99.76	MXN	1,239,001	MXN	105,552
HDI Seguros S.A., Las Condes, Chile	99.87	CLP	42,037,803	CLP	1,364,365
HDI Seguros S.A., Montevideo, Uruguay	100.00	UYU	143,898	UYU	2,736
HDI Seguros S.A., Santiago de Surco, Peru	100.00	PEN	6,573	PEN	-5,532
HDI Seguros S.A., São Paulo, Brazil	100.00	BRL	1,032,471	BRL	123,430

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
Foreign					
HDI Sigorta A.Ş, Istanbul, Turkey	100.00	TRY	291,066	TRY	16,871
HDI Versicherung AG (Austria), Vienna, Austria	100.00	EUR	29,522	EUR	6,253
Hospitality Industrial and Commercial Underwriting Managers (Pty) Ltd., Johannesburg, South Africa ^{11),14)}	90.00	ZAR	1,327	ZAR	5,043
HR GLL CDG Plaza S. r. l., Bucharest, Romania ^{12),14)}	100.00	RON	155,292	RON	6,219
HR GLL Europe Holding S.à.r.l., Luxembourg, Luxembourg ^{12),14)}	100.00	EUR	159,740	EUR	932
HR GLL Griffin House SPÓLKA Z ORGANICZONA ODPOWIEDZIALNÓSCIA, Warsaw, Poland ^{12),14)}	100.00	PLN	34,480	PLN	-3,629
HR GLL Liberty Corner SPÓLKA Z ORGANICZONA ODPOWIEDZIALNÓSCIA, Warsaw, Poland ^{12),14)}	100.00	PLN	45,973	PLN	-2,185
HR GLL Roosevelt Kft, Budapest, Hungary ^{12),14)}	100.00	HUF	19,635,268	HUF	1,388,757
InChiaro Assicurazioni S. p. A., Rome, Italy	100.00	EUR	10,112	EUR	1,962
INCHIARO LIFE Designated Activity Company, Dublin, Ireland	100.00	EUR	15,537	EUR	666
InLinea S. p. A., Rome, Italy	70.00	EUR	1,471	EUR	169
Integra Insurance Solutions Limited, Bradford, United Kingdom	100.00	GBP	2,789	GBP	2,748
Inter Hannover (No. 1) Ltd., London, United Kingdom ¹⁴⁾	100.00	GBP	-35	GBP	—
Inversiones HDI Limitada, Santiago, Chile	100.00	CLP	165,191,304	CLP	16,624,619
KBC ALFA Specjalistyczny Fundusz Inwestycyjny Otwarty, Warsaw, Poland ¹⁷⁾	100.00	PLN	1,649,771	PLN	46,602
KBC OMEGA FIZ, Warsaw, Poland ¹⁷⁾	100.00	PLN	77,629	PLN	2,625
Koln FI Multimercado Crédito Privado (formerly: Credit Suisse HDI RF Crédito), São Paulo, Brazil ¹⁷⁾	100.00	BRL	256,183	BRL	3,436
Landmark Underwriting Agency (Pty) Ltd., Bloemfontein, South Africa ^{11),14)}	65.50	ZAR	4,490	ZAR	2,988
Le Chemin de La Milaine S. N. C., Lille, France ¹⁴⁾	100.00	EUR	16,835	EUR	-665
Leine Investment General Partner S.à.r.l., Luxembourg, Luxembourg ¹⁴⁾	100.00	EUR	550	EUR	509
Leine Investment SICAV-SIF, Luxembourg, Luxembourg ¹⁴⁾	100.00	USD	65,509	USD	3,095
Le Souffle des Pellicornes S. N. C., Lille, France ¹⁴⁾	100.00	EUR	15,010	EUR	-438
Les Vents de Malet S. N. C., Lille, France ¹⁴⁾	100.00	EUR	17,118	EUR	-763
Lireas Holdings (Pty) Ltd., Johannesburg, South Africa ^{11),14)}	70.00	ZAR	199,372	ZAR	34,180
Magyar Posta Biztosító Részvénytársaság, Budapest, Hungary	66.93	HUF	2,293,982	HUF	209,674
Magyar Posta Életbiztosító Zrt., Budapest, Hungary	66.93	HUF	6,339,698	HUF	872,153
MUA Insurance Acceptances (Pty) Ltd., Cape Town, South Africa ^{11),14)}	100.00	ZAR	8,925	ZAR	4,709
Mustela s. r. o., Prague, Czech Republic ^{12),14)}	100.00	CZK	1,267,016	CZK	19,021
Nashville West, LLC, Wilmington, USA ^{10),14)}	100.00	USD	29,140	USD	987
OOO Strakhovaya Kompaniya CiV Life, Moscow, Russia	100.00	RUB	1,257,720	RUB	1,441,750
OOO Strakhovaya Kompaniya HDI Strakhovanie, Moscow, Russia	100.00	RUB	317,578	RUB	72,366
Peachtree (Pty) Ltd., Johannesburg, , South Africa ^{8),11)}	100.00	ZAR	—	ZAR	—
Pipera Business Park S.r.l., Bucharest, Romania ^{12),14)}	100.00	RON	94,520	RON	8,930
Protecciones Esenciales S. A., Buenos Aires, Argentina	100.00	ARS	256,405	ARS	78,010
River Terrace Parking, LLC, Wilmington, USA ^{10),14)}	100.00	USD	20,028	USD	364
Saint Honoré Iberia S. L., Madrid, Spain	100.00	EUR	471	EUR	-29
Sand Lake Re, Inc., Burlington, USA ¹⁴⁾	100.00	USD	11,833	USD	-117
SUM Holdings (Pty) Ltd., Johannesburg, South Africa ^{11),14)}	72.20	ZAR	20,150	ZAR	12,628
Svedea AB, Stockholm, Sweden	53.00	SEK	6,119	SEK	626
Synergy Targeted Risk Solutions (Pty) Ltd., Johannesburg, South Africa ¹¹⁾	100.00	ZAR	2,042	ZAR	—
TAG – FIC Multimercado Multi Strategy, São Paulo, Brazil ¹⁷⁾	100.00	BRL	79,661	BRL	10,809
Talanx Finanz (Luxembourg) S.A., Luxembourg, Luxembourg	100.00	EUR	7,884	EUR	240
Talanx Reinsurance (Ireland) PLC, Dublin, Ireland	100.00	EUR	178,144	EUR	16,909
Thatch Risk Acceptances (Pty) Ltd., Johannesburg, South Africa ^{11),14)}	70.00	ZAR	2,733	ZAR	2,135
Towarzystwo Ubezpieczeń Europa S. A., Wrocław, Poland	50.00	PLN	706,895	PLN	82,542
Towarzystwo Ubezpieczeń i Reasekuracji WARTA S. A., Warsaw, Poland	75.74	PLN	2,047,182	PLN	261,219

