2017

PERFORMANCE AND RESULTS

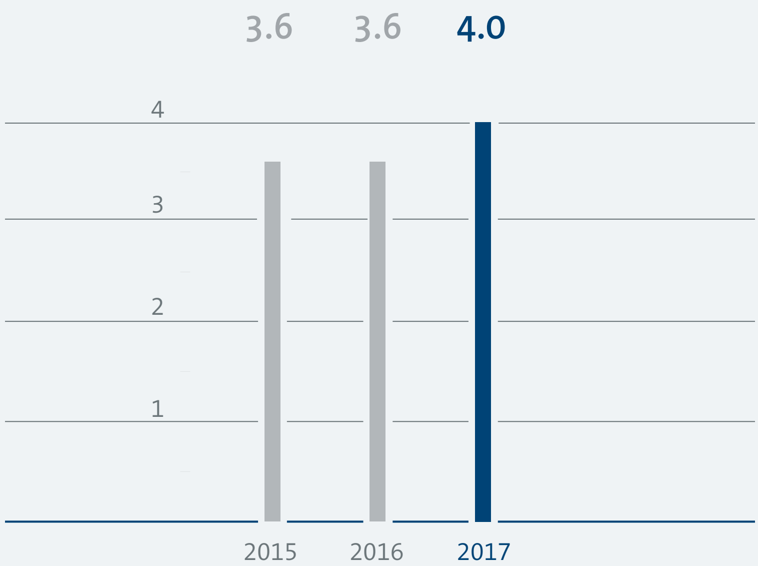
Group Annual Report 2017

talanx.

Insurance. Investments.

FINANCIAL HIGHLIGHTS

NET RETURN ON INVESTMENT
%



OPERATING PROFIT (EBIT)

EUR
1.8
BILLION

RETURN ON EQUITY

7.5%

GROSS WRITTEN PREMIUMS

EUR
33.1
BILLION

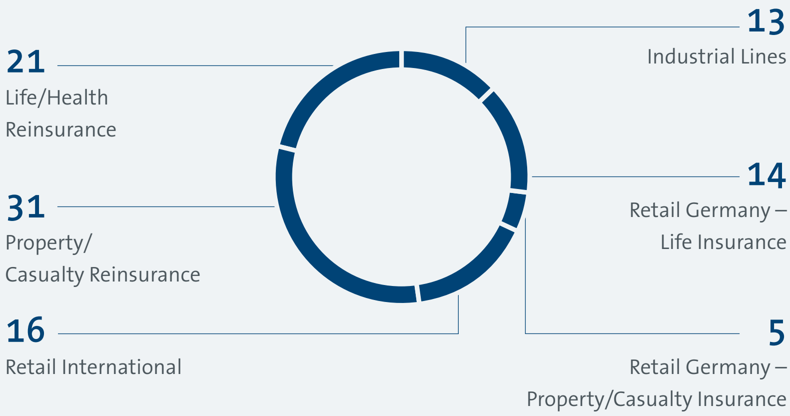
GROUP NET INCOME

EUR
672
MILLION

PROPOSED DIVIDEND
PER SHARE

EUR 1.40

SEGMENTAL BREAKDOWN OF GROSS WRITTEN PREMIUMS
%



THE TALANX GROUP AT A GLANCE

GROUP KEY FIGURES

	UNIT	2017	2016	2015	2014	2013
Gross written premiums	EUR MILLION	**33,060**	31,106	31,799	28,994	28,151
by region						
Germany	%	26	28	29	32	33
United Kingdom	%	8	9	9	9	10
Central and Eastern Europe (CEE), including Turkey	%	9	8	8	8	9
Rest of Europe	%	15	15	14	15	15
USA	%	18	15	14	12	13
Rest of North America	%	2	3	3	3	2
Latin America	%	8	8	8	7	7
Asia and Australia	%	12	12	13	12	9
Africa	%	2	2	2	2	2
Gross written premiums by type and class of insurance						
Property/casualty primary insurance	EUR MILLION	9,625	8,949	8,973	8,404	8,103
Primary life insurance	EUR MILLION	6,275	6,431	6,495	6,846	6,778
Property/Casualty Reinsurance	EUR MILLION	10,229	8,726	8,759	7,441	7,309
Life/Health Reinsurance	EUR MILLION	6,931	7,000	7,572	6,303	5,961
Net premiums earned	EUR MILLION	**27,418**	25,736 [5]	25,937	23,844	23,113
Underwriting result	EUR MILLION	**–2,544**	–1,519 [5]	–1,370	–2,058	–1,619
Net investment income	EUR MILLION	**4,478**	4,023	3,933	4,144	3,792
Net return on investment [1]	%	**4.0**	3.6	3.6	4.1	4.0
Operating profit (EBIT)	EUR MILLION	**1,807**	2,307 [5]	2,182	1,892	1,766
Net income (after financing costs and taxes)	EUR MILLION	**1,270**	1,564 [5]	1,409	1,368	1,252
of which attributable to shareholders of Talanx AG	EUR MILLION	672	903 [5]	734	769	732
Return on equity [2], [3]	%	**7.5**	10.4	9.0	10.2	10.2
Earnings per share						
Basic earnings per share	EUR	2.66	3.57 [6]	2.90	3.04	2.90
Diluted earnings per share	EUR	2.66	3.57 [6]	2.90	3.04	2.90
Combined ratio in property/casualty primary insurance and Property/Casualty Reinsurance [3]	%	**100.4**	95.7	96.0	97.9	97.1
Combined ratio of property/casualty primary insurers [4]	%	101.2	98.1	98.0	101.7	99.6
Combined ratio of Property/Casualty Reinsurance	%	99.8	93.7	94.5	94.7	94.9
EBIT margin primary insurance and Reinsurance						
EBIT margin primary insurance [4]	%	4.1	5.4 [6]	3.8	2.4	4.4
EBIT margin Property/Casualty Reinsurance	%	12.5	17.2	17.2	17.4	16.0
EBIT margin Life/Health Reinsurance	%	3.5	5.2 [6]	6.3	5.0	2.6
Policyholders' surplus	EUR MILLION	**16,983**	16,631 [5]	15,374	15,561	14,231
Equity attributable to shareholders of Talanx AG	EUR MILLION	8,835	9,038 [5]	8,282	7,998	7,127
Non-controlling interests	EUR MILLION	5,411	5,610	5,149	4,902	3,997
Hybrid capital	EUR MILLION	2,737	1,983	1,943	2,661	3,107
Assets under own management	EUR MILLION	**107,881**	107,174	100,777	96,410	86,310
Total investments	EUR MILLION	**118,673**	118,855	115,611	112,879	100,962
Total assets	EUR MILLION	**158,386**	156,626 [5]	152,760	147,298	132,793
Carrying amount per share at end of period	EUR	**34.95**	35.75 [6]	32.76	31.64	28.19
Share price at end of period	EUR	**34.07**	31.77	28.55	25.27	24.65
Current dividend proposal and prior years' dividends (per share)	EUR	**1.40**	1.35	1.30	1.25	1.20
Market capitalisation of Talanx AG at end of period	EUR MILLION	**8,613**	8,031	7,217	6,388	6,231
Employees	FULL-TIME EQUIVALENTS	**20,419**	20,039	20,334	19,819	20,004

[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.
[5] Adjusted in accordance with IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes.
[6] Adjusted following the adjustment described in footnote 5.

CONTENTS

1 COMBINED MANAGEMENT REPORT

Guideline on Alternative Performance Measures – for further information on the calculation and definition of specific alternative performance measures please refer to http://www.talanx.com/investor-relations/ueberblick/midterm-targets/definitions_apm?sc_lang=en

2 CONSOLIDATED FINANCIAL STATEMENTS

3 FURTHER INFORMATION

Dear shareholders,
Ladies and Gentlemen,

Despite the extremely costly natural disasters, the 2017 financial year was a very satisfactory one for the Talanx Group. Against the backdrop of unprecedented losses due to natural disasters, which rang to USD 135 billion market-wide, we nonetheless reported Group net income of EUR 672 million. This result is gratifying, demonstrating as it does how robust and crisis-proof our Group now is. The main contributors to this result were the Reinsurance, Retail Germany and Retail International Divisions.

2017 was a year of two halves in terms of the loss burden. The months to the end of August were very quiet. The impact of large losses was so small that, when we presented the half-year results at the start of August, we increased our forecast for Group net income from around EUR 800 million to around EUR 850 million. At that time, we had a remaining budget for large losses of EUR 920 million for the second half of the year. Yet, just one month later, "Harvey," "Irma" and "Maria" had torn through the Caribbean en route to the southern US states and Mexico had been rocked by two earthquakes, causing devastating damage in the areas hit. Overall, the impact of large losses increased to EUR 1.6 billion, with the natural disasters in August and September incurring EUR 1.1 billion of that total.

The very satisfactory result for 2017 is due to our sustained internationalisation and diversification: 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 achieved one of these aims in the 2017 financial year: 52% of our primary insurance premiums come from abroad, and in Industrial Lines the level is already at 62%.

We owe this success to the comprehensive expertise and tireless work of our employees 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. Likewise, on behalf of all our employees, I would like to thank our customers for their loyalty and solidarity.

In light of these highly satisfactory results, the Board of Management and Supervisory Board propose another dividend increase by 5 cents to EUR 1.40. Since the IPO in October 2012, the dividend has continually risen from EUR 1.05 by 35 cents or 33%. Based on the annual average price of EUR 33.66, this results in a dividend yield of 4.2%. The payout ratio, based on IFRS earnings per share, is 52.7%. 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.

However, the natural disasters were not the only major challenge during the past financial year. The low-interest phase continued in 2017, although the first prime rate hikes in the USA and the now somewhat more realistic hope of an end of the European Central Bank (ECB)'s bond-buying programme did marginally push up interest rates at the long end. It remains to be seen what direction the ECB will pursue this year. In reality, however, we do not expect to see any increase in the prime rate or a marked rise in interest on the bond markets before 2019. Moreover, the markets in our Reinsurance and Industrial Lines Divisions remain extremely competitive, just like the cut-throat competition in the saturated German retail business. Negotiations for the UK's exit from the European Union are still ongoing. The situation is compounded by the aftermath of tax reform in the USA, which is compelling us to undertake significant restructuring within the Group.

We continued to make good progress in our divisions in the past financial year: The Industrial Lines Division further expanded its presence abroad and the proportion of foreign revenues is now 62%. All parts of the division, except fire insurance, have a combined ratio of less than 100%. However, the hurricanes and man-made losses had a severe impact on the property insurance line, resulting in Group net income of just EUR 91 million. Therefore, the division is continuing with the restructuring of its portfolio, which it began in 2015, with a particular focus on fire insurance. The aim is to significantly improve terms and conditions.

“The very satisfactory result for 2017 is due to our sustained internationalisation and diversification.”

HERBERT K HAAS
Chairman

In the German retail business, the investment, growth and efficiency-improving programme “KuRS” is showing its full effect. Cost-wise, we are ahead of our target for this phase and this is reflected in the much-improved Group net income of EUR 102 million. Evidently, the turnaround in the German property/casualty business has been achieved. In life insurance, the focus on biometric products is paying off.

The Retail International Division enjoyed continued success, with further double-digit growth in premiums and Group net income. Remarkably quickly, the accentuated price increases and significant cost savings of our subsidiary in Brazil had a positive impact on the combined ratio. In Columbia, we strengthened our position with a bolt-on acquisition. The business trend was pleasing in Poland.

Dear shareholders, on the back of the strong performance of our primary insurance segments, the market valuation of these parts of the Group was significantly better in the past financial year. Their implicit market value on 31 December 2017 was EUR 2.1 billion, following a low of EUR 0.8 billion at the end of 2015. However, taking widely-used valuation parameters in the industry as a basis, there is still considerable appreciation potential. I am confident that, under the leadership of my successor, Torsten Leue, we will be able to realise this potential and continue increasing the value of your Group for the long term. I wish him all the very best.

I am very grateful to you for the trust you have shown in me over the last twelve years and hope that you will continue placing your faith in our Group.

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
- Reinsurance Captive
- Reinsurance Procurement

Torsten Leue
Hannover
Member of the Board of Management,
HDI Haftpflichtverband der Deutschen Industrie V. a. G., Hannover
Chairman of the Board of Management,
Talanx International AG, Hannover

Responsible on the Talanx Board of Management for:

- Retail International Division
- Facility Management
- Human Resources
- Procurement

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 Directors,
Voith GmbH

Dr Thomas Lindner
Albstadt
Chairman of the Board of Directors
and General Partner,
Groz-Beckert KG

Dirk Lohmann
Zurich, Switzerland
Chairman of the Administrative Board
and CEO,
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

Katja Sachtleben-Reimann*
Hannover
Employee,
Talanx Service AG

Dr Erhard Schipporeit
Hannover
Self-employed Business Consultant

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

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

Norbert Steiner
Baunatal
Former 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 2017

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 2017. We considered at length the economic situation, risk position, succession planning in the Board of Management and Supervisory Board, important courses of action regarding personnel in this context and the strategic development of Talanx AG and its major subsidiaries in both Germany and foreign core markets. 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 17 March, 12 May, 11 August and 10 November 2017. Two representatives of the Federal Financial Supervisory Authority (BaFin) took part in one of these meetings as a matter of routine. The Supervisory Board's Finance and Audit Committee held four meetings and the Personnel Committee and Nomination Committee each held two meetings. The Standing Committee, formed in accordance with the requirements of the German Co-determination Act (MitbestG), was not required to meet in 2017. 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 statements 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, which – 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 large losses, the status of major lawsuits and other material developments within the Company and the Group and in the regulatory environment. As in the previous year, we arranged to be informed of 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, put forward suggestions and proposed improvements. All meetings of the Supervisory Board were attended by all the members.

KEY AREAS OF DISCUSSION FOR THE FULL SUPERVISORY BOARD

The following issues formed the primary focus of reporting and were discussed in detail at our meetings: the Company's business development and that of the individual divisions, the continuing challenges facing the life insurance business due to low interest rates, potential acquisition projects abroad and our planning for 2018. 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 report on the status and progress of the Group's IT to be produced. We discussed issues regarding the Group financing and passed resolutions on issuing subordinated bonds via Talanx AG and Hannover Rück SE and establishing investment vehicles.

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 and given even more consideration in accordance with the extended reporting requirements under Solvency II. We considered the opportunities management within the Group and, in relation to this, a number of acquisition projects in the fields of primary insurance and reinsurance. We also arranged for reports to be produced on the tax authorities' amended position on securities lending transactions and the cost situation compared with competitors. In addition, the Rules of Procedure for the Board of Management and the Supervisory Board were updated. The Supervisory Board approved the suspension and re-conclusion of a control and profit/loss transfer agreement in the Retail Germany Division.

After, in line with the Supervisory Board's stance, Mr Haas announced that he is prepared to step down from his position on the Board of Management once the 2018 Annual General Meeting is concluded in order to be available for election to the Supervisory Board, as requested by the majority shareholder HDI V. a. G., the Personnel Committee and full Supervisory Board considered the matter of his replacement at great length. Following thorough discussions, on 10 November 2017, the Supervisory Board appointed Mr Torsten Leue to replace Mr Haas as Chairman of the Board of Management of Talanx AG effective as of 8 May 2018, when the Annual General Meeting is concluded. Mr Leue has been in charge of the Retail International Division since September 2010. In addition to these responsibilities, he became the Group Director of Human Resources on 1 January 2017 and has since also been acting as Director of Labour Relations. In his position as Chairman of the Board of Management, Mr Leue will also take over responsibility for the units for which Mr Haas was previously in charge, except Information Technology and Data Protection, which will become part of Dr Wicke's area of responsibility. Mr Leue's responsibilities to date as Director of the Retail International Division will be passed onto Mr Sven Fokkema, who has been appointed to the Board of Management of Talanx AG with effect from 9 May 2018, at which time he will also take up Mr Leue's position as Chairman of the Board of Management of Talanx International AG.

We are convinced that, under the direction of Mr Leue, the Board of Management will be able to meet the challenges the Group faces both now and in the future.

According to the normal cycle, the Supervisory Board discussed questions relating to the reappointment of a member of the Board of Management. It resolved to extend the terms of office on the Board of Management of Dr Hinsch, which was due to expire in 2018.

The Supervisory Board also discussed changing to another audit company at length, which will take place effective as of financial year 2018. In this regard, it has taken note of the report created by a project group on the conclusions reached during the selection procedure and the recommendations of the Finance and Audit Committee based on these conclusions. It also intends to propose PricewaterhouseCoopers GmbH, which is preferred over Ernst & Young GmbH, as the general auditor and auditor of the consolidated financial statements for financial year 2018. A proposition to this effect made at the Annual General Meeting was approved by the Supervisory Board in its meeting on 16 March 2018.

In keeping with section 87(1) of the AktG, the full Supervisory Board addressed the setting of divisional targets for 2018 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 amounts of two members of the Board of Management was also reviewed. The appropriateness of the remuneration for the senior executives of Talanx AG and the Group was addressed at the Supervisory Board meeting on 17 March 2017.

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 currently has five 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 statements 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 non-life insurance business, along with the results of a performance analysis of the Group companies acquired in the last five years. On a routine basis, we focused on the risk reports, arranged to have a general restructuring plan explained, which was produced according to the regulatory requirements and shows the Group's ability to withstand crisis situations, and received internal reports on changing to another audit company in the year ahead and on audit planning with the key audit matters that were discussed in the presence of the auditors. The Committee updated the guidelines on the permissible non-audit services of auditors and, aside from this, also exercised its rights and obligations within the scope of the range of responsibilities extended by the EU audit reform. The committee also received the annual reports of the four key functions (Risk Controlling, Actuarial function, Auditing and Compliance), which were each prepared and presented to us by the responsible heads of these functions.

Along with preparing the discussions and resolutions in full, in particular those regarding changes to the Board of Management, the Personnel Committee set interim personal targets for the individual Members of the Board of Management for financial year 2018. In the course of defining the Board of Management bonuses, reviewing the fixed remuneration and setting the divisional targets for 2018 for the Members of the Board of Management responsible for the respective divisions, recommendations were also given to the full Supervisory Board.

The Nomination Committee advised on suitable candidates for next year's elections to the Supervisory Board. When considering the nomination recommendations, the committee took the statutory requirements and those of the supervisory authorities into account as well as the targets it had defined regarding the structuring of the body and the guidelines on the professional and personal requirements relating to the members of the Supervisory Board which it updated and approved in the year under review.

CORPORATE GOVERNANCE AND DECLARATION OF CONFORMITY

The Government Commission on the German Corporate Governance Code amended the German Corporate Governance Code (the "Code") in 2017. In accordance with the Code and the provisions of the Implementation Act of the Corporate Social Responsibility (CSR) guidelines, a diversity concept (among others) was devised and approved and has been incorporated in the Declaration on Corporate Governance (see page 87ff. of the Annual Report). We considered the Board of Management's report on non-financial matters (see page 65ff. of the Group management report) and, with the help of an external expert adviser, assessed its lawfulness, correctness and fitness for purpose.

In accordance with the provisions of the insurance supervisory body, the members of the Supervisory Board have also submitted self-assessments which cover three areas (accounting and reporting, investments and underwriting). As a result, individual training on these specific areas was provided in Talanx AG and the Group companies. Furthermore, the Supervisory Board has defined additional important areas for which it intends to carry out self-assessments in future.

In addition, the Supervisory Board received a report on the structure of remuneration systems, as well as the risk reports. In 2017, the Company also offered an internal training event to all Members of the Supervisory Board. Half of the members used the opportunity to find out more about liability issues, D&O insurance and the retention requirement and 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 5.3.2(3) sentence 3 regarding the chairmanship of the Audit Committee, and of section 4.2.3(2) regarding the potential need for a cap on the payment of Talanx share awards. The reasons for this are stated in the declaration of conformity in accordance with section 161 of the AktG on observance of the German Corporate Governance Code, which is published in the Group Annual Report as part of the declaration on corporate governance. Further information on Corporate Governance can be found on Talanx AG's website.

AUDIT OF THE ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

The Talanx AG annual financial statements submitted by the Board of Management, the financial statements of the Talanx Group, which were prepared in accordance with the International Financial Reporting Standards ("IFRSs") as adopted by the European Union, and the corresponding management reports were audited in collaboration with the accounting services of KPMG AG, Wirtschaftsprüfungsgesellschaft, Hannover. The auditors were appointed by the Annual 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 consolidated financial statements to the review of the lawful implementation of CSR reporting on non-financial matters of various companies in Germany and abroad as well as the review of the efficacy of the tax compliance system in the annual financial statements. The areas of emphasis set out by the German Financial Reporting Enforcement Panel (FREP) were also included in the activities performed by the auditors. A FREP audit carried out in the year under review did not include any findings regarding accounting and reporting.

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 15 March 2018 and at the Supervisory Board meeting on 16 March 2018. The auditor took part in the discussions by the Finance and Audit Committee and the full Supervisory Board regarding the annual and consolidated financial statements, reported on the performance of the audits and was available to provide the Supervisory Board with additional information. On completion of our own examination of the annual financial statements, the consolidated financial statements, the corresponding management reports and the audit reports by the external auditors, we concurred with the opinion of the auditors in each case and approved the annual and consolidated financial statements prepared by the Board of Management.

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

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

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

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

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

COMPOSITION OF THE SUPERVISORY BOARD AND BOARD OF MANAGEMENT

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

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

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

Hannover, 16 March 2018

For the Supervisory Board
Wolf-Dieter Baumgartl
(Chairman)

OUR SHARES

CAPITAL MARKET ENVIRONMENT

The stock market environment remained in the shadow of geopolitical uncertainties in the year under review. Unlike last year, however, there were no sizeable exogenous shocks such as surprising political events like the Brexit vote in the UK or the US presidential elections – aside from the refreshing result of the French presidential elections and the drawn-out negotiations on forming a government in Germany. Bolstered by low interest rates, the economic recovery continued across most parts of the EU. While the US Fed raised the prime rate in the reporting period by a quarter of a percentage point in three smallish steps, the ECB stuck to its extremely loose money-market policy with a corresponding rate of 0%. The additional bond-buying also kept up last year, but has been tapered since January 2018.

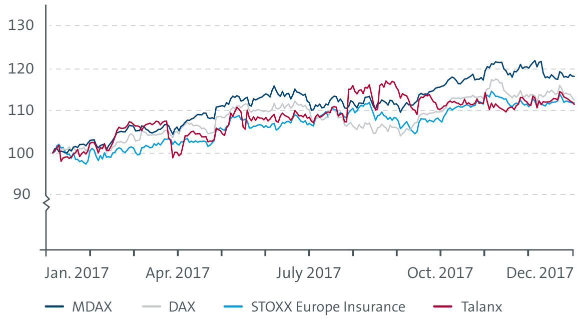
The yields on ten-year German government bonds stood at 0.43% at the year-end, some 20 basis points higher than at the close of 2016. The risk premiums on most spread instruments changed only slightly. Driven by growth in corporate earnings and the continued support in 2017 from the liquidity and volatility environment, the equity markets performed positively despite political imponderables. The DAX closed 2017 up 12.5%, with the MDAX adding as much as 18.9%. The only sustained consolidation in equity prices came at the midpoint of the year. European insurance stocks also rose for the most part, their performance over the year could not quite keep up with the gains, some of them very substantial, made by industrial stocks, which are more sensitive to the economic cycle. Most international property insurers faced a disproportionately high claims burden in the third quarter, due mainly to natural disasters in North and Central America. Although this prevented many from reporting better results, the STOXX Europe 600 Insurance Index rose by around 11.8% last year compared to year-end 2016, taking dividend payments into account.

OUR SHARE PRICE PERFORMANCE

Against this background, the rise in the Talanx share price to EUR 34.07 (31.77) at XETRA closing prices was pleasing, equating to a gain of 7.2%. Adding the dividend of EUR 1.35 paid in May 2017 gives a total increase in value of 11.5% for 2017. This means that Talanx shares rose to a similar extent to its benchmark, STOXX Europe 600 Insurance Index. However, it fell slightly short of matching the performance of the two most important German indices, the DAX and MDAX, as both benefited to a greater degree from expectations of improved economic growth, among other factors. Aside from a few brief fluctuations, Talanx shares trended upward well into late summer of last year. In line with this, the annual high of EUR 36.32 was hit in mid-August 2017, marking a new overall record as well (historic high based on the XETRA closing price: EUR 36.32 on 15 August 2017). This was followed by a period of relative flattening in the last quarter, during which the record high reached earlier that year could not quite be maintained.

TALANX SHARE PERFORMANCE INDEX COMPARISONS

1.1.2017 = 100



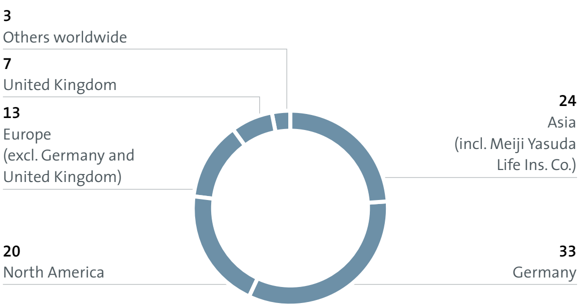
INDEX MEMBERSHIP AND STOCK EXCHANGES

Talanx shares have been included in the MDAX, Germany's second most important benchmark index, since 2012. They are listed on the Frankfurt Stock Exchange (Prime Standard) and on the Hannover Stock Exchange. 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 reporting period, the shareholder structure at Talanx AG did not change in accordance with the definition of the German Stock Exchange. As at the end of the previous year, the free float share of Talanx AG still stands at 21%. 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%, the Meiji Yasuda shareholding is allocated to the free float in accordance with the definition of the German Stock Exchange. Around 50% of the free float is held by European investors, with around one fifth of the shares from the free float attributable 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 less than one quarter of the free float.

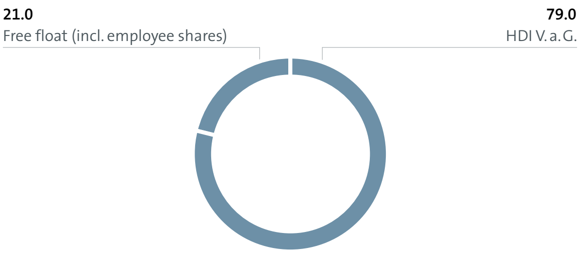
COMPOSITION OF THE MINORITY SHAREHOLDERS AS AT 31.12.2017

%



SHAREHOLDER STRUCTURE AS AT 31.12.2017

%



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. We also aimed to successively attract new investors for our shares. Our shareholders, potential investors and other parties with an interest in our shares received regular accounts on our corporate development. To this end the Board of Management travelled to investor conferences in cities including New York, London, Frankfurt am Main, Berlin and Munich in 2017. Members of the Board of Management also visited investors at roadshows in cities such as New York, Chicago, Los Angeles, London, Frankfurt am Main, Paris, Zurich and Dublin. In addition, Talanx AG's IR managers took part in other investor conferences and roadshows in Germany and around the world. Overall, meetings with around 200 institutional investors were held in the reporting period. Moreover, Investor Relations staff are regularly involved in events with the aim of raising awareness of Talanx shares among private investors.

Talanx AG held its Capital Markets Day in November 2017, its fifth such event since the company went public in autumn 2012. At the venue in London, the Board of Management of the Talanx Group explained its "automation and digitalisation" and "increasing profitability in underwriting policy" initiatives in particular. At the same time, the progress made towards achieving existing business objectives for the individual segments was presented in a transparent manner. 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).

Talanx will hold its next Capital Markets Day in October 2018 in Frankfurt am Main.

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 published and independent earnings estimates and share recommendations for us. At the end of the year under review, 19 (in the previous year: 18) 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 ratio 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. At the same time, the dividends paid per share are expected to be equal or higher than last year's figure where possible.

Talanx paid a dividend of EUR 1.35 for financial year 2016 (financial year 2015: EUR 1.30), which represents a payout ratio of 37.6% (financial year 2015: 37.0% – when adjusted for the impairment of goodwill in the amount of EUR 155 million in the Retail Germany Division; the payout ratio would have been 44.8% without this adjustment).

The Board of Management and Supervisory Board will propose a dividend of EUR 1.40 per share at Talanx AG's Annual General Meeting for financial year 2017. Based on the annual average price of EUR 33.66, this results in a dividend yield of 4.2%. The payout ratio, based on IFRS earnings per share, is 52.7%.

The Annual General Meeting will be held on 8 May 2018 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]	34.07 EUR
Annual high [1]	36.32 EUR
Annual low [1]	30.605 EUR
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 22,059 people worldwide at the end of 2017. 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 undertaking 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 non-life insurance.

Talanx is represented by its own companies or branches on all continents. Its retail business focuses on Germany and, outside of Germany, in particular on the growth markets of Central and Eastern Europe (including Turkey) and Latin America. The Group has business relationships with primary insurance and reinsurance customers in around 150 countries in total.

The Talanx Group's divisions are each responsible for their own business processes. These tasks, which are shared by several organisational units, help to create value in the Group. The core processes in 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 guarantee the stability of companies and financial markets and protect their customers, insurance companies (primary and reinsurance companies), banks and asset management companies around the world are subject to extensive legal and financial supervision by supervisory authorities. In the Federal Republic of Germany this task is the responsibility of the Federal Financial Supervisory Authority (BaFin). In addition, these companies' business is regulated extensively by numerous legal regulations. The previous years' significant development of the legal environment which has become more stringent and complex as a result continued unabated in 2017.

Against the backdrop of the Insurance Distribution Directive (IDD) which is to be implemented in Germany, projects have already been set up in the Group companies concerned to realise the implementation of the substantial specifications in time. The legal requirements focus particularly on ensuring sufficient consideration of consumer interests in product design and distribution management and additional requirements in relation to product monitoring and product governance of insurance products for insurance companies, but also on insurance brokers.

On 25 January 2017, BaFin published its circular 2/2017 (VA) on the authority's interpretation of the minimum requirements for the business organisation of insurance companies (MaGo). This circular explains overarching aspects of business organisation as well as key terms such as "proportionality" or "management or supervisory board" from the supervisory authority's perspective. Irrespective of the fact that these legal views published by BaFin are not directly legally binding, MaGo must naturally be taken into consideration when defining the Group's business organisation, in particular in the areas of general governance, key functions, the risk management system, own funds requirements, internal control system, outsourcing and emergency plans.

On 29 March 2017, the government of the United Kingdom of Great Britain and Northern Ireland notified the President of the European Council of its intention to leave the European Union under Article 50 of the Treaty of the European Union (EU Treaty). Once the two-year period stipulated in the EU Treaty expires the United Kingdom will cease to be a member of the European Union. Its exit will have repercussions on the conditions under which companies from EU member states can do business in the United Kingdom. A number of Talanx Group companies conduct business activities there and must adapt to the new conditions that will apply after the United Kingdom's exit. It is, however, not yet possible to predict what these will be and in the face of the Brexit negotiations between the representatives of the EU and the United Kingdom, which have so far been rather drawn out, clarity does not appear to be imminent. For this reason, the companies affected are working on solutions that aim to ensure that, in the clients' interest, business can continue smoothly even in the worst-case scenario.

Extensive tax reform was passed in the USA in December 2017. This provides for new tax regulations that may also have considerable financial implications for the subsidiaries that operate in the USA. An essential aspect of the tax reform is the introduction of a so-called "Base Erosion Anti-Abuse Tax (BEAT)". As a result payments and deferred expenses to foreign affiliated companies will also be included in the tax assessment basis, with premiums for ceded insurance risks within the Group context also counting.

Digitalisation, which has become increasingly important in the last few years, and the associated transition to digital, data-based business models as well as the resulting legal issues and challenges are playing an ever more significant role for Talanx Group companies. This is the case with regard to our clients' data in particular.

The insurance companies of the Talanx Group are heavily reliant – as is the whole sector – 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. Following a two-year implementation period, the EU General Data Protection Regulation (GDPR) will become legally binding in May 2018, including in the Federal Republic of Germany. Against this backdrop, a project was initiated back in 2016 to realise the timely implementation of the new statutory requirements. On 5 July 2017, the Federal Data Protection Act (FDPA), which also comes into force on 25 May 2018, was published in the Federal Law Gazette as Article 1 of the German Data Protection Amendment Act aligning it to Regulation (EU) 2016/679 and implementing Directive (EU) 2016/680. The present Federal Data Protection Act will cease to be effective on 25 May 2018. With the new FDPA, data protection regulations will be aligned with the GDPR, exemption clauses contained therein made use of and Directive (EU) 2016/680 (directive on the protection of natural persons with regard to the processing of personal data by competent authorities for the purposes of the prevention, investigation, detection or prosecution of criminal offences or the execution of criminal penalties, and on the free movement of such data) implemented. The new FDPA creates sufficient legal certainty for concrete steps towards implementation to be introduced in conjunction with the results of the project in the individual Talanx Group companies.

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 divides its business activities into “Insurance” – with six reportable segments – and “Corporate Operations”, as the seventh segment. We explain this division in the following text.

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 GmbH and Talanx Reinsurance (Ireland) SE; Talanx Asset Management GmbH, Ampega Investment GmbH and Talanx Immobilien Management GmbH are primarily concerned with managing the Group’s investments and offer services in the area of finances among other things.

GROUP STRUCTURE

Talanx AG

Geschäftsbereich Industrieversicherung
Industrial Lines Division

- HDI Global SE
- HDI Versicherung AG (Austria)
- HDI Global Seguros S.A. (Brazil)
- HDI Global Network AG
- HDI-Gerling de México Seguros S.A.
- HDI-Gerling Verzekeringen N.V. (Netherlands)
- OOO Strakhovaya Kompaniya „HDI Strakhovanie“ (Russia)
- HDI Global SA Ltd. (South Africa)
- HDI Global Insurance Company (USA)

Geschäftsbereich Privat- und Firmenversicherung Deutschland
Retail Germany Division

Schaden/Unfallversicherung *Property/Casualty Insurance* | Lebensversicherung *Life Insurance*

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

Geschäftsbereich Privat- und Firmenversicherung International
Retail International Division

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

Geschäftsbereich Rückversicherung
Reinsurance Division

Schaden-Rückversicherung *Property/Casualty Reinsurance* | Personen-Rückversicherung *Life/Health Reinsurance*

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

Konzernfunktionen
Corporate Operations

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

Nur die wesentlichen Beteiligungen
Main participations only

Stand / As at: 31.12.2017

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 the "Non-financial Group statement" section on pages 65ff and our risk management approach is described in the risk report on pages 112ff. These two aspects are therefore not discussed further at this point.

PROFIT TARGET

The Talanx Group aims to achieve above-average profitability in the long term, measured in terms of our return on equity under IFRSs and benchmarked against Europe's 20 largest insurance 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 ratio of 35% to 45% of Group net income in accordance with IFRSs where if possible the payout does not fall below the previous year's level.

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 three thirds 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.

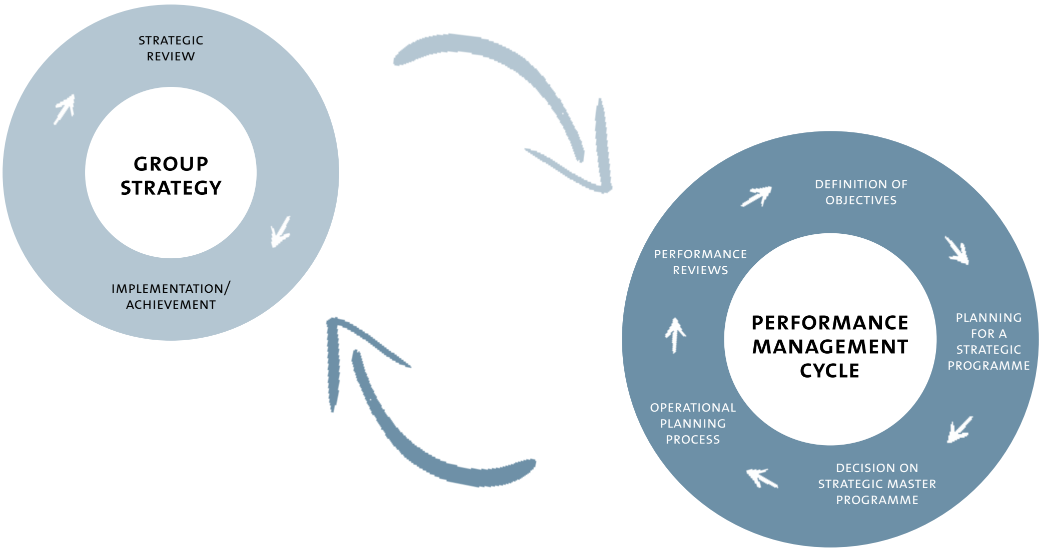
The dominant strategic goal of sustainable economic value creation is measured in the Group using the intrinsic value creation (IVC) strategic management metric, which we analyse as a five-year average over a multi-year period. This ensures that management decisions are not based on results for just 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 IFRSs, economic net income takes into account other fair value adjustments both in investments and in technical provisions such as the change in the loss reserve discount in non-life insurance and the change in the non-capitalised value of in-force business in life insurance. Cost of capital in non-life insurance includes costs associated with the maintenance of the required risk capital under supervisory law (solvency capital required) and the cost of excess capital. It consists of the risk-free interest rate as the five-year average for ten-year German government bonds, a friction cost rate of 2% and, in relation to the solvency capital required, an additional risk margin of 4%. The cost rates apply on the basis of a value at risk of 99.5%, which corresponds to the confidence level required under supervisory law. In the life insurance business, we take 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

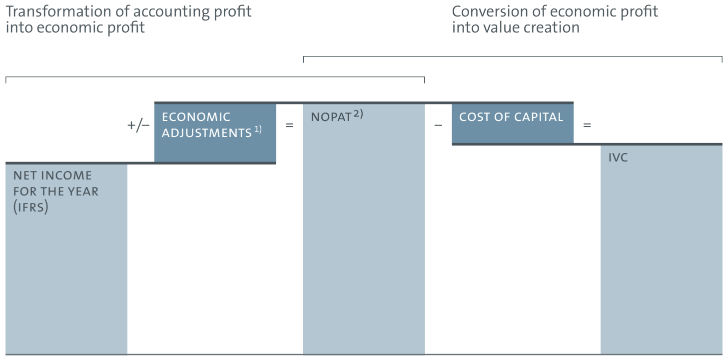
Performance management is at the heart of our central management system. Our systematic approach sets out a clear strategy for ensuring the Group's long-term viability and its implementation. This is key to efficient enterprise and group management. Since mismanagement is very often due to inadequate 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.

The operational management metrics at Group and 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	—	—	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	EBIT margin [1] ■ financial solutions ■ longevity solutions ■ mortality/morbidity	Payout ratio
Return on equity	Return on equity		Return on equity	Return on equity		Return on equity

[1] From 2018, there will be a new target of EBIT growth as an average over a three-year period.

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 growth
Change in operating profit (EBIT) compared with the previous year in percent

EBIT margin
Operating profit (EBIT) divided by the net premiums earned

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)

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

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

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

Payout ratio
Payout in the following year divided by the Group's net income for the year

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

Return on equity
Net income (after financing costs and taxes) excluding non-controlling interests in proportion to average equity 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

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 (see pages 112ff. in 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 cyclical picture of the global economy was characterised primarily by an increasing synchronisation of growth cycles in the major economies in 2017, with global trade being a central driver of growth. In addition, growth was also driven by a positive, dynamic labour market, increasing investment growth and a recovery in commodities prices. Overall economic growth continued to accelerate both in the developed nations and in developing countries year on year. Despite initial signs of a gradual normalising, global monetary policies remained extremely expansive.

The economy in the eurozone increased in both the second and third quarters by 0.7% – Germany's GDP demonstrated growth of 0.7% in the third quarter following gains ranging from 0.9% to 0.6% in the first half of the year. Private consumer spending was the central growth driver, but an increase in investments and net exports also contributed to the acceleration in growth. The positive developments on the labour market continued – the unemployment rate fell in November to its lowest level since 2009 (8.7%). In the United Kingdom the economy proved very robust growing by 0.4% in the third quarter despite a high level of political and economic uncertainty in the context of the Brexit negotiations with the EU and the general election in June. A growing disparity with other major economies did, though, became noticeable. The unemployment rate was at its lowest level for more than 40 years in September at 4.3%.

Following another weak start to the year in 2017, the US economy developed strongly in the following months. In the third quarter, the annualised growth rate stood at 3.2%, the strongest growth for more than two years. Here again, private consumer spending was the central growth driver, supported by a sound performance on the labour market. Investment and export growth were also key growth drivers. Economic growth in China stabilised after years of decline. In 2017 the annual growth rate in the GDP was consistently slightly above the 6.7% growth in 2016.

CHANGE IN REAL GROSS DOMESTIC PRODUCT

% CHANGE RELATIVE TO PREVIOUS YEAR

	2017 [1]	2016
USA	+2.3	+1.5
Eurozone	+2.3	+1.8
Germany	+2.5	+1.9
United Kingdom	+1.5	+1.9
Japan	+1.7	+0.9

[1] Bloomberg consensus forecasts, as at 15 January 2018 (provisional figures).

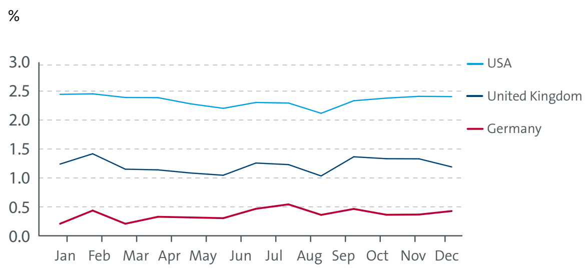
The major central banks pursued extremely expansionary monetary policies in 2017 too. Taking into account the modest rise in inflation, the central banks wanted to proceed very gradually with their attempts to normalise monetary policy. Although the ECB announced in October a halving of its monthly bond purchases from January 2018 to EUR 30 billion, it simultaneously extended its purchasing programme again by a minimum of nine months up to and including September 2018. The US Federal Reserve continued with its cycle of interest hikes raising the interest rate three times in 2017. It also began to reduce its balance sheet in October.

After standing at just below 2% in the first quarter, the annual inflation rate in the eurozone stood at 1.4% in December. In the United Kingdom the inflation rate rose to its highest level for five years (November 2017: 3.2%) due primarily to the weak pound. In the USA the annual inflation rate climbed to 2.1% as at year-end.

CAPITAL MARKETS

In 2017, the bond markets faced the potential impacts of the new US government's economic policy as well as political issues in the eurozone. The latter included the elections in the Netherlands, France and Germany and electoral reform in Italy. In the meantime in the USA, rather disappointing economic data and the failure to implement the economic policy announced by the US president led to very volatile movement of US treasury yields – although interest rates had been raised further in March, June and December. In this environment the US dollar proved to be very weak and lost more than 14% against the euro over the course of the year. The ECB reduced its monthly purchasing programme from EUR 80 billion to EUR 60 billion. As a result the bond markets became very volatile in the first half of the year. In particular, following an ECB press conference at the end of June, which was interpreted as the phasing out of quantitative easing, there was a significant rise in German government yields. Within a short space of time, ten-year bonds rose from 0.25% to around 0.59%, only to fall again the following month to around 0.3%. However, overall the fluctuation range of between around 0.20% to around 0.60% for ten-year government bonds over the course of the year was very small. In October 2017 the ECB decided to further reduce monthly bond purchases to EUR 30 billion from January 2018.

YIELDS ON TEN-YEAR GOVERNMENT BONDS 2017



With few exceptions, AAA rated government bonds and covered bonds sustained slight to considerable price losses. Due to the further narrowing of risk premiums, bank and corporate bonds continued to perform positively, in the weaker rated segments and in subordinate bonds and high yield and emerging markets bonds in particular.

Thanks to an unexpectedly positive economic environment, a less than anticipated rise in inflation and hence persistently expansive monetary policies, the equity markets were able to recover considerably. In addition to strong profit growth, a wider valuation basis led to higher equity prices. Over the course of the year, the DAX climbed by 12.5%, the S&P 500 by 19.4% and the Nikkei by 19.1%. The performances of the EURO STOXX 50 was much weaker, but still positive, at 6.5%.

GERMAN INSURANCE INDUSTRY

PROPERTY/CASUALTY INSURANCE

In 2017 the German insurance industry saw premium growth in property/casualty insurance at the same level as the previous year. During the period of consistently low interest rates, this indicates that property and casualty insurance providers are continuing with disciplined underwriting.

The balance sheet of the property insurers for payments due to the consequences of natural disasters in 2017 stood at a similar level to the previous year. A large number of the claims were caused alone by the series of storms triggered by the two low pressure areas “Paul” and “Rasmund”, which occurred at the end of June and the beginning of July primarily in the northern half of the country. “Rasmund” was one of the most extreme heavy-rain events in Germany bringing 200 ml of rain to one square metre within 24 hours. In addition, storm “Xavier” resulted in a high volume of claims at the beginning of the fourth quarter particularly in northern Germany and Berlin.

LIFE INSURANCE

Premium income in German life insurance fell slightly in 2017, albeit to a lesser degree than in the previous year. This was particularly due to a decline in the single premium business, although the fall was less pronounced than in 2016. Despite interest rates that have been declining for some time, the German insurance industry again achieved a total return that exceeded guaranteed returns in 2017.

INTERNATIONAL INSURANCE MARKETS

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

PROPERTY/CASUALTY INSURANCE

As a whole, international property/casualty insurance saw a slight growth in premiums in 2017. There was a slight increase in real growth in both the developed insurance markets and the emerging markets compared to the previous year.

The volume of claims due to natural disasters was far higher in the year under review than in 2016 and also higher than the average over the past ten years. After the comparatively low volume of claims due to natural disasters in the first half of the year, the main cause for the high volume of insured claims and overall losses were extreme weather events in the second half of the year, in particular a series of three hurricanes in the USA and the Caribbean. These claims combined with a soft market and low investment income led to a deterioration in profitability in international property/casualty insurance.

In the West European markets, there was an upturn in premium growth in 2017 in property/casualty insurance due to the stronger motor business in some core countries.

On the North American markets, premium growth stagnated in the year under review following a decrease in the previous year.

In Central and Eastern Europe, there was a slight decline in premium growth year on year. Overall strong growth rates in Poland and Hungary were not able to compensate for the decline in premiums in Russia. While rate increases in obligatory motor third-party liability insurance in Poland acted as a driver of the positive trend, the decline in Russia also resulted from motor third-party liability insurance. Premiums also fell back in Turkey. This can be attributed to the introduction of a premium cap in the motor business.

In Latin America, property/casualty insurance again saw a slight growth in premiums overall following a decrease in the previous year. The principal driver of this development was the motor business, whose strong growth in Mexico can be put down to the high number of vehicle sales and rising premiums. However, two earthquakes in the third quarter of 2017 had a negative impact on the profitability of property/casualty insurance in Mexico overall. The decline in premiums in Brazil slowed in the year under review.

The strongest premium growth in the emerging markets was once again achieved in Asia, with an increase in the growth rate year on year. One positive influence came from consistently high infrastructure investments in the region, which strengthened the premium income in property/casualty insurance. In Southeast Asia, with the exception of Malaysia, the motor business was also a growth driver.

In 2017, Property/Casualty Reinsurance recorded negative underwriting results for the first time after several years of positive results. These negative results were primarily due to the three major hurricanes of the season – "Harvey", "Irma" and "Maria" – which hit the USA and the Caribbean. In addition, other natural disasters, such as two earthquakes in Mexico, forest fires in California and a cyclone in Australia, impacted on the overall figures.

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 premium growth stagnated, which was tantamount to an improvement compared with the previous year's decline.

In Central and Eastern Europe, there was a surge in growth following four successive years of a decline in premiums. The life insurance markets stabilised in Poland, Hungary and Slovakia. In Poland alone this was due to a comeback of unit-linked life insurance. Robust growth rates were also recorded in Russia and Turkey.

In Latin America, the premium growth fell considerably compared to 2016, which could be explained by the declining economy in significant markets. Brazil, as the largest market, also registered a noticeable decline in growth due to a sharp fall in sales of the leading product in unit-linked life insurance. In Mexico, premium income was affected by negative effects caused by accounting changes brought in as part of the introduction of a Solvency II-oriented regime.

The highest level of premium growth observed on the emerging markets was in Asia, with growth rates comfortably continuing to achieve double digits, although down year on year. China alone accounted for over half of all life insurance premiums in the emerging markets. In Indonesia the Bancassurance channel contributed to strong growth, while in India Group business benefited from government initiatives to encourage the taking out of life insurance and pension products.

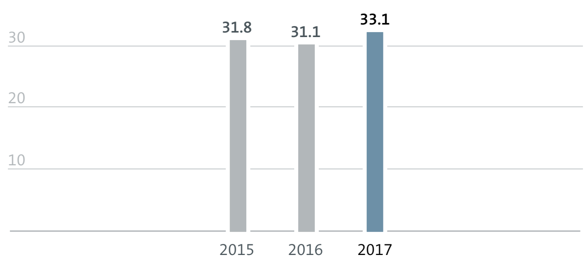
Premium income in traditional Life/Health Reinsurance rose slightly, although growth was sluggish compared with the previous year. While double-digit growth was seen in the emerging markets, overall there was a slight decline in premium income in the developed markets. Positive growth rates in Western Europe and the developed Asian insurance markets were not able to absorb falls in North America.

BUSINESS DEVELOPMENT

The Talanx Group continues to drive profitability in primary insurance both in Germany and abroad. The Industrial Lines Division consistently continued the successful balanced portfolio initiative in the German insurance sector and also transferred it to foreign sub-portfolios. In addition to this, the division expects to see continued growth in business with SMEs. The Retail Germany Division is making good progress with its "KuRS" strategy programme and is using a portion of its savings to further accelerate its rate of modernisation and digitalisation. The Retail International Division's high organic rate of growth in foreign retail business, where the target is an annual premium growth of around 10% with a combined ratio of around 96% by 2020, is expected to contribute significantly to long-term growth in the proportion of foreign premiums in primary insurance from its most recent figure of just over half to around two thirds. The operating profit was marked by a poor underwriting result which caused the Group net income to fall to EUR 672 million.

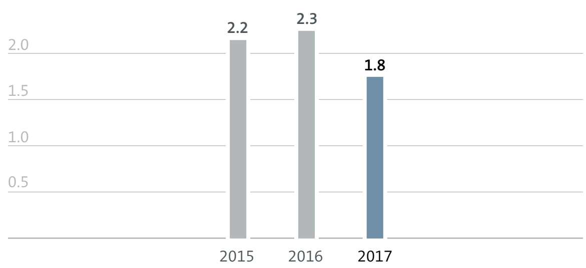
GROSS WRITTEN PREMIUMS

EUR BILLION



OPERATING PROFIT (EBIT)

EUR BILLION



TALANX SUBORDINATED BOND PLACEMENT

The bond in the amount of EUR 750 million was primarily issued to institutional investors in Germany and abroad. The issue of bonds is expected to help exploit additional opportunities for growth in the hardening marketing environment, thereby ensuring long-term refinancing at the current attractive rate.

THE TALANX GROUP IS PREPARING FOR A DIGITAL FUTURE

The advancing rate of digitalisation is changing markets, products and customer behaviour. Talanx is systematically driving forward digitalisation within the Group with numerous initiatives. For example, the insurer is working with fintechs startupbootcamp from London and Plug and Play from California. The partnership with these two so-called accelerators is providing Talanx with access to a global network of start-ups and other companies, enabling them to identify innovative technologies and digital business ideas.

The divisions develop products and solutions in their in-house Digital Lab, dovetailing their work with IT and other departments as necessary with the aim of delivering innovations more rapidly. Numerous apps and online facilities for concluding contracts are already in use at the Talanx subsidiaries in Germany and abroad, while Talanx International AG's Best Practice Lab enables ideas on promising applications to be exchanged across national borders.

The companies of Talanx Deutschland AG, one of the Talanx Group companies, are increasingly developing digital solutions for their customers. For example, the introduction of a new telematics app is in the pipeline for Germany. HDI Versicherung AG is using a new pricing tool for vehicle insurance which uses modern data analysis to enable more flexible, client-orientated pricing. The "HDI bAVnet" allows employers to manage their occupational retirement provision (bAV) digitally and at no cost. By the end of 2017, at least 480 employers were using the "HDI bAVnet" for more than 70,000 contracts. The claims app "HDI hilft" was used in some 26,000 cases in total in the 2017 financial year. The Industrial Lines Division also develops digital products for small and medium-sized companies.

TALANX AG INCLUDED ON THE FTSE4GOOD SUSTAINABILITY INDEX

The FTSE4Good Index Series is provided by FTSE Russell and includes companies which demonstrate strong environmental, social and corporate governance (ESG) practices. Talanx AG fulfils the criteria of the FTSE4Good Global Index and the FTSE4Good Europe Index.

THE TALANX GROUP IS DRIVING SUSTAINABILITY IN ITS INVESTMENTS

Since the beginning of the year under review, Talanx has been analysing securities investments from across the Group in terms of how well they fulfil ESG criteria. Based on this, Talanx is considering how to resolve the assets that do not fulfil the screening criteria in a way that affects the market as little as possible. The ESG screening procedure currently applies to around 90% of all Group investments. In line with its strategy, Talanx is continuing to expand its investments in infrastructure facilities such as wind farms and electricity grids. Talanx increased its investment portfolio in this area as planned to nearly EUR 2 billion by the end of 2017.

PERFORMANCE OF THE GROUP

- Gross written premiums up by EUR 2 billion
- Underwriting result affecting operating profit/loss
- Net investment income up thanks to high extraordinary net income

GROUP KEY FIGURES

EUR MILLION

	2017	2016 [1]	2015
Gross written premiums	33,060	31,106	31,799
Net premiums earned	27,418	25,736	25,937
Underwriting result	−2,544	−1,519	−1,370
Net investment income	4,478	4,023	3,933
Operating profit (EBIT)	1,807	2,307	2,182
Combined ratio (net, property/casualty insurance only) in %	100.4	95.7	96.0

1) Adjusted in accordance with IAS 8, see "Accounting policies".

MANAGEMENT METRICS

%

	2017	2016 [1]	2015
Gross premium growth (adjusted for currency effects)	7.5	−0.3	4.8
Group net income in EUR million	672	903	734
Net return on investment	4.0	3.6	3.6
Payout rate [2]	52.7	37.8	44.8
Return on equity	7.5	10.4	9.0

1) Adjusted in accordance with IAS 8, see "Accounting policies".
2) In relation to the appropriation of distributable profits, see the "Other disclosures" section of the Notes, Page 265.

PREMIUM VOLUME

Group gross written premiums amounted to EUR 33.1 (31.1) billion, they rose by 6.3% (7.5% when adjusted for currency effects) due in part to positive performance in Retail International Division. Net premiums earned increased by 6.5% to EUR 27.4 (25.7) billion because retention rose slightly to 88.5% (87.8%).

UNDERWRITING RESULT

The underwriting result deteriorated sharply to EUR −2.5 (−1.5) billion across the whole Group. This was mainly due to the exceptionally high expenses from large losses in the Industrial Lines and Property/Casualty Reinsurance segments which were caused by natural disasters in August and September 2017. At EUR 1,620 (883) million, the large-loss burden in the Group was up on the previous year by nearly 100% and remained well over the large-loss budget of EUR 1,115 million. In the Industrial Lines and Reinsurance divisions, the large loss amounted to EUR 481 million and EUR 1,127 million respectively. The largest single loss was hurricane "Irma" in the USA and Caribbean. As a result, the combined ratio rose compared to the previous year and amounted to 100.4% (95.7%).