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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
Foreign					
Towarzystwo Ubezpieczeń na Życie Europa S.A., Wrocław, Poland	100.00	PLN	657,480	PLN	33,339
Towarzystwo Ubezpieczeń na Życie „WARTA” S.A., Warsaw, Poland	100.00	PLN	361,190	PLN	35,665
Transit Underwriting Managers (Pty) Ltd., Cape Town, South Africa ¹¹⁾	56.67	ZAR	415	ZAR	201

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2. Affiliated companies not included in the consolidated financial statements in accordance with IFRSs due to insignificance	Equity interest in % ¹⁾		Equity in thousand ^{2),3)}		Earnings before profit transfer in thousand ^{2),4)}
Domestic					
HDI Schadenregulierung GmbH, Hannover ^{14),15)}	100.00	EUR	25	EUR	14
HEPEP III Komplementär GmbH, Cologne ¹⁴⁾	100.00	EUR	17	EUR	-1
International Hannover Holding AG, Hannover ^{8),18)}	100.00	EUR	39	EUR	-2
Nassau Assekuranzkontor GmbH, Cologne ¹⁵⁾	100.00	EUR	25	EUR	13
Oval Office Grundstücks GmbH, Hannover ^{14),19)}	100.00	EUR	1,589	EUR	-21
SSV Schadensschutzverband GmbH, Hannover ^{14),15)}	100.00	EUR	200	EUR	356
Infrastruktur Windpark Vier Fichten GbR, Bremen	83.34	EUR	-1	EUR	6
Foreign					
Desarollo de Consultores Profesionales en Seguros S.A. de CV, León, Mexico	100.00	MXN	357	MXN	72
Dowset Investments Spółka z ograniczoną odpowiedzialnością, Warsaw, Poland ¹⁴⁾	100.00	PLN	-22	PLN	-27
Gerling Insurance Agency Inc., Chicago, USA ⁷⁾	100.00	USD	—	USD	—
Gerling Norge A/S, Oslo, Norway	100.00	NOK	491	NOK	115
Hannover Re Consulting Services India Private Limited, Mumbai, India	100.00	INR	101,793	INR	10,523
Hannover Re Risk Management Services India Private Limited, New Delhi, India	100.00	INR	67,945	INR	15,719
Hannover Re Services Italy S.r.l., Milan, Italy	100.00	EUR	365	EUR	102
Hannover Re Services Japan, Tokyo, Japan ¹⁴⁾	100.00	JPY	114,354	JPY	11,892
Hannover Re Services USA, Inc., Itasca, USA	100.00	USD	3,474	USD	-31
Hannover Risk Consultants B.V., Rotterdam, Netherlands	100.00	EUR	631	EUR	327
Hannover Rück SE Escritório de Representação no Brasil Ltda., Rio de Janeiro, Brazil	100.00	BRL	2,923	BRL	483
Hannover Services (México) S.A. de C.V., Mexico City, Mexico	100.00	MXN	8,025	MXN	-909
HDI-Gerling Services S.A., Brussels, Belgium	100.00	EUR	224	EUR	-3
HDI-Gerling Welt Service AG Escritório de Representação no Brasil Ltda., São Paulo, Brazil	100.00	BRL	160	BRL	2
H. J. Roelofs Assuradeuren B.V., Rotterdam, Netherlands	100.00	EUR	923	EUR	-12
HMIA Pty Ltd., Sydney, Australia	55.00	AUD	-313	AUD	-185
HR Hannover Re Correduría de Reaseguros S.A., Madrid, Spain ¹⁴⁾	100.00	EUR	424	EUR	47
Iconica Business Services Limited, Bradford, United Kingdom	100.00	GBP	1,760	GBP	122
International Mining Industry Underwriters Ltd., London, United Kingdom ¹⁴⁾	100.00	GBP	131	GBP	23
L&E Holdings Limited, London, United Kingdom ¹⁴⁾	100.00	GBP	5	GBP	—
London & European Title Insurance Services Limited, London, United Kingdom ¹⁴⁾	100.00	GBP	390	GBP	91
LRA Superannuation Plan Pty Ltd., Sydney, Australia ⁷⁾	100.00	AUD	—	AUD	—
Mediterranean Reinsurance Services Ltd., Hong Kong, China ⁸⁾	100.00	USD	52	USD	—
Private Joint Stock Company “EUROPA.UA” Lemberg, Ukraine	100.00	UAH	7,941	UAH	-6,439
Private Joint Stock Company “EUROPA.UA Service”, Lemberg, Ukraine	100.00	UAH	9,771	UAH	-7,947
Scandinavian Marine Agency A/S, Oslo, Norway	52.00	NOK	5,592	NOK	4,345
Svedea Skadeservice AB, Stockholm, Sweden	100.00	SEK	284	SEK	234
U FOR LIFE SDN. BHD., Petaling Jaya, Malaysia	60.00	MYR	-6,177	MYR	-5,487

LIST OF SHAREHOLDINGS

3. Structured entities included in the consolidated financial statements in accordance with IFRS 10	Equity interest ¹⁾ in %		Equity ²⁾ in thousand		Earnings before profit transfer ²⁾ in thousand
Kaith Re Ltd., Hamilton, Bermuda ¹⁴⁾	88.00	USD	915	USD	-327
LI RE, Hamilton, Bermuda ¹⁴⁾	100.00	USD	—	USD	—

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4. Associates valued using the equity method in the consolidated financial statements	Equity interest ¹⁾ in %		Equity ²⁾ in thousand		Earnings before profit transfer ²⁾ in thousand
Domestic					
HANNOVER Finanz GmbH, Hannover	27.78	EUR	74,801	EUR	11,324
neue leben Pensionsverwaltung AG, Hamburg ¹⁶⁾	49.00	EUR	2,343	EUR	-52
WeHaCo Unternehmensbeteiligungs-GmbH, Hannover	40.00	EUR	83,207	EUR	11,857
Foreign					
Clarendon Transport Underwriting Managers (Pty) Ltd., Johannesburg, South Africa ¹⁴⁾	37.30	ZAR	17,431	ZAR	12,782
INDAQUA Indústria e Gestão de Águas S.A., Matosinhos, Portugal	49.94	EUR	-8,102	EUR	3,206
ITAS Vita S.p.A., Trient, Italy	34.88	EUR	98,161	EUR	4,014
Petro Vietnam Insurance Holdings, Hanoi, Vietnam	35.74	VND	6,277,964,161	VND	530,052,623

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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
Domestic					
b2b protect GmbH, Hildesheim	48.98	EUR	378	EUR	-361
Caplantic GmbH, Hannover	45.00	EUR	3,567	EUR	1,500
Elinvar GmbH, Berlin	37.50	EUR	—	EUR	-3
Hannoversch-Kölnische Beteiligungsgesellschaft mbH, Hannover	50.00	EUR	28	EUR	1
Hannoversch-Kölnische Handels-Beteiligungsgesellschaft mbH & Co. KG, Hannover	50.00	EUR	16,010	EUR	-10
VOV Verwaltungsorganisation für Vermögensschadenhaftpflicht-Versicherungen für Mitglieder von Organen juristischer Personen GmbH, Cologne	35.25	EUR	1,946	EUR	69
Foreign					
David Edwards Insurance Brokers Limited, Solihull, United Kingdom	21.00	GBP	148	GBP	191
Energi, Inc., Peabody, USA	28.50	USD	20,168	USD	-1,437
Monument Insurance Group Limited, Hamilton, Bermuda ¹³⁾	20.00	USD	—	USD	—
Reaseguradora del Ecuador S.A., Guayaquil, Ecuador	30.00	USD	10,433	USD	1,092
Sureify Labs, Inc., San Jose, USA ¹⁴⁾	14.82	USD	456	USD	364