NET INVESTMENT INCOME

There was a fair increase in net investment income, which rose by 11.3% to EUR 4.5 (4.0) billion. This was attributable to the extraordinary net investment income, which benefitted from the realisation of gains resulting from the sale of stock portfolios in the Property/Casualty Reinsurance segment and Retail Germany Division. The net return on investment amounted to 4.0% (3.6%).

OPERATING PROFIT AND GROUP NET INCOME

The operating profit/loss (EBIT) fell compared to last year and amounted to EUR 1.8 (2.3) billion due to extraordinary natural disasters. It was affected by the declining results in the Industrial Lines and Property/Casualty Reinsurance segments, which is again due to losses in these segments. The increased EBIT in the Retail Germany segments, in property/casualty insurance and the Retail International Division was unable to offset these losses. The Group net income amounted to EUR 672 (903) million. At 7.5% (10.4%), the return on equity was also well down on the previous year.

COMPARISON OF ACTUAL BUSINESS DEVELOPMENT WITH THE FORECAST FOR 2017

MANAGEMENT METRICS FOR THE GROUP

%

	Actual	Forecast for 2017 from the 2016 Annual Report
Gross premium growth (adjusted for currency effects)	7.5	> 1
Group net income [1] in EUR million	672	approx. 800
Net return on investment	4.0	≥ 3
Payout ratio [2]	52.7	35 – 45
Return on equity	7.5	> 8

[1] The forecast for 2017 pertains to the printed forecast in the Group Annual Report 2016; it was reduced in the third quarter of 2016 to "around EUR 650 million" due to a high large-loss burden.
[2] In relation to the appropriation of distributable profits, see the "Other disclosures" section of the Notes, Page 265.

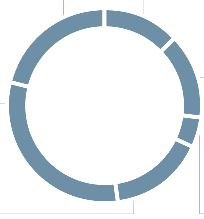
The Group gross premium growth in the year under review amounted to 7.5% (when adjusted for currency effects) and was therefore significantly higher than the prescribed framework for 2017, which was over 1%. With a net income of EUR 672 million, we were not able to meet our forecast of around EUR 800 million. This is mainly due to the high large-loss burden. For 2017, the forecast for the Group return on equity was more than 8%. With a return on equity of 7.5%, we fell below the forecasted figure. The Board of Management and Supervisory Board are proposing the distribution of a dividend of EUR 1.40 per share to the Annual General Meeting. The payout ratio, based on IFRS earnings per share and on the basis of the proposal to the Annual General Meeting, is 52.7%, which is therefore above the target range of 35% to 45%. The net return on investment is 4.0%, 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 and Life –, 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.

GROSS PREMIUMS BY SEGMENT

%



INDUSTRIAL LINES

- Growth in premiums abroad
- Exceptionally high large loss expenditure due to natural disasters
- Net investment income increased despite prolonged period of low interest rates

KEY FIGURES FOR THE INDUSTRIAL LINES DIVISION

EUR MILLION

	2017	2016 [1]	2015
Gross written premiums	4,454	4,266	4,295
Net premiums earned	2,434	2,243	2,213
Underwriting result	–207	73	18
Net investment income	277	242	206
Operating profit (EBIT)	109	302	208

[1] Adjusted in accordance with IAS 8, see "Accounting policies".

MANAGEMENT METRICS

%

	2017	2016 [1]	2015
Gross premium growth (adjusted for currency effects) [1]	5.2	–0.1	2.5
Retention	55.2	53.4	51.8
Combined ratio (net)	108.5	96.8	99.2
EBIT margin	4.5	13.4	9.4
Return on equity	4.1	11.3	6.2

[1] Adjusted in accordance with IAS 8, see "Accounting policies".

MARKET DEVELOPMENT

The market environment for the Industrial Lines segment in our domestic 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 new US presidency 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 4.5 (4.3) billion as at 31 December 2017, and were therefore above the level of the prior year. They increased by EUR 188 million, or 4.4% (adjusted for currency effects: 5.2%). The highest increases in premium income were achieved by the international branches of HDI Global SE, especially those in Australia, France and Japan, as well as the subsidiary in Brazil. Additional new domestic business and the acquisition of a new portfolio in the motor insurance line also contributed positively to the increase in premium income.

The retention ratio in the division increased to 55.2% (53.4%) as a result of lower payments to external reinsurers in the third-party liability line as well as significant growth in the motor insurance line with a high level of retention. In addition to the increase in gross premiums, this caused an increase of EUR 191 million in net premiums earned, to EUR 2.4 (2.2) billion.

UNDERWRITING RESULT

At EUR –207 (73) million, the division's net underwriting result was significantly lower than in the prior year. It was negatively impacted by exceptionally high expenditure resulting from large losses amounting to EUR 481 (236) million. Whereas there was only a slight change in the expenditure for large losses resulting from individual risks, a substantial increase was recorded in costs resulting from natural disasters, fuelled mainly by hurricanes "Harvey", "Irma" and "Maria" as well as the earthquake in Mexico. Run-off was lower than in the prior year due to incurred but not reported (IBNR) claims and lower relief payments from reinsurers. This development led to an increase in the loss ratio (net) to 85.7% (74.9%). At 22.8% (21.8%) the net expense ratio was above the figure achieved in the prior year, largely driven by higher project expenditure and higher expenditure for pension provision.

NET INVESTMENT INCOME

Net investment income increased significantly by 14.5% to EUR 277 (242) million. Despite challenging capital market conditions due to the low-interest phase, it has been possible to increase ordinary investment income from variable-yield securities. 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 was below that of the prior year, at EUR 109 (302) million, due to the negative claims experience in 2017. The positive trend in premiums and net investment income only went some way towards offsetting the high large losses caused by natural disasters. Group net income amounted to EUR 91 (241) million.

COMPARISON OF ACTUAL BUSINESS DEVELOPMENT WITH THE FORECAST FOR 2017

MANAGEMENT METRICS FOR THE INDUSTRIAL LINES DIVISION

%

	Actual figures for 2017	Forecast for 2017 from the 2016 Annual Report
Gross premium growth (adjusted for currency effects)	5.2	≥ 2
Retention	55.2	> 53
Combined ratio (net)	108.5	~ 96
EBIT margin	4.5	~ 10
Return on equity	4.1	7–8

Gross premium growth is above expectations for 2017, with an increase of 4.4% (adjusted for currency effects: 5.2%). Growth in Germany and abroad fully compensates for the decrease in Germany arising from restructuring measures. The increase in retention to 55.2% is in line with expectations and is influenced by lower payments to external reinsurers in the third-party liability line as well as significant growth in the motor insurance line with a high level of retention.

The combined ratio was below the forecast due to a higher large loss burden as well as increased expenses. The EBIT margin of 4.5% and the return on equity of 4.1% fell short of expectations.

RETAIL GERMANY

PROPERTY/CASUALTY INSURANCE

- Gross written premiums up due to growth in corporate business
- Combined ratio improves to 101.6%
- Operating profit up significantly due to positive claims development

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

EUR MILLION

	2017	2016	2015
Gross written premiums	1,525	1,498	1,500
Net premiums earned	1,411	1,405	1,424
Underwriting result	−21	−44	10
Net investment income	91	87	109
Operating profit (EBIT)	52	−2	51

MANAGEMENT METRICS FOR THE PROPERTY/CASUALTY INSURANCE SEGMENT

%

	2017	2016	2015
Gross premium growth	1.8	−0.1	−2.6
Combined ratio (net) [1]	101.6	103.3	99.3
EBIT margin	3.7	−0.2	3.5

[1] Including the extraordinary expenses for the "KuRS" modernisation programme.

MARKET DEVELOPMENT

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

PREMIUM VOLUME

Written premium income of our property/casualty insurers increased by 1.8% to EUR 1.5 (1.5) billion. This was in particular due to the expansion of unemployment insurance in the context of residual debt business. In addition, increases in the corporate business for HDI Versicherung AG more than made up for the decline in premium income in the motor business, which was affected by the fleet business moving to HDI Global SE. The overall share of the entire division accounted for by property/casualty insurers rose to 25.0% (23.8%), due to a decline in premiums in life insurance. The retention ratio decreased to 94.6% (95.4%).

UNDERWRITING RESULT

The underwriting result from our Property/Casualty Insurance business improved from EUR −44 million to EUR −21 million. This was due to an overall positive claims development compared with the prior year, which was impacted negatively by an additional reserve in third party liability.

The net combined ratio declined by 1.7 percentage points to 101.6%. Adjusted by the investments in our modernisation programme, the net combined ratio was 98.6% (99.9%).

NET INVESTMENT INCOME

Net investment income of the division increased by 4.6% to EUR 91 (87) million. The increase resulted from improved disposal gains that exceeded the lower ordinary net investment income due to lower investment returns.

OPERATING PROFIT

The operating profit for the property insurance business was primarily defined by lower investment expenditure for our modernisation programme and a positive claims development. EBIT rose correspondingly to EUR 52 (−2) million. The EBIT margin improved to 3.7% (−0.2%).

COMPARISON OF ACTUAL BUSINESS DEVELOPMENT WITH THE FORECAST FOR 2017

MANAGEMENT METRICS FOR THE PROPERTY/CASUALTY INSURANCE SEGMENT

%

	Actual figures for 2017	Forecast for 2017 from the 2016 Annual Report
Gross premium growth	1.8	−1 bis −2
Combined ratio (net) [1]	101.6	~103
EBIT margin	3.7	1–2

[1] Including the extraordinary expenses for the "KuRS" modernisation programme.

The premium income in the Property/Casualty segment was above the figure forecast due to increases in the corporate business and unemployment insurance. At 101.6%, the line-specific management metric of the combined ratio was above expectations due to an improved run-off result. As a result of this the EBIT margin increased to 3.7% and so was also above the figure forecast.

LIFE INSURANCE

- Lower premiums caused by the erosion of traditional life and annuity insurance portfolios
- Good net investment income strengthens additional interest reserve
- Continuing low interest-rate level impacts negatively on EBIT

KEY FIGURES FOR THE RETAIL GERMANY DIVISION – LIFE INSURANCE SEGMENT

EUR MILLION

	2017	2016	2015
Gross written premiums	4,576	4,788	5,167
Net premiums earned	3,397	3,516	3,994
Underwriting result	–1,883	–1,656	–1,473
Net investment income	2,007	1,802	1,622
Operating profit (EBIT)	85	92	–48
New business measured in annual premium equivalent	385	417	455
Single premiums	1,245	1,343	1,536
Regular premiums	260	282	301
New business by product in annual premium equivalent	385	417	455
Capital-efficient products [1]	139	136	n. a.
Capital-inefficient products [1]	108	151	n. a.
Biometric products [1]	137	130	n. a.

[1] Three-year comparison not possible due to new product structure.

MANAGEMENT METRICS FOR THE LIFE INSURANCE SEGMENT

%

	2017	2016	2015
Gross premium growth	–4.4	–7.3	–3.4
EBIT margin	2.5	2.6	–1.2

MARKET DEVELOPMENT

In life insurance, a small decline in premiums of around 0.2% is assumed for the current financial year. A decline in regular premiums of 0.1% and single premiums of 0.3% is assumed.

PREMIUM VOLUME AND NEW BUSINESS

The gross written premiums in the Retail Germany Division in Life Insurance, including the savings elements from unit-linked life insurance policies, were 4.4% below the level of the prior year at EUR 4.6 (4.8) billion. In line with expectations, regular premiums fell by EUR 114 million due to an increase in policies that matured, while single premiums declined by EUR 98 million.

The division's retention ratio decreased slightly to 95.2% (95.4%). 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 3.4 (3.5) billion.

New business in life insurance products – measured using the annual premium equivalent (APE), the international standard – decreased by 7.7% to EUR 385 (417) million due to the transition towards capital-efficient and risk products as well as a fall in the single premium business. The share of capital-efficient products, measured by the total premiums in new business, rose to 71% in the financial year.

UNDERWRITING RESULT

The underwriting result reduced to EUR –1.9 (–1.7) billion. Overall, the underwriting result is partly due to the unwinding of discounts on technical provisions and policyholder participation in net investment income. Considerably greater realisation of valuation reserves was required in 2017 to finance the additional interest reserve to the amount of EUR 3.1 (2.3) billion required by the German Commercial Code (HGB). This led to an increase in the net investment income and subsequently a higher allocation to the provision for premium refunds. The underwriting result, which has little significance for the Life Insurance segment in accordance with IFRSs, was impacted negatively by this effect.

NET INVESTMENT INCOME

Net investment income increased by 11.4% to EUR 2.0 (1.8) billion, while ordinary net investment income reduced by 3.7% from EUR 1,513 million to EUR 1,457 million due to a lower reinvestment return. The extraordinary net investment income increased by 56.9% to EUR 673 (429) million; it was marked by greater realisation of unrealised gains to finance the additional interest reserve.

OPERATING PROFIT

The operating profit (EBIT) in the Life Insurance segment of the Retail Germany Division continued to be affected by the low interest-rate level. Nevertheless, EBIT of EUR 85 (92) million was realised.

COMPARISON OF ACTUAL BUSINESS DEVELOPMENT WITH THE FORECAST FOR 2017

MANAGEMENT METRICS FOR THE LIFE INSURANCE SEGMENT

%

	Actual figures for 2017	Forecast for 2017 from the 2016 Annual Report
Gross premium growth	–4.4	0
EBIT margin	2.5	2–3

In the Life Insurance segment, gross premium income in 2017 declined by 4.4%, and therefore further than forecast; this was due to a fall in the single premium business and an increase in policies maturing. The EBIT margin was within the range forecast.

RETAIL GERMANY DIVISION OVERALL

RETURN ON EQUITY FOR THE RETAIL GERMANY DIVISION OVERALL

%

	2017	2016	2015
Return on equity	4.1	2.7	–2.7

The division increased its Group net income for the year under review significantly to EUR 102 (68) million. The return on equity rose to 4.1% (2.7%).

COMPARISON OF ACTUAL BUSINESS DEVELOPMENT WITH THE FORECAST FOR 2017

RETURN ON EQUITY FOR THE RETAIL GERMANY DIVISION OVERALL

%

	Actual figures for 2017	Forecast for 2017 from the 2016 Annual Report
Return on equity	4.1	2–3

After adjustment for taxes on income, financing costs and non-controlling interests, Group net income increased to EUR 102 (68) million, causing the 4.1% return on equity to exceed our forecast.

RETAIL INTERNATIONAL

- Growth of 10.5% in gross written premiums adjusted for currency effects
- The combined ratio is 95.3%
- Earnings not negatively impacted by the earthquakes and hurricanes in the third quarter

KEY FIGURES FOR THE RETAIL INTERNATIONAL DIVISION

EUR MILLION

	2017	2016 [1]	2015
Gross written premiums	5,461	4,918	4,643
Net premiums earned	4,579	4,123	3,706
Underwriting result	55	10	–7
Net investment income	329	319	338
Operating profit (EBIT)	240	213	217

1) Adjusted in accordance with IAS 8, see "Accounting policies".

MANAGEMENT METRICS

%

	2017	2016 [1]	2015
Gross premium growth (adjusted for currency effects)	10.5	10.2	7.6
Growth in value of new business (life) [2]	29.7	256.2 [3]	–3.0
Combined ratio (net, property/casualty only)	95.3	96.5	96.3
EBIT margin	5.2	5.2	5.8
Return on equity	6.7	6.2	7.9

1) Adjusted in accordance with IAS 8, see "Accounting policies".
2) Excluding non-controlling interests, 2017: estimated figure, the final figure will be published in the 2018 Annual Report.
3) Estimated figure for 2016: 90.3%.

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 Latin America region, the division has strengthened itself: with the signing of the share purchase agreement on 27 June 2017 Talanx International AG acquired, through the intermediary of its Spanish subsidiary Saint Honore Iberia SLU, Generali Colombia Seguros Generales S. A. and its subsidiary Generali Colombia Vida Compañia de Seguros S. A., both based in Colombia. The transaction is still subject to approval by the Colombian supervisory authorities. Upon completion the Group will hold more than 90% of the companies' shares.

MARKET DEVELOPMENT

In both of the division's regions, the development of insurance markets in 2017 was influenced by both political and economic volatility. As well as the new political framework conditions, with their impact on legislation and regulation, the rise in oil and commodities prices and capital market and currency fluctuations with their 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, modest economic growth was recorded in the second quarter of 2017 for the first time following two years of recession. Moreover, the theft of motor vehicles experienced a downward trend in the second half of 2017. In addition, the fall in inflation reduced the rise in claims expenses. Even though sales of new cars continued to decline in the financial year, motor insurance remained the principal driver for growth in property insurance in Brazil. This was also the case for Mexico. However, with continuing economic growth there the high inflation rate had a negative impact on the insurance sector with rising claims expenses. Chile continued to experience weak economic growth with a moderate upturn in the property insurance market.

The Polish market recorded significant premium increases in the prior year which were driven by both higher average premiums and the increase in insured risks in motor insurance. The strong growth in the Turkish property insurance market seen in recent years slowed down in November 2017 to 11%. The main reasons for this were motor third-party liability insurance where a premium ceiling was recently brought in and the introduction of an insurance pool for particularly risky policyholders which came into effect in April 2017. By contrast, high investment income of up to 14% had a positive effect on the results of the Turkish insurers.

PREMIUM VOLUME

The division's gross written premiums (including premiums from unit-linked life and annuity insurance) increased by 11.0% as compared to the 2016 financial year, to EUR 5.5 (4.9) billion. Adjusted for currency effects, gross premiums increased by 10.5% on the comparison period.

The premium volume increased in both regions in the reporting period. Compared to the same period in the previous year, in the Latin America region, the gross written premiums increased by 10.7% to EUR 1.7 billion. There was an increase of 8.5% when adjusted for currency effects, which was essentially due to the Mexican company HDI Seguros S. A. The premium volume for the company increased, particularly in motor insurance and from bank sales, which resulted both from an increased number of insured vehicles and from higher average premiums. Chile, where the premium volume was similarly increased in motor insurance as well as through a new bank sales channel, also had positive effects on the gross written premiums for the Latin America region. Of the premium volume generated in the region, 53% was attributable to the Brazilian company HDI Seguros S. A. Taking into account currency effects, gross written premiums for the company increased by 9.9% to EUR 887 million, primarily thanks to ongoing price increases in motor insurance; after adjustment for currency effects, the increase was 3.4%.

In the Europe region, gross written premiums rose by 11.4% to EUR 3.8 billion, driven primarily by a 26.9% increase in premiums to EUR 1.2 billion at the Polish property insurer TUiR WARTA S. A. The Polish motor insurance market has been in a "hard" market cycle since the second half of 2016; this has resulted in an increase in average premiums in motor liability insurance. An increase in the number of insured vehicles to 4.9 (4.0) million also contributed to this positive trend. Gross written premiums at HDI Assicurazioni S. p. A. in Italy rose by 10.2%, whereby this development was primarily due to the first-time full twelve-month recognition of life insurance premiums from the Italian company CBA Vita S. p. A., which HDI Assicurazioni S. p. A. acquired on 30 June 2016. This enabled the overall negative trend in the single premium business from other bank sales channels to be more than offset. Adjusted for currency effects, the growth in premium volume in Europe stood at 11.6%.

UNDERWRITING RESULT

The combined ratio for property insurance companies improved by 1.2 percentage points year-on-year to 95.3%. The expense ratio for the division was 1.9 percentage points lower than in the previous year, at 29.2% (31.1%). This resulted from a decline in both the acquisition expense ratio and the administrative expense ratio (by 0.7 percentage points to 5.6%) due to cost optimisations, primarily at the Polish company TUiR WARTA S. A. as well as at the Brazilian company HDI Seguros S. A. By contrast, the loss ratio rose by 0.8 percentage points due to negative effects, including the natural disasters in Chile in the first quarter and hail damage in Turkey in the third quarter.

Overall, at EUR 55 million the underwriting result for the division was well above the prior year's level (EUR 10 million).

NET INVESTMENT INCOME

In the 2017 financial year, net investment income of EUR 329 million was achieved in the division, representing an increase of 3.1%. The division's ordinary net investment income climbed by 1.5%, chiefly due to larger investment portfolios overall than in the prior year. The reporting period was also positively impacted by higher extraordinary net income in Italy. Due to the increased portfolios and the persistently low interest-rate level, the average return on assets under own management reduced by 0.3 percentage points, to 3.4%.

OPERATING PROFIT AND GROUP NET INCOME

In the 2017 financial year, the Retail International Division achieved an operating profit (EBIT) of EUR 240 million, 12.7% up on the prior year. While the Europe region, with a 25.5% year-on-year rise in EBIT, contributed EUR 187 (149) million to the division's operating profit, EUR 73 (77) million of EBIT was generated in the Latin America region. The decline in EBIT in Latin America was primarily the result of the lower net investment income of the Brazilian company HDI Seguros S. A., due to lower interest rates, as well as the natural disasters in Chile. The group net income after minority interests rose by 11.3% to EUR 138 (124) million. The return on equity rose by 0.5 percentage points to 6.7% compared to the same period in the previous year.

COMPARISON OF ACTUAL BUSINESS DEVELOPMENT WITH THE FORECAST FOR 2017

MANAGEMENT METRICS FOR THE RETAIL INTERNATIONAL DIVISION

%	Actual figures for 2017	Forecast for 2017 from the 2016 Annual Report
Gross premium growth (adjusted for currency effects)	10.5	~10
Growth in value of new business (life) [1]	29.7	5–10
Combined ratio (net, property/casualty only)	95.3	~96
EBIT margin	5.2	5–6
Return on equity	6.7	6–7

[1] Excluding non-controlling interests, 2017: estimated figure, the final figure will be published in the 2018 Annual Report.

The Retail International Division achieved gross premium growth of 10.5% (after adjustment for currency effects) in the 2017 financial year, achieving the figure of around 10% published in the prior year's report on expected developments. This was due primarily to the premium growth of the Polish company TUiR WARTA S. A. The growth in the new business figure (Life) compared to the prior year resulted primarily from the positive development of the single premium business at the Italian company HDI Assicurazioni S. p. A. The combined ratio for the international property insurance companies developed better than the 96% forecast. This was due to the lower expense ratio. Both the EBIT margin, at 5.2%, and the return on equity, at 6.7%, achieved the forecast figures.

ADDITIONAL KEY FIGURES

RETAIL INTERNATIONAL DIVISION BY LINE OF BUSINESS AT A GLANCE

EUR MILLION

	2017	2016 [1]	2015
Gross written premiums	**5,461**	4,918	4,643
Property/casualty	3,703	3,241	3,248
Life	1,758	1,677	1,395
Net premiums earned	**4,579**	4,123	3,706
Property/casualty	3,119	2,725	2,591
Life	1,460	1,398	1,115
Underwriting result	**55**	10	–7
Property/casualty	146	96	96
Life	–91	–86	–103
Others	—	—	—
Net investment income	**329**	319	338
Property/casualty	195	186	191
Life	140	134	149
Others	–6	–1	–2
New business by product in annual premium equivalent (life)	**217**	214	192
Single premiums	1,493	1,361	1,203
Regular premiums	67	78	72
New business by product in annual premium equivalent (life)	**217**	214	192
Capital-efficient products [2]	89	105	n. a.
Capital-inefficient products [2]	69	54	n. a.
Biometric products [2]	59	55	n. a.

[1] Adjusted in accordance with IAS 8, see "Accounting policies".
[2] Three-year comparison not possible due to new product structure.

RETAIL INTERNATIONAL DIVISION BY REGION AT A GLANCE

EUR MILLION

	2017	2016 [1]	2015
Gross written premiums	**5,461**	4,918	4,643
of which Europe	3,778	3,391	3,079
of which Latin America	1,661	1,500	1,530
Net premiums earned	**4,579**	4,123	3,706
of which Europe	3,177	2,807	2,460
of which Latin America	1,399	1,313	1,240
Underwriting result	**55**	10	–7
of which Europe	3	–7	–40
of which Latin America	50	16	35
Net investment income	**329**	319	338
of which Europe	248	224	246
of which Latin America	87	97	94
Operating profit (EBIT)	**240**	213	217
of which Europe	187	149	170
of which Latin America	73	77	70

[1] Adjusted in accordance with IAS 8, see "Accounting policies".

REINSURANCE

PROPERTY/CASUALTY REINSURANCE

- Gratifying rise in gross premium income
- At EUR 1,127 million, large loss burden significantly above the EUR 825 million budget
- At 99.8%, the combined ratio is still satisfactory despite large losses
- Group net income down due to large losses

KEY FIGURES FOR THE REINSURANCE DIVISION – PROPERTY/CASUALTY REINSURANCE SEGMENT

EUR MILLION

	2017	2016	2015
Gross written premiums	10,711	9,205	9,338
Net premiums earned	9,158	7,984	8,100
Underwriting result	1	481	427
Net investment income	1,235	928	966
Operating profit (EBIT)	1,141	1,371	1,391

MANAGEMENT METRICS FOR THE PROPERTY/CASUALTY REINSURANCE SEGMENT

%

	2017	2016	2015
Gross premium growth (adjusted for currency effects)	18.7	–0.2	8.1
Combined ratio (net)	99.8	93.7	94.5
EBIT margin	12.5	17.2	17.2

BUSINESS DEVELOPMENT

Overall, there was little change year-on-year in the market environment in the global property/casualty reinsurance sector. As no market-changing large losses were recorded in the prior year, the intense competition persisted. The supply of reinsurance capacity has significantly exceeded demand, and the additional capacities has led to sustained pressure on prices and conditions. Nevertheless, higher demand was seen in some regions. We were satisfied overall with the results of the contract renewal round on 1 January 2017, when 64% of the portfolio in the Property/Casualty Reinsurance segment was renegotiated. Despite challenging contract renewals, we benefited from our customer focus and ability to offer needs-based reinsurance solutions. There was considerably higher demand from customers for solvency-easing reinsurance solutions. Attractive opportunities for expanding the portfolio also arose in North America – primarily in Canada – as well as in the credit and surety business and in cyber cover. However, we did not renew all the contracts in this renewal round in consideration of our own profitability requirements. Nevertheless, we were able to increase premium volumes in the renewal round on 1 January. We were likewise pleased with the contract renewals during the year, increasing our premium volumes here too, for example in North America and in the credit/ surety business.

PREMIUM DEVELOPMENT

Against this backdrop, gross premiums rose in the year under review by 16.4% to EUR 10.7 (9.2) billion. At constant exchange rates, the increase would have amounted to 18.7%. This figure is above our expectations.

Retention rose slightly to 89.7% (88.5%). Net premiums earned increased by 14.7% to EUR 9.2 (8.0) billion; adjusted for currency effects, the growth would have stood at 17.0%.

EARNINGS DEVELOPMENT

In contrast to prior years, the large loss burden was significantly above budget in 2017. Following a very quiet first six months as far as large losses were concerned, the second half of the year was marked by severe natural disasters, including three severe hurricanes in the third quarter alone. After Hurricane "Harvey" caused extensive destruction in Texas and neighbouring states, "Irma" devastated Florida and the Caribbean islands, while Hurricane "Maria" caused major damage in Puerto Rico in particular. For us, these three events alone resulted in a net loss burden in the amount of EUR 749 million. The two devastating earthquakes in Mexico in September led to a combined loss of EUR 49 million. The forest fires in California also led to substantial losses for us of EUR 101 million. These and other events added up to a total large loss burden of EUR 1,127 million. As a result, not only was the large loss budget of EUR 825 million significantly exceeded, 2017 was also the year with the highest burden from large losses. In view of the high loss burdens the underwriting result declined to EUR 1 (481) million; including interest on funds withheld and contract deposits of EUR 18 (24) million it was EUR 19 (505) million. The combined ratio for the year under review declined from 93.7% to 99.8% and is thus above our target value of 96%.

OPERATING PROFIT AND NET INVESTMENT INCOME

On the other hand, there was a very encouraging development in net investment income in the Property/Casualty Reinsurance segment. With higher ordinary investment income and with the extraordinary income from the disposal of our portfolio in listed equities, the income from assets under own management rose by 34.6% to EUR 1,217 (904) million. Due to the high large loss burden, operating profit (EBIT) fell to EUR 1,141 (1,371) million. Consequently, the EBIT margin decreased from 17.2% to 12.5%. This did, however, mean that we achieved our target of at least 10%.

COMPARISON OF ACTUAL BUSINESS DEVELOPMENT WITH THE FORECAST FOR 2017

MANAGEMENT METRICS FOR THE PROPERTY/CASUALTY REINSURANCE SEGMENT

%	Actual figures for 2017	Forecast for 2017 from the 2016 Annual Report
Gross premium growth (adjusted for currency effects)	18.7	slight growth
Combined ratio (net)	99.8	< 96
EBIT margin	12.5	≥ 10

Against this backdrop, gross premiums rose to EUR 10.7 billion. At constant exchange rates, growth would have amounted to 18.7%, which is well above our expectations. The net large loss burden totalled EUR 1,127 million; the prior year's figure was EUR 627 million. At 99.8% (93.7%), the combined ratio was as expected above our target value of a maximum of 96%.

After a challenging year we are very satisfied with the result in the Property/Casualty Reinsurance segment. Operating profit (EBIT) reached EUR 1,141 million as at 31 December 2017 thanks to the positive net investment income. At 12.5%, the EBIT margin exceeded the target of at least 10%.

LIFE/HEALTH REINSURANCE

- Automated underwriting systems successfully implemented with consistently positive customer feedback
- Result impacted by parts of the US mortality business acquired in 2009
- Financial solutions business once again delivered best result (EBIT margin 25.4%)

KEY FIGURES FOR THE REINSURANCE DIVISION – LIFE/HEALTH REINSURANCE SEGMENT

EUR MILLION

	2017	2016 [1]	2015
Gross written premiums	7,080	7,149	7,731
Net premiums earned	6,473	6,426	6,492
Underwriting result	–493	–372	–351
Net investment income	560	637	709
Operating profit (EBIT)	229	330	411

[1] Adjusted in accordance with IAS 8, see "Accounting policies".

MANAGEMENT METRICS FOR THE LIFE/HEALTH REINSURANCE SEGMENT

%

	2017	2016	2015
Gross premium growth (adjusted for currency effects) [1]	1.4	–4.3	9.5
Value of new business [1] in EUR million	183	448	273
EBIT margin financial solutions	25.4	18.5	18.1
EBIT margin longevity solutions	2.1	2.2	4.5
EBIT margin mortality/morbidity	0.0	3.4	3.6

[1] Excluding non-controlling interests; 2017: estimated figure, the final figure will be published in the 2018 Annual Report.

BUSINESS DEVELOPMENT

The numerous positive business developments in our international Life/Health Reinsurance portfolio were accompanied in the year under review by individual parts of the business falling short of our expectations. These were primarily parts of the US mortality business we took over in 2009. To counteract this business development in the future, we have engaged in dialogue with our customers to reach a mutually acceptable solution. In the same context, a reinsurance contract has been cancelled, reducing the result by approximately EUR 45 million. This was carried out deliberately since, with this one-off balance-sheet burden, we avoid potential, significantly higher economic losses in the future.

One of the positive developments of the year under review was the start of operations in February at our newly set up composite subsidiary in India. The Life/Health Reinsurance business developed positively despite the increase in regulatory requirements and compliance standards. Many new customers have already been acquired, more than meeting our expectations.

In our domestic market, Germany, insurers focussed increasingly on the Solvency II capital and solvency requirements. Reinsurance coverage offers a possible solution for meeting these requirements. On the one hand, the structure of this coverage is extremely flexible and, on the other, it is more cost-efficient than any capitalisation measure that might be necessary. We have been a reliable partner to our customers, providing expert advice. However, the need for financing solutions for the additional interest reserve continued to be more pressing than Solvency II issues. Possible coverage to ease solvency was thus a secondary priority. In addition to these developments, the international demand for long-term care and longevity insurance solutions remained high. In the capital-intensive longevity business in particular, it was noticeable that primary insurers had a growing need for relief.

In addition to risk-oriented (re)insurance topics, we have increasingly focussed on the issue of digitalisation. The insurtech sector in particular experienced enormous growth in the year under review. In many cases this involved small start-ups which are dependent on cooperation agreements with experienced, financially-sound partners. This type of cooperation has benefits for us as a reinsurer in that there is primarily a focus on direct and straightforward contact with customers or end consumers. Such partnerships enable us to help our customers in the best possible way, in particular to address an up-and-coming generation that is proficient in technology and also places a top priority on a healthy lifestyle. It is now all but impossible to reach this group via traditional insurance industry sales channels, which is why we are actively pursuing approaches in line with technology trends.

PREMIUM DEVELOPMENT

Gross premium income in the Life/Health Reinsurance segment totalled EUR 7.1 (7.1) billion in the year under review. This corresponds to a decline of 1.0%; adjusted for currency effects, there was a slight increase of 1.4%. Retention amounted to 91.7% (90.4%). Net premiums earned rose by 0.7% to EUR 6.5 (6.4) billion; adjusted for currency effects, we achieved growth of 3.0%.

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 – to EUR 560 (637) million. Of this, EUR 343 (330) million was attributable to assets under own management and EUR 217 (307) million to funds withheld by ceding companies. Operating profit (EBIT) in the Life/Health Reinsurance segment reached EUR 229 (330) million. This fall of 30.6% was due largely to the poorer than expected development of the mortality portfolio business in the USA as well as the one-off effect mentioned.

COMPARISON OF ACTUAL BUSINESS DEVELOPMENT WITH THE FORECAST FOR 2017

MANAGEMENT METRICS FOR THE LIFE/HEALTH REINSURANCE SEGMENT

%

	Actual figures for 2017	Forecast for 2017 from the 2016 Annual Report
Gross premium growth (adjusted for currency effects)	1.4	moderate growth
Value of new business [1] in EUR million	183	> 110
EBIT margin financial solutions	25.4	≥ 2
EBIT margin longevity solutions	2.1	≥ 2
EBIT margin mortality/morbidity	0.0	≥ 6

[1] Excluding non-controlling interests; 2017: estimated figure, the final figure will be published in the 2018 Annual Report.

The performance of business in the Life/Health Reinsurance segment was affected by both positive and negative developments. We were extremely pleased with our financial solutions business, which once again made an increased contribution to the earnings result. We were less satisfied with the development of our mortality business in the USA, in particular the business we took over in 2009 which continued to display a higher than expected mortality rate. In this case there can be no doubt that the reinsurance premiums are not sufficient to cover the anticipated future claims, especially for policyholders at an advanced age. Consequently, based on detailed analysis of the business, we are now making intensive efforts to exercise contractually agreed options in such a way as to raise the reinsurance rates for this legacy portfolio to an adequate level. The resulting additional premium income that is expected to be generated in the future has already been factored into the valuation of the business.

Gross premium income in the Life/Health Reinsurance segment declined slightly by 1.0% and at EUR 7.1 billion is at the same level as the prior year. Growth would have amounted to 1.4% when adjusted for currency effects. At EUR 183 million, the value of new business excluding non-controlling interests once again far exceeded the target figure of EUR 110 million.

Operating profit (EBIT) fell in light of the situation described in the US mortality business and the one-off effect of EUR 229 million. The following results were achieved for EBIT margins in the individual reporting categories: At 0.0%, we clearly failed to achieve the target of 6% for the mortality and morbidity business. With an EBIT margin of 2.2%, our longevity business achieved its target of 2%. The EBIT margin recorded for the financial solutions business was 25.4%, which was significantly higher than the target of at least 2%.

REINSURANCE DIVISION OVERALL

THE RETURN ON EQUITY MANAGEMENT METRIC FOR THE REINSURANCE DIVISION OVERALL

%

	2017	2016	2015
Return on equity	11.3	14.4	16.1

Group net income in the Reinsurance Division declined to EUR 480 (595) million; the return on equity fell by 3.1 percentage points to 11.3%.

COMPARISON OF ACTUAL BUSINESS DEVELOPMENT WITH THE FORECAST FOR 2017

RETURN ON EQUITY MANAGEMENT METRIC FOR THE REINSURANCE DIVISION OVERALL

%

	Actual figures for 2017	Forecast for 2017 from the 2016 Annual Report
Return on equity	11.3	~11

Group net income in the Reinsurance Division amounted to EUR 480 million in the year in review, which represents a fall of 19.3%. The return on equity for the whole Reinsurance Division was in line with the forecast.

CORPORATE OPERATIONS

- Group assets under own management up 0.7%
- Talanx acts as lead manager to a group of institutional investors for financing of offshore wind farm
- Talanx places a subordinated bond in the amount of EUR 750 million

Acting as the lead investor for a group of institutional investors, Talanx successfully coordinated the subscription to a bond for financing an offshore wind farm. The volume of the project bond for financing the Borkum Riffgrund 2 wind farm amounted to EUR 832 million and involved a double-digit group of investors from six countries. This bond enabled Global Infrastructure Partners (GIP) to acquire a 50% share in the wind farm owned by Danish energy supplier Ørsted (formerly DONG Energy) with a transaction value amounting to EUR 1,170 million. The bond has a term of approximately ten years. After successfully financing the Gode Wind 1 offshore wind farm in 2015, this is the second successful large-scale transaction under the guidance and leadership of Talanx.

Talanx AG placed a subordinated bond with a volume of EUR 750 million. The bond was primarily issued to institutional investors in Germany and abroad. The euro-denominated bond carries a fixed coupon of 2.25% and the first call date is on 5 December 2027. The bond issue is intended to support Talanx in exploiting growth opportunities in the hardening market environment and at the same time secure refinancing at the current attractive level for the long term.

THE GROUP'S REINSURANCE SPECIALISTS

Underwriting business written via our Irish subsidiary has been reported in the Corporate Operations segment since 2013. Previously known as Talanx Reinsurance (Ireland) Public Limited Company, the Group's in-house reinsurer took the name Talanx Reinsurance (Ireland) SE on 16 May 2017. Its aim 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 29 (25) 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 –6 (–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 0.7% year-on-year to reach EUR 107.9 (107.2) million. The total contribution to the segment's operating profit made by the companies amounted to EUR 48 (78) million in the 2017 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. In 2017 cash inflows from investments almost reached the record level of 2015. With global equity markets rising and the low interest-rate level leaving few alternative investment options, German private investors once again turned to retail investment funds in growing numbers in 2017. Ampega Investment GmbH also enjoyed a positive trend in cash inflows in this favourable market environment, with overall sales figures also being boosted by a major sales success in the institutional third-party client business – the company struck a deal for the administration of fund baskets worth some EUR 900 million.

The total volume of assets managed by Ampega rose by 13.4% to EUR 24.5 (21.6) billion in the 2017 financial year. At EUR 11.6 (10.7) billion, approximately half of this total was managed on behalf of Group companies using special funds and direct investment mandates. Of the remainder, EUR 7.2 (5.7) billion was attributable to institutional third-party clients and EUR 5.7 (5.3) billion to retail business. The latter is offered both through the Group's own distribution channels and products such as unit-linked life insurance and through external asset managers and banks.

OPERATING PROFIT

The operating profit in the Corporate Operations segment fell to EUR –12 (20) million in the 2017 financial year, largely due to the sale of the 25.1% share in C-QUADRAT Investment AG the previous year. Talanx Asset Management GmbH sold its 25.1% investment in the asset manager C-QUADRAT Investment AG to Cubic Limited in 2016. This sale of the shares had generated profit after taxes according to IFRS of around EUR 26 million in the 2016 financial year.

The Group net income for this segment attributable to the shareholders of Talanx AG in the 2017 financial year fell to EUR –141 (–134) million. This was due in particular to a write-off of tax loss carryforwards amounting to EUR –41 million and a EUR –23 million higher tax expense for previous years. 2016 was characterised by profit after taxes according to IFRS of around EUR 26 million due to the sale of the share in C-QUADRAT Investment AG and an extraordinary write-off of deferred tax assets from loss carryforwards of EUR –81 million.

NET ASSETS AND FINANCIAL POSITION

NET ASSETS

- Total assets up EUR 1.8 billion to EUR 158.4 billion
- Investments account for 75% of total assets

ASSET STRUCTURE OVER A MULTI-YEAR PERIOD

EUR MILLION

	2017		2016 [1]		2015	
Intangible assets	1,995	1%	1,942	1%	1,990	1%
Investments	118,673	75%	118,855	76%	115,611	76%
Investments for the benefit of life insurance policyholders who bear the investment risk	11,133	7%	10,583	7%	10,104	7%
Reinsurance recoverables on technical provisions	7,697	5%	7,958	5%	8,372	5%
Accounts receivable on insurance business	6,626	4%	6,192	4%	6,070	4%
Deferred acquisition costs	5,332	3%	5,306	3%	5,078	3%
Cash at banks, cheques and cash-in-hand	3,138	2%	2,589	2%	2,243	1%
Deferred tax assets	592	< 1%	568	< 1%	736	< 1%
Other assets	2,782	2%	2,618	2%	2,537	2%
Non-current assets and assets of disposal groups classified as held for sale	418	< 1%	15	< 1%	19	< 1%
Total assets	**158,386**	**100%**	156,626	100%	152,760	100%

[1] Adjusted in accordance with IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes.

SIGNIFICANT CHANGES IN THE ASSET STRUCTURE

The increase of EUR 1.8 billion in our total assets, to EUR 158.4 billion, is due mainly to the growth in investments for the benefit of life insurance policyholders who bear the investment risk (EUR +0.6 billion) and to cash at banks, cheques and cash-in-hand (EUR +05 billion).

Recognised intangible assets of EUR 2.0 (1.9) billion include EUR 937 (903) million of other intangible assets (including PVFP). They also include recognised goodwill of EUR 1,058 (1,039) 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

	31.12.2017	31.12.2016	31.12.2015
Other intangible assets before deducting non-controlling interests and the policyholders' portion, including deferred taxes	**937**	903	953
of which attributable to: non-controlling interests	120	87	124
of which attributable to: policyholders' portion	295	322	319
of which attributable to: deferred taxes	67	74	74
Other intangible assets after deducting non-controlling interests and the policyholders' portion, net of deferred taxes	**455**	420	436

"Technical provisions for life insurance policies where the investment risk is borne by the policyholders" increased by EUR 0.6 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.

The item "Non-current assets and disposal groups classified as assets held for sale" includes on the reporting date the assets of ASPECTA Assurance International Luxembourg S. A., Luxembourg, and the shares in and loan receivables from the associate INDAQUA Indústria e Gestão de Águas S. A., Matosinhos, Portugal, amounting to EUR 418 (15) million in total. In the prior year, this item only included real estate. 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 was unchanged at 0.0%. The ECB's bond-buying programme was also continued in 2017. However, the purchase volume was reduced from EUR 80 billion a month to EUR 60 billion. In October, the ECB decided on a further reduction for 2018. These decisions triggered a volatile interest rate trend. At the end of June, interest rates briefly rose, with ten-year German government bonds rising to approx. 0.59%. At year-end, interest rates had dropped back down to around 0.48%. Two-year bonds rose over the year to approximately –0.63% and five-year bonds were at –0.17%, remaining in the negative zone.

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 2016, the US dollar was at 1.05 to the euro. Over the course of the financial year, the USD lost around 14% against the EUR, ending the year at USD 1.20 to the euro. At the year-end, the US dollar-denominated investment portfolio amounted to EUR 19.9 (21.9) billion and accounted for 18 (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 enabled 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% (76%) 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.

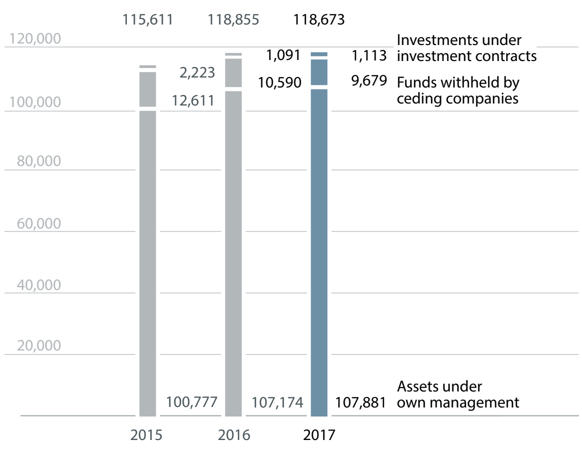
The investment guidelines at Group, segment and company level, which are subject to annual review and amended if necessary with regard to their appropriateness in light of regulatory and market restrictions, represent a further element.

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



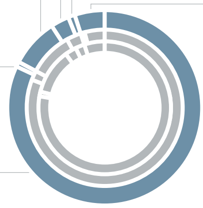
The total investment portfolio at the end of the 2017 financial year was virtually unchanged at EUR 118.7 (118.9) billion. The portfolio of assets under own management rose by 0.7% to EUR 107.9 billion. Growth in the portfolio of assets under own management was largely due to cash inflows from underwriting business, which were reinvested in accordance with the respective corporate guidelines.

The portfolio of investment contracts held steady at EUR 1.1 billion, showing no material changes compared with the start of the year. Funds withheld by ceding companies decreased by EUR 0.9 million in the reporting period, to EUR 9.7 million. This decline is attributable primarily to the Life/Health Reinsurance segment.

Fixed-income investments were again the most significant asset class in 2017. Most reinvestments were made in this class, reflecting the existing investment structure. This asset class contributed EUR 2.7 (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

	2017		2016		2015	
Investment property	2,799	3%	2,480	2%	2,198	2%
Shares in affiliated companies and participating interests	178	< 1%	139	< 1%	111	< 1%
Investments in associates and joint ventures	242	< 1%	290	< 1%	272	< 1%
Loans and receivables						
Loans incl. mortgage loans	481	< 1%	567	1%	733	1%
Loans and receivables due from government or quasi-governmental entities, together with fixed-income securities	28,412	26%	28,858	27%	29,021	29%
Financial assets held to maturity	554	< 1%	744	1%	1,287	1%
Financial assets available for sale						
Fixed-income securities	66,682	62%	65,435	61%	59,396	59%
Variable-yield securities	1,773	2%	2,615	2%	1,875	2%
Financial assets at fair value through profit or loss						
Financial assets classified at fair value through profit or loss						
Fixed-income securities	1,072	1%	1,087	1%	807	1%
Variable-yield securities	65	< 1%	19	< 1%	67	< 1%
Financial assets held for trading						
Fixed-income securities	—	< 1%	3	< 1%	6	< 1%
Variable-yield securities	148	< 1%	174	< 1%	135	< 1%
Derivatives [1]	149	< 1%	69	< 1%	48	< 1%
Other investments	5,326	5%	4,694	4%	4,821	5%
Assets under own management	**107,881**	**100%**	**107,174**	**100%**	**100,777**	**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 0.6 billion in financial year 2017, totalling EUR 96.7 (96.1) billion at the end of the year. At 82% (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".

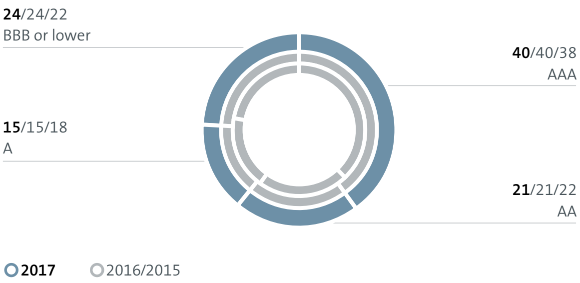
"Fixed-income securities available for sale", the volatility of which impacts on equity, increased further (EUR +1.3 billion), totalling EUR 66.7 (65.4) billion. They account for 69% (68%) of the total portfolio of fixed-income securities. German covered bonds (Pfandbriefe) and corporate bonds accounted for the majority of these investments. Valuation reserves, i.e. the balance of unrealised gains and losses, have declined from EUR 3.8 billion to EUR 3.3 billion since the end of 2016 due to the increase in interest rates for long terms.

In the "Loans and receivables" category, investments were primarily held in government securities or securities with a similar level of security. Pfandbriefe still represent the largest item in the portfolio. Total holdings in fixed-income securities within the category "Loans and receivables" amounted to EUR 28.9 (29.4) billion at the end of the quarter and thus represent 30% (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) decreased to EUR 4.3 (4.9) billion.

Investments in fixed-income securities continue to focus in 2017 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 (39.0) billion. This represents 40% (40%) of the total portfolio of fixed-income securities and loans.

RATING STRUCTURE OF FIXED-INCOME SECURITIES

%



The Talanx Group pursues a conservative investment policy. As a result, 76% (76%) 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 4.7 (4.4) billion and therefore corresponds to a share of 4.4% (4.1%) of the assets under own management.

EQUITIES AND EQUITY FUNDS

The equity holding was reduced during the financial year, to around EUR 1.1 (2.0) billion. The equity allocation ratio after derivatives (equity ratio) is therefore 1.0% (1.7%) at the year-end.

Net unrealised gains and losses on equity holdings within the Group (excluding "Other investments") fell by EUR 96 million to EUR 155 million, chiefly due to the reduction of equity holdings.

REAL ESTATE INCLUDING SHARES IN REAL ESTATE FUNDS

Due to persistently low interest rates, a thriving economy and strong rental markets, the German investment market reached a new all-time high, while the compression of yields continued. Project development investments and forward deals still offer attractive returns for investors. The upheaval in retail is prolonging sales processes for commercial real estate, while also creating strong demand among users and investors in the logistics segment. Foreign buyers are the biggest investor group for large-volume transactions. Demand is still buoyant for inner-city office buildings, retail parks and residential property. On the office markets, new rental records were achieved, although the demand for space could not be met due to excess demand. Business centres and co-working providers experienced high levels of demand. The falling volume of new construction projects, coupled with high take-up of space, have resulted in the lowest vacancy rate in the Big 7 locations for the last 15 years. Investment property totalled EUR 2.8 (2.5) billion at the reporting date. An additional EUR 841 (830) million is held in real estate funds, which are recognised as "Financial assets available for sale".

Depreciation of EUR 52 (45) million was recognised on investment property in the reporting period. There were impairment losses of EUR 16 (2) million, attributable to two properties of the Hannover Re Group in the USA. Depreciation on real estate funds stood at EUR 21 (5) million. This depreciation was offset by reversals of impairment losses of EUR 2 (10) million.

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

INFRASTRUCTURE INVESTMENTS

At the end of 2017, Talanx' investments in infrastructure projects totalled around EUR 1.9 (1.5) billion. The portfolio comprises both equity and external funding investments in wind farms, electricity networks, solar parks and public-private partnership projects (PPP) in Germany and the rest of Europe.

Replicating the structure of the "Gode Wind 1" transaction, which was implemented back in 2015, as lead investor Talanx again successfully coordinated a group of institutional investors and banks in the subscription of a bond to finance an offshore wind farm. The volume of the project bond for financing the Borkum Riffgrund 2 wind farm amounted to EUR 832 million and involved a double-digit group of investors from six countries. This bond enabled Global Infrastructure Partners (GIP) to acquire a 50% share in the wind farm owned by Danish energy supplier Ørsted (formerly DONG Energy) with a transaction value amounting to EUR 1,170 million. The bond has a term of approximately ten years. After successfully financing the "Gode Wind 1" offshore wind farm in 2015, this is the second successful large-scale transaction under the guidance and leadership of Talanx.

NET INVESTMENT INCOME

CHANGES IN NET INVESTMENT INCOME

EUR MILLION

	2017	2016	2015
Ordinary investment income	3,398	3,302	3,444
of which current income from interest	2,684	2,747	2,887
of which gain/loss on investments in associates	24	25	24
Realised net gains on disposal of investments	1,245	770	527
Write-downs/reversals of write-downs of investments	–198	–167	–214
Unrealised net gains from investments	64	51	20
Other investment expenses	246	252	231
Income from assets under own management	4,263	3,704	3,546
Net interest income from funds withheld and contract deposits	219	314	378
Net income from investment contracts	–4	5	9
Total	4,478	4,023	3,933

The net investment income in the reporting period stood at EUR 4,478 (4,023) 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 rose to 4.0% (3.6%). As well as increased income from private equity and real estate, this development is also due to the increased result from the disposal of investments.

Ordinary investment income totalled EUR 3,398 (3,302) million at the year-end, which is EUR 96 million higher year-on-year. The areas of real estate and private equity were chiefly responsible for the increase. Falling interest rates on the capital markets led to an average coupon in the fixed-income securities portfolio of 3.0%, which has therefore fallen below the previous year's value of 3.2%.

The current interest income included in the investment income amounted to EUR 2.7 (2.7) 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 1,245 (770) million. The positive net gains resulted from regular portfolio turnover in all segments, as well as from the requirement to realise unrealised gains in order to finance the additional interest reserve required by the HGB for life insurance and occupational pension plans. At the end of the third quarter, in response to the storm events in the USA and the Caribbean as well as the earthquakes in Mexico, the Hannover Re Group liquidated its portfolio of non-strategic, listed equities and equity funds. In so doing, we exploited the favourable market situation, while also reducing our general risk position and releasing capital for potential risk reallocations.

Compared with the previous year, higher net impairments were required, at EUR 198 (167) million in total, net of reversals of impairment losses. Of this total, EUR 68 (47) million was attributable to real estate and 21 (5) to real estate funds. Depreciation and amortisation of EUR 11 (63) was applied to equities, EUR 33 (13) million to fixed-income securities and EUR 32 (25) million to 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 3 (14) million. This includes EUR 2 (10) million for real estate and EUR 1 (4) million for fixed-income securities.

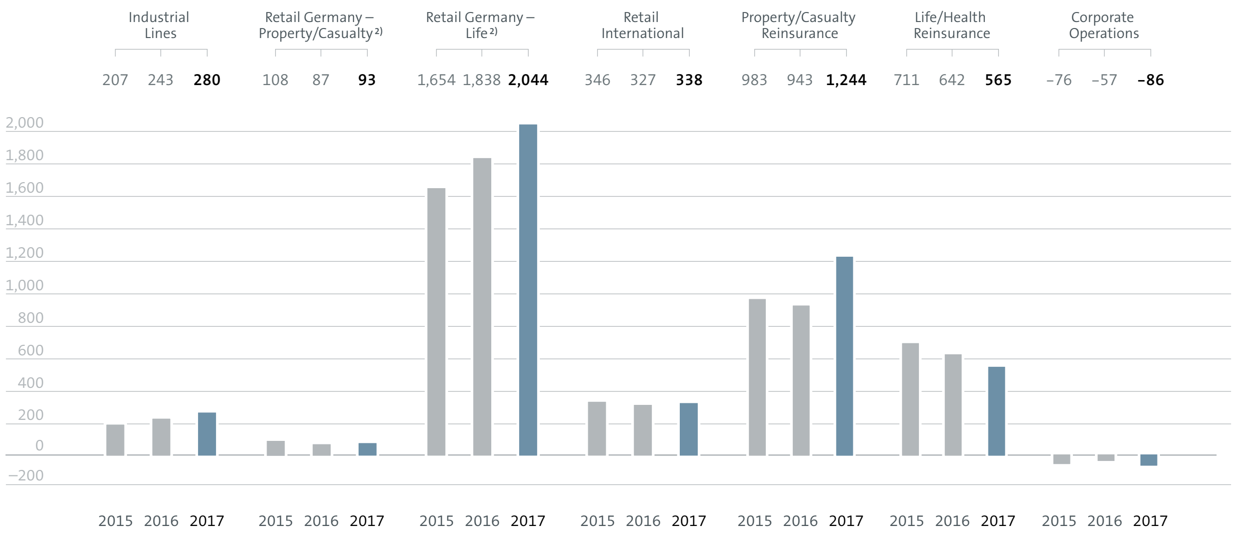
Unrealised net gains/losses improved on balance from EUR 51 million to EUR 64 million. This includes, among other things, unrealised net gains/losses on ModCo derivatives in the Life/Health Reinsurance segment of EUR 4 (1) million.

Net interest income from funds withheld and contract deposits totalled EUR 219 (314) 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 GROUP SEGMENT[1)]

EUR MILLION



1) After elemination of intragroup transactions between segments.
2) Retail Germany Division, 2017: 2,137; 2016: 1,925; 2015: 1,762.

CURRENCY EFFECTS

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

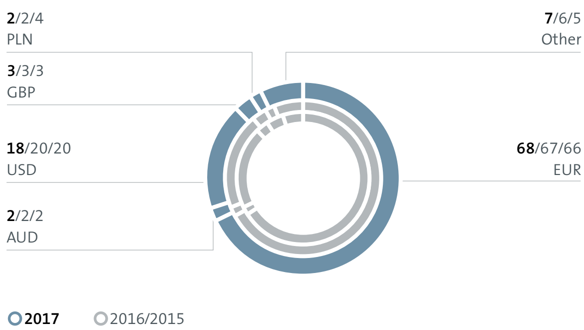
As a general rule, the insurers which operate internationally receive payments and pay claims in the relevant national currencies. This means that assets held to cover liabilities are also held in foreign currencies (matching currency coverage). In this context, please see our disclosures in the risk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

As far as matching currency cover is concerned, US dollar-denominated investments continue to account for the largest share – 18% (20%) – of the Talanx Group’s foreign currency portfolio. Sizeable positions are also held in pound sterling, Polish zloty and Australian dollars, totalling 7% (7%) of all investments.

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

INVESTMENTS

%



FINANCIAL POSITION

ANALYSIS OF CAPITAL STRUCTURE

- Equity down year-on-year at EUR 14.2 (14.6) billion
- Technical provisions up EUR 1.4 billion to EUR 111.9 billion
- Increase of EUR 0.8 billion in subordinated liabilities due to issue of a subordinated bond

CAPITAL STRUCTURE OVER A MULTI-YEAR PERIOD

EUR MILLION

	2017		2016 [1]		2015	
Equity	14,246	9%	14,648	9%	13,431	9%
Subordinated liabilities	2,737	2%	1,983	1%	1,943	1%
Technical provisions	111,897	71%	110,515	71%	106,832	70%
Technical provisions for life insurance policies where the investment risk is borne by the policyholders	11,133	7%	10,583	7%	10,104	7%
Other provisions	3,784	2%	3,956	3%	3,516	2%
Liabilities	12,129	8%	12,770	8%	14,636	10%
Deferred tax liabilities	2,117	1%	2,171	1%	2,298	1%
Liabilities included in disposal groups classified as held for sale	343	< 1%	—	< 1%	—	< 1%
Total equity and liabilities	**158,386**	**100%**	**156,626**	**100%**	**152,760**	**100%**

[1] Adjusted in accordance with IAS 8, see “Accounting policies”, subsection “Changes in accounting policies and errors” in the Notes.

SIGNIFICANT CHANGES IN THE CAPITAL STRUCTURE

Overall, net technical provisions (i.e. less reinsurance recoverables on technical provisions) rose by 1.6% or EUR 1.6 billion year-on-year to EUR 104.5 (102.9) billion. The increase was due to the loss and loss adjustment expense reserve (EUR 0.6 billion) and provision for unearned premiums and the provision for premium refunds (EUR 0.4 billion each). The increase in the loss and loss adjustment expense reserve is due primarily to the Life/Health Reinsurance, Industrial Lines and Retail International segments (EUR 0.2 billion each).

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 88.9% (87.3%) at the reporting date. Investments thus exceeded provisions by EUR 13.0 (14.9) 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 on page 112 ff.

The Macaulay duration of the Group's total fixed-income securities investment portfolio was 8.1 (8.0) 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 11.2 years in the Retail Germany Division is relatively long compared with that of the Industrial Lines Division (4.6 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

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

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

Effective and efficient capital management is a core component of the Talanx Group's integrated set of management tools. We differentiate between the following capital concepts: basic own funds and solvency capital required. The term "basic own funds" refers to the economic capital available in a business unit. 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 24f.). Aside from fulfilling the statutory requirements and the capital requirements of rating agencies as a secondary requirement (requirements of Standard & Poor´s capital model for an "AA" rating), 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. 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.

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

	2017	2016 1)	2015
Total equity	14,246	14,648	13,431
of which non-controlling interests in equity	5,411	5,610	5,149
Total assets	158,386	156,626	152,760
Equity ratio	9.0%	9.4%	8.8%

1) Adjusted in accordance with IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes.

RETURN ON EQUITY

EUR MILLION

	2017	2016 3)	2015
Group net income 1)	672	903	734
Return on equity 2)	7.5%	10.4%	9.0%

1) Net income after non-controlling interests.
2) Ratio of net income excluding non-controlling interests to average equity excluding non-controlling interests.
3) Adjusted in accordance with IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes.

Information on developments in the 2017 financial year can be found in the section of the management report entitled "Report on economic position".

CHANGES IN EQUITY

Equity fell by EUR 402 million – a decrease of 2.7% – to EUR 14,246 (14,648) million in the reporting period just ended.

The Group's portion (equity excluding non-controlling interests) amounted to EUR 8,835 (9,038) million.

The marked reduction in accumulated other comprehensive income and other reserves compared with 31 December 2016 by EUR 533 million to EUR 186 million (–74.1%) and the dividend payment of EUR 341 (329) million to shareholders of Talanx AG in May of the reporting period were not fully absorbed by the net income for the reporting period, EUR 672 (903) million of which is attributable to our shareholders and was allocated in full to retained earnings, leading to a slight reduction of EUR 203 million (–2.2%) in the Group's equity.

The decline in other reserves of EUR –533 million is due in particular to the negative development of unrealised gains on investments of EUR –436 million (down by 13.3%) and the accumulated loss arising from currency translation of EUR –458 million (down by 248.9%), which could only be partially compensated for by the positive development of policyholder participations/shadow accounting (up by EUR 405 million). While the unrealised gains on investments fell from EUR 3,278 million to EUR 2,842 million in line with the further increase in interest rates for long terms since the end of 2016, the exchange rate development, in particular the fall in the US dollar and Brazilian real against the euro, transformed the accumulated result of the currency translation into a loss of EUR 274 million (gains of EUR 184 million in 2016).

Non-controlling interests decreased by EUR 199 million or 3.5% to EUR 5.4 billion. Non-controlling interests in net income for the period were EUR 598 (661) million. The dividend payment to non-Group shareholders totalling EUR 364 (350) million was mainly from the Hannover Re Group.

EQUITY BY DIVISION [1] INCLUDING NON CONTROLLING INTERESTS

EUR MILLION

	31.12.2017	31.12.2016 [2]	31.12.2015
Segment			
Industrial Lines	2,306	2,158	2,099
of which non-controlling interests	—	—	—
Retail Germany	2,508	2,558	2,590
of which non-controlling interests	59	51	46
Retail International	2,276	2,252	2,201
of which non-controlling interests	230	206	244
Reinsurance	9,229	9,702	8,760
of which non-controlling interests	5,123	5,354	4,862
Corporate Operations	−2,119	−2,039	−2,195
of which non-controlling interests	—	—	—
Consolidation	46	17	−24
of which non-controlling interests	−1	−1	−3
Total equity	**14,246**	**14,648**	**13,431**
Group equity	8,835	9,038	8,282
Non-controlling interests in equity	5,411	5,610	5,149

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

[2] Adjusted in accordance with IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes.

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 1,136 (1,173) million, notes payable in the amount of EUR 1,065 (1,065) million, a subordinated bond of EUR 750 (0) million and provisions for taxes of EUR 80 (94) 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 4.3 (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", "Financial assets held to maturity", "Other Investments", "Investments under investment contracts", "Other assets", "Subordinated liabilities", "Notes payable and loans" and "Other liabilities".

EQUITY AND UNRECOGNISED VALUATION RESERVES NOT RECOGNISED IN THE BALANCE SHEET

EUR BILLION

	2017	2016	2015
Group equity	14.2	14.7	13.4
Unrecognised valuation reserves before taxes including shares of policyholders and non-controlling interests	4.3	4.9	4.9

LIQUIDITY AND FINANCING

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

As at 31 December 2017, there were two syndicated variable-rate credit lines with a nominal value of EUR 500 million, via Talanx Finanz (Luxemburg) S. A. 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. 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".

Furthermore, in the fourth quarter Talanx AG placed a subordinated bond with a volume of EUR 750 million. The euro-denominated bond has a term to 2047 and can be called for the first time on 5 December 2027. Further information can be found under "Analysis of debt" in this section.

There is also a cooperation agreement with HDI Haftpflichtverband der Deutschen Industrie V.a.G. which allows the Group to offer HDI subordinated bonds with a maturity of five years and a volume of up to EUR 500 million on a revolving basis. 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

	2017	2016	2015
Subordinated bonds of Hannover Finance (Luxembourg) S.A.	997	997	996
Subordinated bonds of Talanx AG	750	—	—
Subordinated bonds of Talanx Finanz (Luxemburg) S.A.	500	500	500
Subordinated bond of Hannover Rück SE	445	445	444
Subordinated loan of HDI Assicurazioni S.p.A.	27	27	—
Subordinated bond of CBA Vita S.p.A.	14	13	—
Mortgage loans of Hannover Re Real Estate Holdings, Inc.	94	212	207
Mortgage loans of HR GLL Central Europe GmbH & Co. KG	102	102	101
Mortgage loans of Real Estate Asia Select Fund Limited	55	—	—
Notes payable of Talanx AG	1,065	1,065	1,065
Loans from infrastructure investments	110	120	68
Other	9	7	2
Total	**4,168**	3,488	3,383

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

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

	2017	2016	2015
Cash flows from operating activities	5,006	4,260	6,107
Cash flows from investing activities	−4,205	−3,132	−4,481
Cash flows from financing activities	−157	−799	−1,585
Net change in cash and cash equivalents	644	329	41

Cash inflows from operating activities, which also include inflows from investment income, increased year on year from EUR 4,260 million to EUR 5,006 million. The calculation essentially adjusts net income of EUR 1,270 (1,564) million to reflect the increase in "Changes in technical provisions" of EUR 2.5 billion, as well as the decrease in "Changes in funds withheld and in accounts receivable and payable" of EUR 1.7 billion and the reduction in "Gains/losses on disposal of investments and property, plant and equipment" of EUR 0.5 billion.

Cash outflows from investing activities totalled EUR 4,205 (3,132) million in the reporting period, EUR 1,073 million lower than the previous year. This effect was mainly due to the change in other investments (in particular, short-term investments) of EUR −1,696 million to EUR −869 million, which was recognised in the amount of EUR +827 million in cash flow from investing activities last year. EUR −1.2 billion and thus a large proportion of this change was attributable to the Property/Casualty Reinsurance segment. 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 451 (307) million. Cash outflow from the change in investments for the benefit of insurance policyholders who bear the investment risk also increased by EUR 314 million. This was countered by an increase in cash inflows from the sale and maturity of investments; on balance, the cash outflow from the purchase and sale and final maturities of investments totalled EUR 1,912 (3,142) million, which is EUR 1,230 million lower than the previous year. EUR +1.3 billion and thus a large proportion of this change was attributable to the Property/Casualty Reinsurance segment.

In the cash flows from financing activities, the dividend payments increased in the year under review by EUR 26 million to EUR 705 (679) million. The "Net changes attributable to other financing activities" (EUR 547 [–120] million) in the year under review were largely attributable the issue of a subordinated bond of EUR 750 million and, in contrast, cash outflow from interest payments of EUR 151 (154) million. Further information can be found in the Notes to the consolidated balance sheet, Note 18 "Subordinated liabilities" and Note 26 "Notes payable and loans". The net cash outflows from financing activities decreased by EUR 642 million year-on-year to EUR –157 (–799) million.

Compared with the previous year, cash and cash equivalents, which includes cash at banks, cheques and cash-in-hand, increased by EUR 570 million in total to EUR 3.2 billion. This increase was essentially due to changes in the cash flows (EUR +644 million) in the year under review.

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 and financial risk profiles were 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. 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.

At A. M. Best, the rating method has been modified in such a way that the award of ratings to subsidiaries is now also carried out in a Group context, in a similar way to the procedure at S&P.

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

ISSUER CREDIT RATINGS

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

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

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

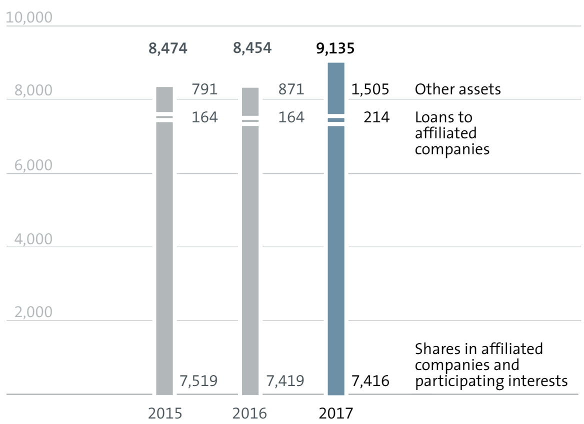
In contrast to the consolidated financial statements, which are prepared in accordance with International Financial Reporting Standards (IFRSs), as adopted by the European Union as at 31 December 2017, Talanx AG's annual financial statements are prepared in accordance with German GAAP as set out in the 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

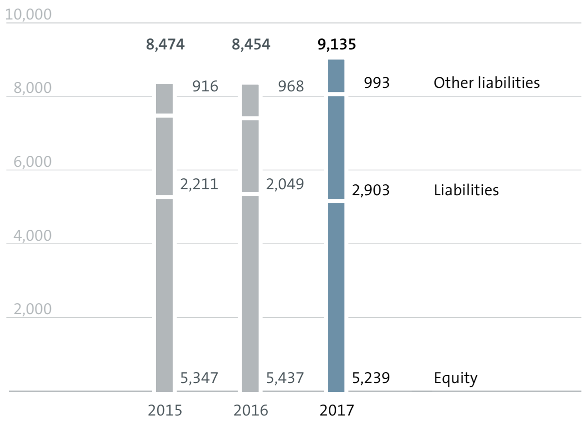
BALANCE SHEET STRUCTURE – ASSETS

EUR MILLION



BALANCE SHEET STRUCTURE – LIABILITIES

EUR MILION



As in past years, Talanx AG's balance sheet continues to be shaped by its function as a holding company: on the assets side, it is dominated by its euro-denominated investments in subsidiaries. Total assets increased by 8.1% to EUR 9,135 (8,454) million. The carrying amount of shares in affiliated companies and participating interests remained at the previous year's level (EUR 7,415 [7,419] million). Loans to affiliated companies increased by 30.5% to EUR 214 (164) million. This was due to a loan to Talanx International AG to fund the acquisition of the Columbian company Generali Colombia Seguros Generales S. A. and its subsidiary Generali Colombia Vida Compañia de Seguros S. A. The receivables from affiliated companies remained at the previous year's level (EUR 455 [458] million). Bank balances increased by 347.8% to EUR 815 (182) million, due in particular to the placement of a subordinated bond with a volume of EUR 750 million. Other assets remained at the previous year's level (EUR 235 [231] million).

At the reporting date, Talanx AG had entered into firm agreements with two banking syndicates, in each case for a floating-rate euro-denominated syndicated line of credit that can be drawn down as required. The floating rate is linked to Euribor plus a premium. The nominal amounts of the credit lines available at the reporting date were EUR 250 million in each case, meaning that a total of EUR 500 (500) million was unused. In addition, a cooperation agreement that Talanx AG concluded in 2016 with HDI Haftpflichtverband der Deutschen Industrie V. a. G. 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's capital structure and the composition of its liabilities are shaped by the fact that it is a holding company. Equity amounted to EUR 5,239 (5,437) million. The decrease of EUR 198 million was entirely due to the distributable profit.

Liabilities totalled EUR 2,903 (2,049) million; the key items included were EUR 1,065 (963) million in liabilities to affiliated companies and EUR 1,815 (1,065) million in liabilities relating to bonds. The main reason for the increase in liabilities to affiliated companies was higher liabilities arising from profit/loss transfer agreements with subsidiaries in the amount of EUR 204 (0) million. In contrast, internal Group loans fell. The main reason for the increase in liabilities relating to bonds was the placement of a subordinated bond with a volume of EUR 750 million. The bond was primarily issued to institutional investors in Germany and abroad. The euro-denominated bond carries a fixed coupon of 2.25% and the first call date is on 5 December 2027. The bond issue is intended to support Talanx in exploiting growth opportunities in the hardening market environment and at the same time secure refinancing at the current attractive level for the long term.

The rise in other liabilities by 2.6% to EUR 993 (968) million was due largely to an increase in provisions for pensions to EUR 794 (758) million, while provisions for taxes fell by 14.9% to EUR 80 (94) 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

	2017	2016	2015
Net income from long-term equity investments and other operating income	328	645	541
Net interest income	–97	–104	–104
Other operating expenses, depreciation and impairments	109	133	127
Tax expense	–21	–11	–35
Net income for the financial year	**143**	**419**	**345**

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 fell to EUR 328 (645) million in the financial year. This decrease resulted primarily from a lower contribution to earnings made by HDI Global SE of EUR –204 (68) million due in particular to a higher large loss burden.

Net interest income improved to EUR –97 (–104) million. The interest and similar expenses fell to EUR 115 (120) million, in particular as a result of interest on tax liabilities that no longer applies and lower interest expenses for pension provisions. Other interest and similar income increased to EUR 8 (5) million, due among other things to higher tax credits and higher income from interest paid on profit/loss transfer agreements. Income from other securities and loans remained stable at EUR 10 (10) million.

Other operating expenses, depreciation and impairments decreased to EUR 109 (133) million. This was due in particular to lower distribution payments for provisions for pensions. In 2016 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. These were offset against outstanding temporary provision differences related to the German Accounting Law Modernisation Act (BilMoG) in accordance with section 67(1) sentence 1 of the Introductory Act to the German Commercial Code EGHGB).

Tax income in the reporting period amounted to EUR 21 (11) million, in particular (as was the case in 2016) as a result of the adjustment of tax provisions for the previous years. Net income for the financial year fell year-on-year to EUR 143 (419) million. After addition of retained profits brought forward from the previous year of EUR 484 (406) million, distributable profit totalled EUR 627 (825) 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 subsection "Dividend per share and appropriation of distributable profits".

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 289f, 315d 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 2018, we anticipate that net income at Talanx AG will increase significantly, among other reasons due to the negative contribution to earnings made by HDI Global SE in 2017 due to a higher large loss burden.

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 still challenging. Whilst gross premium income increased, EBIT and equity were lower than the previous year's figures. Group net income was adversely affected by various factors, including large losses due to exceptionally severe natural disasters in the Industrial Lines Division and the Property/Casualty Reinsurance segment, and was well below forecast.

With the exception of the Retail Germany Division, whose gross premiums fell slightly, all divisions recorded an increase in gross premiums. Nonetheless, the Group's operating profit fell by a double-digit percentage, due in particular to significantly lower EBIT in the Industrial Lines and Reinsurance Divisions. The situation was further exacerbated by the fact that the forecast figure for the combined ratio could also not be met, due to the high loss burden – particularly in the Industrial Lines and Property/Casualty Reinsurance segments. The Group return on equity fell marginally short of our forecast. The picture was mixed in the divisions: Industrial Lines failed to reach its forecast figure, whilst the other divisions met or exceeded the forecast.

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 REPORTS AND DECLARATIONS

CONSOLIDATED NON-FINANCIAL STATEMENT [1)]

INTRODUCTION

For the Talanx Group, sustainability means recognising the limits to what our planet and the people living on it can take. We are confronted every day with the social and ecological challenges of our time, and especially with climate change and demographic developments. For example, these impact our core business as a primary insurer and reinsurer, as well as the labour market as a whole, in many different ways. By expanding our corporate management and corporate governance to include ecological and social aspects, we can help to preserve the planet as a place worth living in both for ourselves and for generations to come, and to ensure the company's future success. As an international insurance group and a long-term investor, we are therefore committed to responsible corporate governance and corporate management based on sustainable value creation. We ensure we will still be able to deliver tomorrow by taking a forward-looking approach to what we do today.

Pursuant to the German Act to Strengthen Non-financial Reporting by Companies in their Management and Group Management Reports (German CSR Directive Implementing Act), this consolidated non-financial statement was prepared in accordance with requirements of section 315b(1) in conjunction with section 315c/section 289c of the German Commercial Code (HGB). The consolidated non-financial statement was prepared in accordance with the Global Reporting Initiative's GRI Standards.

The Talanx Group has only defined financial ratios/financial key performance indicators. Consequently, it does not have any non-financial key performance indicators that are relevant to its business within the meaning of section 289c(3) no. 5 of the HGB. Information on provisions for asbestos-related claims and environmental damage is contained in our risk report on pages 112 onwards. Comprehensive information on our investments is provided in the net assets and financial position section of the report on our economic position. Furthermore, there is no connection between the amounts reported in the Talanx Group's annual financial statements pursuant to section 289c(3) no. 6 of the HGB and the non-financial matters.

Only selected examples are given in this statement due to the large number of sustainability measures taken within the Talanx Group, which has a decentralised organisational structure; this applies in particular in relation to the outcomes. Pursuant to section 315b(1) sentence 3 of the HGB, reference is also made in connection with individual aspects to non-financial information contained in other parts of the Group management report. Where nothing to the contrary is indicated, all information provided refers to the Talanx Group. The consolidated non-financial statement was reviewed by the Supervisory Board for its legality, regularity and appropriateness.

In accordance with section 315b(2) and section 289b(2) of the HGB, HDI Global SE is exempted from the requirement to include a non-financial statement in its own management report since it is included in this non-financial statement. This also applies to Towarzystwo Ubezpieczeń i Reasekuracji WARTA S. A., which has exempted itself under national legislation as a consequence of Directive 2014/95/EU on the disclosure of non-financial and diversity information from the requirement to issue its own non-financial statement by referring to this consolidated non-financial statement. Hannover Rück SE has not exercised the exemption option and publishes its own non-financial statement in its group management report.

1) The "consolidated non-financial statement" section has been specifically excluded by lawmakers from the audit of the financial statements/audit of the management report (section 317(2) sentence 5 second half-sentence and sentence 4 of the HGB; unaudited information).

DESCRIPTION OF THE BUSINESS MODEL

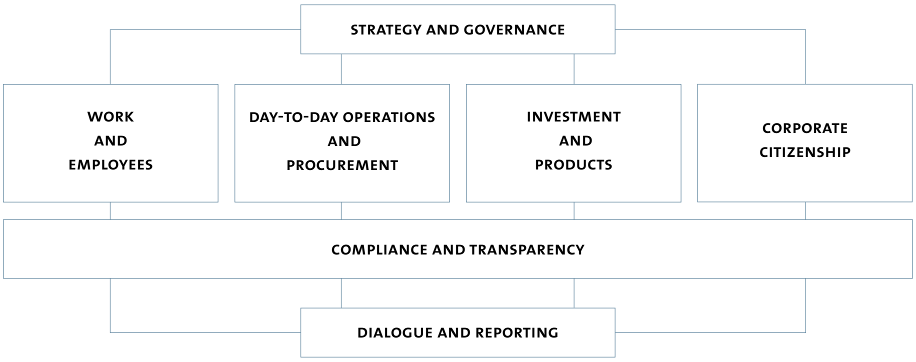
The Talanx Group is a multi-brand provider in the insurance and financial services sector. A detailed description of its business model is given in the "business model" section of the Group management report (page 20).

SUSTAINABILITY STRATEGY

Our sustainability strategy was derived from the Group's overarching strategy and is aligned with the Group's mission statement and values. It comprises concrete action areas, goals and measures and serves to ensure that our operations are aligned with ecological and social challenges – in conformity with the UN Global Compact's Ten Principles. In addition, our sustainability strategy and sustainability management activities are based on our stakeholders' requirements and interests. Our customers, investors and employees play a particularly important role here.

As the following graphic shows, the Talanx Group's sustainability strategy covers two overarching areas – "Strategy and governance" and "Dialogue and Reporting" – plus five other action areas.

ACTION AREAS FOR THE TALANX GROUP'S SUSTAINABILITY STRATEGY



The aspects that are relevant for the consolidated non-financial statement were identified using an internal survey and a stakeholder survey that was conducted with the assistance of an external partner. These surveys investigated a variety of potential material issues and ranked them for relevance on a scale from 0 to 6. Issues that received an average score of 4.5 or more in the evaluation were classified as "material". In addition, we held an internal workshop to examine the impact of the Talanx Group's operations on the non-financial matters and include this in our assessment. This process resulted in our identifying 11 material issues within the meaning of the German CSR Directive Implementing Act; we also report on three other aspects voluntarily:

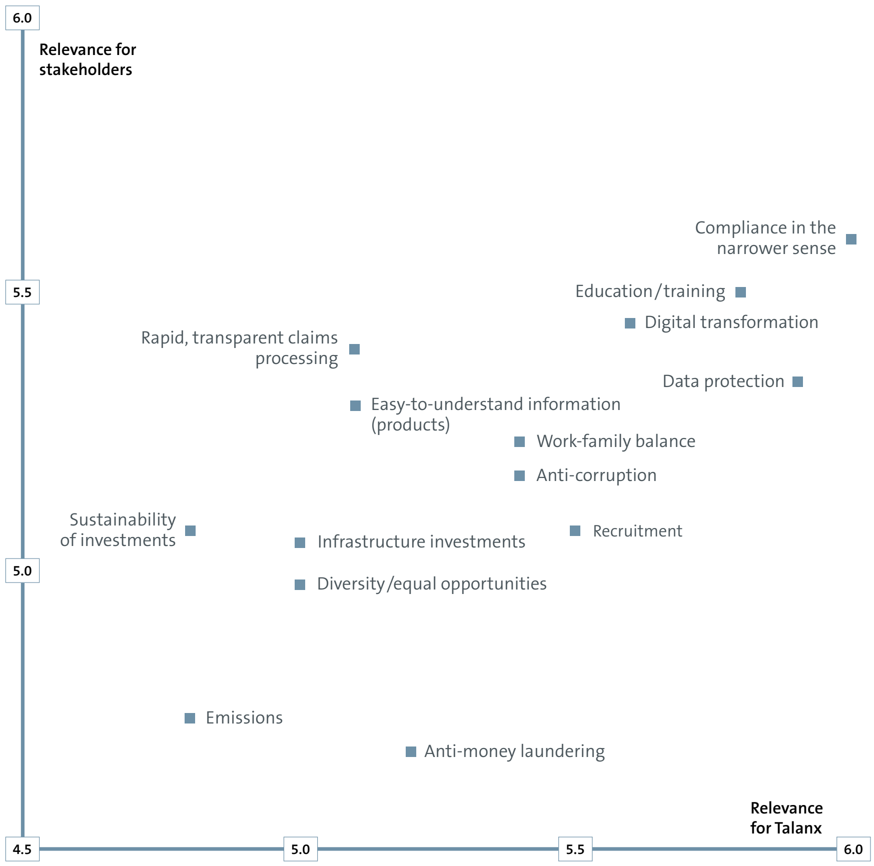
MATERIAL ISSUES AND CONTENTS OF THE CONSOLIDATED NON-FINANCIAL STATEMENT – AN OVERVIEW

Non-financial aspects	Material aspects	Section of consolidated non-financial statement
Compliance and product responsibility (horizontal issues impacting all non-financial matters)	Compliance in the narrower sense	Compliance in the narrower sense (with laws, regulations and guidelines)
	Data protection	Data protection
	Sustainability of investments	Inclusion of sustainability criteria in investment selection
		Inclusion of sustainability criteria in insurance contracts and products [1]
	Digital transformation	Digital transformation
Environmental matters	Emissions	(Greenhouse gas) emissions and climate change
Employee matters	Recruitment	Recruitment, education and training
	Education/training	
	Diversity/equal opportunities	Diversity and equal opportunities; work-family balance
	Work-family balance	
Social matters	Infrastructure investments	Infrastructure investments
Respect for human rights		Supplier management (respect for human rights) [1]
Anti-corruption and bribery matters (horizontal issue: compliance)	Anti-corruption	Anti-corruption and bribery matters; anti-money laundering
	Anti-money laundering	
Additional non-financial aspect		
Customer orientation and satisfaction	Rapid, transparent claims processing	Rapid, transparent claims processing
	Easy-to-understand information (products)	Easy-to-understand information about insurance solutions
		Financial incentives for fair sales advice [1]

[1] Issue that was not identified as material but that impacts the Talanx Group's core business and on which we are therefore reporting voluntarily.

The method used to identify the material issues allows us to compare and contrast internal and external perspectives and represents a holistic view of the enterprise, as shown in the following matrix.

MATERIALITY MATRIX — RELEVANCE OF SUSTAINABILITY ASPECTS FOR THE TALANX GROUP



The non-financial aspect of "respect for human rights" was identified as material in the stakeholder survey but not in the internal workshop. Therefore the aspect is not "doubly material" for the purposes of the German CSR Directive Implementing Act and has not been included in the materiality matrix. Due to the topic's significance as an independent non-financial matter and its relevance for our stakeholders, we are reporting on it voluntarily under the "supplier management" issue.

In addition to the material aspects and the aspect of "respect for human rights", we have included two other relevant issues in the consolidated non-financial statement that had average scores of less than 4.5 but that relate to our core business. These are:

- The inclusion of sustainability criteria in our insurance contracts and services
- Financial incentives for fair sales advice

SUSTAINABILITY GOVERNANCE

Our sustainability management activities are drawn up at the enterprise level and rolled out successively across our core markets. Ownership of the topic of sustainability rests with the full Board of Management of Talanx AG. As is the case with the Group's other goals, values and strategies, the full Board of Management resolves and monitors the development and enhancement of Talanx's sustainability strategy, its sustainability goals and the implementation of the associated measures. The importance of sustainability for the Group's top management is underscored by the Sustainability Commitment issued by the full Board of Management; this additional information has been made available voluntarily on our website (http://www.talanx.com/~/media/Files/T/Talanx/pdfcontent/konzern/nachhaltigkeit/talanx_commitment_en.pdf).

In addition, the Chairman of Talanx AG's Board of Management has a particular responsibility for sustainability, since the Company's sustainability officer is attached to Group Communications, for which he is responsible. This unit coordinates sustainability management, which includes the development of sustainability goals and the preparation of the sustainability report. The head of Group Communications reports directly to the Chairman of the Board of Management.

Due to the Group's decentralised organisational structure, most sustainability measures are implemented by the individual divisions and Corporate Operations in the context of their respective core businesses. The goals and measures are agreed, and data for reporting are captured, by a competence team comprising representatives from all divisions, the relevant companies, Corporate Operations and Talanx AG departments.

We cooperate closely and coordinate our actions with our subsidiary Hannover Re, which has established its own sustainability strategy and publishes its own sustainability report and non-financial statement.

RISK ASSESSMENT OF NON-FINANCIAL ASPECTS

The CSR Directive Implementing Act requires undertakings not only to report on non-financial matters but also to disclose information on corresponding risks pursuant to section 289c (3) nos. 3 and 4 of the HGB.

The Talanx Group has an adequate and effective risk management system. For a basic overview of our risk management system, please refer to the "risk report" section on pages 112 onwards of the Group management report. We identify risks throughout the Group using key indicators and various risk surveys. Information on qualitative risks is collected systematically using a Group-wide risk capture system. Risks spanning multiple divisions, such as compliance risks, are addressed by involving the units or experts concerned. To ensure that all risks are identified, they are compared with the Group's customized, comprehensive risk categorisation system that is used as the basis for risk identification.

The Talanx Group assesses risks after risk mitigation measures have been taken into account. In connection with the non-financial aspects, no principal risks linked to the Group's operations or its business relationships, products or services which have severe adverse impacts on the non-financial matters could be identified, either by the sustainability management organisation or within the risk management processes. Risks such as climate change whose risk content cannot yet be reliably assessed ("emerging risks") are monitored as part of the Group-wide risk management process.

COMPLIANCE

"Compliance" can be defined as the totality of all substantive and organisational measures taken to ensure that Group companies, the members of their governing bodies and their employees conform to all legal and ethical requirements and internal guidelines in the Company's key areas and day-to-day operations.

Compliance is a material issue for the Talanx Group because legally correct, responsible and ethical conduct is a fundamental precondition for the trust placed in the Group and for its competitiveness. For the Talanx Group, it goes without saying that complying with the law is a prerequisite for sustained business success. This means that compliance is an integral part of all Group activities. It covers not only adherence to environmental laws and regulations but also to those requirements that have been defined by the Talanx Group in its compliance programme as core issues and coordinating topics. Preventing corruption, systematic reviews of queries regarding financial sanctions and embargoes, and sector-specific regulatory questions are therefore material compliance issues. Data protection also plays a key role at the Talanx Group. The trust that our customers, shareholders and employees place in data protection and data security directly influences our competitive ability and our reputation, and is therefore a critical success factor. Moreover, the Talanx Group has to comply with data subjects' statutory data protection rights (such as the right to access data) and has implemented appropriate procedures and methods to achieve this.

COMPLIANCE IN THE NARROWER SENSE (WITH LAWS, REGULATIONS AND GUIDELINES)

The Talanx Group's goal in its "Compliance and Transparency" action area is to provide information and make disclosures on the aspects of compliance and governance (see the "Corporate Governance" section on pages 87 onwards of the Group management report). Our Group-wide Code of Conduct is an effective instrument here. It sets out key principles and rules applicable to employees at all levels of the Talanx Group. The Code serves to explain to employees fundamental legal and ethical requirements that they have to abide by during their work for the Group companies concerned, and to provide further details of their duties in this area. The Code of Conduct applies throughout the Group[1] and is available in ten languages. At the same time, the fact that the Code of Conduct is published on the website clearly demonstrates the importance that the Talanx Group places on acting lawfully to its customers, suppliers and business partners, as well as to other stakeholders. The Code of Conduct is supplemented by a set of more concrete Compliance Guidelines and other information and explanatory documents, which are available on our intranet. The Compliance Guidelines provide detailed content guidance on the principles set out in the Code of Conduct, which have now been addressed by Group companies in Germany and abroad and have been adopted as binding.

A whistle-blower system can be used to report compliance violations. It can be accessed from anywhere in the world via our website and is currently available in German and six other languages that are commonly used within the Group. The system can be used – fully anonymously, if desired – to provide information about a variety of issues (including fraud, breaches of fiduciary duty and corruption; incorrect bookkeeping or accounting; anti-competitive and anti-trust offences; money laundering and terrorism financing; breaches of capital market regulations, sanctions and embargoes; and infringements of labour law, supervisory law and tax law provisions). Additionally, employees can report suspected breaches of the law or guidelines to their line manager or directly to the compliance officer responsible for the company in question within the Talanx Group or the division concerned.

The Talanx Group's training events and programmes offer employees regular opportunities to refresh, broaden and deepen their knowledge of and expertise in selected compliance topics. New employees are briefed on these issues from the start as part of their induction. In addition, ongoing classroom-based courses and web-based training are provided on relevant compliance topics. Supplementary anti-corruption training serves to ensure that gifts are dealt with correctly.

The Talanx Group'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 who are responsible for the individual divisions and Group companies. The Compliance department is responsible for establishing and updating Group guidelines and structures designed to ensure compliance, for following up on complaints and compliance breaches, for organising internal training and for questions relating to corporate governance within the Group. In addition, in-depth advice is provided on relevant compliance issues where necessary.

A global network of compliance managers at our foreign locations assists the Chief Compliance Officer in his tasks, and reports to him. This means that local compliance breaches can also be reported directly, without going through the local hierarchy. The Compliance Officer prepares an annual report for the Board of Management on material compliance issues and developments.

Compliance is relevant at all levels of the Talanx Group, from divisions through departments down to individual employees. Outside the Group, it can affect customers, business partners and suppliers in particular.

[1] Hannover Re has its own business principles, a revised version of which was adopted by the Board of Management on 29 May 2017. They supplement Talanx AG's Code of Conduct, which serves to express value management within the Talanx Group.

GOALS AND MEASURES: "COMPLIANCE IN THE NARROWER SENSE (WITH LAWS, REGULATIONS AND GUIDELINES)"

Goal	Measure	Scope	Deadline	Status
Review Compliance Guidelines for sustainability criteria and incorporate where necessary	Analyse/review existing guidelines (Code of Conduct, etc.) for sustainability criteria	Talanx Group	2017	Done
Extend specialised compliance policies and guidelines	Expand IT compliance requirements	Hannover Re	Ongoing	In process
	Extend the international compliance network	Hannover Re	Ongoing	In process

In addition to establishing structures and workflows, we have continuously expanded our compliance programme in recent years (see the "Compliance" section on pages 91 onwards of the Group management report). The compliance management system builds on Talanx's compliance policy, which comprises Talanx's Code of Conduct, its Compliance Guidelines and work instructions. These documents were comprehensively reviewed, a process that included sustainability aspects and that resulted in some cases in revisions or new internal documents. For example, the foreword to Talanx's Code of Conduct draws attention to individual employees' responsibility to act in a forward-looking, reliable, fair and open manner. In addition, the Talanx Group has drawn up its own framework guidelines specifying the fit and proper requirements criteria for governing bodies, in order to ensure the undertaking's long-term business success.

Adherence to the compliance requirements is verified by the Compliance function and during internal audits. Content reviews of the applicable compliance rules and regulations are performed regularly and revisions made where necessary. In addition, the Group takes stakeholder interests and requirements in the areas of compliance and transparency into account, firstly by engaging in dialogue with stakeholders on sustainability issues and secondly by adhering to the GRI Standards and taking part in ESG rating processes.

ANTI-CORRUPTION AND BRIBERY MATTERS; ANTI-MONEY LAUNDERING

The Code of Conduct sets out concrete instructions on how to behave in order to prevent corruption and bribery. It makes clear, for example, that bribery and corruption will not be tolerated. In addition, it expressly highlights the ban on money laundering and illegal financing and draws attention to the fact that the Anti-money Laundering Officer and the Compliance Officer must be informed of all suspected cases. Specific rules of conduct are also set out covering, among other things, avoiding and disclosing conflicts of interest; granting and accepting benefits, gifts and invitations; donations and sponsorships; sideline activities; stakes in other companies and participations in transactions.

Preventing corruption is relevant at all levels of the Talanx Group, from divisions through departments down to individual employees. Outside the Group, it can affect customers, business partners and suppliers in particular.

For more information on the policies being applied in the "Compliance and Transparency" action area and for defined goals and measures, please see the sections entitled "Compliance in the narrower sense" and "Compliance" on pages 69 onwards. The Board of Management did not resolve any specific anti-corruption goals or targets for the 2017 reporting period.

Corruption risk is regularly assessed in the various divisions using compliance risk analyses as part of the compliance and internal audit plan. Relevant examples of corruption risk include allegations of bribery and corruption and of the acceptance and granting of benefits, especially in connection with/in the context of invitations and gifts, and in relation to purchasing and tendering, donations and sponsorships.

The Talanx Group provides information and training on anti-corruption policies and procedures in a variety of formats. For further information, please see the section entitled "Compliance in the narrower sense" on pages 70 onwards and "Compliance" on pages 69 onwards. This also applies to Hannover Re, which among other things uses the intranet and a newsletter format to disseminate information on issues such as corruption. In addition, the annual compliance report ensures that the Supervisory Board is kept informed of material compliance risks and the measures taken to ensure that the requirements that have been implemented are observed. For details, please refer to the risk report on pages 112 onwards of the Group management report (these are not material risks within the meaning of the CSR Directive Implementing Act).

DATA PROTECTION

Insurers and their intragroup service providers collect, process and store large volumes of personal data. These data are needed during the application process, to provide advice to customers, in underwriting, in customer and contract services, and in claims and payment management. Additionally, personal data are collected, processed and stored in connection with human resources management, shareholders and the funds business, among other things. The basic principle applied is that Group employees may only collect, process and store personal data if this is required for a specifically defined purpose and in the lawful performance of their duties, or if there is another legal basis for this. Personal data are transferred to external recipients (mainly service providers) in order to enhance the efficiency of the services provided. At the same time, external recipients must be seen as part of processing operations, e.g. in the case of brokers, appraisers, reinsurers, etc. All external recipients are contractually obliged to observe the statutory data protection requirements and are audited up front for compliance with this. All applicable data protection requirements are also observed during data transfer.

The Group's Code of Conduct requires employees to comply with the provisions of data protection law and the Group Data Protection Guidelines, and to actively contribute to ensuring that personal data are reliably protected against unauthorised access. The Talanx Group has appointed company data protection officers as required by law. The data protection requirements to be observed have been incorporated in a data protection management system. Group guidelines are used to lay down binding rules for material data protection requirements. Awareness measures and training are conducted and random checks performed on the basis of these Group requirements. Centrally defined methods are specified for data subjects' rights (e.g. the right to access stored data), ensuring that the processes are implemented correctly. A reporting system for senior management has been set up.

Close cooperation and consultation with important interfaces such as Group Legal, Group Compliance, Group Security and Group Auditing ensure that the data protection legislation requirements are met. Data protection risks are reported to Group Risk Management. Responsibility for information security, and hence for avoiding damage or losses caused by the non-availability, loss of confidentiality or lack of integrity of customer, business or employee information, has been centralised at Talanx Systeme AG.

In 2016, work began on reviewing and adapting the Group's data protection policies to ensure compliance with the requirements of the EU's General Data Protection Regulation. As from May 2018, the EU's General Data Protection Regulation will directly replace the previous German Data Protection Act (BDSG) and the EU's Data Protection Directive (Directive 95/46/EC) on which the BDSG is based. The General Data Protection Regulation will also create a common data protection framework for those of our branches and subsidiaries that are domiciled within the EU/the EEA. To a certain extent, supplementary national legal requirements must also be observed. Among other things, the new data protection legislation increases customers', shareholders' and employees' data protection rights. At the same time, it extends companies' data protection obligations and adds new requirements in some cases. Substantially higher fines can also be imposed.

GOALS AND MEASURES: "DATA PROTECTION"

Goal	Measure	Scope	Deadline	Status
Adapt data protection requirements (data protection guidelines, etc.) and other solutions (largely templates/boilerplate and checklists)	Review all central work instructions and solutions deployed for compliance with the EU's General Data Protection Regulation and local data protection requirements	Germany	2018	In process
Enhance the tools and methods used by the data protection organisation	Adapt data protection officer recruitment procedures and tasks, interfaces to governance functions (largely Compliance, Audit, Risk Management) and reporting, and roll out training and awareness measures	Germany	2018	In process
Implement the components of the data protection management system	Implement and enhance the methods and procedures used to ensure compliance with the requirements governing records of processing activities, data protection impact assessments and the rights of data subjects	Germany	2018	In process
Set up support services for foreign data protection management at the primary insurance group	Define tasks and responsibilities for EU locations outside Germany and the data protection organisation at Corporate Operations (especially monitoring)	Talanx Group EU locations	2018	In process

Two data protection management systems have been established within the Group as a whole (primary insurance and reinsurance group). The data protection management system for the primary insurance group is implemented at Talanx AG, whereas Hannover Rück SE is responsible for the data protection management system for the reinsurance group. Within the primary insurance group, a distinction must be made between two ways of allocating responsibility. The first is based on the idea of local responsibility. In the second, tasks and responsibilities are established both centrally and locally.

Group Data Protection is responsible for designing the data protection management system for companies belonging to Talanx Deutschland AG; it issues data protection requirements, implements awareness measures (training courses, etc.), monitors compliance and assists in operational design (consulting), as well as reporting to senior management. The primary insurers have signed up to the German insurance industry's Code of Conduct for Data Protection and completed all necessary modifications at the end of 2016. The amendments resulting from the EU's General Data Protection Regulation now have to be to implemented by May 2018.

HDI Global SE manages its data protection issues directly and allocates tasks and responsibilities centrally and locally. Local contacts have been assigned responsibility for ensuring compliance with data protection requirements. In some cases, the foreign locations have specialist departments such as legal or compliance functions that are actively involved in data protection management. In the case of very small foreign locations that exclusively perform operational tasks, data protection support by headquarters is currently being set up.

Talanx International AG's subsidiaries have implemented local data protection management activities, and monitor their adequacy and effectiveness using established management tools. All subsidiaries must prove that they meet the data protection requirements applicable to their processes, IT systems and interfaces and that they have implemented all necessary organisational measures.

Hannover Rück SE's data protection management system differs from the system used by the primary insurance group. The business model used at Hannover Re means that different risks need to be reflected in the data protection management system. The principles documented in the Group Data Protection Guidelines apply to all companies and units within Hannover Re. The established Compliance organisation's existing structures are used to implement these minimum data protection law standards. Responsibilities within the Compliance organisation have been established and documented throughout the Group. Interfaces to data protection have been implemented. The EU's General Data Protection Regulation does not affect all Hannover Re companies directly, partly because some of them are domiciled outside the EU or the EEA. In these cases, the relevant national legal frameworks apply. Regardless of whether or not the EU's General Data Protection Regulation applies in a particular case, the compliance officers or contacts who have been appointed are responsible for local data protection requirements. Where necessary, these develop additional local data protection guidelines and act as the interface to Hannover Re's Data Protection Officer in Germany. The Data Protection Officer coordinates overarching aspects of the data protection management system that has been established within the Hannover Re Group. He provides advice for solving concrete data protection law issues and monitors compliance with the EU's General Data Protection Regulation and other data protection regulations. Data protection law requirements are monitored in close cooperation with Group Auditing using a documented interface. Defined reporting channels ensure transparency. The findings of the separate data protection reporting system are included in the compliance report.

No data breaches or incidents were notified to Group Data Protection in the 2017 reporting period. Work on implementing the EU's General Data Protection Regulation includes drawing up binding definitions of the inclusion criteria for the various data protection management systems. The work on updating and implementing the measures will have been completed by May 2018.

PRODUCT RESPONSIBILITY

At the Talanx Group, our investments and insurance products are the main aspects of our operations where sustainability has to be taken into account. Given the leverage that we can achieve with our business, this means we can make a potentially significant contribution to sustainable development. We are therefore aiming to include sustainability aspects in our investments, insurance products and services in the long term.

Digital transformation and innovation management are other core focus issues at the Talanx Group. For us, digital transformation is both an opportunity and a challenge. Automating and digitising the insurance business is a key lever for change. The process of digital transformation is radically altering the insurance business in a number of ways: for example, we are expecting to enhance our closeness to our customers by using more direct, dialogue-based channels, and to increase efficiency through automation and the use of robotics. At the same time, however, we expect that new risks will arise for retail and business customers. In addition, corporate management and corporate culture will change.

INCLUSION OF SUSTAINABILITY CRITERIA IN INVESTMENT SELECTION

The far-reaching leverage effects that we have relate in particular to our investments. The Talanx Group has total investments of approximately EUR 118.7 billion. Of this overall figure, 82% was invested in fixed-income securities as at 31 December 2017. Assets under own management amounted to EUR 107.9 billion, with equities accounting for 1% of this figure and real estate (including real estate funds) for 3%. The remaining portion is invested in asset classes such as private equity, infrastructure, and to investment property, deposits to cedants and investment contracts. Investors, analysts and customers are increasingly interested in how the Talanx Group incorporates social and ecological criteria in its investment strategy. When making investment decisions, the Talanx Group aims on the one hand to avoid potential negative impacts by not investing in unsustainable issuers. To do this, we developed a Group-wide ESG (environmental, social and governance) screening process in 2016 and implemented it at the beginning of financial year 2017. On the other hand, the Talanx Group aims to promote positive impacts overall (for further details, see the section entitled "Infrastructure investments" on page 52).

ESG screening is performed every quarter by an external service provider. This involves giving information on almost 90% of all Talanx Group investments under own management – depending on strategic allocation changes – to the service provider, who then screens them, to the extent that a rating exists. Equally a new body, the Responsible Investment Committee (RIC), was set up in 2017 to establish the process. This Committee defines the filter criteria used and makes individual decisions on whether to retain or divest holdings. A decision to divest holdings that do not comply with the screening criteria should be implemented by the end of the year.

Since the start of the 2017 financial year, we have analysed securities investments throughout the Group for their compliance with ESG criteria. Existing investments are screened on the basis of the UN Global Compact's Ten Principles. These principles for responsible action serve as the basis for a wide-ranging filter catalogue. In addition to these ten universal principles, which relate to the areas of human rights, labour, the environment and anti-corruption, the catalogue also excludes investments in controversial weapons such as anti-personnel mines. Before new securities are purchased a check is also made to establish whether the issuer meets the ESG criteria. For asset classes such as infrastructure and real estate that cannot currently be included in the screening procedure, the Talanx Group has issued separate investment guidelines. These exclude, among other things, investments in facilities involving a significant environmental impact such as nuclear power projects.

Talanx AG was admitted to the FTSE4Good index series in financial year 2017. The index provider, FTSE Russell, is a member of the London Stock Exchange Group. The FTSE4Good index series covers companies that demonstrate strong environmental, social and governance practices. Talanx AG meets the criteria for the FTSE4Good Global Index and the FTSE4Good Europe Index. Hannover Rück SE was first admitted to the global FTSE4Good index series in 2014. In addition, Hannover Re again underwent a sustainability rating by rating agency oekom Research in 2017 and was awarded "prime status" for its above-average commitment to the sector-specific requirements. We are in constant contact with specialised ESG rating agencies and are also rated by a number of other rating providers including Robeco SAM, Sustainalytics, Vigeo Eiris and MSCI.

GOALS AND MEASURES: "INCLUSION OF SUSTAINABILITY CRITERIA IN INVESTMENT SELECTION"

Goal	Measure	Scope	Deadline	Status
Examine sustainability criteria when selecting investments	Develop a procedure for Group-wide ESG screening of investments	Talanx Group	2016	Done
Extend ESG guidelines for asset management	Examine whether to sign UN Principles for Responsible Investment (PRI)	Hannover Re	Ongoing	In process
	Refine ESG investment policy, including establishing a positive screening process	Hannover Re	2017	In process
	Appoint an ESG officer on the investment team	Hannover Re	2015	Done

INCLUSION OF SUSTAINABILITY CRITERIA IN INSURANCE CONTRACTS AND PRODUCTS

The inclusion of sustainability criteria in insurance contracts and products affects the Talanx Group's core business. We are therefore reporting voluntarily on this issue, even though it is not material within the meaning of the CSR Directive Implementing Act.

Customers may react positively to the inclusion of social matters and support for environmentally friendly products and projects, since social awareness of sustainability is growing. Customer satisfaction can also improve employee satisfaction and staff identification with their employer. In addition, insurance products have to be reviewed for their ecological and social impact and their relevance to sustainable development.

The Talanx Group's insurance services do not have any direct relevant environmental impacts. Rather, these services help ensure that environmental risks are adequately insured and that, in case of loss, the impact can be remedied or mitigated. The insurance business essentially has a positive social impact – it involves transferring risk so that losses arising from loss events can be absorbed and financial protection can be provided for both entities and individuals.

Nevertheless, the potential indirect ecological and social impacts of the insurance business on sustainable development, such as any consequences that insured projects may have, must be borne in mind. The Talanx Group's Code of Conduct addresses compliance with human rights at industrial policyholders.

In the long term, the Talanx Group's goal is to increase the inclusion of sustainability criteria in insurance products and services. To date, specific sustainability goals have been defined in this area for the entities belonging to Hannover Re.

A large number of products from the Talanx Group's insurance companies support environmentally friendly technologies and behaviour or take social interests into account. For example, the services provided help ensure that environmental risks are suitably insured and that the impact of any damage can be remedied or mitigated. Engineering insurance offers a wide range of insurance solutions that promote renewable energies, from onshore and offshore wind power projects through photovoltaics down to geothermal energy. The Industrial Lines Division also covers prototype development, such as for tidal power plants. Insurance cover starts with construction and extends for many years of operation at the customer. In this way, Talanx Group companies support the change in energy policy in Germany. Hannover Re also promotes the increase in climate-related products such as weather insurance and energy savings insurance. By offering solutions in areas such as microinsurance and agricultural insurance, Hannover Re also contributes to social advances in underdeveloped regions. For example, people without large financial reserves can insure themselves against basic risks such as sickness, occupational disability, the consequences of natural disasters or failed harvests. No information is currently available on the monetary value of products and services developed by the Talanx Group to deliver a specific environmental or social benefit.

GOALS AND MEASURES: "INCLUSION OF SUSTAINABILITY CRITERIA IN INSURANCE CONTRACTS AND PRODUCTS"

Goal	Measure	Scope	Deadline	Status
Include sustainability criteria in insurance products and services	Work more closely together with primary insurers to develop and expand sustainable products	Hannover Re	Ongoing	In process
	Develop products promoting e.g. renewable energies	Hannover Re	Ongoing	In process
	Continue expansion of microinsurance products	Hannover Re	Ongoing	In process
	Increase dialogue on emerging risks	Hannover Re	Ongoing	In process

DIGITAL TRANSFORMATION

Digital transformation is a horizontal issue that is relevant at all levels of the Talanx Group, from divisions through departments down to individual employees. Outside the Group, it can affect customers, business partners and suppliers in particular.

Our overarching innovation and digital transformation strategy applies at the level of the holding company and supports the Talanx-Group's strategy. It provides a framework for innovation management and for the development of digital transformation strategies within the divisions. At the latter level, the innovation and digital transformation strategies are put into practice via three core digital transformation action areas: digital customer interfaces, digital business processes and new digital business models. Our goal is to consolidate and further expand our positions with respect to those issues where we have established ourselves as market pioneers.

Building on this, the Retail Germany Division has developed a digital transformation roadmap that is designed to improve both the focus and the speed of the digital transformation process, while also ensuring acquisition of the basic digital skills required to ensure the division's future development. The Industrial Lines Division prioritises, assesses, implements and builds scale for its digital initiatives with reference to the three action areas.

The Retail International Division makes a distinction between an evolutionary approach, which aims to improve the efficiency and productivity of the current method of working, and a disruptive approach, which aims to radically improve business using new technologies. In the reinsurance business, the digital transformation strategy adopted by the Reinsurance Division sees the greatest opportunities for innovation in the areas of data analysis (predictive/smart analytics) and internal and external data interchange. For this reason, it is focusing on implementing new technologies and business concepts within this range of uses.

In line with our innovation and digital transformation strategy, we entered into partnerships in September 2016 with Plug and Play Insurance, a Silicon Valley innovation platform, and Startupbootcamp InsurTech, a London-based accelerator. These partnerships led to direct bilateral contacts with more than 100 start-ups in the period up to the end of 2017. All four divisions are actively pursuing the networking opportunities with start-ups offered by these accelerators. Proof of concept tests (PoCs) or pilot studies have been or are currently being conducted with six start-ups, and are being examined in detail for a further eight. To supplement the partnerships with accelerators, which primarily focus on strategic cooperation, an investment process was established in financial year 2017 for direct venture capital investments. In addition, we drove forward the creation of a digital lab. This aims to make new solutions available to customers faster (time to market) and to consistently align these solutions with customer and user needs.

At divisional level a large number of innovative activities and digital measures were initiated or intensified. For example, the Retail Germany Division entered into a partnership with a big data analytics service provider that can be expanded to other Group units. Industrial Lines is working together with a machine learning start-up on a pilot project for in-depth analysis of supply chains and related risks. The Retail International Division is using innovative analysis tools for evaluating existing data that enables it to offer the customers identified as a result more precisely tailored and more attractive offerings, while also optimising its insurance risk. Among other things, the Reinsurance Division continued to partner with customers and insurtech sector companies on online sales and automated underwriting projects in the Life/Health Reinsurance segment.

CUSTOMER ORIENTATION AND SATISFACTION

When it comes to customer orientation and satisfaction, rapid, transparent claims processing, financial incentives for fair sales advice and easy-to-understand information about insurance solutions are material for the Talanx Group. These aspects address customer concerns and have a significant influence on customer satisfaction, which in turn is decisive for the Talanx Group's success. Consequently, meeting customer needs is paramount; this is also reflected in the Talanx Values with their reference to "comprehensive customer orientation". Key elements in addition to high-quality advice are transparency, fairness and innovative, customer-oriented products and services. Support for this system of values takes the form of implementing a service story, e.g. in claims processing at Talanx Germany.