LIST OF SHAREHOLDINGS

	Equity interest ¹⁾ in %		Equity ²⁾ in thousand		Earnings before profit transfer ²⁾ in thousand
6. Joint ventures included in the consolidated financial statements using the equity method					
Magma HDI General Insurance Company Ltd., Kolkata, India	25.50	INR	2,194,328	INR	-118,521

LIST OF SHAREHOLDINGS

	Equity interest ¹⁾ in %		Equity ²⁾ in thousand		Earnings before profit transfer ²⁾ in thousand
7. Joint ventures not included in the consolidated financial statements due to insignificance					
Domestic					
Amepga C-QUADRAT Fondsmarketing GmbH, Frankfurt	50.00	EUR	113	EUR	88
Foreign					
C-QUADRAT Amepga Asset Management Armenia LLC, Yerevan, Armenia	25.10	EUR	510	EUR	57
Quality Insurance Services Luxembourg S.à.r.l., Luxembourg, Luxembourg	25.00	EUR	182	EUR	32

LIST OF SHAREHOLDINGS

	Equity interest ¹⁾ in %		Equity ²⁾ in thousand		Earnings before profit transfer ²⁾ in thousand
8. Participating interests					
Domestic					
FinLeap GmbH, Berlin ¹⁴⁾	8.26	EUR	25,253	EUR	-3,470
IGEPA Gewerbepark GmbH & Co. Vermietungs KG, Fürstfeldbruck	37.50	EUR	19,354	EUR	9,650
Internationale Schule Hannover Region GmbH, Hannover	15.72	EUR	3,689	EUR	302
Nürnberger Beteiligungs-AG, Nuremberg	2.33	EUR	630,154	EUR	44,618
OVH Holding AG, Cologne	0.70	EUR	85,002	EUR	9,595
RW Holding AG, Düsseldorf	0.54	EUR	425,974	EUR	-430,469
xbAV Beratungssoftware GmbH, Munich	5.02	EUR	-225	EUR	-250
Foreign					
Credit Suisse (Lux) Gas TransitSwitzerland SCS, Luxembourg, Luxembourg ¹³⁾	60.15	EUR	—	EUR	—
Inlife Holding (Liechtenstein) AG, Triesen, Liechtenstein ²⁰⁾	15.00	CHF	10,713	CHF	7,450
Liberty Life Insurance Public Company Ltd, Nicosia, Cyprus	3.30	EUR	11,427	EUR	821
Life Invest Holding AG, Zurich, Switzerland ¹⁴⁾	15.00	CHF	38,776	CHF	36,776
Meribel Topco Ltd., St. Helier, Jersey ¹⁴⁾	20.11	EUR	2,490	EUR	20,543
Sommerset Reinsurance Ltd., Hamilton, Bermuda	16.90	USD	34,418	USD	-9,262

LIST OF SHAREHOLDINGS

	Equity interest ¹⁾ in %		Equity ²⁾ in thousand		Earnings before profit transfer ²⁾ in thousand
9. Investments in large corporations exceeding 5% of the voting rights					
Domestic					
Extremus Versicherungs-AG, Cologne	13.00	EUR	65,690	EUR	500
MLP AG, Wiesloch	9.48	EUR	405,537	EUR	19,783
Foreign					
Acte Vie S.A. Schiltigheim, France	9.38	EUR	9,088	EUR	92

¹⁾ The equity interest is determined by adding up all directly and indirectly held interests in accordance with section 16(2) and section 16(4) of the German Stock Corporation Act (AktG).

²⁾ The figures correspond to the local GAAP or IFRS annual financial statements of the companies; differing currencies are indicated.

³⁾ In the case of investment funds, fund assets are reported here.

⁴⁾ In the case of investment funds, changes in fund assets including cash inflows and outflows are reported here.

⁵⁾ The exemptions permitted under section 264(3) of the German Commercial Code (HGB) were applied.

⁶⁾ The exemption provision permitted under section 264b of the German Commercial Code (HGB) was applied.

⁷⁾ Company is inactive and does not prepare annual financial statements.

⁸⁾ Company is in liquidation.

⁹⁾ Company prepares its own subgroup financial statements.

¹⁰⁾ Included in the subgroup financial statements of Hannover Re Real Estate Holdings, Inc.

¹¹⁾ Included in the subgroup financial statements of Hannover Reinsurance Group Africa (Pty) Ltd.

¹²⁾ Included in the subgroup financial statements of HR GLL Central Europe GmbH & Co. KG.

¹³⁾ Company was formed in the reporting period – no annual report/annual financial statements available yet.