EASY-TO-UNDERSTAND INFORMATION ABOUT INSURANCE SOLUTIONS

The Regulation on Information Obligations for Insurance Contracts (VVG-InfoV) imposes extensive duties on the insurance industry to inform their customers, and we naturally comply with these. Above and beyond this, providing easy-to-understand information about insurance solutions is a key part of the German Insurance Association's Code of Conduct for Insurance Distribution. The revised Code aims to present a sector-wide standard for fair, needs-driven customer advice. The Code's first principle requires insurance products to be clear and understandable and specifies that customers must be told about the features and exclusions of the insurance product in a simple and understandable manner using standardised, recognised procedures. The Code's second principle states that advisory and brokerage activities must focus on customer needs, in particular in order to preserve customer trust.

GOALS AND MEASURES: "EASY-TO-UNDERSTAND INFORMATION ABOUT INSURANCE SOLUTIONS"

Goal	Measure	Scope	Deadline	Status
Further increase transparency of advice provided	The relevant companies in the Retail Germany Division have signed up to the Code of Conduct issued by the German Insurance Association (GDV). The Code of Conduct for Insurance Distribution is a voluntary commitment by the insurance industry that aims to ensure high-quality customer advice	Germany and HDI Global SE	2018	In process
	The provisions of the Insurance Distribution Directive (IDD) are currently being implemented at Talanx Deutschland AG's and HDI Global SE's subsidiaries. The IDD sets out requirements for the taking up and pursuit of insurance distribution in the European Union	Germany and HDI Global SE	2018	In process

One of the main ways in which Group companies ensure, for example, that its products are clear and understandable is by using a product/consumer information sheet. This sheet scores positively on the Hohenheimer Verständlichkeitsindex, a German readability index. The general terms and conditions for insurance policies, the annual life insurance policy statements and the sample calculations for life insurance are also based on the GDV recommendations. In addition, products are developed using standardised creation and consultation processes, including uniform readability specifications. The bancassurance companies have also implemented the clarity and transparency guidelines contained in the GDV's Code of Conduct, and have supplemented them by brand-specific requirements. Thus in some cases the bank partners' requirements already exceed those contained in the Code of Conduct.

As regards customer requirements, we oblige our tied agents to put determining these needs in the course of their consultations at the heart of their brokerage activities. In addition, consultations have to be carefully documented using standardised report forms. This is monitored by Complaints Management. Confirmation from customers that they have received a record of the advice provided or (exceptionally) that they have waived this is an integral part of our application/contract documentation. Providing easy-to-understand information for customers and focusing on customer needs are also part of the certification by an external auditor that is mandated by the Code. A sales compliance management system was developed and implemented by HDI Versicherung AG, HDI Lebensversicherung AG and our bancassurance companies in 2016 to ensure that the Code is properly implemented.

FINANCIAL INCENTIVES FOR FAIR SALES ADVICE

Creating financial incentives for fair sales advice affects the Talanx Group's core business. We are therefore reporting voluntarily on this issue, even though it is not material within the meaning of the CSR Directive Implementing Act.

Our group-wide Code of Conduct sets standards for responsible and ethical behaviour at all levels of the Group. Sales compliance is also covered by the Code, as well as being the subject of extensive compliance training. The GDV Code of Conduct for Insurance Distribution also emphasises the importance of having qualified intermediaries and focuses on continuous professional development. With respect to remuneration, the GDV Code of Conduct notes that additional remuneration above and beyond the contractual fee arrangements cannot be allowed to negatively affect the intermediary's independence or customer interests. The requirements of the EU's Insurance Distribution Directive (IDD), including the delegated acts that still have to be determined and their transposition into national law, were analysed to the extent that they were already available and initial recommendations for implementation made. Equally, at the bancassurance companies the IDD requirements that are already known will build on the measures to implement the GDV Code of Conduct and will be implemented in line with the statutory rules.

Providing our customers with fair, independent advice has top priority for the Talanx Group. This is why we aim to continuously improve our advisory services. The Board of Management did not resolve any specific goals or targets for the 2017 reporting period.

In order to ensure that intermediaries have the necessary qualifications and expertise required for advising customers, Group companies have been active since 2013 (the year of its launch) in the "Gut beraten – Weiterbildung der Versicherungsvermittler in Deutschland" initiative, which was set up by the GDV and the associations of intermediaries in the German insurance industry. Not only did they help develop the concept for the project, they have also been using it internally since January 2014. All tied agents are contractually required to take part. The Retail Germany Division has reviewed all existing agreements with an eye to the provisions on additional remuneration. Where necessary, staff have drafted new sample agreements and drawn up clear rules for restructuring the additional remuneration. The documents were prepared and approved by the relevant sales units and the Compliance department. The GDV Code of Conduct and the GDV's interpretation of its principles also offer a framework for dealing with conflicts of interests, while implementation of the principles in the Retail Germany Division is leading to its own guidelines being drawn up. Following the successful certification of the HDI companies as complying with the Code, its application by the insurance companies has been regularly monitored by the Compliance Management Steering Committee for the sales force.

RAPID, TRANSPARENT CLAIMS PROCESSING

Customer satisfaction is a critical success factor and hence a top priority for us. We therefore use a variety of instruments to measure customer satisfaction, such as the Net Promoter Score (NPS). Rapid, transparent customers claims management is the key issue determining success here. Therefore, in order to ensure that the Retail Germany Division is fit for the future, a programme was launched in financial year 2014 to permanently enhance its competitiveness and investments have been planned for this. We are initially focusing on optimising our business processes to improve the quality of service provided to our customers and sales partners. As part of this, we are also developing quality management activities, modernising our IT and enhancing the transparency of our portfolio data and costs. In addition, we decided to realign our life insurance business: among other things, traditional classic life insurance products were replaced by capital-efficient concepts in 2016.

The first effects of the programme can be seen among other places in HDI's Claims function: the introduction of the claims app in the third-party liability, accident and property and motor vehicle claims units and of the FAST live calculation tool for motor vehicle claims were major milestones in optimising the processes and application environments. Both elements of the digital transformation process and opportunities for enhanced customer contact are being incorporated into the claims management process. To increase service quality for customers and sales partners alike, a "Natural Hazards" team was successfully established in the third-party liability, accident and property claims area to handle natural hazard claims. Our objective is to be able to complete claims processing on first contact as flexibly and rapidly as possible. Cross-departmental support from the specialists in the third-party liability, accident and property claims area is resulting in rapid, transparent claims management. Agreed service levels in the individual divisions define the workflow for the concrete transactions. Our national and international Group companies use a variety of instruments to poll customer satisfaction – from their own customer satisfaction surveys at various customer contact points through the use of external assessment tools down to specialist conferences and stakeholder dialogues forming part of our sustainability management activities. In addition, customer workshops are being held with claims customers in the third-party liability, accident and property, and motor vehicle claims areas. The Board of Management did not resolve any specific goals or targets for the 2017 reporting period.

EMPLOYEE MATTERS

Our human resources work aims to ensure our Company's sustainable, profitable growth. We can achieve this by having the right people in the right place and by assigning them the right tasks. Value-based management and a spirit of cooperation are at the heart of everything we do. An effective, efficient human resources process is needed in order to remain competitive in the long term and to attract and retain qualified employees. This also serves to ensure that the Talanx Group is well positioned to meet the challenges posed by demographic change. Human resources support, human resources marketing, initial professional training and employee development are key components of our Group-wide human resources work. The Talanx Group employs 22,059 people around the world. And employee diversity is part of our DNA.

RECRUITMENT, EDUCATION AND TRAINING

Competent, committed and entrepreneurial staff are a critical success factor for the Talanx Group. They use their many and varied talents at the different Group companies to drive forward our business success and promote customer satisfaction. Our professional programmes assist in employee development and help staff continuously enhance their skills. These offerings also take developments such as demographic change, the decline in the size of the workforce and changes in the world of work into account. The Talanx Group uses a variety of strategic policies to ensure it always has adequate numbers of talented young staff. These include dual training, dual-track degree programmes, and induction, graduate trainee and talent programmes.

External human resources marketing measures help position the Talanx Group as an attractive employer.

GOALS AND MEASURES: "RECRUITMENT, EDUCATION AND TRAINING"

Goal	Measure	Scope	Deadline	Status
Review human resources guidelines for sustainability criteria and incorporate them where necessary	Analyse/review existing guidelines for sustainability criteria	Germany	Ongoing	In process
Ensure adequate numbers of talented young staff	Initial professional training	Germany	Ongoing	In process
Maintain/restore our employees' performance	Continue existing health/screening and prevention programmes	Hannover Re Primary insurance Germany	Ongoing	In process
	Develop a counselling offering for employees facing professional and personal crises (the Employee Assistance Programme at the Hannover location)	Hannover Re Primary insurance Germany	2016	Done
	Implement workplace reintegration management for employees returning to work after illness	Hannover Re Primary insurance Germany	Ongoing	In process
	Continue offering the family service	Hannover Re Primary insurance Germany	2016	Done
Extend further education measures for specialists and managers	Continue/internationalise the management development programme	Hannover Re	Ongoing	In process
	Extend the training programme, e.g. blended learning	Hannover Re	2015	In process
	Internationalise customer satisfaction surveys	Hannover Re	2015/2016	Done

Initial professional training is a key component of our activities to attract and retain talented employees in Germany. This can be seen from the consistently high number of vocational trainees who are taken on permanently after completing their courses, which has been 80–90% for years. Different companies within the Talanx Group offer a wide range of training options, from classic vocational training through to bachelor's degrees. Since 2005, we have won the InnoWard, the industry training award from the Berufsbildungswerk der Deutschen Versicherungswirtschaft e. V. (BVW – the German Insurance Association for Vocational Education and Training), six times in the "Initial Professional Training" category.

A broad range of internal training opportunities ensures our employees have the skills they need to perform their current and future tasks. In addition, our financial support for in-service training and degree programmes promotes employability in general.

Identifying and developing the next generation of managers and specialists is another focus of our human resources development work. Potential candidates are prepared and qualified for their future work using individual development and induction programmes. As a result, we are largely able to fill management and specialist positions from within our own ranks where candidates are equally qualified. This human resources policy offers career-driven high performers especially attractive prospects. In addition, we provide ongoing skills development measures aimed at expanding employees' professional knowledge and strengthening their personal skills. Employee reviews, feedback instruments and personal stocktaking exercises can also be used to enable staff to reflect on their own behaviour and adapt to changed requirements.

The Talanx Corporate Academy is an established, successful core tool for strategy implementation and cultural development within the Group. The programme teaches strategy issues to top managers from all divisions.

The Talanx Group's strategic revamp of its university marketing will focus in future on selected universities in order to attract suitable graduate recruits for the Group. In addition, the Hannover-based insurance companies and Leibniz University Hannover launched the "House of Insurance" project as a joint centre of competence for research and teaching in the fields of insurance economics, mathematics and law, with the aim of strengthening Hannover's position as a centre of the insurance industry.

Above and beyond this, the Talanx Group offers performance-related pay, flexible working hours where the job permits and attractive social benefits such as occupational retirement provision, capital accumulation benefits, and holiday and Christmas bonuses. All these benefits are reflected in our moderate employee turnover rate and the long periods of staff service for the Group.

At the Group level, Hannover Re and other companies have also expanded their measures in the areas of staff retention, development and empowerment. A new learning management system allows employees to view and book a large number of training offerings online, as well as to access blended learning offerings. Managers are also offered special further education and support measures that are customised to their requirements. In addition, a succession planning exercise is performed every two years.

DIVERSITY AND EQUAL OPPORTUNITIES; WORK-FAMILY BALANCE

Our proactive diversity management policy aims not only to create an open and inclusive working atmosphere in which people with a wide range of individual skills collaborate readily, but also to actively and consciously use and promote diversity in order to maintain and increase our Company's success and competitiveness. We cultivate a corporate culture of respect, appreciation and mutual acceptance. The Talanx Group employs women and men from an extremely wide range of national, ethnic, religious and personal backgrounds and of different ages, as well as people with and without disabilities and with different sexual orientations. It is precisely this diversity that makes our heterogeneous Group successful.

There are numerous examples of developments that are changing the nature of work within the Group. These include a rising number of older members of the workforce, the younger generations (generations Y and Z), the need for greater mobility and an improved work-family balance, increasing globalisation and the associated rise in the proportion of women in work and of people in our society who come from migrant backgrounds. Outside the Group this is important for the supply chain/value chain, e.g. for (potential) job applicants, customers and business partners.

GOALS AND MEASURES: "DIVERSITY AND EQUAL OPPORTUNITIES; WORK-FAMILY BALANCE"

Goal	Measure	Scope	Deadline	Status
Diversity/increase proportion of women in management positions	In future, recruit women to at least 25% of vacant management positions at all levels of the hierarchy in Germany	Germany	Ongoing	In process
	Mentoring programme for women	Germany (primary insurance)	Ongoing	In process
	Frauen@Talanx network	Germany (primary insurance and reinsurance)	Ongoing	In process
	Seminar offering for women	Germany (primary insurance)	Ongoing	In process
	Recruit women to at least 35% of management positions	WARTA Group	Ongoing	In process
Work-family balance/work-life balance	Flexible working time models (flexible and part-time working, where the tasks performed permit this)	Germany (primary insurance)	Ongoing	In process
	Deferred compensation scheme	Germany (primary insurance)	Ongoing	In process
	Contribution to childcare costs	Germany (primary insurance)	Ongoing	In process
	Reserved places in childcare facilities	Germany (primary insurance)	Ongoing	In process
	Parent-child offices at our locations in Hannover, Hilden and Hamburg	Germany (primary insurance)	Ongoing	In process
Internationality	International Management Development Programme (MDP)	Talanx Group	Ongoing	In process
	Shadowing opportunities for foreign employees	Talanx Group	Ongoing	In process
	Secondments abroad	Talanx Group	Ongoing	In process
Promoting diversity and a work-life balance	Continue mentoring programme for women with the goal of increasing the proportion of women in management positions	Hannover Re	2015	In process
	Training/awareness raising for managers	Hannover Re	2015	Done
	Expand childcare offering for employees' children in the company day-care centre	Hannover Re	Ongoing	In process

The Group has already taken a number of measures to promote diversity, to prevent discrimination and to support our employees in their development regardless of their origins. In its "Diversity Commitment", the Group Board of Management has undertaken to acknowledge, value and incorporate diversity in Talanx's corporate culture. In addition, in 2013 the Board of Management signed the Diversity Charter, a corporate initiative designed to promote diversity at companies and institutions. The Board of Management also takes diversity into account when filling executive positions within the Company. This is set out in the Corporate Governance Principles.

The "Frauen@Talanx" women's network has independently set itself the goal of giving female employees in the Talanx Group a platform for networking and for learning from and with each other. The members of the group act as contacts for female colleagues from their divisions and as multipliers. The women's network is sponsored by Herbert K. Haas, Talanx AG's CEO.

In addition, the Talanx Group sets store by a successful work-life balance and supports this – where the tasks performed permit this – by offering flexible working time models and the opportunity to work part-time. Moreover, since 2014 Talanx has helped promote a successful work-family balance by paying up to EUR 100 a month tax-free towards the cost of looking after preschool children in the first year after their parents return to work following parental leave. Parent-child offices were also set up at a number of locations (Hannover, Hilden and Hamburg). In 2017, a Group-wide policy for introducing mobile working was developed, agreed with the internal stakeholders concerned and finalised. At present, it is being piloted at our Cologne and Hannover locations. After the pilot projects have ended and the findings have been evaluated, 2018 will see the start of negotiations with the employee representatives on introducing mobile working throughout the Group.

Our employees have access to a comprehensive range of preventive measures as part of our holistic health management programme, allowing them to strengthen their personal resources. For example, health days were held at all locations in Germany during the reporting period. In addition, external employee counselling was introduced in 2016. This offering comprises free, anonymous and immediate assistance with private, professional and psychological issues, plus a family service.

Our business success depends not only on the quality of our products and services, but also on our staff acting in a legally correct and responsible manner in their dealings with each other, and with our clients, business partners, shareholders and the general public. Our employees' behaviour is based on the principles of fair, polite dealings and on respect for individuals' personal rights. Reinforcing this, our Talanx Values Award was presented for the first time in 2016. It aims to honour activities that can serve as an example within the Group and to inspire others to act in keeping with the spirit of our values. The 2017 Talanx Values Award was won by the "Our Values connect" project, which was submitted by HDI Versicherung AG in Austria. The judges were impressed by this comprehensive international values campaign covering Austria, the Czech Republic, Hungary and Slovakia. Other positive factors influencing their choice were the project's cross-divisional ideas workshop, a get-together with people from different departments and workspaces designed to reflect the Group's values.

RESPECT FOR HUMAN RIGHTS

As a global player with 22,059 employees worldwide, we are aware of the obligations to our employees and business partners, and to society resulting from our size and market position. We are therefore reporting voluntarily on this aspect, even though it is not material within the meaning of the CSR Directive Implementing Act. We are committed to respecting human rights worldwide in line with the applicable laws, conventions and regulations (for further details, please see the "Compliance" section on pages 69 onwards).

SUPPLIER MANAGEMENT

The biggest impact that the Talanx Group can have on the observance of human rights is in its global supply and value chain. Although we consider the risk of human rights abuses in our supply chain to be minor, we take care when selecting suppliers to ensure that they comply with national legislation on environmental protection and human rights, and with our Talanx Values. We are planning a uniform Group Code of Conduct for suppliers in order to underscore our commitment and to be able to have an impact over and above the legal requirements. With respect to the procurement aspect, we make a distinction between the Purchasing and IT Purchasing units. In the case of IT procurement, we already use a Code of Conduct for Contractors that forms part of the Talanx Group's work instructions for the procurement of IT assets and services. The Code covers the human rights of employees – e.g. by banning forced and child labour and discrimination – protecting employee health and safety, and environmental protection. It also requires contractors to comply with ethical standards. The Code of Conduct is binding on IT suppliers and contractors. Hannover Re also uses a similar code. In addition, we aim to assess all suppliers for compliance with environmental and social standards on an ongoing basis, and to assign them to ESG risk categories in order to ensure the sustainability of their business practices.

GOALS AND MEASURES: "SUPPLIER MANAGEMENT"

Goal	Measure	Scope	Deadline	Status
Take sustainability into account in procurement	Develop and successively implement a uniform Group Code of Conduct for suppliers	Talanx Group	2017	In process
Assess 100% of relevant suppliers for compliance with environmental and social standards	Group suppliers/supplier groups into ESG risk categories	Hannover Re	2017	Done
	Ongoing supplier selection and assessment in accordance with environmental and social standards	Hannover Re	Ongoing	Done
	Implement supplier assessment procedures for all units at the Hannover location	Hannover Re	Ongoing	Done
	Green IT: develop purchasing guidelines and minimum standards for IT	Hannover Re	Ongoing	Done

Two of our companies, Hannover Re and Talanx Systeme AG, already use a supplier code of conduct. Hannover Re obliges its suppliers to comply with the minimum standards set out in Hannover Re's Code of Conduct for Suppliers. This was extended in 2017 to include an explicit ban on modern slavery and human trafficking in their supply chains. In addition, Hannover Re has developed a computer-assisted self-reporting system for suppliers and service partners that is also based on criteria from the Code of Conduct. The procedure is used regularly at its Hannover location and allows all suppliers to be assessed for compliance with environmental and sustainability standards. Hannover Re is planning to also deploy this system in a first step at its branch offices in the United Kingdom and Ireland before subsequently rolling it out worldwide.

The WARTA Group in Poland and HDI Assicurazioni in Italy also oblige their suppliers to behave in an ethically, socially and environmentally correct manner. Potential suppliers must issue a declaration that they will abide by national labour laws and the principles set out in the United Nations Global Compact.

Work is currently ongoing on the development and successive implementation of a Group-wide Code of Conduct for suppliers. As a result, this sustainability goal will be achieved later than originally planned.

SOCIAL MATTERS

The Talanx Group is aware of the social responsibility that comes from being a listed enterprise with a total of 22,059 employees around the world. Since renewable energies, roads and electricity grids are among a population's basic needs, we see this as a significant way of helping to ensure that local communities are protected and can develop. The ongoing low interest-rate environment is making alternative investments increasingly attractive. In addition to real estate and private equity investments, the Talanx Group focuses in particular on infrastructure investments. Furthermore, our "Corporate Citizenship" strategic action area pursues additional sustainability goals and takes measures that are not reported on in detail here since they are not material within the meaning of the CSR Directive Implementing Act.

INFRASTRUCTURE INVESTMENTS

Demand for investments in core infrastructure goods is largely immune to short-term economic volatility and is therefore extremely plannable for institutional investors. At the same time, the projects are a good fit for an insurer's long-term investment horizon. Thanks to our affinity for long maturities and our expertise in this area we are able to leverage illiquidity, complexity and duration premiums. As a result, these carefully selected projects offer attractive returns for an acceptable level of risk. The goal at all times is to make sound investments in the interests of our policyholders.

One of the core screening criteria for investments is a regulated environment, e.g. in the form of statutory feed-in fees, incentive-based regulation and public-private partnerships. Our infrastructure investments are mainly located in the eurozone, with the focus being on projects in the areas of transport, energy and social infrastructure. The Talanx Group has already been involved indirectly in infrastructure projects for some time via funds. The Group has systematically expanded its expertise in this area in recent years and, since the beginning of 2014, has also participated directly in selected projects, supplying both equity and debt via a new, dedicated unit. At present, our diversified infrastructure portfolio includes, among other things, finance for wind and solar farms, power grids and public-private partnership (PPP) projects in Germany and the rest of Europe.

GOALS AND MEASURES: "INFRASTRUCTURE INVESTMENTS"

Goal	Measure	Scope	Deadline	Status
Increase investments in infrastructure	Expand volume of investments in infrastructure to approximately EUR 2 billion	Talanx Group	2017	Done

The planned investment volumes are between EUR 30 million and EUR 150 million per project (equity) and between EUR 50 million and EUR 200 million (debt); the investment horizon is 5–30 years. As at the end of 2017, the Talanx Group had invested a total of approximately EUR 1.9 (previous year: 1.4) billion in infrastructure projects. For 2018, the Infrastructure Investments team expects new investments to total approximately EUR 300 million of equity and debt. In the long term, it is conceivable that up to EUR 5 billion may be invested in broadly diversified alternative investments. Our investment in the Gode Wind 1 offshore wind farm in 2015 was a key milestone in the infrastructure investment area. The Talanx Group's participation was the first time that an insurance undertaking was the lead investor coordinating an infrastructure investment. The transaction was awarded the "Europe Renewables Deal of the Year 2015" prize by trade magazine Project Finance International (PFI).

Building on the basic structure of this 2015 transaction, the Talanx Group again successfully acted as the lead investor in 2017 for a group of institutional investors and banks that underwrote a bond to finance an offshore wind farm. The project bond for Borkum Riffgrund 2 has a total volume of EUR 832 million and was subscribed by a double-digit number of investors from six countries. It was used to finance the 50 per cent stake taken by Global Infrastructure Partners (GIP) in the wind farm owned by Danish energy provider Ørsted (formerly DONG Energy); the value of the transaction was EUR 1,170 million. The bond has a term of approximately 10 years. This is the second successful large transaction lead-managed by the Talanx Group following the successful financing of the Gode Wind 1 offshore wind farm.

ENVIRONMENTAL MATTERS

As a service provider, the Talanx Group has a comparative small environmental impact. The effects that it does have are mainly produced by the 22,059 employees at its locations around the world, who consume energy and materials, take business trips and travel to and from work every day. Nevertheless, the Group takes its responsibility for the environment extremely seriously and aims to minimise the negative ecological impact of its business operations. The materiality analysis that was performed identified reducing greenhouse gas emissions, and in particular travel, as the main focus for our efforts. Furthermore, our "Day-to-day operations and Procurement" strategic action area pursues additional sustainability goals and takes environmental protection measures.

(GREENHOUSE GAS) EMISSIONS AND CLIMATE CHANGE

The Talanx Group is focusing on using resources sparingly in its attempts to make our day-to-day operations and procurement activities sustainable and cost-efficient. This applies in particular to the consumption of energy, water and materials. In addition, a large proportion of our greenhouse gas emissions are produced by our business trips, and by travelling to and from work.

GOALS AND MEASURES: "(GREENHOUSE GAS) EMISSIONS AND CLIMATE CHANGE"

Goal	Measure	Scope	Deadline	Status
Reduce CO_2 emissions and consumption of energy and resources	Climate-neutral printing of all financial reports and use of FSC certified paper	Talanx Group	2016	Done
	Investigate switch to climate-neutral postal/mail delivery	Germany	2016	Done
	Install an additional videoconferencing facility in order to reduce business travel	Germany, Hilden	2016	Done
	Optimise energy consumption by adjusting timer programmes, using efficient LED lighting in all buildings owned by the Talanx Group, and making greater use of occupancy detectors in offices	Germany	Ongoing	In process
Draw up environmentally friendly rules for company cars and their use	Set upper limit for CO_2 bonus for company cars at 125 g/km (the original goal was to cut this to 130 g/km)	Germany	2017	Done
	Completely replace the vehicle fleet with vehicles that comply with the Euro 5 or Euro 6 standard	WARTA Group	2017	In process
	Driving training for company car users in order to promote economical driving and hence reduce fuel consumption, among other things	WARTA Group	2017	Pilot launched, being continued
Continue reducing CO_2 emissions and achieve carbon neutrality at the Hannover location	Recertification to ISO 14001 and renewed validation of the environmental management system for compliance with the EMAS III Regulation at the Hannover location	Hannover Re	2017	Done
	Successive global rollout of switch to renewable energies	Hannover Re	2017	In process
	Employee training in environmental protection	Hannover Re	2017	Done
	Establish an international network of Hannover Re environmental managers	Hannover Re	2017	In process
	Extend environmental data capture to the Group's international locations	Hannover Re	2017	In process

In addition to setting an upper CO_2 limit for company cars, the Talanx Group is helping employees get to work in an environmentally friendly way by subsidising local public transport offerings at a variety of locations in Germany. In financial year 2017, the Talanx Group also became one of the first companies in the Hannover region to commission a purely electric postal delivery vehicle, and provides employees and guests with electric charging stations at its Hannover location. In addition, we aim to further reduce the number of business trips made within the Group and are making increased use of videoconferencing technology. Since these measures were in some cases only introduced in the reporting period and the results will only become apparent over time, it is not yet possible at present to provide a qualitative or quantitative report on the outcomes. In addition, some of the measures are still ongoing.

The main way in which the materials used aspect affects the Talanx Group, as a service provider in the insurance and finance areas, is in relation to paper consumption. The volume of other materials used in the production of insurance cover and other services is not significant. In line with this, we are focusing on the use of FSC certified paper in our printers and printing centres. This paper is sourced from responsibly and sustainably managed forests. Additionally, to reduce paper consumption, double-sided printing is the standard printer setting. We are also continuously optimising energy consumption at our national and international locations. Greater use is being made of timer programmes and occupancy detectors in offices and more LED lighting is being installed in the buildings.

Back in 2012, our subsidiary Hannover Re introduced an environmental management system certified to DIN EN ISO 14001. This was migrated in 2015 to the more comprehensive EMAS management system. Hannover Re's goal of achieving carbon neutrality at its Hannover location was reached in financial year 2016. The switch to electricity generated from renewable energies in 2012 and the use of atmosfair, the climate protection organisation, to offset greenhouse gas emissions from flights helped meet this target. In addition to the offsetting payments made to atmosfair, other CO_2 emissions caused by district heating and paper consumption are offset by purchasing climate certificates for the "Moorland" project run by Germany environmental protection organisation BUND (Bund für Umwelt und Naturschutz Deutschland). Now that the Hannover location has switched to electricity generated from renewable energies, this moved will be repeated successively at Hannover Re's international locations.

CORPORATE GOVERNANCE

DECLARATION ON CORPORATE GOVERNANCE AND CORPORATE GOVERNANCE REPORT [1]

DECLARATION ON CORPORATE GOVERNANCE IN ACCORDANCE WITH SECTIONS 289F, 315D 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 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 27 February 2017. The Board of Management and Supervisory Board declare in accordance with section 161 of the AktG that Talanx AG, in its implementation of the German Corporate Governance Code in the currently applicable version dated 7 February 2017 and published in the Federal Gazette on 24 April 2017, as well as in its previous version dated 5 May 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 5.3.2(3) sentence 3 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

[1] This subsection is a section of the report explicitly exempted by legislators from the audit of the financial statements/management report (section 317(2) sentence 6 and sentence 4 of the German Commercial Code (HGB); unaudited information).

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 5.3.2(3) sentence 3 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 2018

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

In accordance with the law governing the equal participation of women and men in both the private and public sectors, the Supervisory Board of Talanx AG was obliged to define the desired target proportion of women on the Board of Management of the Company in the period up to 30 June 2017. The Supervisory Board had set a target of zero for the proportion of women on the Board of Management for the above-mentioned period. As at 30 June 2017, this target was not exceeded. The female quota on the Supervisory Board 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. This quota will be taken into consideration in the upcoming elections of new shareholder representatives in 2018.

Moreover, in accordance with the above-mentioned law, the Board of Management was obliged to define the target proportion of women on the two management levels below the Board of Management at Talanx AG in the period up to 30 June 2017. A target proportion of women of 9.1% was set for the first management level and 28.6% for the second. As at 30 June 2017, the proportion of women at the first and second management levels was 9.1% and 23.8% respectively. The target set for the first management level was therefore achieved. The target for the second level was not met due to internal restructuring and changes.

A new deadline for the target proportion of women on the Board of Management and the first two management levels of the Company was set for 30 June 2022. The Supervisory Board has resolved to aim to appoint at least one woman to the Board of Management within the above-mentioned period – without any prejudice for any other decisions as and when required. The Board of Management has set a target for the proportion of women of 20% for the first management level and 30% for the second for the same period.

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

The Board of Management and the Supervisory Board define good corporate governance as responsible enterprise management and supervision for Talanx AG and the Talanx Group that is geared towards sustainable value creation. In particular, we aim to further promote the trust placed in us by investors, our business partners and our employees, and the public at large. We also attach great importance to the efficiency of the work performed by the Board of Management and the Supervisory Board, to good cooperation between these bodies and with the Company's staff and to open and transparent corporate communication. Our understanding of good corporate governance is summarised in Talanx AG's Corporate Governance Principles (http://www.talanx.com/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 the public image of Talanx AG and the entire Group.

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 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

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. The FAC is also responsible for monitoring the impartiality of the auditors and the additional services provided by them. The FAC deals with auditor selection and submits a recommendation to the Supervisory Board regarding the appointment of auditors. The FAC engages the auditors. It is responsible for defining the focal points for audits and agreeing fees with auditors and assumes its rights and obligations in the light of the broader remit established by the EU Audit Reform. The FAC receives direct reports from the Board of Management and also, once a year, 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 of the Supervisory Board 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, Group companies or the Talanx Group. 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. These include Ms Aschendorf and Mr Lohmann. The Supervisory Board therefore currently meets this target. Employee representatives on the Supervisory Board are not taken into account here.

TARGETS FOR THE COMPOSITION OF THE BOARD OF MANAGEMENT AND THE SUPERVISORY BOARD AND PROGRESS REPORT

Talanx AG also follows the principle of diversity in the composition of its Board of Management and Supervisory Board. The broad-based skills, knowledge and relevant experience of the Members of the Board of Management and Supervisory Board allow them to assess the Company's opportunities and risks in its business operations in a nuanced manner and to adopt a balanced and professional approach, including to decision-making, based on that assessment. The diversity aspect is considered to an appropriate extent when appointing members to the Board of Management and the Supervisory Board. This includes, in particular, the age, gender, education and professional experience of a candidate as well as their specialist skills and personal attributes (expertise). In order to guarantee that the diversity concept is embraced consistently, each new appointment of a member to the Board of Management or Supervisory Board is assessed to determine whether the planned appointment is also conducive to implementing the diversity concept.

The Supervisory Board is to be composed in such a way that its members as a whole possess the knowledge, skills and specialist experience required to duly perform their duties. The composition of the Supervisory Board is intended to ensure that the Board of Management of an international, highly diversified insurance group is competently monitored and advised by a supervisory body and to preserve the Group's good reputation in the public eye. It is therefore essential to pay particular attention to the integrity, personality, motivation, professionalism and independence of the individuals put forward for election. The aim is for the Supervisory Board as a whole to possess all the knowledge and experience deemed essential in light of the Talanx Group's activities. Given Talanx AG's international focus, it must be ensured that the Supervisory Board has a sufficient number of Members with many years of international experience. Thanks to their current or previous activities as CEOs or members of boards of management or in similar executive roles in international companies or organisations, all the shareholder representatives on the Supervisory Board have many years of international experience. The Supervisory Board believes that the international dimension has been taken sufficiently into consideration. The aim is to maintain the Board's current international makeup.

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. As regards the Board of Management, the aim is to appoint at least one woman as a Member of this board by June 2022.

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.

REMUNERATION OF THE BOARD OF MANAGEMENT AND SUPERVISORY BOARD

The remuneration report beginning on page 94ff. 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 closely related parties are legally obliged to disclose the acquisition or disposal of shares in Talanx AG or of associated financial instruments if the value of the transactions in a single calendar year amounts to or exceeds EUR 5,000. In relation to this, Talanx AG not only ensures that it makes the relevant publications and disclosures required in accordance with Article 19(2) and (3) of the Market Abuse Regulation but also publishes the 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 2017.

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 in the entire Talanx Group. This calls for a strong compliance culture underpinned by a compliance management system tailored to the Company's specific needs.

The Group does in fact have a robust compliance management system designed around and based on risk. And this general approach is reflected in the way the Group-level process for identifying compliance risks is reviewed on a regular basis and also underwent further development in 2017. As a result, an up-to-date risk map is available at all times and paves the way for compliance work across the Group in the coming year.

The compliance management system is also based on the compliance policy. 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. A set of compliance guidelines have been thoroughly revised in the year under review. These embody the contents of the code and set out minimum requirements in respect of individual core compliance issues (prevention of corruption, antitrust law compliance, financial sanctions and embargoes, product and sales compliance, capital markets compliance, investment compliance, corporate compliance). Topic- and division-specific instructions are designed to put into operation, both domestically and abroad, the minimum requirements contained in the compliance guidelines. As a result, all employees have access to a set of guidelines tailored to the actual needs of their day-to-day work and designed to help them conduct themselves with integrity and in accordance with the law.

During the year under review, employees were made more aware of the main tenets and precepts of the compliance policy through various communication measures and training courses. For example, besides a new training offensive for antitrust law content, the dialogue event for experts and managers, which the Chief Compliance Officer has helped arrange and deliver for many years now, was also held again this year and developed further still in terms of the concepts involved.

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 of 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.

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. Any evidence of violations of the law or of misconduct is followed up rigorously as befits a culture of compliance and in the interests of all stakeholders.

The importance of compliance for the Group is also underlined by its membership of compliance associations, which advocate robust compliance structures for sustainable corporate success. A notable example at national level is Deutsche Institut für Compliance e. V. (DICO), and Talanx is also a member of the international Chief Compliance Officers' Forum (CCO Forum) for the insurance industry. These memberships help identify common positions and offer incentives to develop solutions based on best practice, as well as providing opportunities to pick up on and appraise developments within the regulatory environment for compliance at an early stage.

The Board of Management submits the compliance report, 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 are adopted each year.

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 ended 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 315a (1) No. 5 of the HGB.

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

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

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

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

The 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 11 May 2017 in accordance with section 1 No. 8 of the AktG to acquire treasury shares, including by means of derivatives, for a period of five years, i.e. up to 10 May 2022, under certain conditions.

On 11 May 2017, the Annual General Meeting authorised the Board of Management, subject to the approval of the Supervisory Board, to issue registered bonds with a total nominal value of up to EUR 500 million on one or more occasions until 10 May 2022, 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. Subject to the approval of the Supervisory Board, the Board of Management may disapply pre-emptive rights. In order to service the registered bonds, the share capital was increased conditionally by up to EUR 126,398,821.25 at the same Annual General Meeting (Contingent Capital I). The Annual General Meeting of 11 May 2017 also authorised the Board of Management, subject to the approval of the Supervisory Board, to issue on one or more occasions until 10 May 2022 bonds (convertible bonds and bonds with warrants), participating bonds and/or profit participation rights, which can be combined with conversion rights or warrants, with a total nominal value of up to EUR 500 million. Subject to the approval of the Supervisory Board, the Board of Management may disapply pre-emptive rights for certain listed purposes. In order to service the above bonds, participating bonds and/or profit participation rights, the share capital was increased conditionally by up to EUR 31,599,700 at the same Annual General Meeting (Contingent Capital II). The Annual General Meeting of 11 May 2017 resolved to renew the authorised capital in accordance with article 7(1) of Talanx AG's Articles of Association and to insert a new article 7(1), which authorises the Board of Management, subject to the approval of the Supervisory Board, to increase the share capital on one or more occasions until 10 May 2022 by a maximum of EUR 157,998,521.25 by issuing new no-par value registered shares in exchange for cash or non-cash contributions. 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, shareholders' pre-emptive rights may be disapplied for certain listed purposes in the case of cash capital increases.

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 14 June 2017.

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 2017 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.

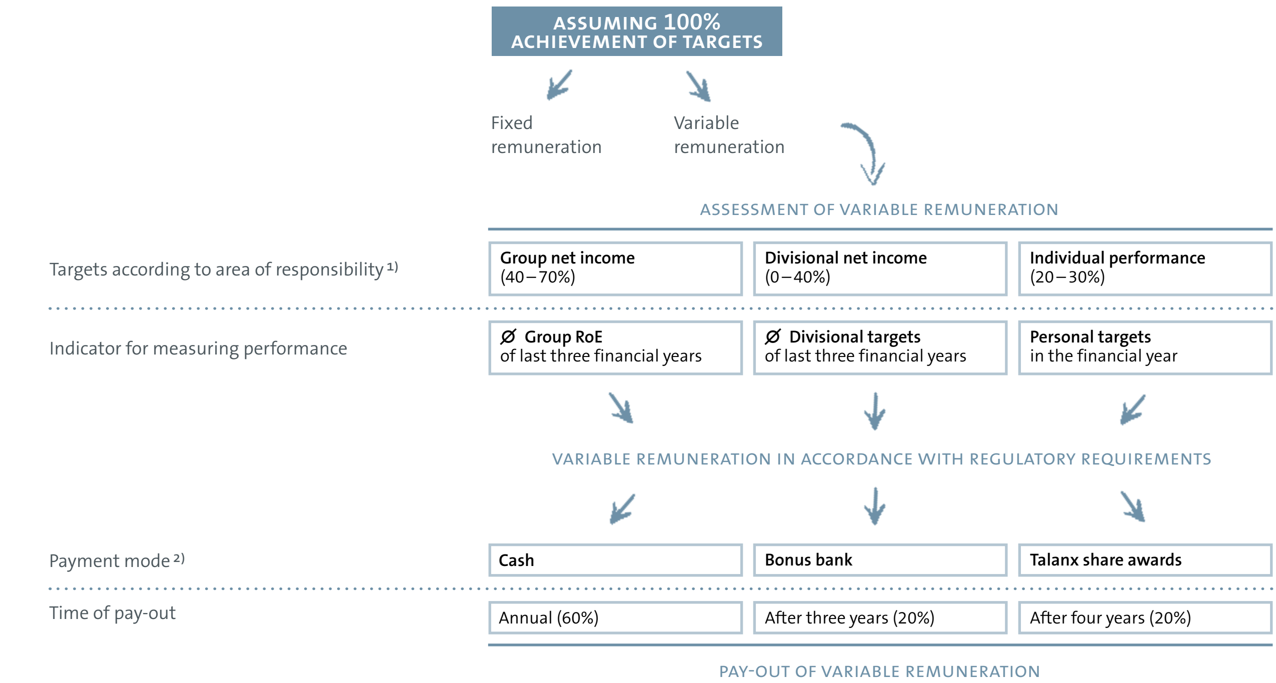
The remuneration report is based on the recommendations of the German Corporate Governance Code and contains information that is included in the Notes to the 2017 consolidated financial statements in accordance with IAS 24 "Related Party Disclosures". In accordance with German commercial law, the information 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, to be in line with the market and be competitive, and to promote 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 is 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. There is an annual adjustment of the underlying risk-free interest rate (for 2017: 0.76%). 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 financial year 2013: gross premium growth, net combined ratio in property/casualty insurance/the change in the value of new business in life insurance, the EBIT margin, the return on equity and the profit transferred/dividend paid to Talanx AG. The Supervisory Board determines the divisional bonus after a due assessment of the circumstances, based on the extent to which these criteria have been met. The bonus is 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 an individual basis. If the defined targets are exceeded or not met, the amount will be adjusted upwards or downwards. With effect for the first time from financial year 2017, a general performance bonus in line with the overall personal performance of the Board Member may be specified in the context of the individual bonus, at the reasonable discretion of the Supervisory Board. 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		
Proportion of variable remuneration Chairman of the Board of Management and Chief Financial Officer: 70% Deputy Chairman: 50% Divisional managers: 40% or 70%	▪ Group return on equity (RoE); individual basic amount (staggered according to area of responsibility and professional experience) per 0.1 percentage point by which the average return on equity (RoE) for the last three financial years exceeds the risk-free interest rate ▪ Calculation basis (= 100%): 10% RoE plus risk-free interest rate; for 2017: 10.76% ▪ 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	▪ Average RoE over three years > risk-free interest rate ▪ Mathematical calculation
Divisional bonus		
Proportion of variable remuneration Chairman of the Board of Management and Chief Financial Officer: 0% Deputy Chairman: 30% Divisional managers: 0% or 40%	▪ Gross premium growth, net combined ratio in property/casualty insurance/change in the 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)	▪ Achievement of three-year targets ▪ Amount determined by Supervisory Board after due assessment of extent to which targets were achieved
Individual bonus		
Proportion of variable remuneration Chairman of the Board of Management and Chief Financial Officer: 30% Deputy Chairman and divisional managers: 20% or 30%	▪ Qualitative and quantitative personal targets; individual contribution to overall result, leadership skills, innovation skills, business abilities, specific achievements in areas of responsibility ▪ 100% = targets achieved in full ▪ Max. cap: 200% ▪ Min. cap: EUR 0	▪ Achievement of annual targets ▪ Amount determined by Supervisory Board after due assessment of extent to which targets were achieved

PAYMENT OF VARIABLE REMUNERATION

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

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

Payment of variable remuneration

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

Bonus bank

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

Share awards

The other 20% of the total variable remuneration that has been determined is granted as a share-based entitlement in the form of virtual share awards. The total number of share awards granted depends upon the value per Talanx AG share at the time of allocation. The value per Talanx AG share is the unweighted arithmetic mean of the XETRA closing prices of Talanx shares for the period stretching from five trading days before to five trading days after the meeting of the Supervisory Board of Talanx AG that approves the consolidated financial statements. Share awards are allocated automatically, without the need for a declaration by Talanx AG or the Board Member. The total number of share awards allocated is arrived at by dividing the amount to be credited by the value per share, rounded up to the nearest whole share (cap). After expiry of a 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.

A 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 end of the lock-up period for the bonus bank or share awards, without the Member being offered a contract extension, the Member of the Board of Management retains his or her entitlement to payment from the bonus bank and to any share awards already allocated.

In principle, 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 a Member 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 87ff. 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 10,359 (11,086) 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

		Non-performance-related remuneration		Performance-related remuneration 1), 9)		
				Short-term		Medium-term
		I	II	III	IV	V
Name		Fixed remuneration	Non-cash benefits/ fringe benefits	Variable remun-eration payable	of which remuneration from memberships of Group supervisory bodies 2)	Allocated to bonus bank 3)
Herbert K Haas	2017	882	20	781	293	260
	2016	765	21	857	286	286
Dr Christian Hinsch	2017	568	14	527	8	176
	2016	552	15	600	8	200
Torsten Leue 8)	2017	630	13	570	—	190
	2016	700	115	645	—	215
Dr Immo Querner	2017	638	19	511	124	170
	2016	619	19	559	119	186
Ulrich Wallin	2017	606	14	864	—	288
	2016	596	14	1,014	—	338
Dr Jan Wicke	2017	630	—	542	13	181
	2016	630	5	546	13	182
Total	2017	**3,954**	**80**	**3,795**	**438**	**1,265**
	2016	3,862	189	4,221	426	1,407

1) No governing body resolution regarding the amount of performance-related remuneration for 2017 had been taken as at the 2017 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 2017.
3) The figure shown represents the nominal amount; payment will be made in full or in part from 2021 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 2022 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 34.07 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 2018.
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 104.90 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 2018.
8) For Mr Leue, non-cash benefits and fringe benefits in 2016 include the non-performance-related additional payment made together with the fixed remuneration for the month of December. These were last granted for financial year 2016.
9) Payments for performance-related remuneration in 2016 exceeded the provisions recognised for this by a total of EUR 382 (700) thousand. The total amount recognised for performance-related remuneration in 2017 and the number of share awards for 2017 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)
260	—	2,203	7,642	—
286	—	2,215	8,993	—
176	—	1,461	5,156	—
200	—	1,567	6,291	—
190	—	1,593	5,573	—
215	—	1,890	6,765	—
170	—	1,508	4,998	—
186	—	1,569	5,861	—
56	232	2,060	1,658	2,171
75	263	2,300	2,371	2,556
181	—	1,534	5,306	—
182	—	1,545	5,729	—
1,033	**232**	**10,359**	**30,333**	**2,171**
1,144	**263**	**11,086**	**36,010**	**2,556**

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 granted [1]	Allocations to provisions for Talanx share awards [2] from previous years	Allocations to provisions for Hannover Re share awards [3] from previous years	Allocations to provisions for existing stock appreciation rights	Stock appreciation rights exercised	Total
Herbert K Haas	2017	182	—	589	—	—	—	**771**
	2016	69	—	185	—	—	—	254
Dr Christian Hinsch	2017	44	—	162	—	—	—	**206**
	2016	73	—	264	—	—	—	337
Torsten Leue	2017	33	—	252	—	—	—	**285**
	2016	45	—	255	—	—	—	300
Dr Immo Querner	2017	37	—	221	—	—	—	**258**
	2016	35	—	226	—	—	—	261
Ulrich Wallin	2017	19	78	87	318	–103	103	**502**
	2016	18	61	60	156	–83	103	315
Dr Jan Wicke	2017	72	—	154	—	—	—	**226**
	2016	53	—	89	—	—	—	142
Total	2017	**387**	**78**	**1,465**	**318**	**–103**	**103**	**2,248**
	2016	293	61	1,079	156	–83	103	1,609

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 2016 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 2016 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 contract and is between 50% and 65% of the Board Member's monthly fixed salary at the time of their scheduled retirement on reaching the age of 65. A non-pensionable fixed remuneration component was introduced in connection with the new remuneration structure, which took effect from financial year 2011.

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 1,743 (1,607) thousand. The service cost (and/or annual funding contribution) for active Members of the Board of Management amounted to EUR 1,513 (1,325) 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	2017	478	10,832	316
	2016	478	10,495	301
Dr Christian Hinsch	2017	325	7,048	253
	2016	319	7,987	219
Torsten Leue	2017	350	3,858	425
	2016	250	2,597	342
Dr Immo Querner	2017	217	4,019	198
	2016	217	3,872	161
Ulrich Wallin	2017	258	5,831	163
	2016	229	5,370	144
Dr Jan Wicke[4]	2017	115	545	158
	2016	114	389	158
Total	2017	**1,743**	**32,133**	**1,513**
	2016	**1,607**	**30,710**	**1,325**

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”. 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 765 (752) thousand. Provisions recognised for pension obligations towards this group of people totalled EUR 18,346 (18,776) 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										
		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	**Total remuneration**
Herbert K Haas, *Chairman of the Board of Management*	2017	882	20	**902**	797	531	266	266	—	**2,230**	316	**2,546**
	(Min.)[2]	882	20	**902**	—	–754	–754	—	—	**148**	316	**464**
	(Max.)[3]	882	20	**902**	1,593	1,062	531	531	—	**3,557**	316	**3,873**
	2016[1]	765	21	**786**	797	531	266	266	—	**2,114**	301	**2,415**
Dr Christian Hinsch, *Deputy Chairman of the Board of Management*	2017	568	14	**582**	559	373	186	186	—	**1,514**	253	**1,767**
	(Min.)[2]	568	14	**582**	—	–523	–523	—	—	**59**	253	**312**
	(Max.)[3]	568	14	**582**	1,118	746	373	373	—	**2,446**	253	**2,699**
	2016[1]	552	15	**567**	559	373	186	186	—	**1,499**	219	**1,718**
Torsten Leue, *Head of Division*	2017	630	13	**643**	457	305	152	152	—	**1,405**	425	**1,830**
	(Min.)[2]	630	13	**643**	—	–535	–535	—	—	**108**	425	**533**
	(Max.)[3]	630	13	**643**	914	609	305	305	—	**2,166**	425	**2,591**
	2016[1]	700	115	**815**	508	338	169	169	—	**1,661**	342	**2,003**
Dr Immo Querner, *Chief Financial Officer*	2017	638	19	**657**	491	327	164	164	—	**1,475**	198	**1,673**
	(Min.)[2]	638	19	**657**	—	–505	–505	—	—	**152**	198	**350**
	(Max.)[3]	638	19	**657**	981	654	327	327	—	**2,292**	198	**2,490**
	2016[1]	619	19	**638**	491	327	164	164	—	**1,456**	161	**1,617**
Ulrich Wallin, *Head of Division*	2017	606	14	**620**	703	469	234	60	174	**1,792**	163	**1,955**
	(Min.)[2]	606	14	**620**	—	–803	–803	—	—	**–183**	163	**–20**
	(Max.)[3]	606	14	**620**	1,406	937	469	120	349	**2,963**	163	**3,126**
	2016[1]	596	14	**610**	684	456	228	60	168	**1,750**	144	**1,894**
Dr Jan Wicke, *Head of Division*	2017	630	—	**630**	510	340	170	170	—	**1,480**	158	**1,638**
	(Min.)[2]	630	—	**630**	—	–440	–440	—	—	**190**	158	**348**
	(Max.)[3]	630	—	**630**	1,020	680	340	340	—	**2,330**	158	**2,488**
	2016[1]	630	5	**635**	510	340	170	170	—	**1,485**	158	**1,643**

[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, *Chairman of the Board of Management*	2017	882	20	902	818
	2016	765	21	786	757
Dr Christian Hinsch, *Deputy Chairman of the Board of Management*	2017	568	14	582	579
	2016	552	15	567	490
Torsten Leue, *Head of Division*	2017	630	13	643	631
	2016	700	115	815	592
Dr Immo Querner, *Chief Financial Officer*	2017	638	19	657	542
	2016	619	19	638	501
Ulrich Wallin, *Head of Division*	2017	606	14	620	921
	2016	596	14	610	913
Dr Jan Wicke, *Head of Division*	2017	630	—	630	525
	2016	630	5	635	483

[1] Benefits received in the year under review (basis: provisions).
[2] Benefits received in accordance with German tax law.
[3] E.g. claw-backs.

REMUNERATION OF THE SUPERVISORY BOARD

The remuneration of the Supervisory Board is governed by article 13 of the Articles of Association of Talanx AG. It is set by the 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, an 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 receives annual variable remuneration of EUR 55 for each full million euros by which the average Group net income for the last three financial years, after non-controlling interests, exceeds the minimum return in accordance with section 113(3) of the AktG (4% of the contributions paid on the lowest issue price for the shares) (benchmark). The factor applied in the case of the Chairman amounts to EUR 138, while that for each of his deputies amounts to EUR 83. The variable remuneration is capped at a maximum of EUR 50,000 for Members of the Supervisory Board, EUR 125,000 for the Chairman and EUR 75,000 for his deputies. If the average Group net income for the last three financial years, after non-controlling interests, falls short of the minimum return in accordance with

Benefits received							
	Multi-year variable remuneration 2)						
Bonus bank (3 years)	Talanx share awards (4 years)	Hannover Rück Share Awards (4 years)	Hannover Re stock appreciation rights (10 years)	Other 3)	Total	Pension expense	Total remuneration
255	409	—	—	—	2,384	316	2,700
254	422	—	—	—	2,219	301	2,520
164	276	—	—	—	1,601	253	1,854
172	280	—	—	—	1,509	219	1,728
181	256	—	—	—	1,711	425	2,136
159	246	—	—	—	1,812	342	2,154
157	246	—	—	—	1,602	198	1,800
153	252	—	—	—	1,544	161	1,705
257	80	407	103	—	2,388	163	2,551
254	82	609	103	—	2,571	144	2,715
—	—	—	—	—	1,155	158	1,313
—	—	—	—	—	1,118	158	1,276

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 2,410 (2,506) thousand. The details are given in the following table.

INDIVIDUAL REMUNERATION OF SUPERVISORY BOARD MEMBERS[1]

EUR THOUSAND

Name	Function	Type of remuneration	2017 [2]	2016 [2]
Wolf-Dieter Baumgartl [3]	■ Chairman of the ▪ Supervisory Board ▪ Personnel Committee ▪ Finance and Audit Committee ▪ Nomination Committee ▪ Standing Committee	Basic remuneration	173	189
		Variable remuneration	152	159
		Remuneration for committee activities	123	123
		Attendance allowances	19	24
			467	**495**
Ralf Rieger [3]	■ Deputy Chairman of the Supervisory Board ■ Member of the ▪ Finance and Audit Committee ▪ Standing Committee	Basic remuneration	82	85
		Variable remuneration	71	69
		Remuneration for committee activities	25	25
		Attendance allowances	6	9
			184	**188**
Prof Dr Eckhard Rohkamm	■ Deputy Chairman of the Supervisory Board ■ Member of the ▪ Personnel Committee ▪ Finance and Audit Committee ▪ Standing Committee	Basic remuneration	75	75
		Variable remuneration	71	69
		Remuneration for committee activities	50	50
		Attendance allowances	10	10
			206	**204**
Antonia Aschendorf [3]	■ Member of the Supervisory Board	Basic remuneration	83	66
		Variable remuneration	47	46
		Attendance allowances	4	4
			134	**116**
Karsten Faber	■ Member of the Supervisory Board	Basic remuneration	50	50
		Variable remuneration	47	46
		Attendance allowances	4	4
			101	**100**
Jutta Hammer [3]	■ Member of the Supervisory Board	Basic remuneration	50	54
		Variable remuneration	47	46
		Attendance allowances	4	4
			101	**104**
Dr Herrmann Jung	■ Member of the Supervisory Board	Basic remuneration	50	50
		Variable remuneration	47	46
		Attendance allowances	4	3
			101	**99**
Dr Thomas Lindner	■ Member of the ▪ Supervisory Board ▪ Finance and Audit Committee ▪ Nomination Committee	Basic remuneration	50	50
		Variable remuneration	47	46
		Remuneration for committee activities	25	25
		Attendance allowances	9	9
			131	**130**
Dirk Lohmann	■ Member of the ▪ Supervisory Board ▪ Nomination Committee	Basic remuneration	50	50
		Variable remuneration	47	46
		Attendance allowances	6	4
			103	**100**
Christoph Meister	■ Member of the Supervisory Board	Basic remuneration	50	50
		Variable remuneration	47	46
		Attendance allowances	4	4
			101	**100**
Jutta Mück [3]	■ Member of the Supervisory Board	Basic remuneration	60	60
		Variable remuneration	47	46
		Attendance allowances	6	6
			113	**112**

INDIVIDUAL REMUNERATION OF SUPERVISORY BOARD MEMBERS[1]

EUR THOUSAND

Name	Function	Type of remuneration	2017 [2]	2016 [2]
Otto Müller [3] (until 31 December 2016)	■ Member of the ■ Supervisory Board ■ Finance and Audit Committee	Basic remuneration	—	80
		Variable remuneration	—	75
		Remuneration for committee activities	—	25
		Attendance allowances	—	13
			—	193
Katja Sachtleben-Reimann [3]	■ Member of the ■ Supervisory Board ■ Personnel Committee	Basic remuneration	50	50
		Variable remuneration	47	46
		Remuneration for committee activities	25	25
		Attendance allowances	6	6
			128	127
Dr Erhard Schipporeit [3]	■ Member of the ■ Supervisory Board ■ Finance and Audit Committee	Basic remuneration	80	80
		Variable remuneration	78	75
		Remuneration for committee activities	40	40
		Attendance allowances	15	16
			213	211
Prof Dr Jens Schubert	■ Member of the ■ Supervisory Board ■ Standing Committee	Basic remuneration	50	50
		Variable remuneration	47	46
		Attendance allowances	4	4
			101	100
Norbert Steiner	■ Member of the ■ Supervisory Board ■ Personnel Committee	Basic remuneration	50	50
		Variable remuneration	47	46
		Remuneration for committee activities	25	25
		Attendance allowances	8	6
			130	127
Jörn von Stein (since 1 January 2017)	■ Member of the ■ Supervisory Board	Basic remuneration	50	—
		Variable remuneration	42	—
		Attendance allowances	4	—
			96	—
Total [4]			2,410	2,506

[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 variable remuneration is recognised on the basis of estimates and correspondingly formed provisions.
[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 2016 remuneration exceeded provisions by a total of EUR 96 (47). The total amount of 2017 variable 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.