¹⁴⁾ Figures as at 2016 financial year-end, provisional/unaudited.

¹⁵⁾ A profit/loss transfer agreement is in force.

¹⁶⁾ The net income for nl Pensionskasse AG, Hamburg, is included in the net income of this company.

¹⁷⁾ Investment funds.

¹⁸⁾ Figures for the financial year 1 January to 30 June 2015.

¹⁹⁾ Figures for the financial year 1 April to 31 December 2016.

²⁰⁾ Figures for the financial year 24 August to 31 December 2015.

SIGNIFICANT BRANCHES OF THE GROUP

We define the branch of a Group company as a part of the business without legal capacity, separated from the Group company in terms of space and organisation, which operates under instructions internally and acts autonomously in the market.

The companies in the Talanx Group listed in the following table maintain branches which we consider significant for understanding the Group's situation.

SIGNIFICANT BRANCHES OF THE GROUP

		Gross written premiums ¹⁾ in thousand
Hannover Rück SE		
Hannover Re UK Life Branch, London, United Kingdom	EUR	284,357
Hannover Rueck SE Australian Branch, Sydney, Australia	EUR	140,556
Hannover Rueck SE Bahrain Branch, Manama, Bahrain	EUR	129,902
Hannover Rück SE Canadian Branch, Toronto, Canada	EUR	254,702
Hannover Rück SE, Hong Kong Branch, Wanchai, Hongkong	EUR	260,814
Hannover Rück SE Korea Branch, Seoul, South Korea	EUR	46,789

¹⁾ Figures before consolidation.

SIGNIFICANT BRANCHES OF THE GROUP

		Gross written premiums ¹⁾ in thousand
Hannover Rueck SE Malaysian Branch, Kuala Lumpur, Malaysia	EUR	427,194
Hannover Rück SE Shanghai Branch, Shanghai, China	EUR	697,727
Hannover Rück SE Succursale Française, Paris, France	EUR	710,352
Hannover Rück SE, Tyskland Filial, Stockholm, Sweden	EUR	235,154
HDI Global SE		
HDI Global SE – Branch for Belgium, Brussels, Belgium	EUR	190,512
HDI Global SE – Direction pour la France, Paris, France	EUR	319,525
HDI Global SE – Swiss Branch, Zurich, Switzerland	EUR	220,470
HDI Global SE – the Netherlands, Amsterdam, Netherlands	EUR	163,785
HDI Global SE – UK, London, United Kingdom	EUR	238,716
HDI Lebensversicherung AG		
HDI Lebensversicherung AG – Austria Branch, Vienna, Austria	EUR	444,123
International Insurance Company of Hannover SE		
International Insurance Company of Hannover SE, Australian Branch, Sydney, Australia	EUR	32,558
International Insurance Company of Hannover SE, Canadian Branch, Toronto, Canada	EUR	65,761
International Insurance Company of Hannover SE, Italian Branch, Milan, Italy	EUR	—
International Insurance Company of Hannover SE, Scandinavian Branch, Stockholm, Sweden	EUR	192,910
International Insurance Company of Hannover SE, UK Branch, London, United Kingdom	EUR	333,358

¹⁾ Figures before consolidation.

Furthermore, other companies in the Talanx Group maintain additional branches, which must be classified as insignificant individually and in total for the Group.

Prepared and hence authorised for publication in Hannover on 27 February 2017.

Board of Management



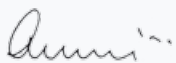
Herbert K Haas,
Chairman



Dr Christian Hinsch,
Deputy Chairman



Torsten Leue



Dr Immo Querner



Ulrich Wallin



Dr Jan Wicke

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable accounting principles, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group, and the Group management report, which is combined with the management report of Talanx AG, includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group.

Hannover, 27 February 2017

Board of Management



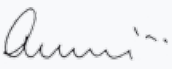
Herbert K Haas,
Chairman



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 2016. 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, complies with the statutory requirements and overall provides a suitable understanding of the Group's position and suitably presents the opportunities and risks of future development.

Hannover, 10 March 2017

KPMG AG
 Wirtschaftsprüfungsgesellschaft

Möller
 Wirtschaftsprüfer
 (German Public Auditor)

Czupalla
 Wirtschaftsprüfer
 (German Public Auditor)

3

FURTHER INFORMATION

GLOSSARY AND DEFINITIONS OF KEY FIGURES

ACCUMULATION RISK

The underwriting risk that a single trigger event (e.g. an earthquake or hurricane) can lead to an accumulation of claims within a > portfolio.

ACQUISITION COSTS, DEFERRED

The costs/expenses incurred by an insurance company when insurance policies are taken out or renewed (e.g. new business commission, costs of proposal assessment or underwriting). Capitalising acquisition costs spreads them over the policy period.

ADMINISTRATIVE EXPENSES

The costs of ongoing administration connected with the production of insurance coverage.