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 18.47% in this company. Secquaero Advisors AG provided a variety of advisory services to Hannover Rück SE in the year under review and received less than EUR 10 thousand in fees for 2017 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

	2017	2016
Salaries and other short-term remunerationn	10,239	10,778
Other long-term benefits [1]	1,265	1,407
Awards of shares and other equity-based remuneration [2]	1,265	1,407
Cost of post-employment benefits [3]	1,513	1,325
Total	**14,282**	**14,917**

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 2016, which was paid out in May 2017, 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 268 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 internationally operating Group that focuses on insurance services in particular, 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 accordance 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. We must also fulfil regulatory requirements.

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

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

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. Similarly, this guarantees a consistent derivation of the risk strategy from the business strategy.

TALANX ENTERPRISE RISK MODEL (TERM)

Even before the new VAG came into force on 1 January 2016, the Group/HDI V. a. G. as the ultimate parent undertaking received approval for being able to determine the regulatory solvency capital requirement using a partially internal model.

The particular feature that the risk management is carried out at Talanx Group level is also reflected in the designation of our internal model, TERM (Talanx Enterprise Risk Model). TERM has been designed as a fully internal model for the Talanx Group as the risk kernel, and is being expanded to cover the HDI Group for regulatory purposes. In this process, the operational risk for the HDI Group is modelled on the basis of the standard formula. TERM is a partially internal model for the entire HDI Group from the regulatory point of view.

There are therefore two perspectives on TERM: the regulatory perspective relating to the HDI Group and based on a partial internal model, and the economic perspective, relating to the Talanx Group as the risk kernel of the HDI Group, for risk management based on an internal model, including the modelling of operational risks.

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 (SNA s) contained in the market-consistent balance sheet as well as the other own funds amounts relevant in accordance with Solvency II.

The basis of consolidation as defined in the internal model essentially corresponds to that used in the Group Annual Report, with the exception that the solvency capital requirements for occupational pension scheme providers are still calculated in accordance with the relevant sector requirements.

The results of the model run as at 31 December 2017 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% to 200%. We will be publishing the actual ratio in May 2018, together with the results for the first quarter of 2018 and in the Solvency and Financial Condition Report (SFCR) as at 31 December 2017.

KEY FUNCTIONS

Insurance supervision law requires all insurance and reinsurance companies to have in place a proper and effective business organisation that ensures "solid and prudent business management". The following four key functions have therefore been established: the independent risk controlling function (risk management function), the compliance function, the internal audit function and the internal actuarial function. In support of this process, the Boards of Management of Talanx AG produced and adopted a policy guideline that defines the guiding principles, tasks, processes and reporting obligations for each key function. The provisions put in place ensure that the key functions rank equally and have equally entitlements, and are only subject to the instructions of the Board of Management with respect to undertaking the relevant key function. With respect to performing their applicable tasks, they have specific rights to information and report directly to the Board of Management.

Individuals who manage a key function are subject to certain requirements (as are members of the Board of Management and the Supervisory Board) with regard to their professional qualifications and personal reliability.

INDEPENDENT RISK CONTROLLING FUNCTION

The independent risk controlling function (risk management function) notifies the Board of Management of all risks that can be classified as possibly material in nature and also supports the Board of Management with the performance of its tasks as they relate to the Board's general responsibility for risk management at the Company. To this end, the risk controlling function continually – based on the risk strategy – identifies and evaluates any risks that can be classified as potentially relevant, defines risk limits for approval by the Board of Management, and aggregates the identified risks for reporting purposes. In addition, it coordinates the performance and documentation of the company's own risk and solvency assessment.

The risk controlling function is also responsible for the further development and application of the internal model. In this context, it analyses the capacity of the internal model, and provides summary reports to the Board of Management regarding this analysis, provides it with suggestions for improving the model, and keeps it up-to-date regarding corrective measures for identified weaknesses and shortcomings.

COMPLIANCE FUNCTION

The compliance function works to ensure that employees and members of executive bodies at Group companies comply with all applicable laws and regulations and internal stipulations. It also monitors such compliance. This function is an integral component of the Group's System of Governance and internal control system. The compliance function is managed by the Chief Compliance Officer of the Group. Every year, the compliance function creates a Compliance Plan that provides a description of all the tasks and activities planned for the financial year.

The compliance function is part of the second line of defence. In order to ensure sustained compliance with all relevant legal, regulatory and internal stipulations and requirements, the compliance function implements appropriate monitoring measures through its interfaces with Auditing, specialist departments responsible for certain compliance issues, compliance officers from abroad and the other three key functions.

A code of conduct serves as the linchpin for internal Group compliance regulations. It contains the key principles and rules for ensuring that all Group employees act in a legally compliant and responsible manner.

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. In particular, the compliance guidelines contain detailed regulations that apply to the following core compliance issues:

- Prevention of corruption
- Antitrust law compliance
- Sales and product compliance
- Financial sanctions/embargoes
- Investment compliance
- Capital market compliance
- Corporate compliance (fit & proper requirements and remuneration)

The compliance guidelines are reviewed regularly to ensure they remain up to date, and are then amended if necessary. The compliance function announces such changes throughout the entire Group whenever they are made. The responsible managers must then update all work procedures affected by the changes to the guidelines.

Another element in ensuring Group-wide compliance is a whistleblower system that can be accessed from anywhere in the world via the Internet, and which employees and third parties can use to report significant breaches of the law and the rules contained in the code of conduct. Complaints can be made anonymously if desired. This enables the compliance function to take action, limit any damage and avoid further harm.

The compliance function produces an annual compliance report that describes the current legal and regulatory framework, the various compliance-related activities under way at the Group, and key issues relevant to compliance.

INTERNAL AUDIT FUNCTION

Group Auditing performs the internal audit function in the Group, by undertaking auditing, assessment and advisory activities at all companies that are part of the Group (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 an executive department, Group Auditing is detached from the day-to-day work process and is autonomous and organisationally independent. Its process independence is guaranteed by the fact that no line duties are functionally assigned to it.

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.

ACTUARIAL FUNCTION

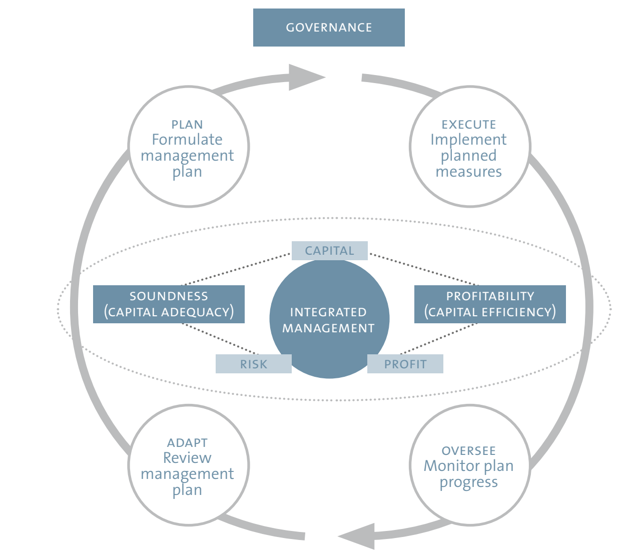
The actuarial function at the Group coordinates activities involving the valuation of technical provisions for the purposes of Solvency II and also monitors the process for calculating technical provisions. This includes setting technically consistent minimum standards for methods, models and data quality at Group level. The actuarial function also informs and advises the Board of Management from the perspective of the whole Group concerning the reserve situation, the underwriting and acceptance policy, and the adequacy of reinsurance agreements. In addition, the actuarial function supports the risk controlling function in its tasks, in particular in matters concerning the internal model and the Own Risk and Solvency Assessment (ORSA). It also provides its actuarial expertise.

RISK MANAGEMENT SYSTEM

STRUCTURE OF THE RISK MANAGEMENT SYSTEM

A risk management system represents the sum of all measures in place for identifying, analysing, assessing, communicating, monitoring and controlling risks and opportunities at a company. The Group established and implemented its risk management system along the lines of an enterprise risk management system (ERM) – i.e. a holistic system that also includes performance measurement and the systematic development of courses of action where necessary.

PERFORMANCE CONCEPT AND INTEGRATED MANAGEMENT

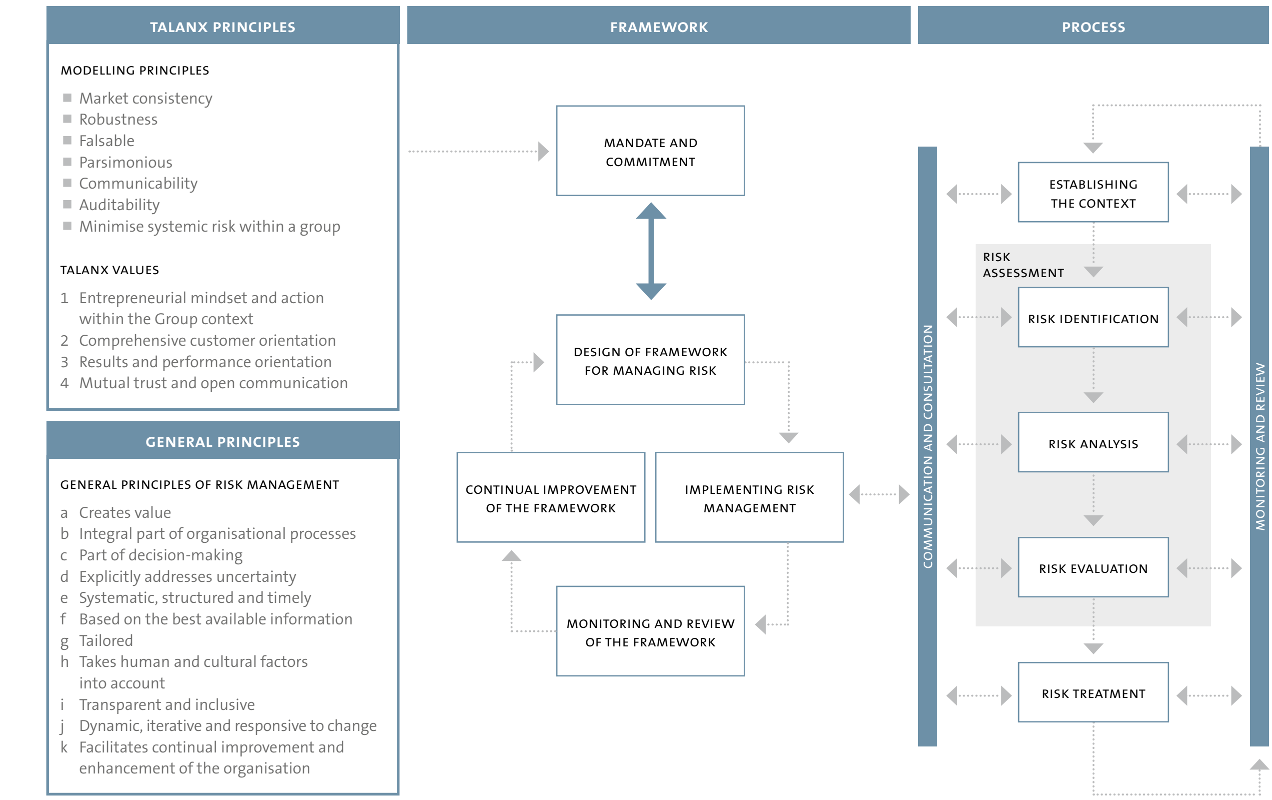


The basic concepts of risk, capital and income are not viewed here as absolute variables but instead as relative variables that can depend on the stakeholder in question.

The following graphic shows the basic components of the risk management system at the Group. These include procedural components and guidelines that define processes and suitable process controls. The implementation of an ERM involves the application of corporate and risk management philosophies that define the cornerstones of the risk culture.

This is followed by general principles that summarise risk management experiences in the manner of best practices. The chart below is strongly based on the ISO 31000 standard for risk management and offers an overview of the basic structure of the risk management system.

THE GROUP RISK MANAGEMENT SYSTEM – BASED ON THE ISO 31000 STANDARD



Using our internal model as a basis, we – in accordance with risk-bearing capacity – derive a limit and threshold system, which is adequate for assessing risks in both an independent and complete manner. This applies to risk categories and subsidiaries. In line with this limit and threshold system, a risk budget is defined for the Group and its divisions. This risk budget describes a contingent risk potential that reflects the Board of Management's risk appetite as derived from the company's targets. The risk budget also takes into account the risk-bearing capacity of the divisions, whereby the latter are viewed as a secondary condition in the risk budgeting process.

IMPLEMENTATION OF THE RISK MANAGEMENT SYSTEM WITHIN THE GROUP

In order to ensure consistent Group-wide implementation of the risk management system, the Group's risk controlling function integrates the corresponding risk management units at the divisions/subsidiaries by means of Group guidelines on the one hand, and on the other hand through the incorporation and active participation of subsidiaries in risk management-relevant bodies and/or decision-making and escalation processes that have been established throughout the Group.

The following table describes the roles of key responsible individuals in the risk management process, as well as important bodies from the perspective of the Group. The role of the Group CRO (Chief Risk Officer) enables the company to meet the regulatory requirements associated with this key function (independent risk controlling function). In addition, the organisational structure and escalation processes are in conformance with Solvency II.

RISK MANAGEMENT SYSTEM

Managers and organisational units	Key roles in the Risk Management System
Supervisory Board	■ Advises and oversees the Board of Management in its management of the Company, including with respect to risk strategy and risk management
Board of Management	■ Overall responsibility for risk management ■ Defining the risk strategy, including limits and thresholds ■ Responsibility for proper functioning of risk management ■ Approval of amendments to models ■ Approval of key Group guidelines
Executive Risk Committee (ERC)	■ 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	■ Risk monitoring and coordinating body, charged with the following key tasks: ▪ Critical examination and analysis of the risk position of the Group as a whole with a particular focus on the risk budget approved by the Board of Management and 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 (CRO)	■ 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 ■ Inclusion of the CRO in key Board of Management decisions
Central Risk Management of the Group	■ Group-wide risk monitoring function ■ Methodological expertise, including the following: ▪ Development of processes; procedures for risk identification 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	■ 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, risk identification, risk assessment, monitoring and reporting

Key stipulations regarding the design and structure of risk management at the Group are defined in binding internal guidelines and specific regulations. In accordance with the principle of "centralised strategic management and decentralised divisional responsibility", this framework is amended and further specified in line with requirements at division and subsidiary level.

The figure below shows the regulation hierarchy of the risk management system.

The key components of the risk management framework also include risk budgeting and the definition of limits and thresholds .

HIERARCHY OF RULES FOR THE RISK MANAGEMENT SYSTEM

RISK MANAGEMENT PROCESS AND COMMUNICATION

Specifically, the risk management process relates to the processes in the schematic representation of the risk management system. We identify risks throughout the Group using key indicators and various risk surveys. Qualitative risks are recorded 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. Product-related risk identification starts as early as during the New Products Process. This ensures we have completely understood the risks we enter into when purchasing or selling financial instruments and have adequately measured such risks in a qualitative or quantitative manner.

An overall examination of risks is also conducted within the framework of the modelling and validation of our internal model. The latter is particularly important for ensuring an adequate presentation of diversification effects.

The risk analysis and risk measurement are carried out for regulatory solvency purposes on the basis of our internal model. We also utilise a series of supplementary models that we especially apply in the process for operational management of specific risk categories. In contrast to our internal model TERM, model runs here are generally more frequent (e.g. weekly) and much more granular in terms of the depiction of the underlying financial instruments.

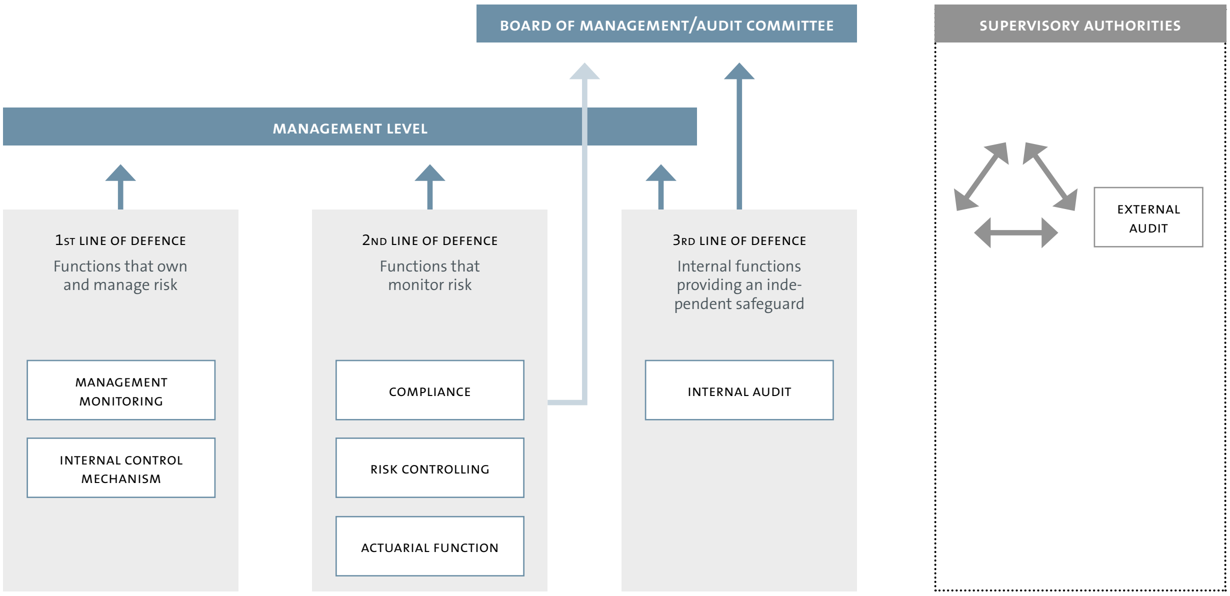
The risk assessment includes a holistic appraisal of the information obtained through the risk analysis as a means of ensuring that the Board of Management can make risk-informed decisions. The term "risk-informed" refers to a balanced appraisal of the model results that takes into consideration expert opinions on the limits and weaknesses that are inherent in every model. In line with our ISO-based risk management philosophy, we define the inherent model uncertainties associated with the use of any model.

The Board of Management is provided with the results of our operating risk models on a monthly basis, and with the results of our internal model on a quarterly basis. In line with our risk profile, this information is presented by division, company or risk taker, as well as by risk category. The limit and threshold system relates to risk categories in our internal model and the limitation of segments.

Along with the fundamental objective of adequate capitalisation and balanced risk taking, the immunisation of the Group as a whole against financial contagion risks is also a key objective. More specifically, the goal here is to make the core of the Group as robust and resilient as possible when facing adverse developments.

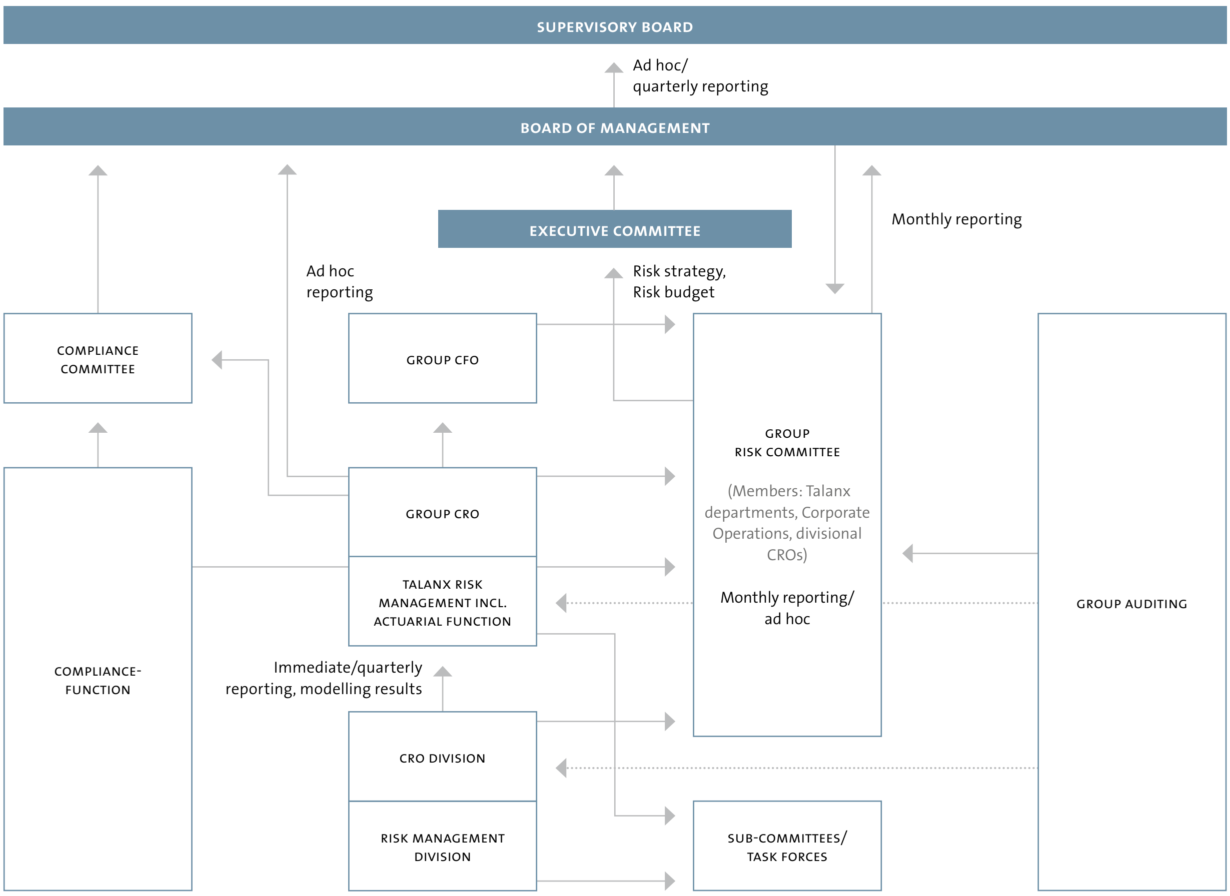
S&P assesses the Talanx risk management system as "strong" and issued an "M factor" that expresses the credibility of our internal model as viewed by S&P. The three lines of defence in the internal control system have therefore been supplemented by the additional security offered by external third parties (e.g. the supervisory authority and external auditors).

THE THREE LINES OF DEFENCE FROM THE SUPERVISOR'S AND EXTERNAL AUDITORS' PERSPECTIVE



With the introduction of Solvency II, the supervisory authority also introduced the role of the key functions. The key function for risk management is the independent risk controlling function. The tasks associated with this function have been carried out for the last ten years at the Group by the Chief Risk Officer, who reports to the Chief Financial Officer and exercises a variety of powers in this capacity. In particular, the Board of Management obtains the opinion of the CRO before making important decisions. The following chart shows the interaction between the four key functions in terms of information flows, especially those concerning risk management.

FUNCTIONAL ORGANISATIONAL CHART FOR RISK MANAGEMENT



RISK REPORTING

The purpose of our risk reporting is to provide the Board of Management and the Supervisory Board with systematic and timely information about risks and their potential effects, to strengthen the risk culture, and to ensure smooth internal communication about all material risks as a basis for effective decision-making.

The backbone of the (least redundant as possible) reporting cascade is formed by the Solvency and Financial Condition Report (SFCR), Regular Supervisory Reporting (RSR) and the Own Risk and Solvency Assessment (ORSA). These core reports are produced annually.

It is clear that each of these different reports accommodates the different information needs of various stakeholders. At the same time, the reporting cascade is based on a consistent information framework, which means that the reports are consistent in their presentations.

By their nature, all of the reports focus on aspects of risk strategy. We also utilise a range of short-notice reporting formats in order to provide up-to-date information on the latest developments (e.g. concerning the capital market, large losses). In this manner, the complementary reporting formats enable risks and events to be analysed and addressed in a timely manner.

Rules governing the content and frequency (e.g. unscheduled reports) of reporting are contained in corresponding guidelines. Both documentation and the reporting process are subject to reviews by Auditing and the supervisory authority.

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 separation of areas of responsibility involved in the financial reporting process (separation of functions)
- The financial systems used are protected against unauthorised access by appropriate IT measures. Where possible, standard protective software is used for the relevant systems
- Processes and controls as well as work procedures and guidelines in the accounting-related internal control and risk management system are recorded in comprehensive ICS documentation, and are reviewed as and when required, but at least once a year, for appropriateness and to determine whether any adjustments are necessary

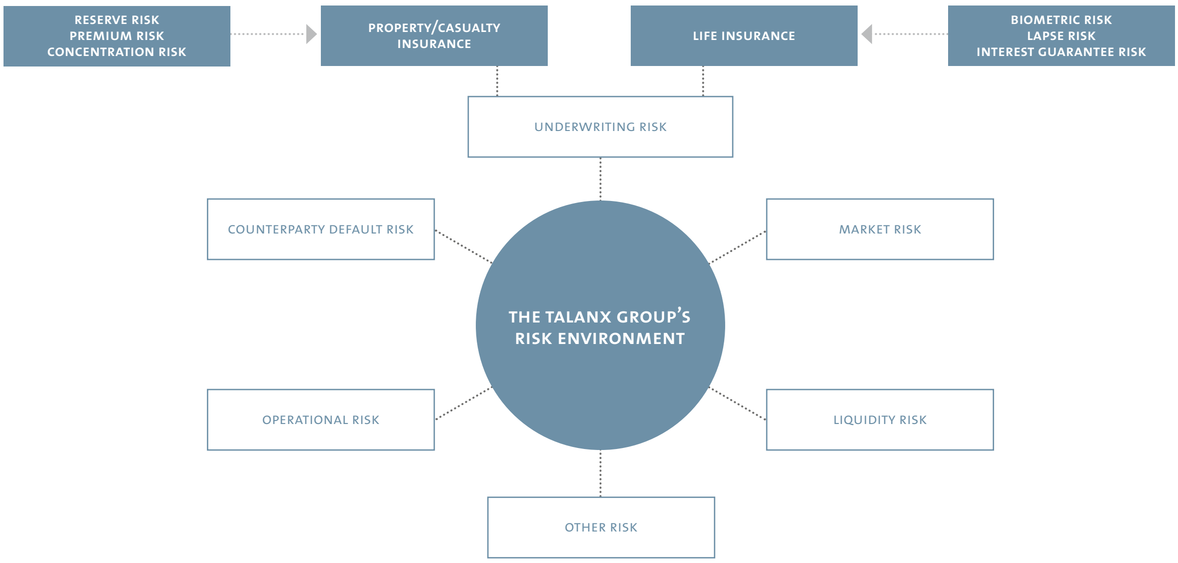
Financial reporting must comply with the International Financial Reporting Standards (IFRS). In order to comply with these requirements, controls are implemented in the consolidated financial statements process in order to ensure that the financial statements are complete and accurate. Potential risks 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.

IFRS accounting specifications that are internal to the Group are set out in an accounting manual. 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. Compliance with specifications is ensured by means of Group Accounting providing support to the companies.

An IT tool with standardised reporting and consolidation rules is used for creating the consolidated financial statements. 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 subsidiaries are responsible for compliance with the Group-wide accounting regulations as well as for running their accounting-related processes and systems properly and in a timely fashion. A package review is implemented in the consolidated financial statements process, which is performed and documented by Group Accounting employees.

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

RISK PROFILE



German Accounting Standard (GAS) 20, which forms the basis for the further presentation and categorisation of risks into what are referred to as risks of future development, is definitive for this report:

- Underwriting risks
- Risks arising from the default of accounts receivable on insurance business
- Risks from investments
- Operational risks
- Other material risks

UNDERWRITING RISK

The underwriting risk refers to the danger of an unexpected, disadvantageous change in the value in the Solvency balance sheet. The causes for such a deviation may be random chance, error or a change in the assumptions underlying the calculation (e.g. biometrics, loss amounts, payout duration or costs for loss adjustment).

UNDERWRITING RISKS IN PROPERTY/CASUALTY INSURANCE

Reserve risks

The reserve risk refers to unexpected, disadvantageous changes to the value of insurance liabilities, which have an effect on the amount of the loss run-off. The cause for such an unexpected change may in particular be the loss amount, the payout duration or costs for loss adjustment. Any loss events that occurred before the reporting date are taken into account in the reserve risk.

In order to manage the risk, the companies take into account not only the claims information provided by their clients but also insights from their own claims investigations and experience.

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

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 27.2 (24.6) years; reserves for asbestos-related claims and environmental damage amounted to EUR 175 (246) million.

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 – as do 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 552 (492) million.

Premium risks

Premium risk refers to unexpected, disadvantageous changes in the value of the insurance liabilities arising from fluctuations in relation to the occurrence, frequency and severity of the insured events. In contrast to reserve risk, premium risk takes into account any loss events (excluding natural disasters) that may take place after the reporting date. In the context of premium risk, expected premium income is compared to future loss events.

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

We address the premium 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

%

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Industrial Lines	55.2	53.4	51.8	50.9	44.5	45.6	44.1	46.1	43.7	n. a.
Retail Germany – Property/Casualty	94.6	95.4	95.6	95.6	94.9	94.6	92.9	91.6	85.6	n. a.
Retail International	89.0	87.9	87.3	88.9	88.5	88.5	88.7	92.4	86.9	n. a.
Primary indemnity insurance [1]	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	66.7
Property/Casualty Reinsurance	89.7	88.5	89.3	90.6	89.9	90.2	91.3	88.9	94.1	89.0
Total property/casualty insurance	**82.4**	**80.7**	**80.7**	**81.0**	**79.3**	**79.8**	**79.8**	**78.9**	**78.7**	**76.9**

[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

%

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Industrial Lines	85.7	74.9	76.5	81.2	81.8	75.2	66.8	82.0	68.6	n. a.
Retail Germany – Property/Casualty	64.6	66.7	64.2	74.1	67.0	65.2	67.5	69.4	62.5	n. a.
Retail International	66.2	65.4	64.9	65.3	66.3	68.9	70.4	75.6	71.6	n. a.
Primary indemnity insurance [1]	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	69.1
Property/Casualty Reinsurance	71.2	66.7	69.3	68.9	70.3	70.7	78.8	72.0	72.8	70.5
Total property/casualty insurance	**71.9**	**67.8**	**69.1**	**70.8**	**70.8**	**70.3**	**74.4**	**73.6**	**70.5**	**69.9**

[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.

Owing to a high large-loss burden of EUR 481 (236) million – due to natural catastrophes and man-made losses – the loss ratio increased by 10.8 percentage points in the Industrial Lines segment, to 85.7%. The loss ratio in the Retail Germany – Property/Casualty segment has reduced by 2.1 percentage points, primarily as a result of favourable claims development. The increase of 0.8 percentage points in the loss ratio in the Retail International segment is partly attributable to natural-catastrophe burdens in Chile and in Turkey. In the Property/Casualty Reinsurance segment, the large-loss burden increased, mainly due to three severe hurricanes and other natural catastrophes, from EUR 627 million to EUR 1,127 million, and was therefore significantly higher than we expected, resulting in an overall increase in the loss ratio of 4.5 percentage points.

The loss ratio therefore increased overall in comparison to the previous year by 4.1 percentage points, to 71.9%. The moderate loss ratios in past years also reflect our cautious underwriting policy and our successful active claims management. In the year under review, there was strain on the loss ratio from the extraordinarily high large-loss burden, and in particular in this respect from natural catastrophes such as Hurricanes "Irma", "Maria" and "Harvey".

Large losses are losses that exceed a defined amount or meet other criteria and therefore are of particular significance in Property/Casualty Insurance. The table shows the large losses (net) in the financial year in millions of euros, broken down into natural catastrophes and other large losses, and also as a percentage of the Group's combined ratio:

LARGE LOSSES (NET) IN THE FINANCIAL YEAR [1]

	2017	2016	2015
EUR MILLION			
Large losses (net)	1,620	883	922
of which natural catastrophes	1,232	477	276
of which other large losses	388	406	646
%			
Combined ratio (net, property/casualty primary insurance and reinsurance	100.4	95.7	96.0
of which large losses (net)	10	6.1	6.4

[1] Natural catastrophes and other large losses over EUR 10 million gross, for the share accounted for by the Group.

Concentration risk

In indemnity insurance, concentration risk results, in particular, from clustering with respect to geographical areas, reinsurance and investments as well as from insured nat cat risks and man-made disasters.

In a similar way to premium risk, nat cat risk risk deals with future loss events. Such risk is handled separately, due to the possibility of an extremely high impact on the loss events due to natural disasters. A standardised global event set has been developed to support the analysis of such natural-hazard events (extreme scenarios and accumulations).

Licensed, scientific simulation models are used to estimate the material catastrophe risks, and supplemented by the experience of the various technical areas.

Based on the figures calculated most recently, the estimates of the Group's net burden (annual total loss) under the following accumulation scenarios of natural hazards are as follows:

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

EUR MILLION

	2017	2016
200-year loss Atlantic hurricane	1,963	1,878
200-year loss US/Canadian earthquake	1,522	1,489
200-year loss Asia-Pacific earthquake [2]	1,272	1,165
200-year loss European storm (winter storm)	1,049	1,134
200-year loss Central and South-American earthquake	1,017	1,014
200-year loss European earthquake	1,004	1,035
200-year loss European flood	698	609

1) Actual trends in natural hazards may differ from model assumptions.
2) An accumulation scenario for the earthquake in Japan is included.

Other accumulation scenarios are also regularly tested. In addition, peak exposures from accumulation risks are covered by individually selected reinsurance protection, with the objective of effectively limiting high single losses as well as the effects of accumulation events, thus making them possible to plan for.

In order to restrict concentration risks, the maximum permissible nat cat risk is limited by hazard regions at Group and division level. The risk modelling and business planning interact closely to achieve this.

The expectations with regard to loss burdens are expressed in the context of business planning partly through the large-loss budget.

In particular, Hurricanes "Harvey", "Irma" and "Maria", as well as the earthquake in Mexico resulted in extraordinarily high large losses in 2017; in light of this, the large-loss budget for the entire year had already been exceeded by the third quarter 2017. The limits for 2018 have been adjusted based on the large loss burden for 2017.

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 RESERVE [1]

EUR MILLION

	Gross	Re	Net [2]
31.12.2017			
Germany	9,005	3,557	5,448
United Kingdom	3,788	305	3,483
Central and Eastern Europe (CEE), including Turkey	2,003	98	1,905
Rest of Europe	7,788	–46	7,834
USA	8,797	233	8,564
Rest of North America	1,248	695	553
Latin America	1,653	164	1,489
Asia and Australia	2,767	97	2,670
Africa	270	16	254
Total	**37,319**	**5,119**	**32,200**
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**

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 INSURANCE [1]

EUR MILLION

	Gross written premiums	Net written premiums
31.12.2017		
Property/casualty primary insurance		
Motor insurance	3,948	3,739
Property insurance	2,741	1,308
Liability insurance	1,740	1,247
Casualty insurance	337	281
Marine	487	346
Other property/casualty insurance	458	296
Property/Casualty Reinsurance	10,711	9,605
Total	**20,422**	**16,822**
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**

[1] Before elimination of intragroup cross-segment transactions.

TECHNICAL RISKS, LIFE

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 person at policy inception, the policy term, and the amount of the sum insured. The main insured events are the death of the insured person or maturity of the policy (survival).

Typical risks in life insurance are associated with the fact that policies grant guaranteed long-term benefits. 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 in the “Operational risks” section.

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

%

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Retail Germany – Life	95.2	95.4	95.8	95.2	93.9	94.4	93.6	92.9	90.4	n. a.
Retail International	98.5	98.5	97.2	98.0	95.8	89.7	82.8	84.1	83.3	n. a.
Life/health primary insurance [1]	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a	87.9
Life/Health Reinsurance	91.7	90.4	84.2	83.9	87.7	89.3	91.0	91.7	90.7	89.3
Total life/health insurance	**93.6**	**92.9**	**89.1**	**89.6**	**90.9**	**91.3**	**91.8**	**91.8**	**90.1**	**88.4**

[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.

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 insured persons 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.

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; among other factors, these are calculated 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. Intermediaries are therefore carefully selected. 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.

We regularly review the lapse behaviour of our policyholders and trends in lapse activity in our insurance portfolio.

Scenario and sensitivity analyses are a 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

%

	2017	2016
Mortality/morbidity +5% (excluding annuity business)	−3 to −1	−3 to −1
Mortality −5% (annuity business only)	−4 to −1	−4 to −1
Lapse rate +10%	−2 to +1	−2 to −0.5
Expenses +10%	−6 to −1	−8 to −3

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.

Interest guarantee risk taking into account risks from investments

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

There is therefore an interest guarantee risk, which also expresses the dominating concentration risk, for a significant proportion of our portfolios in life insurance. On the one hand, the risk results from a contractual obligation to the policyholder, and on the other from the fact that there are risks from the investment. In this respect, the interest guarantee risk is defined as the risk that the guaranteed interest payment exceeds the interest level on the capital market.

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% (4%) and 0.9% (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 at HDI Pensionskasse AG as at 31 December 2017 was 2.08% (2.35%). 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 9.6 (9.8) years for recognised liabilities of the entire Group and 8.1 (8.0) 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]).

In this respect, exposure with respect to the interest guarantee risk is determined based on risks from investments, which are set out in the correspondingly titled section of the risk report. Similarly, the sensitivities and stresses with regard to the market price risks of the investment are dealt with there.

For unit-linked life insurance contracts, the technical provisions are determined in the same way as the fund volumes held for the 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. Basic own funds are thus not only influenced by investments held for the benefit of life insurance policyholders who bear the investment risk. In this respect, a decline in equity prices would also have a negative impact, albeit very minor as the equity ratio is currently small.

TECHNICAL RISKS IN LIFE/HEALTH REINSURANCE

The biometric risks described above are especially important in life and health reinsurance; this applies in particular to catastrophe risks, such as in the event of pandemics. In our life/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 view 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.

For Hannover Re, there was an increase in technical provisions in accordance with Solvency II in US American mortality business. This primarily concerns a large portfolio that Hannover Re took over in 2009. Under IFRS, the reserves still had to be valued in accordance with the "lock-in" principle, as the portfolio value for US American mortality business overall, and taking into account effects from portfolio management, remained positive. There continue to be risks with respect to portfolio measurement and the effectiveness of future portfolio management, which may result in a one-off effect on the IFRS result.

Looking forward, the advised adjustment to the Ogden rate for British vehicle business may have a positive effect on the result and level of reserves in the Property/Casualty Reinsurance segment.

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

SENSITIVITIES OF UNDERWRITING RISKS, REINSURANCE DIVISION

%

	2017	2016
Mortality +5% (excluding annuity business)	−9 to −7	−9 to −7
Morbidity +5%	−2 to −1	−2 to −1
Mortality −5% (annuity business only)	−3 to −2	−3 to −2
Lapse rate +10%	−3 to −1	−3 to −1
Expenses +10%	−1 to 0	−1 to 0

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".

RISKS ARISING FROM THE DEFAULT OF ACCOUNTS RECEIVABLE ON INSURANCE BUSINESS

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 extremely financially 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 supports 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 company's share of the ceded technical provisions. There are qualitative and quantitative specifications to avoid or limit default risk on reinsurance business, and, where needed, suitable measures are 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.

The amounts recorded for reinsurance recoverables on technical provisions are EUR 7.7 (8.0) billion.

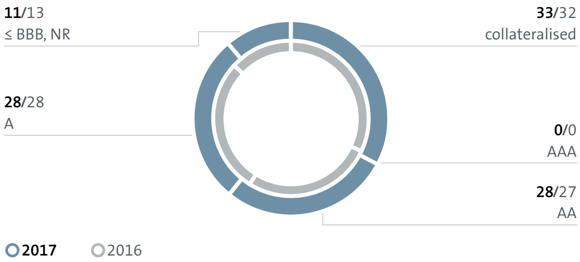
In addition to guarantees and deposits from reinsurers, these reinsurance recoverables on technical provisions are set against recorded cash deposits or other offsetting items of EUR 2.5 (2.6) billion.

We are also the reinsurer for most of our reinsurers and retrocessionaires (particularly in the Property/Casualty Reinsurance segment), meaning that there is some potential for offsetting defaults against our own liabilities. An amount of EUR 5.2 (5.4) billion remains after deducting the entries stated above.

The rating structure here is as follows:

REINSURANCE RECOVERABLES ON TECHNICAL PROVISIONS BY RATING CLASS

%



Within the unsecured portion, 83% (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 –167 (–1,188) million in the year under review.

RISKS FROM INVESTMENTS

On the one hand, market risk involves fluctuations in the investments on the asset side; on the other hand, effects on the underwriting risks arise on the liability side (discounting of the reserves, valuation at exchange rates) due to the development of the capital markets as a result of economic accounting. The fluctuations in investments result from market price fluctuations, which may result in impairments in the event of unfavourable changes.

In the interests of policyholders in particular and with a view to accommodating future capital market requirements, our investment policy – following the principle of commercial prudence – 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)

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. Similarly,t the change from credit spreads effects the market price of fixed-income securities.

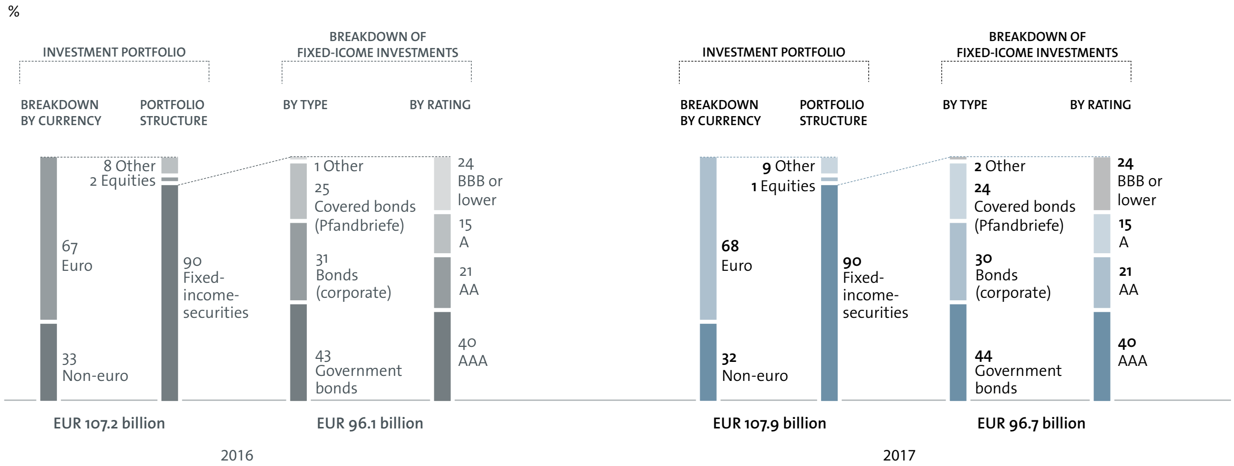
Equity price risks arise from unfavourable changes in the value of equities, equity derivatives and equity index derivatives held in the portfolio.

Currency risk results from exchange rate fluctuations – especially if there is a currency imbalance between the technical liabilities and the assets.

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).

Exposure to these risks is influenced particularly by the structure of the investment portfolio. The following table shows the portfolio of the Talanx Group, arranged by currency, asset class and rating according to measurement under IFRS for annual financial statements.

THE TALANX GROUP'S PORTFOLIO BY CURRENCY, ASSET CLASS AND RATING



The portfolio is clearly dominated by fixed-income securities, of which 76% (76%) hold a rating of at least A. We supplement bonds with excellent creditworthiness and a long duration selectively by adding high-interest bonds with a short maturity. The majority of our investments are denominated in euros, whereas the US dollar dominates in the non-euro area.

44% (43%) of fixed-income securities are attributable to government bonds. They are modelled in TERM with a risk exposure, in contrast to the standard formula.

The current capital-market environment presents numerous challenges. They primarily consist of the expansive monetary policy pursued by the European Central bank and the resulting field of tension for German government bonds. At the same time, political and economic instability coupled with increasing regulatory pressure are causing uncertainty.

In order to be able to generate appropriate investment income despite the persistent, global low-interest phase, we are increasingly relying on alternative investments, especially infrastructure investments. Using a professional, targeted selection process, we ensure a good balance between yield, long-term earnings and risk. Although this asset class is becoming increasingly important, its share remained small.

Our investment strategy therefore results in a relatively low-risk portfolio overall. In light of the volume of the portfolio, market risks are still highly significant for the risk profile of the Group.

We assess the market risks with TERM. The term material risk refers particularly to interest rate risk and credit risk relating to investments. However, market risk also includes equity, real-estate and currency risk.

We map the risk concentration in a model which contains not only the pure effect of the concentration of issuers, but also the impact of the correlation of economic and geographical interactions between issuers.

In order to reduce market risk, we rely on a corresponding investment policy, the application of the principles of commercial prudence and on appropriate risk management mechanisms, especially our limit and threshold system.

In this respect, 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 2017, the ALM VaR was EUR 1,514 (1,507) 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 comprehensive income 1)	31.12.2017 Change in the portfolio on a fair value basis 2)	31.12.2016 Change in the portfolio on a fair value basis 2)
Equities 3)						
	Equity prices	+20%	70	140	210	397
	Equity prices	+10%	35	70	105	198
	Equity prices	–10%	–33	–70	–103	–198
	Equity prices	–20%	–61	–140	–201	–395
Fixed-income securities						
	Increase in yield	+200 bps	–41	–7,927	–13,670	–13,559
	Increase in yield	+100 bps	–23	–4,284	–7,442	–7,345
	Decrease in yield	–100 bps	29	4,762	8,101	7,888
	Decrease in yield	–200 bps	58	10,106	17,228	16,695
Exchange rate-sensitive investments						
	Appreciation of the EUR 4)	+10%	–3,297	–127	–3,424	–3,494
	against USD		–1,973	–7	–1,980	–2,194
	against GBP		–345	–6	–351	–314
	against PLN		–231	–3	–234	–173
	against other currencies		–748	–111	–859	–813
	Depreciation of the EUR 4)	–10%	3,297	127	3,424	3,494
	against USD		1,973	7	1,980	2,194
	against GBP		345	6	351	314
	against PLN		231	3	234	173
	against other currencies		748	111	859	813

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 reports. 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 RISKS

Credit risk or 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. The following risks can be subsumed under credit risks:

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

Credit risk is expanded into the following sub-risks in the course of risk modelling: spread, migration and default risk, as well as correlation and concentration risk. While the spread risk and migration and default risks can be quantified at the level of individual assets, correlation and concentration effects can only be observed in a specific portfolio context. The term "correlation risk" refers to the economic link between various issuers, whereas "concentration risk" designates the dependence of several securities from an issuer.

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 and 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:

- Default probability, derived from the composite rating (average of the available agency ratings from Standard and Poor's, Moody's and Fitch). This describes the probability that a debtor will default within a defined period of time
- Loss given default (LGD), derived from the volume of the collateral and the seniority of an issue
- The Exposure at Default (EAD). This 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. The stochastic simulation used to calculate the CVaR takes into consideration the issue-specific features, the portfolio concentrations, e.g. in sectors and countries, as well as the correlations between the individual assets. This approach ensures that, in particular, concentration effects and dependencies between the portfolios are captured when measuring the credit risk.

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 2017, the credit VaR for the Group as a whole was EUR 5,067 (5,127) million, or 4.6% (4.7%) of the assets under own management. Year-on-year, then, the average credit risk of the investments has decreased slightly. The internal risk calculations capture all investments exposed to credit risk. In particular, this also includes European government bonds, which according to the standard model in Solvency II are considered risk-free.

The decrease in the credit VaR compared to the previous year particularly reflects the continued diversification of the investments. 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 2016 figures.

CREDIT VAR STRESS TEST

EUR MILLION

	31.12.2017	31.12.2016
Rating downgrade by one notch	6,129 (+21 %)	6,206 (+21 %)
Rating downgrade by two notches	7,387 (+46 %)	7,516 (+47 %)
Increase in LGD by 10 percentage points	5,723 (+13 %)	5,847 (+14 %)

The table indicates the sensitivity of the CVaR 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 4.7 (4.4) billion on a fair value basis, or 4.4% (4.1%).

EXPOSURE TO BONDS WITH A RATING OF LESS THAN A–

EUR MILLION

	Rating	Government bonds	Semi-government bonds	Financial bonds	Corporate bonds	Covered Bonds	Others	Total
31.12.2017								
Italy	BBB	2,361	—	573	647	475	—	**4,056**
Spain	BBB+	742	422	213	416	269	—	**2,062**
Brazil	BB	263	—	79	303	—	5	**650**
Mexico	BBB+	110	6	47	227	—	—	**390**
Hungary	BBB–	509	—	—	9	22	—	**540**
Russia	BB+	206	15	36	198	—	—	**455**
South Africa	BB+	161	2	9	60	—	4	**236**
Portugal	BBB–	44	—	11	75	38	—	**168**
Turkey	BB+	18	—	19	18	3	—	**58**
Others BBB+		14	—	31	66	—	—	**111**
Others BBB		94	43	60	48	—	—	**245**
Others <BBB		185	17	98	163	—	238	**701**
Total		**4,707**	**505**	**1,176**	**2,230**	**807**	**247**	**9,672**
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**

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 781 (846) million serve as collateral for liabilities and contingent liabilities. Of this amount, carrying amounts of EUR 26 (62) 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 508 (594) 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 1.2 (1.3) billion. In addition, assets with a fair value of EUR 250 (291) 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, as past-due securities are written down immediately. For information on impairment losses charged on investments in the year under review, see Note 30 "Net investment income".

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

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. The exposure here is dependent on the level of the liabilities. 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. The evaluation of this risk is also based heavily on qualitative analyses. We regard the risk as relevant in its entirety. We do not perceive a risk concentration.

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

Liquidity risk on the Group level is reduced 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 underwriting payment obligations is based, among other things, on the expected due dates, after allowance for the run-off pattern of reserves.

The operational insurance companies are also 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 underwriting 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 underwriting payment obligations are usually of longer duration. If risk limits are exceeded, this is immediately reported to the CFOs and to Portfolio Management.

To cushion any short-term liquidity requirements that occur in the Group, Talanx AG holds a minimum level of liquidity, which is placed in money market investments for selected credit institutes. A further component of liquidity management is the availability of a sufficiently large credit line. For further explanations, see the report section titled "Net assets and financial position", subsection: Liquidity and financing.

Moreover, Talanx AG secures the Group's access to long-term 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 (IFRS) can be generated by issuing additional registered shares. External funding is procured by issuing senior and subordinated bonds with different terms.

The liquidity of both the primary insurance group and also of Hannover Re is classed by Standard & Poor's as "Exceptional".

We therefore assume that we would even be able to comply with relatively large, unexpected payout requirements within the time stipulated.

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 for property/casualty insurance, as at the reporting date in each case.

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

CASH FLOWS AND LIQUID FUNDS FROM INSURANCE BUSINESS [1]

EUR MILLION

	31.12.2017	31.12.2016
Gross written premiums including premiums from unit-linked life and annuity insurance	19,855	17,674
Claims and claims expenses incurred (gross)	−11,506	−10,271
Acquisition costs and reinsurance commissions paid plus administrative expenses	−5,267	−4,591
Liquid funds	**3,082**	**2,812**

[1] After elimination of intragroup transactions between the segments.

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.

In addition to the assets available to cover provisions and liabilities, LoC facilities are also in place with credit institutions on a bilateral basis for the equivalent of EUR 2.9 (2.8) billion. The durations vary and run until 2022 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 material events occur, such as a significant rating downgrade.

OPERATIONAL RISKS

The German Insurance Supervision Act (VAG) defines operational risk as follows: "The loss risk that arises from the unsuitability or failure of internal processes, employees or systems or due to external events."

All the processes were recorded, described and given control and measurement points within the internal controlling system in order to identify the operational risk entailed in the process organisation. There are numerous interactions during the review of the systems and checks between the Auditing and Compliance departments, the auditors, the supervisory authorities and the Risk Management. In many aspects, the operational risk proves to be a residual risk that remains even after the application of numerous process and control techniques. As a learning system, the Group adapts its processes on the basis of the occurred operational risk and so counteracts any possible repeat.

Operational risks inevitably relate to the performance of our business – indeed, the exposure depends on our business activities – and it cannot be avoided entirely.

For the economic perspective, operational risks are evaluated on the basis of scenarios that are created using expert surveys. For the regulatory perspective, we use procedures that are based on the standard Solvency II formula. These approaches essentially differ both structurally in terms of diversification assumptions, and also in terms of the risk sources and/or the estimations of possible losses. Our loss databases do not provide sufficient empirical evidence for a correspondingly high SCR share for the regulatory perspective arising from this risk category.

The standard formula quantifies operational risks on the basis of factors to be applied to the premium and reserve volume, and does not permit any differentiated analysis using sub-categories of operational risk. In particular, the standard formula also does not permit any diversification between operational risks and other risk categories or within operational risk, for example between individual companies. For that reason alone, the standard formula tends to overestimate operational risks on Group level. Internal assessments of occurred losses arising from operational risk and the results of the internal model applied for the economic perspective also for this risk category support our estimation that the application of the standard formula leads to an excessive capital requirement for operational risks. We therefore fundamentally wish to have the use of the internal model approved for the calculation of the operational risk, even in the regulatory perspective. The corresponding procedure has already received regulatory approval for the Hannover Re sub-group.

Operational risks are monitored on an ongoing basis using appropriate risk indicators, and are a component of regular reporting to the Board of Management and the Supervisory Board.

The material sub-categories of operational risk and the respective reduction measures are described below.

Risk concentration may result from the shared use of service providers, processes and systems by several subsidiaries (for example in the IT environment for German primary insurance companies).

We perceive operational risks in the area of business continuity and IT service continuity, i.e. the risk that business operations could be threatened or disturbed by natural hazards or human-caused hazards. We counter this risk with preventive measures, such as status monitoring of central IT systems, redundant designs. In addition, instruments for handling crisis situations have been set up (e.g. emergency plans, crisis management team at Group level).

Mostly, complex tasks that in this respect may also be associated with specific operational risks (project risks) are handled in projects. Project risks arise in particular in the context of major IT projects.

The operational risks also include the loss risk that may arise from the possible unsuitability or failure of internal processes or inadequate data quality. An effective, internal controlling system is an important instrument for reducing such risks. We have also established Group-wide standards for process management that are enhanced continuously. In the process, potential sources of errors in the processes are identified regularly and corresponding checks are set up. Within the area of operational risk, legal, tax and compliance risks are highly significant for the Group. This also explicitly includes risk of legal change. Our subsidiaries operate in various legal fields and supervisory regimes, so the Group needs to comply with a large number of regulatory requirements. There are also several requirements that apply specifically to groups. A number of central functions of the Group, particularly the compliance function and the Legal and Tax department, monitor the risk situation closely and advise both subsidiaries and technical departments accordingly.

One example of law amendment risks is the risk of withdrawal due to ineffective instruction (Austria). As a result of the ECJ ruling on the policy model dated 19 December 2013, the Austrian Supreme Court of Justice decided that the policyholder could still exercise the right to withdrawal even after the expiry of the statutory withdrawal period in the event of a lack of/ineffective instruction regarding the right to withdrawal in accordance with section 165a of the Austrian Insurance Contracts Act (Versicherungsvertragsgesetz, VersVG).

In the interim, an industry solution has been reached with the Austrian VKI consumer protection association (association for consumer information), with the result that the procedure will be paused until the industry solution has been fully put in place. It can currently be established that the number of withdrawal declarations and resulting reverse transactions is increasing, independently of the industry solution.

Extensive tax reform was passed in the USA in December 2017. This provides for new tax regulations that also have considerable financial implications for the subsidiaries that operate in the USA. An essential aspect of the tax reform is the introduction of a "Base Erosion Anti-abuse Tax (BEAT)". This results in premiums for ceded insurance risks within the Group context also being included in the tax assessment basis. The effects on subsidiaries active in the USA currently are analysed with respect to the relevant areas.

A subgroup of the risk of legal change is formed by changes in how basic tax-related topics are handled based on pronouncements by the Federal Ministry of Finance (BMF). With its letter dated 17 July 2017, for example, the BMF pronounced a restrictive position with respect to the fiscal treatment of various securities transactions, which were previously not only common, but were also generally classified as unproblematic from a tax law perspective, and correspondingly also recorded as part of normal investment by individual companies in the Group. There is a risk that these companies will be faced with tax assets based on this new administrative opinion. However, expert reports collected from external sources come to the conclusion that there is no legal foundation for any tax assets of this type, and, alternatively, rights of recourse against contractual partners would have a high chance of success.

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 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. 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 increased risk of enhanced solvency requirements.

The risk arising from negligent or deliberate breaches of laws, in particular from offences against property or breaches of internal regulations by employees and/or by third parties, is also a component of operational risk. We also counter this risk internally, particularly with compliance training and measures under the internal control system (ICS). In the event of suspicion, special checks may also be carried out, for example, by the Auditing department.

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.

Information and IT security risk refers to risks that could potentially endanger the completeness, confidentiality or availability of information or IT systems. In order to do justice to the increasing significance of such risk, we have set up Group-wide information security guidelines and regularly implement communications measures to increase security awareness. Our internal IT service provider, Talanx Systeme AG, is certified to ISO 27001 – Information Security; external partners are obliged to comply with high standards. Risks arising from cyber attacks are counteracted in particular by the IT Security Department established in the Group – primarily through the use of technical measures.

The 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 helps to improve the operational stability of the IT infrastructure, is intended to increase flexibility, and is also an important step towards reducing the infrastructure costs of the Group. Application migrations were completed by the end of 2017. The subsequent migration of infrastructure components will follow at the beginning of 2018. Risks associated with the transition are captured and analysed in detail, and closely monitored.

We allocate outsourcing risks that are not IT-specific to operational risks; we define this as the risk that arises from outsourcing – within the Group or externally to it – (key) functions or activities relevant to the operation of the insurance business, which otherwise could also be performed by the company itself. In addition to direct outsourcing, this term also refers to further outsourcing (down to the final link in any kind of delivery chain). These risks are integrated into the risk management processes and the ICS of the Group. In addition, there are also specific overarching internal specifications and regulations for the management of outsourcing. The vast majority of outsourcing relations entered into by subsidiaries remains within the Group.

OTHER MATERIAL RISKS

We have identified emerging risk, strategic risk, reputational risk and model risk as "other material risks". The common factor among these risks is that they cannot be analysed meaningfully with mathematical models, which means that we primarily have to fall back on qualitative analyses in these cases. Risks analysed in this way are taken into account as part of the ORSA.

The term "emerging risks" refers to risks where the hazard potential is not yet known with any degree of certainty and where it is difficult to assess the possible impact. For example, increasing uncertainty about political developments around the world and in individual countries can lead to nervous markets and a heightened potential for the occurrence of systemic shocks. Subsequent effects may arise from the spread of new technologies, medicines or materials, which in turn lead to unforeseeable losses. We identify and evaluate these risks with a Group-wide process, involving the experts from various units. For this process, we also call on externally available expertise and material.

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 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.

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.

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 the actual results. In addition, we rely on estimates of future model calculations in some of our measurements, as certain calculations cannot be completed until after the consolidated balance sheet has been prepared. To restrict the model risk, we have taken steps including implementing quality assurance measures and a model adjustment process.

The Group's other risks also implicitly include Talanx AG's investment risks, especially those associated with the performance of subsidiaries, earnings stability in our investment portfolio, and potential imbalances in the business. Talanx AG participates directly in its subsidiaries' performance and risks through profit and loss transfer agreements and dividend payments.

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

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

The pension obligations assumed by Talanx AG in the course of acquiring Gerling may result in the need to establish additional reserves if interest rates remain at the current low level or fall even further, or if ongoing lawsuits relating to the fact that pensions have not been adjusted make further allocations necessary. A rising inflation rate may also lead to additional expenses if it means that larger than planned adjustments to pensions become necessary. Talanx conducts regular reviews of the adequacy of its actuarial assumptions to counteract the risk of possible inadequate allocations to pension provisions (e.g. due to changes in mortality, inflation and interest rate changes).

In the referendum on membership of the EU on 23 June 2016, the majority of voters voted in favour of the United Kingdom leaving the EU (Brexit). The exit negotiations between the UK and the EU remain difficult and uncertain, with an unclear outcome. Neither party expects significant progress in the next rounds. There are also extremely diverse opinions about the settlement of the "bill" on departure from the EU. A hard Brexit is still a conceivable outcome. The Group is taking a prophylactic approach to its preparation in this respect, in as far as is even usefully possible at this stage. No interest-rate increases are expected in the UK before the end of 2018 and – given the political uncertainty – a high level of volatility is still expected. However, our analyses have found that the effects on Talanx's assets are still manageable, despite the uncertainty that has developed; effects on the organisation of UK business are currently still under review.

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. A few problematic banks have been wound up or taken over. As a result, impairments may be necessary on receivables at fair value.

SUMMARY OF THE 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. The Talanx Group has established a functioning, appropriate system of governance and risk management, which is consistently refined and corresponds to demanding quality requirements and standards. We are therefore able to identify our risks in a timely manner, and manage them effectively.

The following risks – stated by their level of materiality – determine the Group's overall risk profile: risks in the context of investment; premium and reserve risk in property/casualty insurance; nat cat risk; life insurance underwriting risk; and operational risk. Similarly, diversification is becoming increasingly important with regard to assessing the overall risk. This results from our geographical diversity and the diversity of our business. As a result, the Group is well-positioned, even if an accumulated materialisation of risks occurs.

The Solvency Assessment in accordance with Solvency II indicates sufficient capitalisation at Group level.

REPORT ON EXPECTED DEVELOPMENT AND OPPORTUNITIES

ECONOMIC ENVIRONMENT

For 2018, we anticipate a continuation of global growth, which will accelerate slightly again compared to the previous year. Both industrial nations and emerging markets should expand slightly above the level of 2017. We see global trade, a sustained dynamic consumption trend and rising investment growth as central growth drivers.

Following the high growth of 2017 the signs in the eurozone point to continued growth in 2018. Alongside a dynamic labour market and hence growth in income and consumption, increasing investment growth and a strong performance from net exports above all provide an extremely positive picture. Political uncertainty could have an adverse effect on growth prospects this year too, with the general election in Italy and the progress of Brexit negotiations being key risk factors. However, the overall outlook for the eurozone remains positive.

The USA remains on a stable growth path and could once again accelerate its growth cycle in 2018. Growth drivers include rising consumption and investment activity. The implementation of the US tax reform and reconstruction work following the devastating hurricanes in the third quarter of 2017 provide further impetus for growth.

The growth models of the emerging markets, which are often very export-oriented, allow these markets to benefit from the acceleration of global growth in particular. Thanks to the recovery of commodities prices, the positive external economic environment and increased consumption, we expect strong growth on the emerging markets in 2018. Nevertheless, risks still remain: 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 – are likely to continue to act as a drag in 2018. We assume there will be a gradual weakening of the growth in China.

The sharp rise in commodities prices is likely to lead to a significant increase in inflation rates in the first half of the year. The increasing utilisation of global production capacities in the context of the acceleration of global growth could, however, lead to a gradual rise in the core inflation rate, i.e. the inflation rate excluding energy and food prices. We anticipate a cautious normalising of global monetary policy. The ECB is expected to end its purchasing programme this year. The US Federal Reserve is faced with a much more mature economic cycle and is likely to accelerate the tightening of monetary conditions accordingly.

CAPITAL MARKETS

We anticipate sufficient demand for credit products, due in part to the support of the purchasing programme that the ECB is pursing at a reduced level. Vulnerability to a widening of spreads and spread volatility is likely to increase, however.

Prices on the European and US stock markets have risen significantly in the year under review, meaning that upside potential is limited. It appears to us that it has already been extensively exhausted especially in the USA. On the other hand, profit margins and returns on equity in Europe are comparatively low. We therefore anticipate pent-up demand when the economy in Europe improves further. We continue to remain optimistic with regard to the equity market trend and see the positive economic environment as the key stock price driver thanks to rising company profits. Political uncertainties, geopolitical conflicts and the increased normalising of global monetary policy could, however, lead to greater market volatility.

FUTURE STATE OF THE INDUSTRY

GERMAN INSURANCE INDUSTRY

Despite the positive trend in the previous year, the economic environment continues to be characterised by economic risk factors so that forecasts are generally subject to caveats. Assuming that macroeconomic conditions do not deteriorate significantly, the insurance industry should achieve slightly increasing premium volumes year on year according to the German Insurance Association (GDV).

Property/casualty insurance in Germany is expected to see an increase in premium income in 2018. Premium growth is likely to be around the level of the year under review. The premium increases in motor insurance, which has been a key driver of positive premium growth in recent years, and in retail property insurance are anticipated to be the most pronounced.

Following the decrease in premium volume for German life insurers in the year under review, the GDV expects a further slight decline in premiums for 2018. In view of the persistently low interest rates and their negative impact on total returns, the profitability of German life insurers is likely to be impacted again in 2018.

INTERNATIONAL INSURANCE MARKETS

In international property/casualty insurance, we expect low real growth overall in premium income in 2018. For the emerging markets, we anticipate a constant growth dynamic, whereas we must assume that real premium growth will fall slightly in the developed markets. Profitability could improve slightly overall in 2018. This assessment reflects on the one hand the only moderate anticipated macro-economic improvements and the potential of rising inflation, and on the other hand the expected rate increases as a result of claims due to natural disasters in the USA and Latin America.

For the eurozone we expect slightly increasing premium income for 2018, whereas we anticipate a slightly negative performance in the USA. In Central and Eastern Europe – with the exception of Russia – the slow economic recovery is likely to continue and therefore 2018 premium growth should remain at a comparable level to that in the year under review. Latin America is likely to see a slow improvement in premium growth in 2018 after a modest year in 2017. In this region, positive stimuli could come from the corporate-customer business in Brazil in particular. In the Asian emerging markets, we expect the solid premium performance to continue again in 2018. Regulatory initiatives such as the support of liability insurance in China, a new crop insurance system in India 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 emerging and – to a much lesser extent – the developed 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 a fall in premium growth, reflecting the trend in Russia in particular. In other countries in the region the premium increases could turn out to be higher with the continuing economic recovery. In Latin America, we anticipate increased premium growth in 2018, assisted by a moderate improvement in Brazil's economy and positive stimuli from income tax changes in Mexico, which should drive demand for life insurance products. In Asia, we predict strong premium growth to continue, dominated by China.

FOCUS AND FORECASTS FOR THE TALANX GROUP IN FINANCIAL YEAR 2018

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. In light of the profits from the treaty renewal round as at 1 January 2018, we predict good premium growth in the Property/Casualty Reinsurance segment. We anticipate an average, organic growth of between 3% and 5% in global Life/Health Reinsurance business (at constant exchange rates; over a three-year period).

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

Division	Our mission and strategic tasks
Industrial Lines	▪ International market growth ▪ Become a global player ▪ Structural increase in retention ▪ Enhance profitability in Germany and abroad
Retail Germany	▪ Enhance customer benefit through innovative, needs-based products and services ▪ Increase efficiency and improve cost structure ▪ Increase profitability
Retail International	▪ Profitable growth in strategic target markets ▪ Optimise business in existing markets
Reinsurance	▪ Growing premium volume in Property/Casualty Reinsurance ▪ Establish a selective underwriting policy in Property/Casualty Reinsurance ▪ Average, organic growth between 3% and 5% 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
- a large-loss burden in line with expectations

TALANX GROUP

MANAGEMENT METRICS

%	2018
Gross premium growth (adjusted for currency effects)	> 2
Net return on investment	≥ 3
Group net income in EUR million	approx. 850
Return on equity	~ 9
Payout ratio	35–45

We expect an increase in gross premiums (adjusted for currency effects) of more than 2% for the Talanx Group in 2018. The IFRS net return on investment should amount to at least 3%. We are aiming for Group net income of around EUR 850 million. It follows that we expect our return on equity to be around 9% in 2018, in line with our strategic target of 750 basis points above the average risk-free interest rate. This earnings target assumes that any large 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

%	2018
Gross premium growth (adjusted for currency effects)	≥ 2
Retention	> 55
Combined ratio (net)	~ 99
EBIT margin	~ 8
Return on equity	~ 5

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 2018 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. After getting off to a successful start, we will expand the measures for increasing profitability for domestic business to our international business in 2018. We expect a total gross premium growth (adjusted for currency effects) of at least 2%.We will continue in 2018 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 (55%). For the year 2018, we anticipate large losses in the context of our large-loss budget and therefore a combined ratio of approximately 99%. The EBIT margin should therefore be around 8% in 2018, and the return on equity should be in the region of 5%.

RETAIL GERMANY

PROPERTY/CASUALTY INSURANCE

MANAGEMENT METRICS FOR THE RETAIL GERMANY DIVISION – PROPERTY/CASUALTY INSURANCE SEGMENT

%

	2018
Gross premium growth	≥ 2
Combined ratio (net)	~ 100
EBIT margin	≥ 3

For the Property/Casualty Insurance segment, we anticipate a growth in the total gross written premiums for 2018 of at least 2%. Moreover, the segment will also be shaped by investive measures from the "KuRS" programme and the expansion of digitalisation in 2018, so we anticipate a combined ratio of around 100%, around 98% without "KuRS" investments. As a result, the EBIT margin should be at least 3%.

LIFE INSURANCE

MANAGEMENT METRICS FOR THE RETAIL GERMANY DIVISION – LIFE INSURANCE SEGMENT

%

	2018
Gross premium growth	slight decline
EBIT margin	2–3

We anticipate a slight decline in total gross written premiums in the Life Insurance segment in 2018 based on the policies maturing and development of single premiums. Assuming that there is no further decline in interest rates, we expect an EBIT margin of 2% to 3% for 2018.

The German Law on the Reinforcement of Occupational Pensions (BRSG), which came into force on 1 January 2018, has given employers an additional means of structuring an occupational pension scheme called the "social partner model". Talanx Deutschland AG is working with Zurich Group Germany to develop a solution for the social partner model. Under the brand name "Die Deutsche Betriebsrente", the consortium, in which both partners have a 50% share, aims to introduce a targeted pension solution onto the market based on the capital market-orientated pension fund.

RETAIL GERMANY OVERALL

RETURN ON EQUITY FOR THE RETAIL GERMANY DIVISION OVERALL

%

	2018
Return on equity	3–4

We consider the return on equity of the Retail Germany Division on an overall basis and expect it to stand between 3% and 4% for 2018.

RETAIL INTERNATIONAL

MANAGEMENT METRICS FOR THE RETAIL INTERNATIONAL DIVISION

%

	2018
Gross premium growth (adjusted for currency effects)	5–10
Growth in value of new business (life) [1]	5–10
Combined ratio (net, property/casualty)	~ 95
EBIT margin	~ 5
Return on equity	~ 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 between 5% and 10% in 2018. We anticipate that growth in value of new business is likely to be between 5% and 10% in 2018 and that the combined ratio will probably be around 95%. We expect an EBIT margin of around 5% and a return on equity of around 7% for 2018.

REINSURANCE

PROPERTY/CASUALTY REINSURANCE

MANAGEMENT METRICS FOR THE PROPERTY/CASUALTY REINSURANCE SEGMENT

%

	2018
Gross premium growth (adjusted for currency effects)	good growth
Combined ratio (net)	< 96
EBIT margin	≥ 10

In light of the profits from the treaty renewal round as at 1 January 2018, we predict good premium growth in the Property/Casualty Reinsurance segment. This is related to increased premium income in Asia and Australia, Western and Eastern Europe and North America as well as the high demand in structured reinsurance business. 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 renewal rounds during the year, we expect a similar situation to the beginning of the year. We anticipate solid results thanks to our good ratings, many years of stable customer relationships and low expense ratio. We expect a good underwriting result provided the large-loss burden trend remains within 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

%	2018
Gross premium growth (adjusted for currency effects) [1]	3–5
Value of new business [2] in EUR million	≥ 110
EBIT margin [1]	> 5

1) Average over a three-year period.
2) Excluding non-controlling interests.

In the course of our Group strategy cycle, we have partially modified our target figures for global Life/Health Reinsurance business. This affects the target for gross premium growth; we expect an average, organic growth of between 3% and 5% in 2018 (at constant exchange rates; over a three-year-period, in accordance with the Group's three-year strategy cycle). In future, we will not set EBIT margin targets for each reporting category. To this end, we are setting a new target for EBIT margin growth of over 5% as an average over a three-year period. The target for the value of new business remains unchanged at EUR 110 million per year.

REINSURANCE DIVISION OVERALL

RETURN ON EQUITY MANAGEMENT METRIC FOR THE REINSURANCE DIVISION OVERALL

%	2018
Return on equity	~ 11

The Talanx Group expects the return on equity for the Reinsurance Division overall to be about 11% in 2018, 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 in 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 and wind farms, 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 pre-miums automatically and in real time. Above all, however, digi-talisation 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 2017

CONSOLIDATED BALANCE SHEET — ASSETS

EUR MILLION

	Notes			31.12.2017	31.12.2016 [1]
A. Intangible assets					
a. Goodwill	1		1,058		1,039
b. Other intangible assets	2		937		903
				1,995	**1,942**
B. Investments					
a. Investment property	3		2,799		2,480
b. Shares in affiliated companies and participating interests	4		178		139
c. Investments in associates and joint ventures	5		242		290
d. Loans and receivables	6/12		28,893		29,425
e. Other financial instruments					
i. Held to maturity	7/12	554			744
ii. Available for sale	8/12	68,455			68,050
iii. At fair value through profit or loss	9/12/13	1,434			1,352
f. Other investments	10/12		5,326		4,694
Assets under own management			**107,881**		**107,174**
g. Investments under investment contracts	11/12/13		1,113		1,091
h. Funds withheld by ceding companies			9,679		10,590
Investments				**118,673**	**118,855**
C. Investments for the benefit of life insurance policyholders who bear the investment risk				11,133	10,583
D. Reinsurance recoverables on technical provisions				7,697	7,958
E. Accounts receivable on insurance business	14			6,626	6,192
F. Deferred acquisition costs	15			5,332	5,306
G. Cash at banks, cheques and cash-in-hand				3,138	2,589
H. Deferred tax assets	28			592	568
I. Other assets	12/13/16			2,782	2,618
J. Non-current assets and assets of disposal groups classified as held for sale [2]				418	15
Total assets				**158,386**	**156,626**

[1] Adjusted in accordance with IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes.
[2] For further information see "Non-current assets held for sale and disposal groups" in the Notes.

CONSOLIDATED BALANCE SHEET — EQUITY AND LIABILITIES

EUR MILLION

	Notes	31.12.2017			31.12.2016 [1]
A. Equity	17				
a. Subscribed capital		316			316
Nominal value: 316 (previous year: 316) Contingent capital: 158 (previous year: 104)					
b. Reserves		8,519			8,722
Equity excluding non-controlling interests			**8,835**		**9,038**
c. Non-controlling interests			5,411		**5,610**
Total equity				**14,246**	**14,648**
B. Subordinated liabilities	12/18		2,737		1,983
C. Technical provisions					
a. Unearned premium reserve	19	8,116			7,686
b. Benefit reserve	20	54,596			54,782
c. Loss and loss adjustment expense reserve	21	42,537			41,873
d. Provision for premium refunds	22	6,199			5,765
e. Other technical provisions		449			409
			111,897		**110,515**
D. Technical provisions for life insurance policies where the investment risk is borne by the policyholders			11,133		10,583
E. Other provisions					
a. Provisions for pensions and other post-employment benefits	23	2,115			2,183
b. Provisions for taxes	24	762			833
c. Miscellaneous other provisions	25	907			940
			3,784		**3,956**
F. Liabilities					
a. Notes payable and loans	12/26	1,431			1,505
b. Funds withheld under reinsurance treaties		4,546			5,129
c. Other liabilities	12/13/27	6,152			6,136
			12,129		**12,770**
G. Deferred tax liabilities	28		2,117		2,171
H. Liabilities included in disposal groups classified as held for sale [2]			343		—
Total liabilities/provisions				**144,140**	**141,978**
Total equity and liabilities				**158,386**	**156,626**

[1] Adjusted in accordance with IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes.
[2] For further information see "Non-current assets held for sale and disposal groups" in the Notes.

The accompanying Notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME OF TALANX AG FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2017

CONSOLIDATED STATEMENT OF INCOME

EUR MILLION

	Notes	2017	2016 [1]
1. Gross written premiums including premiums from unit-linked life and annuity insurance		33,060	31,106
2. Savings elements of premiums from unit-linked life and annuity insurance		1,172	1,198
3. Ceded written premiums		3,669	3,641
4. Change in gross unearned premiums		–831	–497
5. Change in ceded unearned premiums		–30	34
Net premiums earned	29	**27,418**	**25,736**
6. Claims and claims expenses (gross)	31	26,186	23,088
Reinsurers' share		2,918	1,888
Claims and claims expenses (net)		**23,268**	**21,200**
7. Acquisition costs and administrative expenses (gross)	32	7,242	6,568
Reinsurers' share		554	599
Acquisition costs and administrative expenses (net)		**6,688**	**5,969**
8. Other technical income		126	84
Other technical expenses		132	170
Other technical result		**–6**	**–86**
Net technical result		**–2,544**	**–1,519**
9. a. Investment income	30	4,960	4,366
b. Investment expenses	30	697	662
Net income from assets under own management		**4,263**	**3,704**
Net income from investment contracts	30	–4	5
Net interest income from funds withheld and contract deposits	30	219	314
Net investment income		**4,478**	**4,023**
of which share of profit or loss of equity-accounted associates and joint ventures		24	25
10. a. Other income	33	1,527	1,236
b. Other expenses	33	1,654	1,433
Other income/expenses		**–127**	**–197**
Profit before goodwill impairments		**1,807**	**2,307**
11. Goodwill impairments		—	—
Operating profit (EBIT)		**1,807**	**2,307**
12. Financing costs	34	149	147
13. Taxes on income	35	388	596
Net income		**1,270**	**1,564**
of which attributable to non-controlling interests		598	661
attributable to shareholders of Talanx AG		672	903
Earnings per share			
Basic earnings per share (in EUR)		2.66	3.57
Diluted earnings per share (in EUR)		2.66	3.57

[1] Adjusted in accordance with IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes.

The accompanying Notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF TALANX AG FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR MILLION

	2017	2016 [1]
Net income	**1,270**	**1,564**
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	41	–260
Tax income (expense)	–12	76
	29	**–184**
Changes in policyholder participation/shadow accounting		
Gains (losses) recognised in other comprehensive income for the period	–1	13
Tax income (expense)	—	—
	–1	**13**
Total items that will not be reclassified to profit or loss, net of tax	**28**	**–171**
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	241	1,468
Reclassified to profit or loss	–812	–414
Tax income (expense)	53	–49
	–518	**1,005**
Exchange differences on translating foreign operations		
Gains (losses) recognised in other comprehensive income for the period	–882	210
Reclassified to profit or loss	—	—
Tax income (expense)	52	–5
	–830	**205**
Changes in policyholder participation/shadow accounting		
Gains (losses) recognised in other comprehensive income for the period	447	–726
Tax income (expense)	8	–5
	455	**–731**
Changes from cash flow hedges		
Gains (losses) recognised in other comprehensive income for the period	5	112
Reclassified to profit or loss	–82	–14
Tax income (expense)	2	—
	–75	**98**
Changes from equity method measurement		
Gains (losses) recognised in other comprehensive income for the period	–12	—
Reclassified to profit or loss	—	—
Tax income (expense)	—	—
	–12	**—**
Total items that may be reclassified subsequently to profit or loss, net of tax	**–980**	**577**
Other comprehensive income for the period, net of tax	**–952**	**406**
Total comprehensive income for the period	**318**	**1,970**
of which attributable to non-controlling interests	179	841
attributable to shareholders of Talanx AG	139	1,129

[1] Adjusted in accordance with IAS 8, see “Accounting policies”, subsection “Changes in accounting policies and errors” in the Notes.

The accompanying Notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

CHANGES IN EQUITY

EUR MILLION

	Subscribed capital	Capital reserves	Retained earnings
2016			
Balance at 31.12.2015	316	1,373	6,104
IAS 8 adjustment [1]	—	—	–34
Adjusted balance at 1.1.2016	316	1,373	6,070
Changes in ownership interest without a change in control	—	—	–10
Other changes in basis of consolidation	—	—	—
Net income [1]	—	—	903
Other comprehensive income [1]	—	—	—
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 [1]	—	—	—
of which unrealised gains and losses on investments	—	—	—
of which currency translation [1]	—	—	—
of which change from cash flow hedges	—	—	—
of which change from equity method measurement	—	—	—
of which other changes [2]	—	—	—
Total comprehensive income [1]	—	—	903
Dividends to shareholders	—	—	–329
Other changes outside profit or loss	—	—	–4
Balance at 31.12.2016 [1]	316	1,373	6,630
2017			
Balance at 1.1.2017	**316**	**1,373**	**6,630**
Changes in ownership interest without a change in control	—	—	—
Other changes in basis of consolidation	—	—	—
Net income	—	—	672
Other comprehensive income	—	—	—
of which not eligible for reclassification	—	—	—
of which actuarial gains or losses on pension provisions	—	—	—
of which changes in policyholder participation/shadow accounting	—	—	—
of which eligible for reclassification	—	—	—
of which unrealised gains and losses on investments	—	—	—
of which currency translation	—	—	—
of which change from cash flow hedges	—	—	—
of which change from equity method measurement	—	—	—
of which other changes [2]	—	—	—
Total comprehensive income	—	—	**672**
Capital increases	—	—	—
Dividends to shareholders	—	—	–341
Other changes outside profit or loss	—	—	–1
Balance at 31.12.2017	**316**	**1,373**	**6,960**

[1] Adjusted in accordance with IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes.
[2] "Other changes" consist of policyholder participation/shadow accounting as well as miscellaneous other changes.

Other reserves						
Unrealised gains/losses on investments	Currency translation gains/losses	Other changes in equity	Measurement gains/losses on cash flow hedges	Equity attributable to shareholders of Talanx AG	Non-controlling interests	Total equity
2,443	57	−2,367	356	8,282	5,149	13,431
—	—	—	—	−34	—	−34
2,443	57	−2,367	356	8,248	5,149	13,397
1	—	—	—	−9	−12	−21
—	—	—	—	—	−18	−18
—	—	—	—	903	661	1,564
834	127	−827	92	226	180	406
—	—	−160	—	−160	−11	−171
—	—	−171	—	−171	−13	−184
—	—	11	—	11	2	13
834	127	−667	92	386	191	577
834	—	—	—	834	171	1,005
—	127	—	—	127	78	205
—	—	—	92	92	6	98
—	—	4	—	4	−4	—
—	—	−671	—	−671	−60	−731
834	127	−827	92	1,129	841	1,970
—	—	—	—	−329	−350	−679
—	—	3	—	−1	—	−1
3,278	184	−3,191	448	9,038	5,610	14,648
3,278	184	−3,191	448	9,038	5,610	14,648
—	—	—	—	—	1	1
—	—	—	—	—	−15	−15
—	—	—	—	672	598	1,270
−436	−458	419	−58	−533	−419	−952
—	—	26	—	26	2	28
—	—	26	—	26	3	29
—	—	—	—	—	−1	−1
−436	−458	393	−58	−559	−421	−980
−436	—	—	—	−436	−82	−518
—	−458	—	—	−458	−372	−830
—	—	—	−58	−58	−17	−75
—	—	−12	—	−12	—	−12
—	—	405	—	405	50	455
−436	−458	419	−58	139	179	318
—	—	—	—	—	1	1
—	—	—	—	−341	−364	−705
—	—	—	—	−1	−1	−2
2,842	−274	−2,772	390	8,835	5,411	14,246

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 2017

CONSOLIDATED CASH FLOW STATEMENT

EUR MILLION

	2017	2016 [6]
I. 1. Net income	1,270	1,564
I. 2. Changes in technical provisions	5,006	2,536
I. 3. Changes in deferred acquisition costs	–192	–170
I. 4. Changes in funds withheld and in accounts receivable and payable	–868	841
I. 5. Changes in other receivables and liabilities	45	–128
I. 6. Changes in investments and liabilities under investment contracts	13	30
I. 7. Changes in financial assets held for trading	–53	–34
I. 8. Gains/losses on disposal of investments and property, plant and equipment	–1,260	–779
I. 9. Change in technical provisions for life insurance policies where the investment risk is borne by the policyholders	778	464
I. 10. Other non-cash expenses and income (including income tax expense/income)	267	–64
I. Cash flows from operating activities (indirect method) [1], [2]	**5,006**	**4,260**
II. 1. Cash inflow from the sale of consolidated companies (less cash and cash equivalents disposed of)	3	–7
II. 2. Cash outflow from the purchase of consolidated companies (less cash and cash equivalents acquired)	–106	54
II. 3. Cash inflow from the sale of real estate	110	13
II. 4. Cash outflow from the purchase of real estate	–561	–320
II. 5. Cash inflow from the sale and maturity of financial instruments	26,257	24,057
II. 6. Cash outflow from the purchase of financial instruments	–28,169	–27,199
II. 7. Changes in investments for the benefit of life insurance policyholders who bear the investment risk	–778	–464
II. 8. Changes in other investments	–869	827
II. 9. Cash outflows from the acquisition of tangible and intangible assets	–119	–103
II. 10. Cash inflows from the sale of tangible and intangible assets	27	10
II. Cash flows from investing activities	**–4,205**	**–3,132**
III. 1. Cash inflow from capital increases	1	—
III. 2. Cash outflow from capital reductions	—	—
III. 3. Dividends paid	–705	–679
III. 4. Net changes attributable to other financing activities	547	–120
III. Cash flows from financing activities [2]	**–157**	**–799**
Net change in cash and cash equivalents (I. + II. + III.)	**644**	**329**
Cash and cash equivalents at the beginning of the reporting period [3]	**2,589**	**2,243**
Effect of exchange rate changes on cash and cash equivalents	**–75**	**18**
Effect of changes in the basis of consolidation on cash and cash equivalents [4]	**1**	**–1**
Cash and cash equivalents at the end of the reporting period [3], [5]	**3,159**	**2,589**

[1] EUR 455 (373) million of "Income taxes paid" and EUR 368 (261) million of "Dividends received" and EUR 3,403 (3,552) million of "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] EUR 423 (427) million of "Interest paid" is attributable to EUR 151 (154) million to "Cash flows from financing activities" and EUR 272 (273) million to "Cash flows from operating activities".

[3] 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".

[4] This item relates primarily to changes in the basis of consolidation, excluding disposals and acquisitions.

[5] "Cash and cash equivalents at the end of the reporting period" include changes in the portfolio of disclosed disposal groups in the amount of EUR 21 (0) million on the reporting date.

[6] Adjusted in accordance with IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes.

RECONCILIATION OF DEBTS FROM FINANCING ACTIVITIES AT THE BEGINNING OF THE REPORTING PERIOD TO CARRYING AMOUNTS AS AT 31 DECEMBER 2017

EUR MILLION			Non-cash items			
	1.1.2017	Cash flows from financing activities	Acquisition/ disposal of subsidiaries	Exchange rate changes	Other changes (mainly amortisation)	31.12.2017
Subordinated liabilities	1,983	754	—	—	—	2,737
Notes payable and loans	1,505	–56	6	–23	–1	1,431
Total debts from financing activities	**3,488**	**698**	**6**	**–23**	**–1**	**4,168**
Interest paid from financing activities		–151				
Total cash flows from other financing activities		**547**				

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 at Riethorst 2, 30659 Hannover, Germany, and its subsidiaries (referred to collectively as the Talanx Group). Talanx AG is entered in the commercial register of the Local Court in Hannover under the number HR Hannover B 52546. 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.

The majority shareholder of Talanx AG with 79.0% is HDI Haftpflichtverband der Deutschen Industrie Versicherungsverein auf Gegenseitigkeit (parent company), Hannover (HDI V. a. G.). 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

The consolidated financial statements of Talanx AG were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), as well as the additional requirements of German commercial law in accordance with section 315e(1) of the German Commercial Code (HGB).

In accordance with IFRS 4 “Insurance Contracts”, insurance-specific transactions for which the 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 revised IFRSs as at 1 January 2017:

The amendments to IAS 7 “Statement of Cash Flows: Disclosure Initiative” 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. In the section “Consolidated cash flow statement”, the Group presents a transitional statement showing the changes between the starting and ending balance for the relevant debts.

Moreover, amendments to IAS 12 “Income Taxes” with the title “Recognition of deferred tax assets for unrealised losses” and part of the amendments during the annual improvements (2014 – 2016 cycle) with regard to IFRS 12 “Disclosure of Interests in Other Entities” have been implemented, but none of these amendments had any material impact on the consolidated financial statements.

STANDARDS, INTERPRETATIONS AND REVISIONS TO ISSUED STANDARDS THAT WERE NOT YET EFFECTIVE IN 2017 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 issued amendments to IFRS 4 "Application of IFRS 9 and IFRS 4" in September 2016. They affect the initial application of IFRS 9 for insurance companies. Without these amendments, the various dates of coming into force for IFRS 9 and the new standard for insurance contracts (IFRS 17) will lead to increased volatility in the results and duplicated conversion expenses for a transitional period. Applying IFRS 4.20A, the Group, whose predominant activity is in the insurance business, chooses to apply IAS 39 instead of IFRS 9 for financial years that begin prior to 1 January 2021. Insurance business is deemed to be the "predominant activity" at least if, on the final annual reporting date prior to 1 April 2016, more than 90% of the total liabilities were attributable to the insurance business. The assessment of these prerequisites with regard to the application of this solution was carried out on the basis of the consolidated financial statements as at 31 December 2015. At this assessment date, the liabilities in the area of application of IFRS 4 accounted for more than 90% of the total liabilities of the Group. Furthermore, there has been no change in the business activity that would make a re-assessment necessary. As from the 2018 financial year, selected disclosures must be made in the Notes that are designed to permit a certain comparability with companies that already apply IFRS 9. 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; this also takes into account the elaboration of the disclosure obligations that arise when postponing the initial application of IFRS 9. 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. It replaces the existing guidance on revenue recognition, including IAS 18 "Revenue", IAS 11 "Construction Contracts" and IFRIC 13 "Customer Loyalty Programmes". IFRS 15 establishes a comprehensive framework to determine how, how much and when revenue is recognised. IFRS 15 must be applied for the first time to reporting periods beginning on or after 1 January 2018. 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 will apply IFRS 15 as of 1 January 2018 and in the process will select the modified retrospective approach, that is, the cumulative effect from the initial application will have to 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. On the basis of the completed impact analysis, the Group does not expect any material conversion effects at the time of initial application. Due to the minor significance of the anticipated, cumulatively immaterial conversion effect with regard to the presentation of the net assets, financial position and results of operations of the Group and in compliance with the materiality concept, the Group will dispense with the recognition of the immaterial conversion effect as at 1 January 2018.

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 begun assessing the possible impact of the application of IFRS 16 on its consolidated financial statements, without being able to quantify it reliably at present. The Group intends to apply the standard using the modified retrospective method. The cumulative effect of the initial application of IFRS 16 – insofar as it is material – will therefore be recognised as an adjustment of the opening balance of retained earnings as at 1 January 2019, without any adjustment of the comparative period. Up to now, one impact that has been identified is that the Group will recognise new assets and debts for its operating leases. As at 31 December 2017, the future minimum lease payments for non-callable operating leases (on a non-discounted basis) stood at EUR 488 million (see information in the Notes on "Rents and leases" in the "Other disclosures" section).

Apart from the above-mentioned new standards/amendments that could have a material impact on the consolidated financial statements, other standard amendments 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:

STANDARD AMENDMENTS

Standard	Title of the standard/ interpretation/amendment	First application [1]
IFRS 15 "Revenue from Contracts with Customers"	Clarifications of IFRS 15	1.1.2018
Amendments in the context of the "annual improvements (2014-2016 cycle)"	Amendments to IAS 28 and IFRS 1	1.1.2018
IFRS 2 "Share-based Payment"	Classification and Measurement of Share-based Payment Transactions	1.1.2018

[1] Effective for annual periods beginning on or after the date stated.

B) NOT YET ENDORSED BY THE EU

The IASB issued its new requirements governing insurance accounting in IFRS 17 "Insurance Contracts" on 18 May 2017 which, subject to implementation in EU law, must be applied bindingly to financial years that begin on or after 1 January 2021. IFRS 17 supersedes IFRS 4 and so establishes the principles for the recognition, measurement and presentation of disclosures relating to insurance contracts, reinsurance contracts and investment contracts with a discretionary surplus participation within the scope of the standard for the first time. According to the assessment model of the new standard, groups of insurance contracts are assessed on the basis of the expected value of discounted cash flows with an explicit risk adjustment for non-financial risks and a contractual service margin, which leads to a profit recognition corresponding to the provision of services. Instead of premium income in every period, the changes arising from the liability to grant insurance cover are recognised as "insurance turnover", for which the insurance company receives a fee minus incoming and outgoing payments of savings components. Insurance financing earnings and costs result from discounting effects and financial risks. They may be recognised for each portfolio either in the statement of income through profit or loss or in the other comprehensive income. Changes in the assumptions that do not relate to interest or financial risks are booked against the contractual service margin and are distributed over the term of the services that are still due to be provided. If the service margin becomes negative, a corresponding amount must be recognised through profit or loss. IFRS 17 provides a simplified procedure for short-term contracts, which presents the liability to grant insurance cover as was done previously via unearned premiums. Liabilities arising from incurred but not yet processed insurance claims must be discounted under IFRS 17 at the relevant current interest rates. For large parts of the life insurance business with surplus participation, the standard modifies the general assessment model, in that even changes to the shareholders' portion of the performance of the earnings sources underlying the surplus participation are recognised in the contractual service margin and are distributed over the remaining term of the service provision. As these new regulations affect the core business activities of the Group, it is inevitable to expect material impacts on the consolidated financial statements. Due to the particular significance of the new accounting regulations, the Group has set up a multi-year project to examine the impact of the standard on the consolidated financial statements and to take the necessary steps towards implementation. The basic accounting principles are currently being developed, so that it will then be possible to begin with implementing the comprehensive requirements in the processes and systems at the Group.

Moreover, a series of further standard amendments and interpretations have been passed, but it is anticipated that they will not have any material impact on the net assets, financial position and results of operations of the Group:

APPLICATION OF NEW INTERPRETATIONS AND/OR AMENDMENTS – NOT YET ENDORSED

Standard	Title of the standard/ interpretation/amendment	First application [1]
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1.1.2018
IAS 40 "Investment Property"	Transfers of Investment Property	1.1.2018
IFRIC 23	Uncertainty over Income Tax Treatments	1.1.2019
IFRS 9 "Financial Instruments"	Prepayment Features with Negative Compensation	1.1.2019
IAS 28 "Investments in Associates and Joint Ventures"	Long-term investments in associates and joint ventures	1.1.2019
Amendments in the context of the "annual improvements (2015–2017 cycle)"	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	1.1.2019
IAS 19 "Employee Benefits"	Plan amendments, curtailments and settlements	1.1.2019

[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 2017 are described in the "Basis of preparation and application of IFRSs" section, while consolidation principles are described in the "Consolidation" section (pages 162ff. and 191ff.).

CHANGES IN ACCOUNTING POLICIES AND ERRORS

In the consolidated financial statements for financial year 2016, the Group recognised components of the deferred acquisition costs and the unearned premium reserve as offset against the benefit reserve for a specific portfolio of reinsurance contracts in the Life/Health Reinsurance segment. This incorrect disclosure was corrected retrospectively in accordance with IAS 8.41 by adjusting the comparable information for earlier periods (see a)).

In the fourth quarter, the measurement of current and deferred taxes was retrospectively corrected in the Industrial Lines segment and the comparative information was restated in accordance with IAS 8.41. The effect results from the change in the way settlement balances between Germany and other countries are treated within the segment. Based on the existing group with Talanx AG, retrospective tax restatements also occurred in the Corporate Operations segment (see b)).

Additionally, in the fourth quarter, incorrect deferred premiums were retrospectively corrected in the Retail International segment and the comparative information was restated accordingly in accordance with IAS 8.41 (see c)).

The effects of the retrospective application of the aforementioned changes (described in a), b) and c)) to the opening balance sheet as at 1 January 2016, the consolidated balance sheet as at 31 December 2016, the consolidated statement of income and the consolidated statement of comprehensive income for the comparative period are shown in the following tables:

EFFECTS ON THE CONSOLIDATED BALANCE SHEET AS AT 1 JANUARY 2016

EUR MILLION

		1.1.2016 as reported	Changes due to adjustments to reflect IAS 8: Adjustment relating to a)	Adjustment relating to b)	Adjustment relating to c)	1.1.2016
Assets						
F.	Deferred acquisition costs	5,078	54			5,132
H.	Deferred tax assets	736		1		737
I.	Other assets	2,537		5		2,542
Equity and liabilities						
A.b.	Reserves	7,966		–24	–10	7,932
C.a.	Unearned premium reserve	7,081	33		18	7,132
C.b.	Benefit reserve	54,845	21			54,866
G.	Deferred tax liabilities	2,298		30	–8	2,320

EFFECTS ON THE CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2016

EUR MILLION

		31.12.2016 as reported	Changes due to adjustments to reflect IAS 8: Adjustment relating to a)	Adjustment relating to b)	Adjustment relating to c)	31.12.2016
Assets						
F.	Deferred acquisition costs	5,240	66			5,306
H.	Deferred tax assets	577		–9		568
I.	Other assets	2,620		–2		2,618
Equity and liabilities						
A.b.	Reserves	8,762		–29	–11	8,722
C.a.	Unearned premium reserve	7,624	42		20	7,686
C.b.	Benefit reserve	54,758	24			54,782
F.c.	Other liabilities	6,150		–14		6,136
G.	Deferred tax liabilities	2,148		32	–9	2,171

EFFECTS ON THE CONSOLIDATED STATEMENT OF INCOME 2016

EUR MILLION

		1.1–31.12.2016 as reported	Changes due to adjustments to reflect IAS 8: Adjustment relating to a)	Adjustment relating to b)	Adjustment relating to c)	1.1.–31.12.2016
4.	Change in gross unearned premiums	–491	–7		1	–497
6.	Claims and claims expenses (gross)	23,085	3			23,088
7.	Acquisition costs and administrative expenses (gross)	6,578	–10			6,568
10.a.	Other income	1,230		6		1,236
13.	Income taxes	585		11		596
	Net income	1,568		–5	1	1,564
	of which attributable to non-controlling interests	661				661
	Shareholders of Talanx AG	907		–5	1	903

The overall effect on Group net income amounts to EUR –4 million.

Additionally, the item described under c) results in a reduction in other comprehensive income for financial year 2016 of EUR 2 million (expense) solely relating to currency translation.

Earnings per share for financial year 2016 declined by EUR –0.02 from EUR 3.59 to EUR 3.57. This change is solely as a result of the item described under b).

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. Revisions of assessments are recorded prospectively.

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 2018 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 further-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 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 202ff.). In order to determine possible impairment, the recoverable amount of a CGU/groups of CGUs – defined as the higher of value in use and fair value less costs of disposal – is established and compared with the carrying amounts of that CGU/groups of CGUs in the Group, including goodwill. If the carrying amounts exceed the recoverable amount, a goodwill impairment is recognised in the statement of income.

Insurance-related intangible assets: The present value of future profits (PVFP) on acquired insurance portfolios refers to the present value of expected future net cash flows from existing insurance/reinsurance contracts and investment contracts at the date of acquisition. It consists of a shareholders' portion, in respect of which deferred taxes are recognised, and a policyholders' portion (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 205ff. 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 or amortisation of the shareholders' portion is reported in "Other technical expenses".

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. 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.

The individual balance sheet items relating to investments are also discussed in the relevant notes with reference to classes of financial instruments in accordance with IFRS 7.

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.

VALUATION MODELS USED TO MEASURE FAIR VALUE

Financial	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
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
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 equity instruments 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 in the absence of the transfer of the related risks and opportunities.

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 surplus 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".

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

Non-current assets held for sale (or groups of assets and liabilities held for sale) are classified as held for sale and disclosed separately 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 value of carrying amount and fair value less costs to sell; in the case of financial instruments, the measurement remains unchanged. Depreciation 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.

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 cash flow 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 annual financial statements (provision for deferred premium refunds) that will have a bearing on future surplus participation calculations. For unrealised gains and losses on financial instruments that are "available for sale", we form the resulting provision for deferred premium refunds outside profit or loss in the "Other comprehensive income" (shadow provision for premium refunds); otherwise, we account for any changes in this provision through profit or loss.

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. This may affect deferred acquisition costs, PVFP, provisions for terminal bonuses for policyholders 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 173.

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.

Miscellaneous other provisions, tax and restructuring provisions are recognised in the amount that is likely to be required to settle the obligations, based on best estimates. These provisions are discounted if the effect of the time value of money is material. Restructuring provisions are recognised if a detailed, formal restructuring plan has been approved by the Group and the main features of the restructuring have been publicly announced. Among other things, the provisions reflect assumptions in respect of the number of employees affected by redundancy, the amount of severance payments and costs in connection with terminating contracts. Expenses related to future business activities (e.g. relocation costs) are not included in the recognition of provisions.

Liabilities

Financial liabilities, including "Notes payable and loans", are recognised at amortised cost if they do not relate to liabilities from derivatives or liabilities under investment contracts at fair value through profit or loss.

Liabilities from derivatives are measured at fair value. In respect of written put options on non-controlling interests, the Group recognises a liability in the amount of the present value of the repurchase amount of the interests. It is charged to non-controlling interests in equity. Effects from subsequent measurement are recognised as income or expenses in "Other income/expenses". Unwinding of the discount on these financial liabilities is reported in "Financing costs".

The fair value of investment contracts is generally calculated using surrender values for policyholders and 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.

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. 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)	
		2017	2016	2017	2016
AUD	Australia	1.5347	1.4591	1.4772	1.4858
BRL	Brazil	3.9734	3.4292	3.6238	3.8516
CAD	Canada	1.5047	1.4191	1.4677	1.4630
CLP	Chile	736.9100	704.3500	733.8123	745.2112
CNY	China	7.8051	7.3206	7.6306	7.3246
GBP	United Kingdom	0.8875	0.8553	0.8744	0.8162
MXN	Mexico	23.6511	21.7854	21.4436	20.5402
PLN	Poland	4.1772	4.4097	4.2558	4.3638
USD	USA	1.1994	1.0540	1.1305	1.1025
ZAR	South Africa	14.8140	14.4632	15.0052	16.1886

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. Insurance activities are further subdivided into six reportable segments. However, in view of the different product types, risks and capital allocations involved, these are classified initially into primary insurance and reinsurance.

Since they are managed according to customer groups, geographical regions (Germany versus other countries) and line of business in Retail Germany (property insurance and life insurance), insurance activities in the primary insurance sector are divided into four reportable segments: "Industrial Lines", "Retail Germany – Property/Casualty", "Retail Germany – Life " and "Retail International". This segmentation also corresponds to the responsibilities of the Members of the Board of Management.

Reinsurance business is handled solely by the Hannover Re Group and is divided into the two segments of 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 online 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 nat cat 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 (Ireland) SE, 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 (Ireland) SE and the operating profit of Talanx Reinsurance Broker GmbH is 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. The balance sheet for the Reinsurance Division, by contrast, is a combination of the segment balance sheets for its reportable segments Property/Casualty Reinsurance and Life/Health Reinsurance.

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 2017

EUR MILLION

Assets	Industrial Lines		Retail Germany	
	31.12.2017	31.12.2016 [1]	31.12.2017	31.12.2016
A. Intangible assets				
a. Goodwill	154	153	248	248
b. Other intangible assets	8	8	481	520
	162	**161**	**729**	**768**
B. Investments				
a. Investment property	125	77	1,075	984
b. Shares in affiliated companies and participating interests	12	12	41	13
c. Investments in associates and joint ventures	120	150	—	53
d. Loans and receivables	973	1,054	24,844	25,092
e. Other financial instruments				
i. Financial assets held to maturity	73	77	170	170
ii. Financial assets available for sale	5,524	5,625	22,794	21,420
iii. At fair value through profit or loss	136	72	358	346
f. Other investments	779	684	1,495	1,532
Assets under own management	**7,742**	**7,751**	**50,777**	**49,610**
g. Investments under investment contracts	—	—	—	—
h. Funds withheld by ceding companies	18	20	4	3
Investments	**7,760**	**7,771**	**50,781**	**49,613**
C. Investments for the benefit of life insurance policyholders who bear the investment risk	—	—	10,485	9,727
D. Reinsurance recoverables on technical provisions	4,844	5,014	2,131	2,170
E. Accounts receivable on insurance business	1,484	1,259	304	331
F. Deferred acquisition costs	51	45	2,232	2,179
G. Cash at banks, cheques and cash-in-hand	630	478	638	633
H. Deferred tax assets	46	60	72	78
I. Other assets	795	383	959	1,226
J. Non-current assets and assets of disposal groups classified as held for sale [2]	18	—	43	—
Total assets	**15,790**	**15,171**	**68,374**	**66,725**

[1] Adjusted in accordance with IAS 8, see “Accounting policies”, subsection “Changes in accounting policies and errors” in the Notes.
[2] For further information see “Non-current assets held for sale and disposal groups” in the Notes.

	Retail International		Reinsurance		Corporate Operations		Consolidation		Total	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016 [1)]	31.12.2017	31.12.2016 [1)]	31.12.2017	31.12.2016	31.12.2017	31.12.2016 [1)]
	623	618	33	20	—	—	—	—	1,058	1,039
	150	156	197	128	101	91	—	—	937	903
	773	774	**230**	148	**101**	91	**—**	—	**1,995**	1,942
	15	17	1,584	1,402	—	—	—	—	2,799	2,480
	—	—	108	97	17	17	—	—	178	139
	—	—	122	114	—	—	—	–27	242	290
	604	700	2,455	2,564	17	15	—	—	28,893	29,425
	268	305	336	485	1	2	–294	–295	554	744
	8,245	7,373	31,705	33,478	187	154	—	—	68,455	68,050
	639	636	301	298	—	—	—	—	1,434	1,352
	392	327	3,266	3,235	679	261	–1,285	–1,345	5,326	4,694
	10,163	9,358	**39,877**	41,673	**901**	449	**–1,579**	–1,667	**107,881**	107,174
	1,113	1,091	—	—	—	—	—	—	1,113	1,091
	—	—	10,903	11,844	—	1	–1,246	–1,278	9,679	10,590
	11,276	10,449	**50,780**	53,517	**901**	450	**–2,825**	–2,945	**118,673**	118,855
	648	856	—	—	—	—	—	—	11,133	10,583
	668	832	2,714	2,843	—	—	–2,660	–2,901	7,697	7,958
	1,156	1,142	3,822	3,678	2	2	–142	–220	6,626	6,192
	588	589	2,229	2,264	—	—	232	229	5,332	5,306
	598	455	820	814	452	209	—	—	3,138	2,589
	61	59	118	127	295	244	—	—	592	568
	412	471	1,429	1,286	731	740	–1,544	–1,488	2,782	2,618
	427	—	—	15	—	—	–70	—	418	15
	16,607	15,627	**62,142**	64,692	**2,482**	1,736	**–7,009**	–7,325	**158,386**	156,626

CONSOLIDATED BALANCE SHEET BY DIVISION AS AT 31 DECEMBER 2017

EUR MILLION

Equity and liabilities	Industrial Lines		Retail Germany	
	31.12.2017	31.12.2016 [2]	31.12.2017	31.12.2016
B. Subordinated liabilities	200	200	162	161
C. Technical provisions				
a. Unearned premium reserve	1,082	1,094	1,307	1,160
b. Benefit reserve	—	—	40,205	39,515
c. Loss and loss adjustment expense reserve	9,376	9,353	3,258	3,098
d. Provision for premium refunds	16	19	5,848	5,473
e. Other technical provisions	48	42	2	2
	10,522	**10,508**	**50,620**	**49,248**
D. Technical provisions for life insurance policies where the investment risk is borne by the policyholders	—	—	10,485	9,727
E. Other provisions				
a. Provisions for pensions and other post-employment benefits	593	612	143	150
b. Provisions for taxes	118	97	108	118
c. Miscellaneous other provisions	81	84	362	372
	792	**793**	**613**	**640**
F. Liabilities				
a. Notes payable and loans	15	16	96	104
b. Funds withheld under reinsurance treaties	55	49	1,754	1,748
c. Other liabilities	1,627	1,243	1,887	2,251
	1,697	**1,308**	**3,737**	**4,103**
G. Deferred tax liabilities	272	204	247	288
H. Liabilities included in disposal groups classified as held for sale [1]	1	—	2	—
Total liabilities/provisions	**13,484**	**13,013**	**65,866**	**64,167**

	Retail International		Reinsurance		Corporate Operations		Consolidation		Total	
	31.12.2017	31.12.2016 [2)]	31.12.2017	31.12.2016 [2)]	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016 [2)]
	42	42	1,661	1,683	1,280	530	−608	−633	2,737	1,983
	2,332	2,219	3,541	3,383	1	1	−147	−171	8,116	7,686
	5,577	5,124	8,978	10,314	—	—	−164	−171	54,596	54,782
	2,724	2,592	28,379	28,130	45	41	−1,245	−1,341	42,537	41,873
	335	273	—	—	—	—	—	—	6,199	5,765
	13	10	394	362	—	—	−8	−7	449	409
	10,981	**10,218**	**41,292**	**42,189**	**46**	**42**	**−1,564**	**−1,690**	**111,897**	**110,515**
	648	856	—	—	—	—	—	—	11,133	10,583
	22	21	178	181	1,179	1,219	—	—	2,115	2,183
	130	109	320	409	86	100	—	—	762	833
	94	100	182	199	189	185	−1	—	907	940
	246	**230**	**680**	**789**	**1,454**	**1,504**	**−1**	**—**	**3,784**	**3,956**
	70	21	712	810	1,482	1,535	−944	−981	1,431	1,505
	39	163	4,924	5,532	—	—	−2,226	−2,363	4,546	5,129
	1,794	1,752	2,172	2,425	336	161	−1,664	−1,696	6,152	6,136
	1,903	**1,936**	**7,808**	**8,767**	**1,818**	**1,696**	**−4,834**	**−5,040**	**12,129**	**12,770**
	101	93	1,472	1,562	3	3	22	21	2,117	2,171
	410	—	—	—	—	—	−70	—	343	—
	14,331	**13,375**	**52,913**	**54,990**	**4,601**	**3,775**	**−7,055**	**−7,342**	**144,140**	**141,978**
Equity [3)]									**14,246**	**14,648**
Total equity and liabilities									**158,386**	**156,626**

1) For further information see "Non-current assets held for sale and disposal groups" in the Notes.
2) Adjusted in accordance with IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes.
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 2017[1]

EUR MILLION

	Industrial Lines		Retail Germany	
	2017	2016[2]	2017	2016
1. Gross written premiums including premiums from unit-linked life and annuity insurance	4,454	4,266	6,101	6,286
of which attributable to other divisions/segments	56	56	59	34
with third parties	4,398	4,210	6,042	6,252
2. Savings elements of premiums from unit-linked life and annuity insurance	—	—	892	942
3. Ceded written premiums	1,997	1,989	259	246
4. Change in gross unearned premiums	–48	–22	–147	–173
5. Change in ceded unearned premiums	–25	12	–5	4
Net premiums earned	**2,434**	**2,243**	**4,808**	**4,921**
6. Claims and claims expenses (gross)	3,679	2,615	5,645	5,613
Reinsurers' share	1,585	942	82	97
Claims and claims expenses (net)	**2,094**	**1,673**	**5,563**	**5,516**
7. Acquisition costs and administrative expenses (gross)	911	867	1,236	1,177
Reinsurers' share	355	378	100	85
Acquisition costs and administrative expenses (net)	**556**	**489**	**1,136**	**1,092**
8. Other technical income	20	8	30	43
Other technical expenses	11	16	43	56
Other technical result	**9**	**–8**	**–13**	**–13**
Net technical result	**–207**	**73**	**–1,904**	**–1,700**
9. a. Investment income	341	303	2,432	2,156
b. Investment expenses	64	61	319	251
Net income from assets under own management	**277**	**242**	**2,113**	**1,905**
Net income from investment contracts	—	—	—	—
Net interest income from funds withheld and contract deposits	—	—	–15	–16
Net investment income	**277**	**242**	**2,098**	**1,889**
of which share of profit or loss of equity-accounted associates and joint ventures	5	16	3	7
10. a. Other income	165	111	215	215
b. Other expenses	126	124	272	314
Other income/expenses	**39**	**–13**	**–57**	**–99**
Profit before goodwill impairments	**109**	**302**	**137**	**90**
11. Goodwill impairments	—	—	—	—
Operating profit/loss (EBIT)	**109**	**302**	**137**	**90**
12. Financing costs	9	9	9	9
13. Taxes on income	9	52	17	8
Net income	**91**	**241**	**111**	**73**
of which attributable to non-controlling interests	—	—	9	5
attributable to shareholders of Talanx AG	91	241	102	68

[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] Adjusted in accordance with IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes.