ANNUAL PREMIUM EQUIVALENT – APE

The industry standard for measuring new business income in life insurance.

ASSET MANAGEMENT

The administration and management of investments based on risk and return 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.

BIOMETRIC PRODUCTS

Insurance products that do not have a savings portion, for which events associated with fundamental changes in biologically determined living conditions (death, occurrence of the need for care, occupational disability or invalidity) trigger the benefit obligation.

CAPITAL-EFFICIENT PRODUCTS

The premiums paid in are guaranteed as a maximum upon expiry of the insurance policy, irrespective of the capital market. During the term, surpluses increase the assets. The maturity of the premium guarantee reduces the risk capital that the life insurer must back.

CARRYING AMOUNT PER SHARE

This key figure indicates the amount of equity per share attributable to shareholders.

CATASTROPHE BOND (ALSO: CAT BOND)

An instrument used to transfer catastrophe risks held by an insurer or reinsurer to the capital markets.

CEDANT (ALSO: CEDING COMPANY)

A primary insurer or reinsurer 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 combined ratio, claims and claims expenses including interest income on funds withheld and contract deposits are taken into account. This ratio is used by both property/casualty insurers and property/casualty reinsurers.

COMMISSION

The remuneration paid by a primary insurer to agents, brokers and other professional intermediaries.

DECISION-MAKING POWERS

The Group is exposed, or has rights, to variable returns from an involvement and has the ability to affect the amount of the returns (e.g. the relevant activities) due to substantive rights.

DEPOSIT ACCOUNTING

An accounting method for recognising short-term and long-term insurance and reinsurance contracts that do not transfer any significant underwriting risk.

**DERIVATIVE
(DERIVATIVE FINANCIAL INSTRUMENT)**

Financial products that are derived from underlying primary instruments such as equities, fixed-income securities and foreign exchange instruments. The fair value of derivatives is measured by reference to the underlying security or reference asset, among other factors. Derivatives include > swaps, options and futures.

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.

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 IFRS, it is reported as a component of equity.

EQUITY METHOD

An accounting method used to measure equity investments (> associate) in the consolidated financial statements under which the carrying amount of the investment in the consolidated balance sheet is adjusted to reflect changes in the investor's share of the investee's equity.

**EXPENDITURES ON INSURANCE
BUSINESS (ACQUISITION COSTS AND
ADMINISTRATIVE EXPENSES)**

Total commissions, selling expenses, personnel expenses, non-personnel operating expenses and ongoing administrative expenses.

EXPENSE RATIO

The ratio of acquisition costs and administrative expenses (net) to net premiums earned.

EXPOSURE

The level of danger inherent in a risk or portfolio of risks.

**EXTRAORDINARY
INVESTMENT INCOME**

Income from realised and unrealised gains and losses, including impairment losses/write-downs and their reversal.

FACULTATIVE REINSURANCE

Participation by the reinsurer in a separate individual risk assumed by the primary insurer. Contrast with: > obligatory reinsurance.

FAIR VALUE

The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

FOR OWN ACCOUNT (ALSO: NET)

In insurance: after deduction of > passive reinsurance.

**FUNDS HELD BY CEDING COMPANIES/
FUNDS HELD UNDER REINSURANCE
TREATIES**

Collateral provided to cover insurance liabilities that an insurer retains from the cash funds it has to pay to a reinsurer under a reinsurance treaty. In this case, the insurer reports funds held under a reinsurance treaty, while the reinsurer reports funds held by a ceding company. Interest is payable/receivable on these funds.

GOODWILL

The amount that a purchaser is prepared to pay – in light of future profit expectations – above and beyond the value of all tangible and intangible assets after deduction of liabilities.

GROSS

In insurance: before deduction of > passive reinsurance.

HARD MARKET

A market phase during which premium levels are typically high. Contrast with: > soft market.

HYBRID CAPITAL

Subordinated debt and profit participation rights that combine characteristics of both debt and equity.

IMPAIRMENT

A write-down (impairment loss) that is recognised if the present value of the estimated future cash flows of an asset falls below its carrying amount.

INCURRED BUT NOT REPORTED (IBNR)

A reserve for losses that have already occurred but have not yet been reported.

INSURANCE-LINKED SECURITIES (ILS)

Financial instruments used to securitise risks under which the payment of interest and/or the repayment of the principal depends upon the occurrence and magnitude of an insured event.

**INTERNATIONAL FINANCIAL
REPORTING STANDARDS (IFRSs)**

Formerly known as IASs (International Accounting Standards), these accounting standards have been applied at Talanx since 2004.

INVESTMENT GRADE

A rating of BBB or better awarded to an issuer on account of its low credit risk.

**INVESTMENTS UNDER
INVESTMENT CONTRACTS**

Investment contracts with no discretionary surplus participation that do not involve any significant underwriting risk and are recognised in accordance with IAS 39 “Financial Instruments: Recognition and Measurement”.

**LAPSE RATE FOR
LIFE INSURANCE PRODUCTS**

The ratio of the sum of cancelled policies and other premature withdrawals to the average business in force (index published by the German Insurance Association/GDV).

LETTER OF CREDIT (LOC)

A form of bank guarantee. In the USA, for example, it is a common method of furnishing collateral in the reinsurance business.

LIFE INSURANCE

Collective term covering those types of insurance that are concerned in the broader sense with the risks associated with the uncertainties of life expectancy and life planning. These include insurance relating to death, disability and retirement provision, as well as marriage and education.

LIFE/HEALTH INSURANCE (ALSO: PERSONAL LINES)

Lines of business concerned with the insurance of persons, specifically life, annuity, health and personal accident insurance.

LOSS RATIO

The net loss ratio based on amounts reported in the financial statements: the ratio of claims and claims expenses (net), one element of which is the net other technical result, including amortisation of the shareholders' portion of the PVFP – to net premiums earned. > PVFP

LOSS RATIO FOR PROPERTY/CASUALTY INSURANCE PRODUCTS

- a) Gross: the ratio of the sum of claims expenditures (gross) and the gross other technical result to gross premiums earned.
- b) Net: the ratio of the sum of claims expenditures (net) and the net other technical result to net premiums earned.

MAJOR LOSS (ALSO: MAJOR CLAIM)

A loss of exceptional size compared with the average loss for the risk group in question and that exceeds a defined loss amount. Since 2012, major losses have been defined as natural catastrophes and other major losses in which the portion held by the Talanx Group is in excess of EUR 10 million gross.

MARKET CONSISTENT EMBEDDED VALUE – MCEV

A special methodology for valuing life insurance companies or life/health insurance portfolios that reflects the long-term nature of the life insurance business and the associated risks. In particular, using a market-consistent approach is designed to enhance comparability. A market-consistent valuation is obtained by using risk-neutral assumptions with regard to expected investment income and the discounting method. The swap curve is also introduced as a risk-neutral term structure.

MATCHING CURRENCY COVER (AGE)

Cover for technical liabilities denominated in foreign currencies by means of corresponding investments in the same currency in order to avoid exchange rate risk.

MODIFIED COINSURANCE (MODCO) TREATY

A type of reinsurance treaty under which the ceding company retains the assets that secure the reinsured reserves in a separate account, thereby creating an obligation to make payments to the reinsurer at a later date. The payments include a proportionate share of the gross premiums and the income from the securities.

MORBIDITY

A measure of the incidence of disease relative to a given population group.

MORTALITY

A measure of the incidence of death within a given time interval relative to the total population.

NET

In insurance: after deduction of > passive reinsurance.

NET INCOME

EBIT less financing costs and taxes on income.

NET RETURN ON INVESTMENTS

The ratio of net investment income, not including interest income on funds withheld and contract deposits, or income from > investments under investment contracts, to average assets under own management.

NET TECHNICAL EXPENSES

Claims and claims expenses, acquisition costs and administrative expenses and other technical expenses, in each case net of reinsurance recoverables.

NEW BUSINESS MARGIN (LIFE)

The ratio of the value of new business to the present value of new business premiums excluding non-controlling interests.

NON-CAPITAL-EFFICIENT PRODUCTS

Classic life or annuity insurance with a fixed guaranteed interest rate over the entire term of the policy.

NON-PROPORTIONAL REINSURANCE

A reinsurance treaty under which the reinsurer assumes the loss expenditure or sum insured in excess of a defined amount. Contrast with: > proportional reinsurance.

OBLIGATORY REINSURANCE

A reinsurance treaty under which the reinsurer participates in an aggregate, precisely defined insurance portfolio of a > cedant. Contrast with: > facultative reinsurance.

OPERATING PROFIT/LOSS (EBIT)

Sum of net investment income, underwriting result and other income and expenses including goodwill impairments before interest for other debt borrowed for financing purposes (financing costs) and before taxes (taxes on income).

OTC

Over the counter. In the case of securities: not traded on an exchange.

OTHER OPERATING EXPENSES AND WRITE-DOWNS

Expenses for ordinary activities, e.g. personnel and non-personnel operating expenses, depreciation, amortisation and write-downs, realised losses on investments, foreign exchange losses, and the cost of services.

PASSIVE REINSURANCE

Existing reinsurance programmes of > primary insurers that protect them against underwriting risks.

POLICYHOLDERS' SURPLUS

The total amount of

- a) equity excluding non-controlling interests, comprising share capital, capital reserves, retained earnings and other comprehensive income,
- b) non-controlling interests and
- c) hybrid capital that combines characteristics of both debt and equity and comprises subordinated liabilities.

PORTFOLIO

- a) All risks assumed by a > primary insurer or > reinsurer in their entirety or in a defined subsegment.
- b) A group of investments classified according to specific criteria.