Retail International		Reinsurance		Corporate Operations		Consolidation		Total	
2017	2016 2)	2017	2016 2)	2017	2016 2)	2017	2016	2017	2016 2)
5,461	4,918	17,791	16,354	29	25	–776	–743	33,060	31,106
1	1	631	628	29	25	–776	–744	—	—
5,460	4,917	17,160	15,726	—	—	—	1	33,060	31,106
280	256	—	—	—	—	—	—	1,172	1,198
429	414	1,697	1,750	7	8	–720	–766	3,669	3,641
–188	–123	–438	–164	—	1	–10	–16	–831	–497
–15	2	25	30	—	—	–10	–14	–30	34
4,579	**4,123**	**15,631**	**14,410**	**22**	**18**	**–56**	**21**	**27,418**	**25,736**
3,659	3,291	13,640	11,977	14	25	–451	–433	26,186	23,088
265	211	1,447	1,083	—	—	–461	–445	2,918	1,888
3,394	**3,080**	**12,193**	**10,894**	**14**	**25**	**10**	**12**	**23,268**	**21,200**
1,170	1,085	4,151	3,667	4	4	–230	–232	7,242	6,568
81	81	227	268	—	—	–209	–213	554	599
1,089	**1,004**	**3,924**	**3,399**	**4**	**4**	**–21**	**–19**	**6,688**	**5,969**
30	32	1	—	—	—	45	1	126	84
71	61	7	8	—	—	—	29	132	170
–41	**–29**	**–6**	**–8**	**—**	**—**	**45**	**–28**	**–6**	**–86**
55	**10**	**–492**	**109**	**4**	**–11**	**—**	**—**	**–2,544**	**–1,519**
397	393	1,832	1,531	12	40	–54	–57	4,960	4,366
63	78	272	297	90	88	–111	–113	697	662
334	**315**	**1,560**	**1,234**	**–78**	**–48**	**57**	**56**	**4,263**	**3,704**
–4	5	—	—	—	—	—	—	–4	5
–1	–1	235	331	—	—	—	—	219	314
329	**319**	**1,795**	**1,565**	**–78**	**–48**	**57**	**56**	**4,478**	**4,023**
—	—	16	9	—	—	—	–7	24	25
102	94	1,006	749	767	787	–728	–720	1,527	1,236
246	210	939	722	705	708	–634	–645	1,654	1,433
–144	**–116**	**67**	**27**	**62**	**79**	**–94**	**–75**	**–127**	**–197**
240	**213**	**1,370**	**1,701**	**–12**	**20**	**–37**	**–19**	**1,807**	**2,307**
—	—	—	—	—	—	—	—	—	—
240	**213**	**1,370**	**1,701**	**–12**	**20**	**–37**	**–19**	**1,807**	**2,307**
6	4	80	76	86	86	–41	–37	149	147
70	67	247	391	43	69	2	9	388	596
164	**142**	**1,043**	**1,234**	**–141**	**–135**	**2**	**9**	**1,270**	**1,564**
26	18	563	639	—	—	—	–1	598	661
138	124	480	595	–141	–135	2	10	672	903

CONDENSED CONSOLIDATED STATEMENT OF INCOME FOR THE REPORTABLE SEGMENTS RETAIL GERMANY – PROPERTY/CASUALTY AND LIFE, AS WELL AS PROPERTY/CASUALTY AND LIFE/HEALTH REINSURANCE FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2017

EUR MILLION

	Retail Germany – Property/Casualty		Retail Germany – Life		Property/Casualty Reinsurance		Life/Health Reinsurance	
	2017	2016	2017	2016	2017	2016	2017	2016 [1]
1. Gross written premiums including premiums from unit-linked life and annuity insurance	1,525	1,498	4,576	4,788	10,711	9,205	7,080	7,149
of which attributable to other segments	—	—	59	34	482	479	149	149
with third parties	1,525	1,498	4,517	4,754	10,229	8,726	6,931	7,000
2. Savings elements of premiums from unit-linked life and annuity insurance	—	—	892	942	—	—	—	—
3. Ceded written premiums	82	69	177	177	1,107	1,062	590	688
4. Change in gross unearned premiums	–39	–27	–108	–146	–422	–129	–16	–35
5. Change in ceded unearned premiums	–7	–3	2	7	24	30	1	—
Net premiums earned	**1,411**	1,405	**3,397**	3,516	**9,158**	7,984	**6,473**	6,426
6. Claims and claims expenses (gross)	922	946	4,723	4,667	7,440	5,819	6,200	6,158
Reinsurers' share	13	10	69	87	914	489	533	594
Claims and claims expenses (net)	**909**	936	**4,654**	4,580	**6,526**	5,330	**5,667**	5,564
7. Acquisition costs and administrative expenses (gross)	543	533	693	644	2,812	2,384	1,339	1,283
Reinsurers' share	22	20	78	65	180	210	47	58
Acquisition costs and administrative expenses (net)	**521**	513	**615**	579	**2,632**	2,174	**1,292**	1,225
8. Other technical income	3	3	27	40	1	—	—	—
Other technical expenses	5	3	38	53	—	–1	7	9
Other technical result	**–2**	—	**–11**	–13	**1**	1	**–7**	–9
Net technical result	**–21**	–44	**–1,883**	–1,656	**1**	481	**–493**	–372
9. a. Investment income	111	105	2,321	2,051	1,437	1,137	395	394
b. Investment expenses	19	17	300	234	220	233	52	64
Net income from assets under own management	**92**	88	**2,021**	1,817	**1,217**	904	**343**	330
Net income from investment contracts	—	—	—	—	—	—	—	—
Net interest income from funds withheld and contract deposits	–1	–1	–14	–15	18	24	217	307
Net investment income	**91**	87	**2,007**	1,802	**1,235**	928	**560**	637
of which share of profit or loss of equity-accounted associates and joint ventures	1	1	2	6	12	8	4	1
10. a. Other income	56	68	159	147	292	245	714	504
b. Other expenses	74	113	198	201	387	283	552	439
Other income/expenses	**–18**	–45	**–39**	–54	**–95**	–38	**162**	65
Profit before goodwill impairments	**52**	–2	**85**	92	**1,141**	1,371	**229**	330
11. Goodwill impairments	—	—	—	—	—	—	—	—
Operating profit/loss (EBIT)	**52**	–2	**85**	92	**1,141**	1,371	**229**	330

[1] Adjusted in accordance with IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes.

INVESTMENTS (EXCLUDING FUNDS WITHHELD BY CEDING COMPANIES AND EXCLUDING INVESTMENTS UNDER INVESTMENT CONTRACTS) BY GEOGRAPHICAL ORIGIN [1]

ASSETS UNDER OWN MANAGEMENT BY GEOGRAPHICAL ORIGIN

EUR MILLION

	2017	2016
Germany	28,103	28,606
United Kingdom	7,366	6,792
Central and Eastern Europe (CEE), including Turkey	4,446	3,845
Rest of Europe	37,468	37,878
USA	16,958	16,959
Rest of North America	2,666	2,633
Latin America	2,979	3,263
Asia and Australia	7,476	6,817
Africa	419	381
Total	**107,881**	**107,174**

[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

	2017	2016
Germany	4,059	3,780
United Kingdom	103	6
Rest of Europe	334	354
USA	601	694
Rest of North America	115	—
Latin America	170	180
Asia and Australia	3	2
Africa	9	10
Total	5,394	5,026

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
2017			
Germany	7,660	898	8,558
United Kingdom	213	2,456	2,669
Central and Eastern Europe (CEE), including Turkey	2,373	560	2,933
Rest of Europe	2,816	2,337	5,153
USA	568	5,258	5,826
Rest of North America	46	681	727
Latin America	1,875	943	2,818
Asia and Australia	310	3,531	3,841
Africa	39	496	535
Total	**15,900**	**17,160**	**33,060**
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**

1) After elimination of intragroup cross-segment transactions. This may result in differences from the amounts disclosed in the management report.

GROSS WRITTEN PREMIUMS BY TYPE AND CLASS OF INSURANCE AT GROUP LEVEL 1)

GROSS WRITTEN PREMIUMS BY TYPE AND CLASS OF INSURANCE

EUR MILLION

	2017	2016
Property/casualty primary insurance	9,625	8,949
Primary life insurance	6,275	6,431
Property/Casualty Reinsurance	10,229	8,726
Life/Health Reinsurance	6,931	7,000
Total	**33,060**	**31,106**

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. For subsidiaries with differing reporting dates that are more than three months prior to the Group reporting date, interim financial statements were prepared as at 31 December 2017 for the purposes of the consolidated financial statements.

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 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.

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, 32 (35) 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 ten (eleven) associates and three (three) 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 269ff. 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

	2017	2016
Number of consolidated subsidiaries		
Domestic [1]	79	85
Foreign [2]	136	103
Subtotal	**215**	**188**
Number of consolidated investment funds (subsidiaries) [3]		
Domestic	19	16
Foreign	7	9
Subtotal	**26**	**25**
Number of consolidated structured entities		
Domestic	—	—
Foreign	2	2
Subtotal	**2**	**2**
Total number of consolidated entities		
Domestic	98	101
Foreign	145	114
Total	**243**	**215**
Number of equity-accounted associates and joint ventures		
Domestic	3	3
Foreign [4], [5]	5	5
Total	**8**	**8**

[1] Consists of: 77 (83) individual entities and two (two) entities consolidated in one (one) subgroup.
[2] Consists of: 59 (59) individual entities and 77 (44) entities consolidated in five (three) subgroups.
[3] Control is exercised through voting or similar rights, so these investment funds do not constitute structured entities.
[4] Consists of four (four) individual entities and one (one) equity-accounted investment 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 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 "Credit risk" subsection of the "Risk report" section in the Group management report.

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 5,411 (5,610) million at the reporting date.

SUBSIDIARIES WITH SIGNIFICANT NON-CONTROLLING INTERESTS [1]

EUR MILLION

	Hannover Rück SE subgroup [2]		Towarzystwo Ubezpieczeń i Reasekuracji WARTA S. A.	
	2017	2016 [3]	2017	2016
Domicile/country of formation	Hannover/ Germany	Hannover/ Germany	Warsaw/ Poland	Warsaw/ Poland
Non-controlling interests	49.78%	49.78%	24.26%	24.26%
Investments	50,960	53,637	2,015	1,630
Reinsurance recoverables on technical provisions	2,715	2,843	184	226
Accounts receivable on insurance business	3,821	3,678	290	311
Total assets	**61,197**	**63,595**	**2,749**	**2,399**
Subordinated liabilities	1,492	1,491	—	—
Technical provisions	41,292	42,188	1,880	1,620
Other provisions	679	789	19	17
Equity	**9,287**	**9,741**	**619**	**555**
of which non-controlling interests [4]	5,123	5,355	150	135
Total debt	**51,910**	**53,854**	**2,130**	**1,844**
Gross written premiums	17,791	16,354	1,189	937
Net premiums earned	15,632	14,410	1,052	757
Underwriting result	–489	116	50	30
Net investment income	1,774	1,550	59	48
Operating profit (EBIT)	1,364	1,689	98	68
Net income	**1,045**	**1,226**	**81**	**60**
of which non-controlling interests [4]	564	639	20	15
Other comprehensive income	**–853**	**360**	**43**	**–23**
Total comprehensive income	**192**	**1,586**	**124**	**37**
of which non-controlling interests [4]	126	827	30	9
Cash flows from operating activities	1,694	2,331	387	101
Cash flows from investing activities	–942	–1,712	–276	–29
Cash flows from financing activities	–690	–627	–59	–62
Cash and cash equivalents at the end of the reporting period	**836**	**849**	**36**	**11**
Dividends paid to non-controlling interests during the year [5]	**300**	**285**	**14**	**15**

1) All amounts relate to financial information before consolidation.
2) Information according to Hannover Rück SE subgroup.
3) Adjusted in accordance with IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes.
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

Within the subgroup Hannover Re Real Estate Holdings, Inc., Orlando, USA, which belongs to the Hannover Re Group, the property company 320AUS LLC, Wilmington, USA, was founded through the intermediary of the subsidiary GLL HRE Core Properties, LP, Wilmington, USA, for the purpose of acquiring property. Around EUR 83 million has been invested in relation to this. Hannover Re Real Estate Holdings, Inc., has also acquired shares in HR US Infra Equity LP, Wilmington, USA, whose purpose is to get involved in US infrastructure investments.

In the second quarter of 2017, CBA Vita S. p. A, Milan, Italy, and InChiaro Assicurazioni S. p. A., Rome, Italy, were merged into HDI Assicurazioni S. p. A., Rome, Italy (Retail International segment).

During the third quarter of 2017, Hannover Re Global Alternatives GmbH & Co. KG, Hannover, a subsidiary of Hannover Rück SE, acquired a 100% share in PAG Real Estate Asia Select Fund Limited, George Town, Cayman Islands, for the purpose of acquiring property. The company has acquired 99.65% of the shares in Orion No. 1 professional Investors Private Real Estate Investment LLC, Seoul, South Korea, and 99% of the shares in Peace G.K., Tokyo, Japan. A total of around EUR 114 million has been invested in relation to this. Hannover Re Global Alternatives GmbH & Co. KG has also acquired shares in HR US Infra Debt LP, George Town, Cayman Islands, which is involved in US infrastructure investments.

On 20 July 2017, Hannover Re acquired 100% of the shares in Argenta Holdings Limited, London, United Kingdom. The purchase price for the shares was EUR 162 million. By acquiring this company, Hannover Re also took over its shares in various subsidiaries, which are mainly involved in assuming insurance risks and managing their own Lloyd’s Syndicate 2121. They also provide services for external Lloyd's syndicates and companies.

The business was included in the consolidated financial statements for the first time as at 1 July 2017. 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 ARGENTA HOLDINGS LIMITED AS AT 1 JULY 2017

EUR MILLION

Intangible assets	85
Investments	103
Reinsurance recoverables on technical provisions	76
Cash at banks, cheques and cash-in-hand	71
Deferred tax assets	4
Other assets [1]	19
Total assets	**358**
Technical provisions	164
Other provisions	7
Liabilities	39
Deferred tax liabilities	15
Total liabilities	**225**
Acquired net assets (before consolidation)	**133**

[1] This includes gross accounts receivable in the amount of EUR 11 million. No impairment losses have been established on gross accounts receivable.

As the fair values of the identifiable assets, liabilities and contingent liabilities recognised are less than the purchase price of the transaction, consolidation gave rise to positive goodwill, which, in accordance with IFRS 3.32, results in an intangible asset in the amount of EUR 14 million and is subject to an annual impairment test in accordance with IAS 36.

The gross written premiums of the acquired business amounted to EUR 62 million between the initial consolidation date and the reporting date. A profit was recognised for the acquired business for the same period.

By way of purchase agreements dated 5 April 2017, the Group purchased the wind farm special purpose vehicle "Le Louveng S. A. S.", Lille, France, through the acquisition of all the shares by Talanx Infrastructure France 2 GmbH, Cologne (Retail Germany Life and Property/Casualty segments on a pro rata basis). The acquisition was subject to conditions precedent, which were met on 4 October 2017 (acquisition date).

The purchase price for the complete wind farm project, which was settled entirely in cash, amounted to EUR 14 million. No goodwill arose from the acquisition. This transaction does not result in any tax-deductible goodwill in the tax accounts (share deal). Acquisition-related costs (< EUR 0.5 million) are reported in "Other income/expenses".

The amounts recognised at the acquisition date for each main group of acquired assets and assumed liabilities in accordance with IFRS are presented in the following table:

ACQUIRED ASSETS AND ASSUMED LIABILITIES OF LE LOUVENG S.A.S. AS AT 4 OCTOBER 2017 1)

EUR MILLION

Investments	23
Cash at banks, cheques and cash-in-hand	—
Other assets 2)	2
Total assets	**25**
Liabilities	8
Deferred tax liabilities	3
Total liabilities	**11**
Acquired net assets (before consolidation)	14

1) To determine the fair values, please see our disclosures in the "Accounting policies" section.
2) Gross accounts receivable on insurance business before impairment losses amount to EUR 2 million.

There are no material contingent liabilities under IFRS 3.23 or any 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.

As the wind farm only came into operation in December 2017, no material revenue or net income has been generated yet.

During the fourth quarter of 2017, all the shares in the property companies 3541 PRG s. r. o. and Skoduv palác s. r. o., both Prague, Czech Republic, were acquired through the intermediary of HR GLL Europe Holding S. á. r. l., Luxembourg, Luxembourg, a subsidiary of the subgroup HR GLL Central Europe GmbH & Co. KG, Munich, which belongs to the Hannover Re Group, for the purpose of acquiring property. Then Skoduv palác was merged with 3541 PRG with no effect on Group net income. In addition, HR GLL Europe Holding S. á. r. l. acquired all the shares in the property company 92601 BTS s. r. o., Bratislava, Slovakia, in December 2017, also for the purpose of property acquisition. A total of around EUR 135 million has been invested in relation to this.

With effect from 21 December 2017, Hannover Life Reassurance Company of America, Orlando, USA, transferred 100% of the shares in Hannover Life Reassurance Company of America (Bermuda) Ltd., Hamilton, Bermuda, to Hannover Finance, Inc., Wilmington, USA. This transaction within the Group has no effect on Group net income.

In the previous year, through the intermediary of its subsidiary International Insurance Company of Hannover SE, Hannover, Hannover Re acquired 100% of the shares in The Congregational & General Insurance Public Limited Company (CGI), Bradford, UK. Following its de-licensing by the Financial Conduct Authority on 27 December 2017, the CGI was transferred to its parent company in full as part of a Part IIV transfer and ceased to exist from a legal perspective. Since this involves a transaction within the Group, there is no effect on Group net income.

Through the intermediary of its subsidiary Saint Honoré Iberia S. L., Madrid, Spain (Retail International segment), the Group signed a purchase agreement on 27 June 2017 to acquire the majority of the shares in Generali Colombia Seguros Generales S. A., Bogotá, Colombia (property insurer) and the life insurer Generali Colombia Vida Compañia de Seguro S. A., Bogotá, Colombia. The transfer of shares is primarily subject to the condition of the approval of the local supervisory authorities. The transaction is expected to close in the second quarter of 2018.

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, Leine Investment SICAV-SIF, Luxembourg, 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)	
	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 12.9 (11.0) billion and the generated commissions total EUR 86 (76) million.
	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. A stock of such securities is also held in Hannover Insurance-Linked Securities GmbH & Co. KG, Hannover. The volume of these transactions results from the carrying amount of the relevant investments and amounted to EUR 56 (70) million at the reporting date. The maximum loss exposure corresponds to the carrying amounts.
Unit-linked life insurance contracts	
	There are unit-linked life insurance contracts at the reporting date resulting from the life insurance business of Group companies.
	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.B76 ff. for which the policyholder makes the investment decision; there is therefore no requirement to consolidate them.

UNCONSOLIDATED STRUCTURED ENTITIES, INCLUDING PRESENTATION OF LOSS EXPOSURE

Type of entity	Nature and purpose of the business relationship or investment
Collateralised fronting (ILS)	
	As part of its extended insurance-linked securities (ILS) activities, Hannover Rück SE has entered into collateralised fronting arrangements, under which risks assumed from ceding companies are passed on to institutional investors outside the Group using structured entities. The purpose of such transactions is to directly transfer clients' business. The volume of the transactions is measured by reference to the reinsurance layer of the underlying retrocession agreements and amounted to EUR 5,235 (4,914) 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 2,775 (2,861) 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. 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 349 (384) 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 2,635 (1,845) 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

	31.12.2017				31.12.2016			
Type of unconsolidated structured entity	General investment activity/ investments	Unit-linked life insurance contracts	Investments in CAT bonds (ILS)	Retrocession: securitisations of reinsurance risks	General investment activity/ investments	Unit-linked life insurance contracts	Investments in CAT bonds (ILS)	Retrocession: securitisations of reinsurance risks
ASSETS								
Loans and receivables	7	—	—	—	13	—	—	—
Other financial instruments – financial assets available for sale	4,361	—	—	—	3,695	—	—	—
Other financial instruments – financial instruments at fair value through profit or loss	219	—	56	—	162	—	70	—
Investment contracts	470	—	—	—	433			
Other investments	2,275	—	—	—	1,974	—	—	—
Investments for the benefit of life insurance policyholders who bear the investment risk	—	11,133	—	—	—	10,583	—	—
Reinsurance recoverables on technical provisions	—	—	—	679	—	—	—	447
Accounts receivable on insurance business	—	—	—	40	—	—	—	8
Total asset items	**7,332**	**11,133**	**56**	**719**	**6,277**	**10,583**	**70**	**455**
EQUITY AND LIABILITIES								
Technical provisions for life insurance policies where the investment risk is borne by the policyholders	—	11,133	—	—	—	10,583	—	—
Other liabilities – reinsurance payables	—	—	—	231	—	—	—	242
Total liabilities	**—**	**11,133**	**—**	**231**	**—**	**10,583**	**—**	**242**

Where they result from general investment activities or investments in 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

ASPECTA ASSURANCE INTERNATIONAL LUXEMBOURG S.A., LUXEMBOURG, LUXEMBOURG (RETAIL INTERNATIONAL SEGMENT)

On 26 January 2018, the Group signed a contract regarding the sale of its 100 % shareholding in ASPECTA Assurance International Luxembourg S. A., Luxembourg, Luxembourg, through Talanx International AG, Hannover, at a price in the low double-digit (millions) region. The disposal group contains assets of EUR 357 million and liabilities of EUR 340 million. The main carrying amounts for the disposal group relate to investments for the benefit of life insurance policyholders who bear the investment risk or to technical provisions for life insurance policies where the investment risk is borne by the policyholders (EUR 258 million in each case), reinsurance recoverables on technical provisions (EUR 47 million) and liabilities totalling EUR 48 million). The transaction is expected to be completed in the first half of 2018. A slight gain is expected on disposal.

INDAQUA INDÚSTRIA E GESTÃO DE ÁGUAS S. A., MATOSINHOS, PORTUGAL (PRO RATA: RETAIL GERMANY—PROPERTY/CASUALTY AND LIFE AS WELL AS INDUSTRIAL LINES SEGMENTS)

On 10 November 2017, the Group signed a contract regarding the sale of the minority shareholding INDAQUA Indústria e Gestão de Águas S. A., Matosinhos, Portugal. The associated company and the shareholder loans to be repaid are disclosed at the reporting date as a disposal group with a carrying amount of EUR 61 million. The transaction has been completed on 22 February 2018, generating a gain on disposal in the low single-digit (millions) region after taxes.

REAL ESTATE

As at the reporting date, there are no real estate portfolios classified as available for sale.

As at 31 December 2016, we classified real estate portfolios in the amount of EUR 15 million as held for sale which were divested in the second quarter of 2017. They were attributed entirely to the Property/Casualty Reinsurance segment. The fair value of the total portfolio (corresponding to the expected selling prices) amounted 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 has been entered into.

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	2017	2016
Gross carrying amount as at 31.12. of the previous year	**159**	**325**	**202**	**650**	**20**	**3**	**1,359**	**1,357**
Currency translation as at 1.1. of the financial year	—	—	—	6	–1	—	5	1
Gross carrying amount after currency translation as at 1.1. of the financial year	159	325	202	656	19	3	1,364	1,358
Additions due to business combinations	—	—	—	—	14	—	14	3
Disposals	—	—	—	—	—	—	—	2
Exchange rate changes	—	—	—	—	—	—	—	—
Gross carrying amount as at 31.12. of the financial year	**159**	**325**	**202**	**656**	**33**	**3**	**1,378**	**1,359**
Accumulated impairment losses as at 31.12. of the previous year	**5**	**77**	**202**	**33**	**—**	**3**	**320**	**320**
Currency translation as at 1.1. of the financial year	—	—	—	—	—	—	—	—
Accumulated impairment losses after currency translation as at 1 January of the financial year	5	77	202	33	—	3	320	320
Impairments	—	—	—	—	—	—	—	—
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	20	—	1,039	1,037
Carrying amount as at 31.12. of the financial year	**154**	**248**	**—**	**623**	**33**	**—**	**1,058**	**1,039**

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)

	31.12.2017	31.12.2016
Industrial Lines segment	154	154
Retail Germany – Property/Casualty segment	248	248
Retail International segment		
Latin America	212	227
Europe	411	390
Property/Casualty Reinsurance segment	33	20

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. 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 CGUs or group of CGU, 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 RATES [1)]

%

	Capitalisation rate	Long-term growth rate
Industrial Lines		
Eurozone	6.25–6.38	1.00
Other countries	7.75–15.00	1.00–4.00
Retail Germany – Property/Casualty	5.20–6.25	0.00–1.00
Retail International		
Europe		
Poland	8.25	2.00
Italy	7.21	1.00
Other countries	6.25–15.00	0.00–4.00
Latin America		
Chile	10.00	2.00
Mexico	12.00	4.00
Other countries	12.00–19.00	2.00–4.00

1) The figures relate to the reference date of the regular impairment test, namely 30 September 2017.

Impairment losses in the reporting period

As in the prior year, there was no need to recognise goodwill impairment losses in the financial year.

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 117 million. Depending on the country, detailed planning was based on a combined ratio of approximately 85%–100% for the essential companies in the group of CGUs. A change in the combined ratio of +0.90 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		
	Insurance-related intangible assets	Software: Purchased	Software: Developed	Acquired sales networks and customer relationships	Other	Acquired brand names	2017	2016
Gross carrying amount as at 31.12. of the previous year	2,348	468	113	140	68	37	3,174	3,159
Change in basis of consolidation (additions)								
Business combinations	—	—	—	15	69	1	85	27
Additions	—	37	4	—	28	—	69	71
Disposals	—	3	77	—	12	—	92	12
Reclassifications	—	22	—	—	–17	—	5	–3
Disposal groups in accordance with IFRS 5	—	–2	—	—	—	—	–2	–61
Exchange rate changes	–6	–1	–1	6	–3	1	–4	–7
Gross carrying amount as at 31.12. of the financial year	2,342	521	39	161	133	39	3,235	3,174
Accumulated amortisation and impairment losses as at 31.12. of the previous year	1,721	311	107	108	23	1	2,271	2,206
Change in basis of consolidation (additions)								
Business combinations	—	1	—	—	—	—	1	3
Disposals	—	2	75	—	4	—	81	10
Reversals of impairment losses	7	—	—	—	—	—	7	35
Amortisation/impairment losses								
Depreciation	12	43	1	6	2	1	65	80
Impairment losses [1]	45	—	—	—	—	—	45	60
Disposal groups in accordance with IFRS 5	—	–2	—	—	—	—	–2	–26
Exchange rate changes	2	—	—	5	–1	—	6	–7
Accumulated amortisation and impairment losses as at 31.12. of the financial year	1,773	351	33	119	20	2	2,298	2,271
Carrying amount as at 31.12. of the previous year	627	157	6	32	45	36	903	953
Carrying amount as at 31.12. of the financial year	569	170	6	42	113	37	937	903

[1] The impairment losses on insurance-related intangible assets (EUR 45 [59] 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

	31.12.2017	31.12.2016
Shareholders' portion	206	219
Policyholders' portion	295	322
Carrying amount	501	541

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 57 (91) million are attributable as follows: EUR 30 (58) million to the shareholders' portion and EUR 27 (33) million to the policyholders' portion. These amounts are essentially attributable to the following segments as follows: Retail Germany – Life EUR 45 (73) million, Retail International EUR 8 (14) million and Life/Health Reinsurance EUR 4 (4) million.

The reversals of impairment (EUR 7 [35] million) due to an amendment in the accounting principles resulted entirely from the Retail Germany - Life segment and can be allocated with EUR 6 (5) million to the shareholders' portion and with EUR 1 (30) million to the policyholders' portion.

PVFP BY POLICY TERM

EUR MILLION

	Term				
	Up to 10 years	Up to 20 years	Up to 30 years	More than 30 years	Total
Shareholders' portion	75	78	65	56	**274**
of which investment contracts	12	4	—	—	**16**
Policyholders' portion	61	93	79	62	**295**
Carrying amount as at 31.12.2017	136	171	144	118	**569**

The acquired brand names worth EUR 37 (36) million (essentially "WARTA" [EUR 31 million]) are indefinite-lived intangible assets since, based on an analysis of all relevant factors (including anticipated use, control, dependence on other assets), there is no foreseeable limitation on the period during which the asset can be expected to generate net cash flows.

(3) INVESTMENT PROPERTY

INVESTMENT PROPERTY

EUR MILLION

	2017	2016
Gross carrying amount as at 31.12. of the previous year	**2,738**	2,419
Change in basis of consolidation (additions)		
Business combinations	—	—
Additions	543	316
Disposals	92	7
Disposal groups in accordance with IFRS 5	—	–17
Reclassification	27	—
Exchange rate changes	–96	27
Gross carrying amount as at 31.12. of the financial year	**3,120**	2,738
Accumulated depreciation and impairment losses as at 31.12. of the previous year	**258**	221
Disposals	15	1
Reversal after impairment	2	9
Depreciation and impairment losses		
Depreciation	52	45
Impairment losses	16	2
Disposal groups in accordance with IFRS 5	—	–2
Reclassification	20	—
Exchange rate changes	–8	2
Accumulated depreciation and impairment losses as at 31.12. of the financial year	**321**	258
Carrying amount as at 31.12. of the previous year	2,480	2,198
Carrying amount as at 31.12. of the financial year	**2,799**	2,480

Additions in the reporting period were attributable in particular to the Property/Casualty Reinsurance (EUR 388 million), Retail Germany – Life (EUR 105 million) and Industrial Lines (EUR 44 million) segments.

The fair value of investment property amounted to EUR 3,232 (2,814) million as at the reporting date. EUR 14 (14) million of this amount is attributable to Level 2 of the fair value hierarchy and EUR 3,218 (2,800) 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 65 (59) million. Operating expenses of EUR 5 (22) 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 829 (876) million as at 31 December 2017. Contractual obligations to buy, create or develop investment property as well as those for repairs, maintenance and improvements amounted to EUR 359 (376) million as at the reporting date.

(4) SHARES IN AFFILIATED COMPANIES AND PARTICIPATING INTERESTS

SHARES IN AFFILIATED COMPANIES AND PARTICIPATING INTERESTS

EUR MILLION

	2017	2016
Affiliated companies	44	15
Participating interests	134	124
Carrying amount as at 31.12. of the financial year	**178**	139

(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

	2017	2016
Carrying amount as at 31.12. of the previous year	**290**	272
Change in basis of consolidation	—	–26
Additions	1	13
Disposals	—	—
Disposal groups in accordance with IFRS 5	–48	19
Depreciation and impairment losses	—	—
Adjustment recognised in profit or loss	9	11
Adjustment recognised outside profit or loss	–2	–6
Exchange rate changes	–8	7
Carrying amount as at 31.12. of the financial year	**242**	290

The goodwill of all companies measured using the equity method amounted to EUR 78 (128) million at the year-end. As in the prior year, no shares of losses were 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 269ff.

There were no obligations from contingent liabilities of associates and joint ventures at the reporting date.

INVESTMENTS IN ASSOCIATES

EUR MILLION

	2017	2016
Carrying amount as at 31.12. of the financial year	**236**	282
Profit from continuing operations	60	68
Profit after tax from discontinued operations	—	—
Other comprehensive income	–7	–13
Total comprehensive income	**53**	55

INVESTMENTS IN JOINT VENTURES

EUR MILLION

	2017	2016
Carrying amount as at 31.12. of the financial year	**6**	8
Profit from continuing operations	1	1
Profit after tax from discontinued operations	—	—
Other comprehensive income	6	—
Total comprehensive income	**7**	1

(6) LOANS AND RECEIVABLES

LOANS AND RECEIVABLES

EUR MILLION

	Amortised cost		Unrealised gains/losses		Fair value	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Mortgage loans	347	425	25	34	372	459
Loans and prepayments on insurance policies	134	142	—	—	134	142
Loans and receivables due from government or quasi-governmental entities [1]	10,880	10,416	1,170	1,421	12,050	11,837
Corporate bonds	4,596	5,029	493	402	5,089	5,431
Covered bonds/asset-backed securities	12,936	13,413	2,572	3,071	15,508	16,484
Total	**28,893**	**29,425**	**4,260**	**4,928**	**33,153**	**34,353**

[1] Loans and receivables due from government or quasi-governmental debtors include securities of EUR 3,372 (3,201) million that are guaranteed by the Federal Republic of Germany, other EU states or German federal states.

The "Covered bonds/asset-backed securities" item includes German covered bonds (Pfandbriefe) with a carrying amount of EUR 12,930 (13,401) million, which corresponds to 99% (99%) of the total amount.

CONTRACTUAL MATURITIES

EUR MILLION

	Amortised cost		Fair value	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Due within one year	1,417	2,191	1,452	2,245
More than one year, up to two years	1,355	1,098	1,428	1,147
More than two years, up to three years	1,325	1,436	1,440	1,558
More than three years, up to four years	1,031	1,320	1,136	1,475
More than four years, up to five years	902	1,186	1,012	1,334
More than five years, up to ten years	6,741	6,431	7,997	7,690
More than ten years	16,122	15,763	18,688	18,904
Total	**28,893**	**29,425**	**33,153**	**34,353**

RATING STRUCTURE OF LOANS AND RECEIVABLES

EUR MILLION

	Amortised cost	
	31.12.2017	31.12.2016
AAA	16,108	15,880
AA	6,194	6,150
A	2,727	2,862
BBB or lower	3,090	3,766
Not rated	774	767
Total	**28,893**	**29,425**

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	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Government debt securities of EU member states	163	171	12	12	175	183
US treasury notes	—	10	—	—	—	10
Other foreign government debt securities	84	112	3	1	87	113
Debt securities issued by quasi-governmental entities [1]	47	102	3	5	50	107
Corporate bonds	69	103	2	4	71	107
Covered bonds/asset-backed securities	191	246	20	25	211	271
Total	**554**	**744**	**40**	**47**	**594**	**791**

[1] Debt securities issued by quasi-governmental entities include securities of EUR 16 (27) million that are guaranteed by the Federal Republic of Germany, other EU states or German federal states.

The "Covered bonds/asset-backed securities" item includes German covered bonds (Pfandbriefe) with a carrying amount of EUR 191 (244) million, which corresponds to 100% (99%) of the total amount.

CONTRACTUAL MATURITIES

EUR MILLION

	Amortised cost		Fair value	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Due within one year	182	251	186	252
More than one year, up to two years	48	176	50	181
More than two years, up to three years	52	58	57	62
More than three years, up to four years	138	42	157	48
More than four years, up to five years	54	140	60	163
More than five years, up to ten years	65	62	66	68
More than ten years	15	15	18	17
Total	**554**	**744**	**594**	**791**

RATING STRUCTURE OF FINANCIAL ASSETS HELD TO MATURITY

EUR MILLION

	Amortised cost	
	31.12.2017	31.12.2016
AAA	202	312
AA	79	120
A	155	133
BBB or lower	118	179
Not rated	—	—
Total	**554**	**744**

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	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Fixed-income securities						
Government debt securities of EU member states	9,796	8,805	1,005	1,174	10,801	9,979
US treasury notes	7,064	6,882	–79	–131	6,985	6,751
Other foreign government debt securities	2,290	2,609	15	–11	2,305	2,598
Debt securities issued by quasi-governmental entities [1)]	10,328	9,579	686	943	11,014	10,522
Corporate bonds	22,509	23,339	1,107	1,078	23,616	24,417
Investment funds	1,610	719	97	99	1,707	818
Covered bonds/asset-backed securities	9,763	9,541	437	684	10,200	10,225
Profit participation certificates	54	123	—	—	54	123
Other	—	2	—	—	—	2
Total fixed-income securities	**63,414**	**61,599**	**3,268**	**3,836**	**66,682**	**65,435**
Variable-yield securities						
Equities	384	914	100	150	484	1,064
Investment funds	1,072	1,282	147	205	1,219	1,487
Profit participation certificates	70	64	—	—	70	64
Total variable-yield securities	**1,526**	**2,260**	**247**	**355**	**1,773**	**2,615**
Total securities	**64,940**	**63,859**	**3,515**	**4,191**	**68,455**	**68,050**

1) Debt securities issued by quasi-governmental entities include securities of EUR 3,377 (3,187) million that are guaranteed by the Federal Republic of Germany, other EU states or German federal states.

The "Covered bonds/asset-backed securities" item includes German covered bonds (Pfandbriefe) with a carrying amount of EUR 8,679 (8,748) million, which corresponds to 85% (86%) of the total amount.

CONTRACTUAL MATURITIES OF FIXED-INCOME SECURITIES

EUR MILLION

	Fair value		Amortised cost	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Due within one year	4,671	3,652	4,661	3,638
More than one year, up to two years	3,745	4,467	3,708	4,416
More than two years, up to three years	4,823	4,203	4,708	4,115
More than three years, up to four years	5,355	5,510	5,263	5,328
More than four years, up to five years	5,180	5,250	4,987	5,079
More than five years, up to ten years	22,557	24,217	21,563	22,987
More than ten years	20,351	18,136	18,524	16,036
Total	**66,682**	**65,435**	**63,414**	**61,599**

RATING STRUCTURE OF FIXED-INCOME SECURITIES

EUR MILLION

	Fair value 31.12.2017	Fair value 31.12.2016
AAA	22,693	22,850
AA	14,151	13,715
A	11,198	11,102
BBB or lower	17,575	16,947
Not rated	1,065	821
Total	**66,682**	65,435

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 31.12.2017	Fair value 31.12.2016
Fixed-income securities		
Government debt securities of EU member states	46	30
Other foreign government debt securities	199	174
Debt securities issued by quasi-governmental entities [1]	1	6
Corporate bonds	544	682
Investment funds	211	147
Covered bonds/asset-backed securities	4	2
Profit participation certificates	67	46
Total fixed-income securities	**1,072**	1,087
Investment funds (variable-yield securities)	14	18
Other variable-yield securities	51	1
Total financial assets classified at fair value through profit or loss	**1,137**	1,106
Fixed-income securities		
Other foreign government debt securities	—	3
Total fixed-income securities	**—**	3
Investment funds (variable-yield securities)	148	174
Derivatives	149	69
Total financial assets held for trading	**297**	246
Total	**1,434**	1,352

[1] Debt securities issued by quasi-governmental entities include securities of EUR 1 (6) million that are guaranteed by the Federal Republic of Germany, other EU states or German federal states.

The "Covered bonds/asset-backed securities" item includes German covered bonds (Pfandbriefe) with a carrying amount of EUR 4 (2) million, which corresponds to 100% (100%) of the total amount.

CONTRACTUAL MATURITIES OF FIXED-INCOME SECURITIES

EUR MILLION

	Fair value 31.12.2017	Fair value 31.12.2016
Due within one year	306	136
More than one year, up to two years	102	350
More than two years, up to three years	92	87
More than three years, up to four years	81	85
More than four years, up to five years	23	75
More than five years, up to ten years	212	181
More than ten years	256	176
Total	**1,072**	1,090

RATING STRUCTURE OF FIXED-INCOME SECURITIES

EUR MILLION

	Fair value 31.12.2017	Fair value 31.12.2016
AAA	3	—
AA	—	7
A	199	196
BBB or lower	329	401
Not rated	541	486
Total	**1,072**	1,090

The rating categories are based on the classifications used by the leading international rating agencies.

Financial assets classified at fair value through profit or loss (with no trading intention) include structured products for which the fair value option under IAS 39 was exercised. The carrying amount of these financial assets represents the maximum credit exposure, in contrast to a purely economic perspective. The amount relating to the change in fair value that is attributable to changes in the credit risk of the financial assets was EUR 1 (0) million in the reporting period and EUR 2 (3) 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	
	31.12.2017	31.12.2016
Loans and receivables	124	117
Financial assets available for sale	4,614	3,969
At fair value through profit or loss	38	55
Non-current assets from infrastructure investments	550	553
Total	**5,326**	**4,694**

The fair value of loans and receivables corresponds largely to their carrying amount.

FINANCIAL ASSETS AVAILABLE FOR SALE

EUR MILLION

	Amortised cost		Unrealised gains/losses		Fair value	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Investments in partnerships	1,837	1,610	507	510	2,344	2,120
Other participating interests	213	270	20	18	233	288
Other short-term investments	2,037	1,561	—	—	2,037	1,561
Total	**4,087**	**3,441**	**527**	**528**	**4,614**	**3,969**

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	
	31.12.2017	31.12.2016
AAA	—	—
AA	221	73
A	1,086	925
BBB or lower	464	349
Not rated	266	214
Total	**2,037**	**1,561**

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

	2017	2016
Gross carrying amount as at 31.12. of the previous year	596	310
Change in basis of consolidation	24	120
Additions	6	166
Disposals	—	—
Reclassification	—	—
Exchange rate changes	—	—
Gross carrying amount as at 31.12. of the financial year	626	596
Accumulated depreciation and impairment losses as at 31.12. of the previous year	43	12
Change in basis of consolidation	—	6
Disposals	—	—
Reversal after impairment	—	—
Depreciation and impairment losses		
Depreciation	33	25
Impairment losses	—	—
Reclassification	—	—
Exchange rate changes	—	—
Accumulated depreciation and impairment losses as at 31.12. of the financial year	76	43
Carrying amount as at 31.12. of the previous year	553	298
Carrying amount as at 31.12. of the financial year	550	553

"Non-current assets from infrastructure investments" include assets under construction.

(11) INVESTMENTS UNDER INVESTMENT CONTRACTS

CLASSIFICATION OF INVESTMENTS UNDER INVESTMENT CONTRACTS

EUR MILLION

	Carrying amounts	
	31.12.2017	31.12.2016
Loans and receivables	53	62
Financial assets classified at fair value through profit or loss	1,056	1,026
Derivatives	4	3
Total	1,113	1,091

LOANS AND RECEIVABLES

CONTRACTUAL MATURITIES

EUR MILLION

	Amortised cost		Fair value	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Due within one year	14	20	14	20
More than one year, up to two years	—	6	—	6
More than two years, up to three years	—	—	—	—
More than three years, up to four years	39	—	39	—
More than four years, up to five years	—	36	—	36
More than five years, up to ten years	—	—	—	—
Total	53	62	53	62

RATING STRUCTURE

EUR MILLION

	Amortised cost	
	31.12.2017	31.12.2016
AAA	—	—
AA	—	—
A	—	—
BBB or lower	52	55
Not rated	1	7
Total	53	62

FINANCIAL ASSETS CLASSIFIED AT FAIR VALUE THROUGH PROFIT OR LOSS AND DERIVATIVES

CONTRACTUAL MATURITIES

EUR MILLION

	Fair value	
	31.12.2017	31.12.2016
Due within one year	34	51
More than one year, up to two years	11	32
More than two years, up to three years	19	15
More than three years, up to four years	32	18
More than four years, up to five years	27	29
More than five years, up to ten years	298	260
More than ten years	639	624
Total	1,060	1,029

RATING STRUCTURE

EUR MILLION

	Fair value	
	31.12.2017	31.12.2016
AAA	7	27
AA	19	34
A	131	135
BBB or lower	725	695
Not rated	178	138
Total	**1,060**	**1,029**

The carrying amount of financial assets classified at fair value through profit or loss represents the maximum credit exposure, in contrast to a purely economic perspective. The amount relating to the change in fair value that is attributable to the change in credit risk is insignificant. There are no credit derivatives or similar hedging instruments for these securities.

(12) FAIR VALUE HIERARCHY FOR FINANCIAL INSTRUMENTS

FAIR VALUE HIERARCHY

For the purposes of the disclosures required by IFRS 13, both financial instruments that are accounted for at fair value and those assets and liabilities that are recognised at amortised cost, but for which fair value must be disclosed in the annual financial report (financial instruments not measured at fair value), must be assigned to a three-level fair value hierarchy.

The fair value hierarchy reflects characteristics of the pricing information and inputs used for measurement, and is structured as follows:

- Level 1: Assets and liabilities that are measured using (unadjusted) prices quoted directly in active, liquid markets. These primarily include listed equities, futures and options, investment funds and highly liquid bonds traded in regulated markets
- Level 2: Assets and liabilities that are measured using observable market data and are not allocated to Level 1. Measurement is based in particular on prices for comparable assets and liabilities that are traded in active markets, prices in markets that are not deemed active and inputs derived from such prices and market data. Among other things, this level includes assets measured on the basis of yield curves, such as promissory note loans and registered debt securities. Also allocated to Level 2 are market prices for bonds with limited liquidity, such as corporate bonds
- Level 3: Assets and liabilities that cannot be measured or can only be measured in part using inputs observable in the market. These instruments are mainly measured using valuation models and techniques. This level primarily includes unlisted equity instruments

If inputs from different levels are used to measure a financial instrument, the lowest level input that is significant to the measurement is used to categorise the fair value measurement in its entirety.

Allocation to the fair value hierarchy levels is reviewed at a minimum at the end of each period. Transfers are shown as if they had taken place at the beginning of the financial year.

BREAKDOWN OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

As at the reporting date, we allocate around 5% (6%) of the financial assets at fair value to Level 1 of the fair value hierarchy, 89% (89%) to Level 2 and 6% (5%) to Level 3.

There were no material transfers between Levels 1 and 2 during the financial year (2016: 0).

There were no liabilities issued with an inseparable third-party credit enhancement within the meaning of IFRS 13.98 as at the reporting date (2016: EUR 3 million). 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
31.12.2017				
Financial assets measured at fair value				
Financial assets available for sale				
Fixed-income securities	78	66,600	4	66,682
Variable-yield securities	742	68	963	1,773
Financial assets at fair value through profit or loss				
Financial assets classified at fair value through profit or loss	65	1,000	72	1,137
Financial assets held for trading	175	73	49	297
Other investments	2,013	24	2,615	4,652
Other assets, derivative financial instruments (hedging instruments)	—	198	—	198
Investment contracts				
Financial assets classified at fair value through profit or loss	848	2	206	1,056
Derivatives	—	—	4	4
Total financial assets measured at fair value	**3,921**	**67,965**	**3,913**	**75,799**
Financial liabilities measured at fair value				
Other liabilities (negative fair values from derivative financial instruments)				
Negative fair values from derivatives	4	79	244	327
Negative fair values from hedging instruments	—	8	—	8
Other liabilities (investment contracts)				
Financial assets classified at fair value through profit or loss	257	594	206	1,057
Derivatives	—	—	4	4
Total financial liabilities measured at fair value	**261**	**681**	**454**	**1,396**
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 assets 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 assets 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**

[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 INSTRUMENTS [1] (FINANCIAL ASSETS) INCLUDED IN LEVEL 3 AT THE BEGINNING OF THE REPORTING PERIOD TO CARRYING AMOUNTS AS AT 31 DECEMBER 2017

EUR MILLION

	Available-for-sale FI/ fixed-income securities	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 financial assets measured at fair value
2017								
Opening balance at 1.1.2017	**—**	**907**	**55**	**—**	**2,459**	**187**	**3**	**3,611**
Income and expenses								
recognised in the statement of income	—	–21	8	2	–36	16	2	–29
recognised in other comprehensive income	—	–1	—	—	88	—	—	87
Transfers into Level 3	—	39 [2]	—	—	—	—	—	39
Transfers out of Level 3	—	—	—	—	—	—	—	—
Additions								
Purchases	4	209	22	66	587	15	1	904
Disposals								
Sales	—	148	6	18	318	23	2	515
Repayments/redemptions	—	—	7	—	—	—	—	7
Exchange rate changes	—	–22	—	–1	–165	11	—	–177
Ending balance at 31.12.2017	**4**	**963**	**72**	**49**	**2,615**	**206**	**4**	**3,913**
2016								
Opening balance at 1.1.2016	—	803	44	3	2,098	181	5	3,134
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

[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 INSTRUMENTS[1] (FINANCIAL LIABILITIES) INCLUDED IN LEVEL 3 AT THE BEGINNING OF THE REPORTING PERIOD TO CARRYING AMOUNTS AS AT 31 DECEMBER 2017

EUR MILLION

	Other liabilities/ negative fair values from derivatives	Investment contracts/ FI classified at fair value through profit or loss	Investment contracts/ derivatives	Total financial liabilities measured at fair value
2017				
Opening balance at 1.1.2017	**221**	**187**	**3**	**411**
Income and expenses				
recognised in the statement of income	27	–16	–2	9
recognised in other comprehensive income	—	—	—	—
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	—	—	—
Additions				
Purchases	69	15	1	85
Disposals				
Sales	—	23	2	25
Repayments/redemptions	—	—	—	—
Exchange rate changes	–19	11	—	–8
Ending balance at 31.12.2017	**244**	**206**	**4**	**454**
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

[1] The term "financial instruments" is abbreviated to "FI" in the following.

Income and expenses for the period that were recognised in the consolidated statement of income, including gains and losses on Level 3 assets and liabilities held in the portfolio at the end of the reporting period, are shown in the following table.

EFFECT ON PROFIT OR LOSS OF LEVEL 3 FINANCIAL INSTRUMENTS [1] (FINANCIAL ASSETS) MEASURED AT FAIR VALUE

EUR MILLION

	Available-for-sale FI/ variable-yield securities	FI classified at fair value through profit or loss	FI held for trading	Other investments	Investment contracts/ FI classified at fair value through profit or loss	Investment contracts/ derivatives	Total financial assets measured at fair value
2017							
Gains and losses in financial year 2017							
Investment income	—	8	3	2	35	35	83
Investment expenses	–21	—	–1	–38	–19	–33	–112
of which attributable to financial instruments included in the portfolio as at 31.12.2017							
Investment income [2]	—	5	3	1	35	35	79
Investment expenses [3]	–21	—	–1	–38	–19	–33	–112
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

1) The term “financial instruments” is abbreviated to “FI” in the following.
2) Of which EUR 79 (52) million attributable to unrealised gains.
3) Of which EUR 53 (38) million attributable to unrealised losses.

EFFECT ON PROFIT OR LOSS OF LEVEL 3 FINANCIAL INSTRUMENTS [1] (FINANCIAL LIABILITIES) MEASURED AT FAIR VALUE

EUR MILLION

	Other liabilities/ negative fair values from derivatives	Investment contracts/ FI classified at fair value through profit or loss	Investment contracts/ derivatives	Total financial liabilities measured at fair value
2017				
Gains and losses in financial year 2017				
Investment income	30	19	33	82
Investment expenses	—	–35	–35	–70
Financing costs	–3	—	—	–3
of which attributable to financial instruments included in the portfolio as at 31.12.2017				
Investment income [2]	30	19	33	82
Investment expenses [3]	—	–35	–35	–70
Financing costs [4]	–3	—	—	–3
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

1) The term “financial instruments” is abbreviated to “FI” in the following.
2) Of which EUR 82 (57) million attributable to unrealised gains.
3) Of which EUR 70 (42) million attributable to unrealised losses.
4) Of which EUR –3 (–3) million attributable to unrealised gains.

ADDITIONAL INFORMATION ABOUT THE MEASUREMENT OF LEVEL 3 FINANCIAL INSTRUMENTS

EUR MILLION

	Fair value at 31.12.2017	Fair value at 31.12.2016	Valuation technique	Unobservable inputs	Fluctuation (weighted average)
CDOs/CLOs [1]	35	27	Present value method	Prepayment speed Risk premiums Default rates Recovery rates Redemptions	n. a. [4]
Unlisted equities, real estate and bond funds [2]	1,655	1,518	NAV method [3]	n. a.	n. a.
Private equity funds/ private equity real estate funds [2]	1,755	1,645	NAV method [3]	n. a.	n. a.
Written put options for minority interests [2]	58	52	Discounted NAV [3]	Risk-free interest rate	5.6% (5.6%)
Unlisted bond funds [2]	59	33	NAV method [3]	n. a.	n. a.
Insurance contracts [1]	320	299	Present value method	Fair values of CAT bonds, yield curve	n. a. [4]
Investment contracts	420	380	—	—	—
Unlisted bonds	19	—	Present value method	New evaluation rate Yield curve	2.9% (2.9%) n. a.
Interest swaps	46	68	Present value method	Yield curve	n. a.