PREMIUM

The remuneration agreed for the risks accepted by the insurer.

PRESENT VALUE OF FUTURE PROFITS (PVFP)

An intangible asset that primarily arises from the acquisition of life and health insurance companies or individual portfolios. The present value of expected future profits from the acquired portfolio is capitalised and is normally then amortised. Impairment losses are recognised on the basis of annual impairment tests.

PRIMARY (ALSO: DIRECT) INSURER

A company that accepts risks in exchange for an insurance premium and that has a direct contractual relationship with the policyholder (private individual, company, organisation).

PROPERTY/CASUALTY INSURANCE

All insurance classes with the exception of life insurance and health insurance: all lines in which the insured event does not trigger payment of an agreed fixed amount. Instead, the incurred loss is compensated.

PROPORTIONAL REINSURANCE

Reinsurance treaties under which shares of a risk or portfolio are reinsured at the same terms as the original insurance. Premiums and losses are shared proportionately, i.e. on a pro rata basis. Contrast with: > non-proportional reinsurance.

QUOTA SHARE REINSURANCE

A form of reinsurance under which the percentage share of the written risk and the premium are contractually agreed.

RATE

The percentage (normally applied to the subject premium) of a reinsured portfolio that is payable to the reinsurer under a > non-proportional reinsurance treaty as the reinsurance premium.

REINSURER

A company that accepts risks or portfolio segments from a > primary insurer or another reinsurer in exchange for an agreed premium.

RENEWAL

In the case of contractual relationships with insurers that are maintained over long periods of time, the contract terms and conditions are normally modified annually in the course of renewal negotiations, following which the contracts are renewed.

RETAIL BUSINESS

a) In general: business with private (retail) customers.
b) Ampega: business involving investment funds that are designed essentially for private, non-institutional investors, but are also open to investments by Group companies.

RETENTION

That portion of the accepted risks that an insurer/a reinsurer does not reinsure, i.e. that it carries > net. The ratio of net written premiums to gross written premiums (excluding savings elements of premiums under unit-linked life and annuity insurance policies).

RETROCESSION

Ceding by a reinsurer of its risks or portions of them to other reinsurers.

SILo

A part of the business that is separate from other assets and liabilities (e.g. an investment fund), and for which all rights and obligations accrue exclusively to the investors in this part of this business.

SOFT MARKET

A market phase referring to an oversupply of insurance, resulting in premiums that do not reflect the risk. Contrast with: > hard market.

SOLVENCY

The amount of available unencumbered capital and reserves needed to ensure that contracts can be fulfilled at all times.

SOLVENCY II

A project initiated by the European Commission to reform and harmonise the European insurance supervision framework, and in particular the solvency rules governing the level of own funds to be maintained by insurance companies.

SPECIALTY LINES

Specialty insurance for niche business such as non-standard motor covers, fine arts insurance, etc.

STRESS TEST

A form of scenario analysis that enables quantitative assessments to be made about the loss potential of > portfolios in the event of extreme market volatility.

STRUCTURED ENTERPRISE

An enterprise that is organised in such a way that voting or similar rights are not the dominant factor in deciding who controls the enterprise. This is the case, for example, when voting rights relate to administrative tasks only and contractual agreements are used to determine the direction of the relevant activities (e.g. certain investment funds).

SURPLUS PARTICIPATION

Legally required participation (recalculated each year) by policyholders in the surpluses generated by life insurers.

SURVIVAL RATIO

This reflects the ratio of loss reserves to claims paid under a policy or several policies in a financial year.

UNDERWRITING

The process of examining and assessing (re)insurance risks in order to determine an appropriate premium for the risk in question. The purpose of underwriting is to diversify the underwriting risk in such a way that it is fair and equitable for the (re)insured and at the same time profitable for the (re)insurer.

UNDERWRITING RESULT (ALSO: TECHNICAL RESULT)

The balance of income and expenses allocated to the insurance business: the balance of > net premiums earned and claims and claims expenses (net), acquisition costs and administrative expenses (net), and the net other technical result, including amortisation of the shareholders' portion of the > PVFP

UNEARNED PREMIUM RESERVE

Premiums written in a financial year that will be allocated to the following period in accordance with the matching principle.

UNIT-LINKED LIFE INSURANCE

Life insurance under which the level of benefits depends on the performance of an investment fund allocated to the policy in question.

VALUE AT RISK

A risk measure for determining potential losses that will not be exceeded for a certain probability in a given period.

VALUE OF NEW BUSINESS (LIFE)

The present value of future net income excluding non-controlling interests, generated from the new business portfolios for the current year. It is calculated on the basis of the same operational assumptions as are used to determine the Solvency II own funds as at the end of the financial year.

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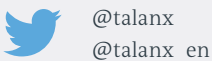
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