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.
2) 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 4.4 (4.0) billion at the reporting date, the Group generally measured financial instruments with a volume of EUR 3.5 (3.2) 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 210 (190) 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 320 (299) 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 100 (95) 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	Leve 1	Leve 2	Leve 3 [1]	Fair value
31.12.2017				
Financial assets not measured at fair value				
Loans and receivables	—	32,017	1,136	33,153
Financial assets held to maturity	—	594	—	594
Other investments	12	8	104	124
Investment contracts – loans and receivables	1	52	—	53
Total financial assets not measured at fair value	**13**	**32,671**	**1,240**	**33,924**
Financial liabilities not measured at fair value				
Subordinated liabilities	739	2,378	1	3,118
Notes payable	—	1,459	116	1,575
Other commitments under investment contracts	—	69	—	69
Total financial assets not measured at fair value	**739**	**3,906**	**117**	**4,762**
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 assets not measured at fair value	—	3,891	134	4,025

[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 170ff.

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	31.12.2017	31.12.2016
Balance sheet item (positive fair values)			
Financial assets at fair value through profit or loss, financial assets held for trading (derivatives)	No	149	69
Investment contracts, financial assets held for trading (derivatives)	No	4	3
Other assets, derivative financial instruments (hedging instruments)	Yes	198	336
Balance sheet item (negative fair values)			
Other liabilities:			
Liabilities from derivatives	No	−327	−251
Liabilities from derivatives (hedging instruments)	Yes	−8	—
Investment contracts, derivatives	No	−4	−3
Total (net)		**12**	**154**

Derivative financial instruments – excluding hedging instruments – generated an unrealised gain of EUR 50 (46) million in the financial year. The loss realised on positions closed out in 2017 amounted to EUR −29 (−6) 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 12 (154) million at the reporting date, corresponding to 0.0% (0.1%) 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	31.12.2017	31.12.2016
Interest rate hedges							
Fair value	83	109	1	—	—	193	325
Notional amount	855	346	22	—	—	1,223	1,305
Currency hedges							
Fair value	2	–2	—	—	—	—	8
Notional amount	733	134	—	—	—	867	889
Equity and index hedges							
Fair value	5	9	–57	—	—	–43	–46
Notional amount	862	178	–16	—	—	1,024	103
Derivatives associated with insurance contracts [1]							
Fair value	–3	–19	5	–29	–126	–172	–146
Other risks							
Fair value	1	15	9	7	2	34	13
Notional amount	103	547	311	7	2	970	539
Total hedges							
Fair value	**88**	**112**	**–42**	**–22**	**–124**	**12**	154
Notional amount	**2,553**	**1,205**	**317**	**7**	**2**	**4,084**	2,836

[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
31.12.2017					
Derivatives (positive fair values)	255	13	3	180	59
Derivatives (negative fair values)	31	12	11	5	3
31.12.2016					
Derivatives (positive fair values)	364	8	1	253	102
Derivatives (negative fair values)	23	6	—	8	9

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, gains were recognised through profit or loss in the reporting period in the amount of EUR 4 million (losses of EUR 14 million) from the hedge derivatives, but there were losses of EUR 4 million (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 future 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

	2017	2016
Carrying amount as at 31.12. of the previous year (before taxes)	506	408
Additions (hedges of forecast transactions)	1	118
Additions (hedges of price risks)	2	–1
Additions (hedges of currency risks relating to long-term investments)	2	–5
Reversals into the statement of income (hedges of forecast transactions)	–18	–13
Reversals into the statement of income (hedges of price risks)	–4	–1
Reversals into the statement of income (exercising of forward sales)	–60	—
Carrying amount as at 31.12. of the financial year (before taxes)	**429**	506

The reserve for cash flow hedges changed by EUR –77 (98) million before taxes and by EUR –75 (98) million net of taxes in the reporting period. A total amount of EUR 18 (13) million was amortised in the statement of income in 2017 in connection with forward purchases falling due and an amount of EUR 60 (—) was amortised in connection with the exercising of forward sales, realising gains (in "Net investment income"). In addition, an amount of EUR 4 (1) million was amortised in the statement of income in connection with share awards paid out, realising gains.

The amount of EUR 1 (2) million was recognised in income in the reporting period owing to the ineffectiveness of cash flow hedges (in "Net investment income").

The expected cash flows from cash flow hedges were as follows; see table "Cash flows of hedged forecast transactions".

CASH FLOWS OF HEDGED FORECAST TRANSACTIONS

EUR MILLION

	31.12.2017	31.12.2016
Cash flows of hedged items	–483	–813
Due within one year	–15	–327
More than one year, up to five years	–468	–486
More than five years, up to ten years	—	—

There were no forecast transactions in 2017 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.

In the reporting period, there was no material ineffectiveness (prior year: EUR –1 million) resulting from hedges for currency risks relating to long-term investments.

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

	31.12.2017	31.12.2016
Fair value hedges		
Forward sale	–6	14
Cash flow hedges		
Forward securities transactions	199	323
Equity swaps	–1	1
	198	324
Hedges of currency risks relating to long-term investments		
Currency forwards	–2	–2
Total	190	336

In the reporting period, the net gains or losses on hedging derivatives recognised in the statement of income amounted to EUR 87 (1) million and related to the amortisation of equity amounts totalling EUR 82 (14) million, changes in fair value recognised in income as a result of ineffectiveness (EUR 1 [1] million) and changes in fair value from fair value hedges of EUR 4 (–14) million, respectively.

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 (25) million at the reporting date. Over the course of the year, the derivative's fair value changed by EUR 4 (1) 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 7 (4) million. In the financial year, the value performance of this derivative led to an improvement in earnings of EUR 4 (8) 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 165 (169) 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 30 (23) million in the financial year.

A retrocession agreement was in place in the Life/Health Reinsurance, whereby the premiums were deposited with Hannover Re and invested in a structured bond. The retrocessionaire had 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 2 (11) million at the reporting date. Over the course of the year, the change in the fair value of the derivative led to an expense of EUR 7 million (earnings of EUR 10 million). In contrast, the performance of the structured bond, which was also valued at the fair value, led to earnings in the same amount.

A reinsurance contract was concluded in the Life/Health Reinsurance segment and included a financing component under which the amount and timing of cancellation rates are dependent on cancellation rates in an underlying primary insurance portfolio. This contract and a corresponding retrocession agreement, which had to be classified as financial instrument under IAS 39, resulted in the disclosure of EUR 20 million in "Other liabilities" and other "Financial assets at fair value through profit or loss" of EUR 49 million. In the financial year, these contracts resulted in an improvement in earnings of EUR 2 million overall.

At the end of the current financial year, index-based coverage of longevity risks was concluded. The resulting derivative was recognised in other liabilities with a negative fair value of EUR 53 million at the reporting date. The effects on earnings have not become apparent due to it being recognised for the first time close to the reporting date.

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 86 (41) million and of liabilities associated with derivatives resulting from technical items in the amount of EUR 245 (174) million. Increases in earnings of EUR 40 (41) million and decreases in earnings of EUR 9 (2) 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 3,229 (3,675) million, of which the equivalent of EUR 2,526 (2,746) 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

	2017	2016
Accounts receivable on direct written insurance business	2,597	2,313
of which		
from policyholders	1,657	1,447
from insurance intermediaries	940	866
Accounts receivable from reinsurance business	4,029	3,879
Carrying amount as at 31.12. of the financial year	**6,626**	**6,192**

ACCOUNTS RECEIVABLE ON INSURANCE BUSINESS THAT WERE PAST DUE BUT NOT IMPAIRED AT THE REPORTING DATE

EUR MILLION

	> 3 months < 1 year	> 1 year
31.12.2017		
Accounts receivable from policyholders	234	129
Accounts receivable from insurance intermediaries	180	41
Accounts receivable from reinsurance business	579	251
Total	993	421
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

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 584 (280) million, of which EUR 170 (86) million was more than one year past due. This means that accounts receivable more than one year past due accounted for 6.6% (3.7%) of total accounts receivable. The combined average default rate in the past three years was 0.9% (0.9%). The default rate in 2017 was 1.0% (1.2%).

Accounts receivable from reinsurance business more than 90 days past due amounted to a total of EUR 830 (585) million, of which EUR 251 (286) million was more than one year past due; accounts receivable more than one year past due therefore accounted for 6.2% (7.4%) of total accounts receivable. The average default rate on reinsurance business in the past three years was 0.4% (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 2017/2016	Carrying amount after risk provision
31.12.2017			
Accounts receivable from policyholders	67	10	1,657
Accounts receivable from insurance intermediaries	23	–8	940
Accounts receivable from reinsurance business	28	–28	4,029
Total	**118**	**–26**	**6,626**
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**

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

	2017	2016
Accumulated impairments as at 31.12. of the previous year	144	142
Impairments in financial year	15	41
Reversals of impairment losses	36	39
Exchange rate changes	1	–1
Other changes	–6	1
Accumulated impairments as at 31.12. of the financial year	**118**	**144**

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 1.7% (2.3%) of total accounts receivable.

Accounts receivable from passive reinsurance business in the three primary insurance segments amounted to EUR 559 (522) million (after deduction of impairments). A total of 78% (75%) of these accounts receivable had a rating of category A or better at the reporting date. A total of 52% (49%) of the total accounts receivable amounting to EUR 4.0 (3.9) billion had a rating of category A or better.

IMPAIRMENT RATES

%

	31.12.2017	31.12.2016
Accounts receivable from policyholders	3.9	3.8
Accounts receivable from insurance intermediaries	2.4	3.4
Accounts receivable from reinsurance business	0.7	1.4

ANNUAL DEFAULT RATES

%

	31.12.2017	31.12.2016
Accounts receivable from policyholders	1.8	1.4
Accounts receivable from insurance intermediaries	0.1	0.5
Accounts receivable from reinsurance business	0.5	0.1

(15) DEFERRED ACQUISITION COSTS

DEFERRED ACQUISITION COSTS

EUR MILLION

	Gross business	Reinsurers' share	Net business	Gross business	Reinsurers' share	Net business
	2017			2016 [1]		
Carrying amount as at 31.12. of the previous year	**5,512**	**206**	**5,306**	5,359	281	5,078
Adjusted in accordance with IAS 8	—	—	—	54	—	54
Change in basis of consolidation	—	—	—	1	—	1
Portfolio entries/withdrawals	–24	–7	–17	—	—	—
Additions	1,139	208	931	1,144	182	962
Amortised acquisition costs	947	228	719	1,050	252	798
Currency adjustments	–175	–6	–169	8	–5	13
Other changes	—	—	—	–4	—	–4
Carrying amount as at 31.12. of the financial year	**5,505**	**173**	**5,332**	5,512	206	5,306

[1] Adjusted in accordance with IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes.

(16) OTHER ASSETS

OTHER ASSETS

EUR MILLION

	2017	2016 [1]
Real estate held and used	600	604
Tax assets	383	425
Operating and office equipment	130	141
Interest and rent due	13	14
Derivative financial instruments – hedging instruments, hedge accounting	198	336
Miscellaneous assets	1,458	1,098
Carrying amount as at 31.12. of the financial year	**2,782**	2,618

[1] Adjusted in accordance with IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes.

The fair value of real estate held and used amounted to EUR 724 (708) million as at the reporting date. EUR 121 (131) million of this amount is attributable to Level 2 of the fair value hierarchy and EUR 603 (577) 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 307 (493) million as at 31 December 2017. The expenditures capitalised for property, plant and equipment under construction amounted to EUR 2 (—) million as at the reporting date.

CHANGES IN REAL ESTATE HELD AND USED

EUR MILLION

	2017	2016
Gross carrying amount as at 31.12. of the previous year	**817**	817
Change in basis of consolidation (additions)		
Business combinations	—	1
Additions	19	3
Disposals	4	3
Reclassifications	–3	—
Exchange rate changes	—	–1
Gross carrying amount as at 31.12. of the financial year	**829**	817
Accumulated depreciation and impairment losses as at 31.12. of the previous year	**213**	205
Disposals	2	—
Depreciation and impairment losses		
Depreciation	15	15
Impairment losses	4	—
Reversal after impairment	1	7
Accumulated depreciation and impairment losses as at 31.12. of the financial year	**229**	213
Carrying amount as at 31.12. of the previous year	604	612
Carrying amount as at 31.12. of the financial year	**600**	604

CHANGES IN OPERATING AND OFFICE EQUIPMENT

EUR MILLION

	2017	2016
Gross carrying amount as at 31.12. of the previous year	**479**	465
Change in basis of consolidation (additions)		
Business combinations	3	1
Additions	42	32
Disposals	23	23
Reclassifications	–28	2
Exchange rate changes	–10	2
Gross carrying amount as at 31.12. of the financial year	**463**	479
Accumulated depreciation and impairment losses as at 31.12. of the previous year	**338**	309
Disposals	20	16
Depreciation and impairment losses		
Depreciation	42	45
Reclassifications	–20	—
Exchange rate changes	–7	—
Accumulated depreciation and impairment losses as at 31.12. of the financial year	**333**	338
Carrying amount as at 31.12. of the previous year	141	156
Carrying amount as at 31.12. of the financial year	**130**	141

MISCELLANEOUS ASSETS

EUR MILLION

	31.12.2017	31.12.2016 [1]
Trade accounts receivable	102	76
Receivables relating to investments	115	118
Receivables from non-Group-led business	370	139
Other tangible assets	14	13
Claims under pension liability insurance/surrender values	109	105
Prepaid insurance benefits	138	120
Deferred income	84	91
Other miscellaneous assets	526	436
Total	**1,458**	1,098

[1] Adjusted in accordance with IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes.

NOTES TO THE CONSOLIDATED BALANCE SHEET – EQUITY AND LIABILITIES

(17) EQUITY

CHANGES IN EQUITY AND NON-CONTROLLING INTERESTS

COMPOSITION OF EQUITY

EUR MILLION

	31.12.2017	31.12.2016 [1]
Subscribed capital	316	316
Capital reserve	1,373	1,373
Retained earnings	6,288	5,727
Other reserves	186	719
Group net income	672	903
Non-controlling interests in equity	5,411	5,610
Total	**14,246**	**14,648**

[1] Adjusted in accordance with IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes.

Retained earnings include equalisation reserves of EUR 1,804 (1,652) million (after deferred taxes).

Other reserves include gains and losses from currency translation amounting to EUR –274 (184) million.

UNREALISED GAINS AND LOSSES INCLUDED IN OTHER RESERVES

EUR MILLION

	31.12.2017	31.12.2016
From available-for-sale investments	3,217	3,700
From cash flow hedges	402	461
From the measurement of associates using the equity method	2	14
Other changes	–900	–937
less/plus		
Policyholder participation/ shadow accounting [1]	–2,180	–2,576
Deferred taxes recognised directly in equity	–81	–126
Non-controlling interests in equity	411	830
Total	**871**	**1,366**

[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

	31.12.2017	31.12.2016
Unrealised gains and losses on investments	664	746
Share of net income	598	661
Other equity	4,149	4,203
Total	**5,411**	**5,610**

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 11 May 2017, the Annual General Meeting resolved to contingently increase the share capital by up to EUR 126 million by issuing up to 101,119,057 new no-par value shares (Contingent Capital I). The contingent capital increase is designed to grant no-par value shares to holders of registered bonds that Talanx AG or a subordinate Group company within the meaning of section 18 of the German Stock Corporation Act (AktG) will issue by 10 May 2022 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 same Annual General Meeting resolved to contingently increase the share capital by up to EUR 32 million by issuing up to 25,279,760 new no-par value shares (Contingent Capital II). The contingent capital increase is designed to grant no-par value shares to holders of bonds (convertible bonds and bonds with warrants) and participating bonds and profit participation rights with conversion rights or warrants or (contingent) conversion obligations that Talanx AG or its subordinate Group companies within the meaning of section 18 of the AktG will issue between 11 May 2017 and 10 May 2022 on the basis of the authorising resolution adopted by the Annual General Meeting on the same date.

The amendments to the Articles of Association took effect on its entry in the commercial register on 14 June 2017.

AUTHORISED CAPITAL

On 11 May 2017, the Annual General Meeting resolved to renew the authorised capital in accordance with article 7(1) of Talanx AG's Articles of Association and to insert a new article 7(1), which authorises the Board of Management, subject to the approval of the Supervisory Board, to increase the share capital on one or more occasions until 10 May 2022 by a maximum of EUR 158 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, EUR 1 million of this may be used to issue employee shares. 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. 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. Excluding pre-emptive rights, the total shares issuable on the basis of this authorisation may not exceed 20% of the share capital. The amendment to the Articles of Association took effect on its entry in the commercial register on 14 June 2017.

CAPITAL MANAGEMENT

Capital management takes into account the economic capital. 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. For detailed information on the capital management we refer to the "Financial position" subsection in the "Net assets and financial position" section in the management report.

(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	31.12.2017	31.12.2016
Talanx AG	750	Fixed (2.25%)	2017/2047	(—; BBB)	These guaranteed subordinated bonds were issued in 2017 on the European capital market. They can be called for the first time in 2027 under normal conditions.	750	—
Hannover Finance (Luxembourg) S.A.	500	Fixed (5.75%), then floating rate	2010/2040	(aa–; A)	These guaranteed subordinated bonds were issued in 2010 on the European capital market. They can be called for the first time after ten years under normal conditions.	499	499
Hannover Finance (Luxembourg) S.A.	500	Fixed (5.0%), then floating rate	2012/2043	(aa–; 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	498
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	445
Talanx Finanz (Luxemburg) S.A.	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	27
HDI Assicurazioni S.p.A. (formerly 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.	14	13
HDI Global SE	3	Fixed (4.25%), then floating rate	no final maturity	(—; —)	Subordinated loans The loan can be called annually from 12.08.2021.	3	—
Magyar Posta Életbiztosító Zrt.	1	Fixed (7.57%)	2025	(—; —)	Subordinated loans	1	1
Total						**2,737**	**1,983**

[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

	31.12.2017	31.12.2016
Amortised cost	2,737	1,983
Unrealised gains/losses	381	296
Fair value	3,118	2,279

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 –115 (–113) million from subordinated liabilities in the reporting period consisted of interest expenses in the amount of EUR 114 (112) million and amortisation expenses (EUR 1 [1] million).

SUBORDINATED LIABILITIES: MATURITIES

EUR MILLION

	31.12.2017	31.12.2016
Due within one year	—	—
More than one year, up to five years	14	13
More than five years, up to ten years	28	28
More than ten years, up to 20 years	—	—
More than 20 years	2,247	1,497
Without fixed maturity	448	445
Total	**2,737**	**1,983**

On 28 November 2017 Talanx AG issued a subordinated bond primarily to institutional investors in Germany and abroad. It was admitted to the regulated market as of 5 December 2017. This subordinated bond in the nominal amount of EUR 750 million has a term of 30 years and can be called for the first time after ten years. The subordinated bond carries a fixed coupon of 2.25% p.a. in the first ten years, after which it is subject to a variable interest rate 2.45% p.a. above the three month Euribor rate.

(19) UNEARNED PREMIUM RESERVE

UNEARNED PREMIUM RESERVE

EUR MILLION

	Gross	Re	Net	Gross	Re	Net
	2017			2016 [1]		
Balance at 31.12. of the previous year	**7,686**	**683**	**7,003**	7,081	706	6,375
Adjustments to reflect IAS 8	—	—	—	51	—	51
Change in basis of consolidation	—	—	—	5	3	2
Portfolio entries/withdrawals	3	—	3	–8	–6	–2
Additions	3,730	886	2,844	2,531	218	2,313
Reversals	2,899	857	2,042	2,035	251	1,784
Reclassifications	1	1	—	–5	—	–5
Exchange rate changes	–405	–49	–356	66	13	53
Balance at 31.12. of the financial year	**8,116**	**664**	**7,452**	7,686	683	7,003

[1] Adjusted in accordance with IAS 8, see “Accounting policies”, subsection “Changes in accounting policies and errors” in the Notes.

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

	Gross	Re	Net	Gross	Re	Net
	2017			2016 [1]		
Balance at 31.12. of the previous year	**54,782**	**1,560**	**53,222**	**54,845**	**1,799**	**53,046**
Adjustments to reflect IAS 8	—	—	—	21	—	21
Change in basis of consolidation	—	—	—	923	2	921
Portfolio entries/withdrawals	–636	–153	–483	–1,281	–328	–953
Additions	4,689	54	4,635	4,936	122	4,814
Reversals	3,504	50	3,454	4,083	69	4,014
Reclassifications	–1	–1	—	—	—	—
Disposal groups in accordance with IFRS 5	–22	–1	–21	–11	—	–11
Exchange rate changes	–712	–118	–594	–568	34	–602
Balance at 31.12. of the financial year	**54,596**	**1,291**	**53,305**	**54,782**	**1,560**	**53,222**

[1] Adjusted in accordance with IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes.

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

	Gross	Re	Net	Gross	Re	Net
	2017			2016 [1]		
Due within one year	2,527	136	2,391	2,626	166	2,460
More than one year, up to five years	10,618	833	9,785	11,103	940	10,163
More than five years, up to ten years	12,879	124	12,755	12,025	141	11,884
More than ten years, up to 20 years	13,064	95	12,969	13,454	108	13,346
More than 20 years	10,660	100	10,560	10,737	201	10,536
Deposits	4,848	3	4,845	4,837	4	4,833
Total	**54,596**	**1,291**	**53,305**	**54,782**	**1,560**	**53,222**

[1] Adjusted in accordance with IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes.

(21) LOSS AND LOSS ADJUSTMENT EXPENSE RESERVE

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVE

EUR MILLION

	Gross	Re	Net	Gross	Re	Net
	2017			2016		
Balance at 31.12. of the previous year	**41,873**	**5,348**	**36,525**	40,392	5,562	34,830
Change in basis of consolidation	164	42	122	4	3	1
Portfolio entries/withdrawals	2	—	2	2	—	2
Plus						
claims and claims expenses incurred (net); financial year	18,221	2,527	15,694	15,450	1,739	13,711
claims and claims expenses incurred (net); previous year	2,743	327	2,416	2,275	26	2,249
Total claims expenses	20,964	2,854	18,110	17,725	1,765	15,960
Less						
claims and claims expenses incurred (net); financial year	6,427	723	5,704	5,973	451	5,522
claims and claims expenses incurred (net); previous year	11,612	1,821	9,791	10,677	1,591	9,086
Total	18,039	2,544	15,495	16,650	2,042	14,608
Other changes	–5	–43	38	–1	–1	—
Exchange rate changes	–2,422	–273	–2,149	401	61	340
Balance at 31.12. of the financial year	**42,537**	**5,384**	**37,153**	41,873	5,348	36,525

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 2007 to 2017 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 2007 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 2017.

Net loss reserves in the Group amount to a total of EUR 37.2 (36.5) billion. Of these, EUR 10.6 (10.2) billion is attributable to our property/casualty insurance companies in the primary insurance area, including Corporate Operations, and EUR 21.6 (21.6) billion to the Property/Casualty Reinsurance segment. The remaining EUR 5.0 (4.7) billion is attributable to the Life/Health Reinsurance segment (EUR 4.0 [3.8] billion) and life primary insurance business (EUR 1.0 [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

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Loss and loss adjustment expense reserve	**6,353**	**6,257**	**6,348**	**6,864**	**6,927**	**7,081**	**7,817**	**8,446**	**8,744**	**8,932**	**9,506**
Cumulative payments for the specific year and previous years											
One year later	1,364	953	1,163	1,329	1,523	1,153	1,701	1,808	1,953	1,990	
Two years later	1,694	1,543	1,772	2,136	1,863	1,939	2,451	2,675	2,913		
Three years later	2,102	1,987	2,389	2,252	2,400	2,442	3,014	3,298			
Four years later	2,476	2,487	2,412	2,645	2,786	2,885	3,462				
Five years later	2,914	2,458	2,756	2,967	3,152	3,225					
Six years later	2,840	2,747	3,020	3,269	3,427						
Seven years later	3,092	2,971	3,275	3,494							
Eight years later	3,266	3,188	3,470								
Nine years later	3,449	3,360									
Ten years later	3,600										
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	6,353	6,257	6,348	6,864	6,927	7,081	7,817	8,446	8,744	8,932	9,506
One year later	6,016	5,758	6,194	6,513	6,560	6,754	7,542	7,982	8,434	8,638	
Two years later	5,262	5,166	5,968	6,288	6,396	6,624	7,188	7,789	8,167		
Three years later	5,338	5,441	5,786	6,224	6,316	6,421	7,148	7,558			
Four years later	5,449	5,341	5,817	6,089	6,153	6,391	6,938				
Five years later	5,369	5,485	5,707	5,934	6,178	6,150					
Six years later	5,492	5,365	5,575	5,973	5,943						
Seven years later	5,401	5,235	5,657	5,769							
Eight years later	5,255	5,325	5,465								
Nine years later	5,358	5,145									
Ten years later	5,196										
Change year-on-year											
of the final loss reserve [1)] = run-off result	**162**	**18**	**12**	**12**	**31**	**6**	**–31**	**21**	**36**	**27**	
%	3	—	—	—	—	—	—	—	—	—	

1) Example: Calculate the difference for 2007 (EUR 5,358 million minus EUR 5,196 million = EUR 162 million). This figure is recorded and then updated in each subsequent period, e.g. in 2008, with the change from e.g. 2007 to 2008 being carried forward. Hence, in 2008 the first step involves calculating the difference between the two amounts for 2008 and then subtracting the result from the value for 2007 (calculation for 2008: EUR 5,325 million less EUR 5,145 million = EUR 180 million, from which total the amount of EUR 162 million is subtracted, resulting in an amount of EUR 18 million for 2008). The process is then repeated for each subsequent year.

In the reporting period, the Group reported a positive run-off result of EUR 294 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

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Loss and loss adjustment expense reserve	**12,701**	**13,567**	**13,904**	**15,162**	**16,533**	**17,155**	**17,722**	**19,618**	**21,613**	**22,564**	**22,687**
Cumulative payments for the specific year and previous years											
One year later	2,473	2,935	2,737	2,434	3,118	2,890	3,178	3,493	3,251	3,739	
Two years later	4,251	4,569	3,965	4,073	4,843	4,507	4,981	5,234	5,156		
Three years later	5,367	5,330	4,788	5,066	5,755	5,703	6,097	6,491			
Four years later	5,918	5,920	5,435	5,718	6,711	6,552	7,088				
Five years later	6,354	6,401	5,942	6,479	7,428	7,342					
Six years later	6,718	6,732	6,445	7,021	8,022						
Seven years later	6,997	7,079	6,794	7,460							
Eight years later	7,288	7,342	7,123								
Nine years later	7,500	7,631									
Ten years later	7,733										
Loss and loss adjustment expense reserve (net) for the specific year and previous years, plus payments made to date into the original reserve											
At the end of the year	12,701	13,567	13,904	15,162	16,533	17,155	17,722	19,618	21,613	22,564	22,687
One year later	12,996	14,669	13,399	14,556	16,240	16,675	17,534	19,111	20,739	21,506	
Two years later	12,925	13,416	12,669	13,951	15,849	16,325	16,909	17,998	19,360		
Three years later	12,438	12,573	12,093	13,508	15,401	15,806	15,867	17,047			
Four years later	11,599	12,078	11,664	13,050	14,780	15,105	15,001				
Five years later	11,251	11,737	11,204	12,484	14,115	14,351					
Six years later	10,946	11,241	10,675	11,958	13,393						
Seven years later	10,543	10,752	10,312	11,357							
Eight years later	10,124	10,429	9,818								
Nine years later	9,896	10,004									
Ten years later	9,541										
Change year-on-year											
of the final loss reserve [1)] = run-off result	**355**	**70**	**69**	**107**	**121**	**32**	**112**	**85**	**428**	**–321**	
%	3	1	1	1	1	—	1	—	2	–1	

1) Calculate the difference for 2007 (EUR 9,896 million minus EUR 9,541 million = EUR 355 million). This figure is recorded and then updated in each subsequent period, e.g. in 2008, with the change from e.g. 2007 to 2008 being carried forward. Hence, in 2008 the first step involves calculating the difference between the two amounts for 2008 and then subtracting the result from the value for 2007 (calculation for 2008: EUR 10,429 million less EUR 10,004 million = EUR 425 million, from which total the amount of EUR 355 million is subtracted, resulting in an amount of EUR 70 million for 2008). The process is then repeated for each subsequent year.

In financial year 2017, Property/Casualty Reinsurance recorded a positive run-off result in the total amount of EUR 1,058 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 5.4 (5.3) billion and includes accumulated specific valuation allowances of EUR 45 (1.4) 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
	31.12.2017			31.12.2016 [1]		
Due within one year	12,451	1,734	10,717	12,122	1,519	10,603
More than one year, up to five years	16,508	2,164	14,344	15,895	2,117	13,778
More than five years, up to ten years	6,061	725	5,336	6,182	773	5,409
More than ten years, up to 20 years	3,634	478	3,156	3,907	488	3,419
More than 20 years	1,754	214	1,540	2,259	376	1,883
Deposits	2,129	69	2,060	1,508	75	1,433
Total	**42,537**	**5,384**	**37,153**	**41,873**	**5,348**	**36,525**

[1] The allocation to the various duration bands has been adjusted.

(22) PROVISION FOR PREMIUM REFUNDS

PROVISION FOR PREMIUM REFUNDS

EUR MILLION

	Gross	Re	Net	Gross	Re	Net
	2017			2016		
Balance at 31.12. of the previous year	**5,765**	**5**	**5,760**	**4,138**	**—**	**4,138**
Change in basis of consolidation	—	—	—	52	—	52
Allocations/reversals (—)	1,204	—	1,204	1,137	5	1,132
Changes attributable to other comprehensive income from investments	–479	—	–479	715	—	715
Disposals						
Life insurance policies	280	—	280	266	—	266
Liability/casualty policies with a premium refund	8	3	5	—	—	—
Other changes	–3	—	–3	–11	—	–11
Balance at 31.12. of the financial year	**6,199**	**2**	**6,197**	**5,765**	**5**	**5,760**

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").

It is generally not possible to make a clear allocation to the individual insurance contracts and to the remaining maturities, so we have elected to dispense with information about maturities.

Of the gross provision for premium refunds, EUR 1,335 (1,407) million is attributable to obligations for surplus participation and EUR 4,864 (4,358) 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	2017	2016
Final salary plans that depend on length of service	−65	−74
▪ Plan assets	1,990	2,051
▪ Present value of defined benefit obligation	—	—
▪ Effect of asset ceiling surplus (net asset)	—	—
shortfall (net liability)	1,925	1,977
Plan based on pension modules	—	—
▪ Plan assets	97	111
▪ Present value of defined benefit obligation	—	—
▪ Effect of asset ceiling surplus (net asset)	—	—
shortfall (net liability)	97	111
Contribution-based plans with guarantees	−134	−98
▪ Plan assets	225	192
▪ Present value of defined benefit obligation	2	1
▪ Effect of asset ceiling surplus (net asset)	—	—
shortfall (net liability)	93	95
Balance at 31.12. of the financial year (net asset)	**—**	—
Balance at 31.12. of the financial year (net liability)	**2,115**	2,183

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 2017 and as at 31 December 2016.

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	
	2017	2016	2017	2016	2017	2016
Balance at 1.1. of the financial year	2,354	2,055	–172	–111	1	1
Changes recognised in net income						
Current service cost	26	15	—	—	—	—
Past service cost and plan curtailments	1	–1	—	—	—	—
Net interest component	38	45	–4	–3	—	—
Gain or loss from settlements	—	—	—	—	—	—
	65	59	–4	–3	—	—
Other comprehensive income						
Remeasurements						
Actuarial gains (–)/losses (+) from change in biometric assumptions	42	—	—	—	—	—
Actuarial gains (–)/losses (+) from change in financial assumptions	–67	243	—	—	—	—
Experience adjustments	–1	71	—	—	—	—
Return on plan assets (excluding interest income)	—	—	–13	–54	—	—
Change from asset adjustment	—	—	—	—	—	—
Exchange rate changes	–3	–9	—	9	1	
	–29	305	–13	–45	1	—
Other changes						
Employer contributions	—	—	–14	–5	—	—
Employee contributions and deferred compensation	—	1	—	–1	—	—
Benefits paid during the year	–78	–78	4	4	—	—
Business combinations and disposals	—	12	—	–11	—	—
Effect of plan settlements	—	—	—	—	—	—
	–78	–65	–10	–13	—	—
Balance at 31.12. of the financial year	2,312	2,354	–199	–172	2	1

The structure of the investment portfolio underlying the plan assets was as follows:

PORTFOLIO STRUCTURE OF PLAN ASSETS

%

	2017	2016
Cash and cash equivalents	—	—
Equity instruments	4	3
Fixed-income securities	5	6
Real estate	2	2
Securities funds	21	24
Qualifying insurance contracts	68	65
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 18 million in the reporting period. Income of EUR 57 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 %

	2017	2016
Discount rate	1.7	1.6
Expected rate of salary increase [1]	2.5	2.5
Pension increase [1]	1.7	1.9

[1] If the portfolio in Germany makes up more than 90% of the total portfolio, the amount is disclosed in accordance with the parameters set for valuing domestic portfolios.

The "2005G" mortality tables published by Prof Klaus Heubeck formed the basis for the biometric calculation of the German pension commitments, which were strengthened in accordance with the change in risk characteristics observed in the portfolio.

The duration of the defined benefit obligation is 16 (17) years.

SENSITIVITY ANALYSES

An increase or decrease in key actuarial assumptions would have the following effect on the present value of the defined benefit obligation as at 31 December 2017:

EFFECT OF CHANGE IN ACTUARIAL ASSUMPTIONS

EUR MILLION

	Effect on defined benefit obligation			
	Parameter increase		Parameter decrease	
	2017	2016	2017	2016
Discount rate (+/– 0.5%)	–170	–177	192	201
Salary increase rate (+/– 0.25%)	10	12	–9	–11
Pension adjustment rate (+/– 0.25%)	63	61	–60	–68

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 81 (83) 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 13 (15) 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 73 (38) million, of which EUR 1 (1) million was attributable to commitments to employees in key positions. The defined contribution plans consist mainly of state pension schemes.

(24) PROVISIONS FOR TAXES

BREAKDOWN OF PROVISIONS FOR TAXES

EUR MILLION

	31.12.2017	31.12.2016
Provisions for income tax	526	645
Other tax provisions	236	188
Total	**762**	**833**

(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 31.12.2016	109	50	159	26	45	84	137	330	940
2017									
Change in basis of consolidation	—	—	1	—	—	—	2	1	**4**
Additions	—	—	98	6	7	78	488	119	**796**
Unwinding of discounts	—	—	—	—	—	—	—	1	**1**
Utilisation	11	1	91	2	15	80	480	100	**780**
Reversals	2	—	5	—	—	2	10	20	**39**
Change in fair value of plan assets	—	—	—	—	–2	—	—	—	**–2**
Other changes	–6	—	—	—	5	—	—	–4	**–5**
Exchange rate changes	—	—	–1	—	—	–1	–3	–3	**–8**
Carrying amount as at 31.12.2017	**90**	**49**	**161**	**30**	**40**	**79**	**134**	**324**	**907**

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 87 (103) million at the reporting date. There were no material additions or reversals to this provision in the reporting period. EUR 10 million were utilised. There was no unwinding of discounts for the reporting period.

The remaining provisions (EUR 324 [330] 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 114 (129) million, provisions for commissions amounting to EUR 54 (50) million and provisions for administrative expenses amounting to EUR 8 (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

	31.12.2017			
	Due within one year	Due between one and five years	More than 5 years	Total
Restructuring	21	69	—	**90**
Assumption of third-party pension obligations in return for payment [1]	—	—	49	**49**
Bonuses and incentives	119	42	—	**161**
Anniversary bonuses [1]	—	—	30	**30**
Early retirement/partial retirement [1]	—	40	—	**40**
Other personnel expenses	65	13	1	**79**
Outstanding invoices	134	—	—	**134**
Other	225	86	13	**324**
Total	**564**	**250**	**93**	**907**
Total, previous year	578	274	88	940

[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

	31.12.2017	31.12.2016
Talanx AG notes payable	1,065	1,065
Mortgage loans of Hannover Re Real Estate Holdings, Inc.	94	212
Mortgage loans of HR GLL Central Europe GmbH & Co. KG	102	102
Loans from infrastructure investments	110	120
Mortgage loans of Real Estate Asia Select Fund Limited	55	—
Inversiones HDI Limitada	5	6
Total	**1,431**	**1,505**

As at 31 December 2017, the Group had two syndicated variable-rate credit lines with a nominal value of EUR 250 million. The credit lines run until 2019 and 2021 respectively. They had not been drawn down at the reporting date.

Net expenses from notes payable and loans totalled EUR 44 (46) million and consisted of interest expenses relating to Talanx AG bonds (EUR 30 [30] million) and net expenses from mortgage loans (EUR 10 [12] million) and loans from infrastructure investments (EUR 4 [4] million).

NOTES PAYABLE

EUR MILLION

	Nominal amount	Coupon	Maturity	Rating [1]	Issue	31.12.2017	31.12.2016
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

	31.12.2017	31.12.2016
Amortised cost	1,431	1,505
Unrealised gains/losses	144	168
Fair value	**1,575**	**1,673**

NOTES PAYABLE AND LOANS: MATURITIES

EUR MILLION

	31.12.2017	31.12.2016
Due within one year	89	116
More than one year, up to five years	174	232
More than five years, up to ten years	1,146	1,139
More than ten years, up to 20 years	22	18
More than 20 years	—	—
Total	**1,431**	**1,505**

(27) OTHER LIABILITIES

OTHER LIABILITIES

EUR MILLION

	2017	2016 [1]
Liabilities under direct written insurance business	1,986	1,869
of which to policyholders	1,245	1,262
of which to insurance intermediaries	741	607
Reinsurance payables	1,583	1,965
Trade accounts payable	294	307
Liabilities relating to investments	72	188
Liabilities relating to non-Group lead business	352	74
Liabilities from derivatives	335	251
of which negative fair values from derivative hedging instruments	8	—
Deferred income	46	41
Interest	78	75
Liabilities to social insurance institutions	18	19
Miscellaneous other liabilities	258	244
Total other liabilities (not including liabilities relating to investment contracts)	**5,022**	**5,033**
Other liabilities relating to investment contracts		
Other obligations measured at amortised cost	69	73
Financial assets classified at fair value through profit or loss	1,057	1,027
Derivatives	4	3
Other liabilities relating to relating to investment contracts	**1,130**	**1,103**
Carrying amount as at 31.12. of the financial year	**6,152**	**6,136**

[1] Adjusted in accordance with IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes.

OTHER LIABILITIES (NOT INCLUDING LIABILITIES RELATING TO INVESTMENT CONTRACTS)

Liabilities relating to investments include interim distributions of EUR 15 (85) 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 335 (251) 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

	31.12.2017	31.12.2016 [2]
Due within one year	1,132	947
More than one year, up to five years	203	186
More than five years, up to ten years	65	65
More than ten years, up to 20 years	53	—
More than 20 years	—	1
Without fixed maturity	—	—
Total	**1,453**	**1,199**

[1] For reasons of materiality, undiscounted cash flows are not presented for liabilities from derivatives. Instead, the fair values (negative fair values) of the derivative financial instruments are taken into account (maturity of up to one year: EUR 38 [24] million; 1–5 years: EUR 182 [170] million; 5–10 years: EUR 62 [57] million; 10–20 years: EUR 53 [0] million; more than 20 years: EUR 0 [0] million).
[2] Adjusted in accordance with IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes.

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	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Due within one year	29	30	29	30
More than one year, up to five years	39	42	39	42
More than five years, up to ten years	—	—	—	—
More than ten years, up to 20 years	—	—	—	—
Without fixed maturity	1	1	1	1
Total	69	73	69	73

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 ASSETS CLASSIFIED AT FAIR VALUE THROUGH PROFIT OR LOSS AND DERIVATIVES [1]: MATURITIES

EUR MILLION

	31.12.2017	31.12.2016
Due within one year	6	7
More than one year, up to five years	50	42
More than five years, up to ten years	229	201
More than ten years, up to 20 years	71	66
More than 20 years	99	84
Without fixed maturity	606	630
Total	1,061	1,030

[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 0 [1] million; 1–5 years; EUR 4 [2] million; 5–10 years: EUR 0 [0] million; more than 10 years: EUR 0 [0] 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 31.12.2017	Deferred tax liabilities at 31.12.2017	Net balance at 31.12.2017	Deferred tax assets at 31.12.2016 [1]	Deferred tax liabilities at 31.12.2016 [1]	Net balance at 31.12.2016 [1]
Deferred tax assets and liabilities						
Other intangible assets (PVFP)	1	–69	–68	1	–76	–75
Investments	249	–575	–326	203	–688	–485
Funds withheld by ceding companies/funds withheld under reinsurance treaties	29	–40	–11	21	–94	–73
Accounts receivable on insurance business	67	–85	–18	53	–65	–12
Deferred acquisition costs [2]	58	–388	–330	107	–353	–246
Equalisation reserves	—	–1,464	–1,464	—	–1,409	–1,409
Loss and loss adjustment expense reserves	575	–129	446	354	–118	236
Other technical provisions	281	–377	–96	260	–241	19
Other provisions	413	–7	406	418	–9	409
Consolidation of intercompany balances	—	–20	–20	—	–21	–21
Others	150	–380	–230	343	–461	–118
Loss carryforwards	436	—	436	357	—	357
Impairments	–250	—	–250	–185	—	–185
Tax assets (liabilities) before offsetting	**2,009**	**–3,534**	**–1,525**	**1,932**	**–3,535**	**–1,603**
Recognised amounts set off	**–1,417**	**1,417**	**—**	**–1,364**	**1,364**	**—**
Tax assets (liabilities) after offsetting	**592**	**–2,117**	**–1,525**	**568**	**–2,171**	**–1,603**

[1] Adjusted in accordance with IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes.
[2] Deferred taxes on deferred acquisition costs relate to the net amount, i.e. after allowance for reinsurers' shares.

The (net) change of EUR 78 (–41) million was recognised in the amount of EUR 102 (–19) million in other comprehensive income, thereby reducing equity, and in the amount of EUR –5 (30) million as expenses 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 [1]	Property/Casualty Reinsurance	Life/Health Reinsurance [1]	Corporate Operations	Total [1]
		Property/Casualty	Life					
2017 [2]								
Gross written premiums, including premiums from unit-linked life and annuity insurance	4,399	1,525	4,517	5,460	10,229	6,930	—	**33,060**
Savings elements of premiums from unit-linked life and annuity insurance	—	—	892	280	—	—	—	**1,172**
Ceded written premiums	1,627	39	58	315	1,093	531	6	**3,669**
Change in gross unearned premiums	–45	–39	–108	–188	–435	–16	—	**–831**
Change in ceded unearned premiums	–41	–6	1	–12	27	1	—	**–30**
Net premiums earned	**2,768**	**1,453**	**3,458**	**4,689**	**8,674**	**6,382**	**–6**	**27,418**
2016 [2]								
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	–123	–145	–35	—	**–497**
Change in ceded unearned premiums	–2	–3	7	—	32	—	—	**34**
Net premiums earned	**2,656**	**1,444**	**3,603**	**4,235**	**7,493**	**6,311**	**–6**	**25,736**

[1] Adjusted in accordance with IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes.
[2] After elimination of intragroup cross-segment transactions.

(30) NET INVESTMENT INCOME

NET INVESTMENT INCOME — REPORTING PERIOD

EUR MILLION

	Industrial Lines	Retail Germany		Retail International	Property/ Casualty Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
		Property/ Casualty	Life					
2017 [1]								
Income from real estate	23	4	100	2	171	—	—	**300**
Dividends [2]	18	1	11	1	35	4	2	**72**
Current interest income	164	75	1,256	294	630	265	—	**2,684**
Other income	53	14	77	2	192	4	—	**342**
Ordinary investment income	**258**	**94**	**1,444**	**299**	**1,028**	**273**	**2**	**3,398**
Income from reversal of impairment losses	1	—	1	—	1	—	—	**3**
Realised gains on disposal of investments	68	11	831	74	381	67	2	**1,434**
Unrealised gains on investments	10	2	32	24	2	55	—	**125**
Investment income	**337**	**107**	**2,308**	**397**	**1,412**	**395**	**4**	**4,960**
Realised losses on disposal of investments	25	2	75	17	55	15	—	**189**
Unrealised losses on investments	1	—	17	25	—	18	—	**61**
Total	**26**	**2**	**92**	**42**	**55**	**33**	**—**	**250**
Depreciation of/impairment losses on investment property								
Depreciation	3	—	18	—	31	—	—	**52**
Impairment losses	—	—	—	—	16	—	—	**16**
Impairment losses on equity securities	3	—	3	1	4	—	—	**11**
Impairment losses on fixed-income securities	—	—	32	1	—	—	—	**33**
Impairment losses on long-term equity investments	1	—	—	—	3	—	—	**4**
Reversal of write-downs of other investments								
Depreciation	7	4	21	—	—	—	—	**32**
Impairment losses	6	4	24	—	19	—	—	**53**
Investment management expenses	5	1	16	5	21	5	89	**142**
Other expenses	6	3	47	6	36	5	1	**104**
Other investment expenses/impairment losses	**31**	**12**	**161**	**13**	**130**	**10**	**90**	**447**
Investment expenses	**57**	**14**	**253**	**55**	**185**	**43**	**90**	**697**
Net income from assets under own management	**280**	**93**	**2,055**	**342**	**1,227**	**352**	**–86**	**4,263**
Net income from investment contracts	**—**	**—**	**—**	**–4**	**—**	**—**	**—**	**–4**
Interest income from funds withheld and contract deposits	—	—	—	—	19	349	—	**368**
Interest expense from funds withheld and contract deposits	—	—	11	—	2	136	—	**149**
Net interest income from funds withheld and contract deposits	**—**	**—**	**–11**	**—**	**17**	**213**	**—**	**219**
Net investment income	**280**	**93**	**2,044**	**338**	**1,244**	**565**	**–86**	**4,478**

[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".

NET INVESTMENT INCOME — PREVIOUS YEAR

EUR MILLION

	Industrial Lines	Retail Germany		Retail International	Property/ Casualty Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
		Property/ Casualty	Life					
2016 [1]								
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**
Reversal of write-downs of other investments								
Depreciation	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".

Of the impairment losses totalling EUR 117 (111) million, EUR 33 (13) million was attributable to fixed-income securities, EUR 11 (63) million to equities, EUR 37 (7) million to real estate and real estate funds and EUR 26 (21) million to private equity capital. Reversals of impairment losses on investments that had been written down in previous periods amounted to EUR 3 (14) million. EUR 2 (10) million of this amount was attributable to investment property.

Net income from the disposal of securities amounted to EUR 1,245 (770) million. This is principally attributable to the disposal of fixed income securities (EUR 900 [669] million).

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

	2017	2016
Loans and receivables	978	1,070
Financial assets held to maturity	29	47
Financial assets available for sale	1,558	1,520
Financial assets at fair value through profit or loss		
Financial assets classified at fair value through profit or loss	60	61
Others	56	41
Loans and receivables – investment contracts	—	16
Financial instruments classified at fair value through profit or loss – investment contracts	6	25
Total	**2,687**	**2,780**

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 pages 169ff.).

After allowance for “Expenses for assets under own management” (EUR 142 [138] million) as well as for “Other expenses on assets under own management” (EUR 104 [114] million), “Net investment income” as at the reporting date amounted to EUR 4,478 (4,023) 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]
2017 [1]									
Shares in affiliated companies and participating interests	30	—	3	3	9	—	—	—	**21**
Loans and receivables	952	26	304	13	5	—	—	—	**1,264**
Financial assets held to maturity	24	5	—	—	—	—	—	—	**29**
Financial assets available for sale									
Fixed-income securities	1,583	–25	740	81	29	1	—	—	**2,189**
Variable-yield securities	140	—	297	11	31	—	—	—	**395**
Financial assets at fair value through profit or loss									
Financial assets classified at fair value through profit or loss									
Fixed-income securities	60	—	9	1	—	—	32	6	**94**
Variable-yield securities	1	—	1	1	—	—	5	1	**5**
Financial assets held for trading									
Fixed-income securities	—	—	—	—	—	—	—	—	**—**
Variable-yield securities	—	—	6	2	—	—	—	4	**—**
Derivatives	8	—	38	42	—	—	36	19	**21**
Other investments, insofar as they are financial assets	390	1	21	5	59	—	3	17	**334**
Other [2]	203	—	15	30	68	2	49	14	**157**
Assets under own management	**3,391**	**7**	**1,434**	**189**	**201**	**3**	**125**	**61**	**4,509**
Loans and receivables (assets)	—	—	—	—	—	—	—	—	**—**
Financial assets classified at fair value through profit or loss	2	—	13	7	—	—	67	29	**46**
Financial assets available for sale	—	—	—	—	—	—	—	—	**—**
Financial assets held for trading – (derivatives)	—	—	2	1	—	—	35	33	**3**
Other liabilities measured at amortised cost	–3	—	—	—	—	—	—	—	**–3**
Financial liabilities classified at fair value through profit or loss	—	—	—	—	—	—	19	64	**–45**
Liabilities held for trading – (derivatives)	—	—	—	—	—	—	33	35	**–2**
Other [4]	3	–6	—	—	—	—	—	—	**–3**
Net income from investment contracts	**2**	**–6**	**15**	**8**	**—**	**—**	**154**	**161**	**–4**
Funds withheld by ceding companies/funds withheld under reinsurance treaties	219	—	—	—	—	—	—	—	**219**
Total	**3,612**	**1**	**1,449**	**197**	**201**	**3**	**279**	**222**	**4,724**

[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 14 million) and expenses (EUR 11 million) from the management of investment contracts. Amortisation of PVFP totalled EUR 6 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]
2016 [1]									
Shares in affiliated companies and participating interests	9	—	10	—	3	—	—	—	**16**
Loans and receivables	1,027	43	200	5	1	—	—	—	**1,264**
Financial assets 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 assets 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.

(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					
2017 [1]								
Gross								
Claims and claims expenses paid	3,289	800	2,900	2,935	5,323	5,697	—	**20,944**
Change in loss and loss adjustment expense reserve	382	123	38	199	1,780	405	—	**2,927**
Change in benefit reserve	—	1	625	508	—	48	—	**1,182**
Expenses for premium refunds	—	–2	1,119	16	—	—	—	**1,133**
Total	**3,671**	**922**	**4,682**	**3,658**	**7,103**	**6,150**	**—**	**26,186**
Reinsurers' share								
Claims and claims expenses paid	1,237	11	75	210	591	483	—	**2,607**
Change in loss and loss adjustment expense reserve	46	–8	–6	–16	328	–34	—	**310**
Change in benefit reserve	—	—	–39	1	—	42	—	**4**
Expenses for premium refunds	–3	—	—	—	—	—	—	**–3**
Total	**1,280**	**3**	**30**	**195**	**919**	**491**	**—**	**2,918**
Net								
Claims and claims expenses paid	2,052	789	2,825	2,725	4,732	5,214	—	**18,337**
Change in loss and loss adjustment expense reserve	336	131	44	215	1,452	439	—	**2,617**
Change in benefit reserve	—	1	664	507	—	6	—	**1,178**
Expenses for premium refunds	3	–2	1,119	16	—	—	—	**1,136**
Total	**2,391**	**919**	**4,652**	**3,463**	**6,184**	**5,659**	**—**	**23,268**

[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 [1]	Corporate Operations	Total [1]
		Property/ Casualty	Life					
2016 [2]								
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	—	204	—	**850**
Expenses for premium refunds	14	3	1,075	12	—	—	—	**1,104**
Total	**2,599**	**946**	**4,649**	**3,291**	**5,475**	**6,108**	**20**	**23,088**
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	—	87	—	**797**
Expenses for premium refunds	8	3	1,075	12	—	—	—	**1,098**
Total	**1,974**	**944**	**4,611**	**3,134**	**4,985**	**5,532**	**20**	**21,200**

[1] Adjusted in accordance with IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes.
[2] After elimination of intragroup cross-segment transactions.

(32) ACQUISITION COSTS AND ADMINISTRATIVE EXPENSES

ACQUISITION COSTS AND ADMINISTRATIVE EXPENSES

EUR MILLION

	Industrial Lines	Retail Germany Property/Casualty	Retail Germany Life	Retail International	Property/Casualty Reinsurance	Life/Health Reinsurance[1]	Corporate Operations	Total[1]
2017[2]								
Gross								
Acquisition costs and reinsurance commissions	549	311	623	973	2,619	1,062	—	**6,137**
Changes in deferred acquisition costs and in provisions for commissions	—	–1	–25	–8	–144	–10	—	**–188**
Total acquisition costs	**549**	**310**	**598**	**965**	**2,475**	**1,052**	**—**	**5,949**
Administrative expenses	356	234	86	205	200	211	1	**1,293**
Total acquisition costs and administrative expenses	**905**	**544**	**684**	**1,170**	**2,675**	**1,263**	**1**	**7,242**
Reinsurers' share								
Acquisition costs and reinsurance commissions	253	7	11	64	170	29	—	**534**
Changes in deferred acquisition costs and in provisions for commissions	–1	—	5	–2	9	9	—	**20**
Total acquisition costs	**252**	**7**	**16**	**62**	**179**	**38**	**—**	**554**
Net								
Acquisition costs and reinsurance commissions	296	304	612	909	2,449	1,033	—	**5,603**
Changes in deferred acquisition costs and in provisions for commissions	1	–1	–30	–6	–153	–19	—	**–208**
Total acquisition costs	**297**	**303**	**582**	**903**	**2,296**	**1,014**	**—**	**5,395**
Administrative expenses	356	234	86	205	200	211	1	**1,293**
Total acquisition costs and administrative expenses	**653**	**537**	**668**	**1,108**	**2,496**	**1,225**	**1**	**6,688**
2016[2]								
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	7	—	–101
Total acquisition costs	542	303	547	883	2,041	1,004	—	5,320
Administrative expenses	318	231	91	202	203	202	1	1,248
Total acquisition costs and administrative expenses	860	534	638	1,085	2,244	1,206	1	6,568
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	–71	—	–171
Total acquisition costs	282	298	534	824	1,832	951	—	4,721
Administrative expenses	318	231	91	202	203	202	1	1,248
Total acquisition costs and administrative expenses	600	529	625	1,026	2,035	1,153	1	5,969

1) Adjusted in accordance with IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes.
2) After elimination of intragroup cross-segment transactions.

(33) OTHER INCOME/EXPENSES

COMPOSITION OF OTHER INCOME/EXPENSES

EUR MILLION

	2017	2016 1)
Other income		
Foreign exchange gains	773	600
Income from services, rents and commissions	284	256
Recoveries on receivables previously written off	39	28
Income from contracts recognised in accordance with the deposit accounting method	205	106
Income from the sale of property, plant and equipment	9	—
Income from the reversal of other non-technical provisions	26	66
Interest income 2)	61	62
Miscellaneous income	130	118
Total	**1,527**	**1,236**
Other expenses		
Foreign exchange losses	768	553
Other interest expenses 3)	74	96
Depreciation, amortisation and impairment losses 4)	127	94
Expenses for the company as a whole	276	262
Personnel expenses	53	48
Expenses for services and commissions	149	136
Expenses from contracts recognised in accordance with the deposit accounting method	12	35
Other taxes	63	70
Additions to restructuring provisions	—	52
Miscellaneous other expenses	132	87
Total	**1,654**	**1,433**
Other income/expenses	**–127**	**–197**

1) Adjusted in accordance with IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes.
2) The "Interest income" is attributable to the segments as follows: Industrial Lines EUR 9 (1) million, Retail Germany – Property/Casualty EUR 7 (2) million, Retail Germany – Life EUR 11 (16) million, Retail International EUR 5 (8) million, Property/Casualty Reinsurance EUR 3 (4) million, Life/Health Reinsurance EUR 33 (32) million and Corporate Operations EUR 0 (4) million. Of this, EUR 7 (5) million is consolidated.
3) "Other interest expenses" is attributable to the segments as follows: Industrial Lines EUR 11 (18) million, Retail Germany – Property/Casualty EUR 1 (4) million, Retail Germany – Life EUR 10 (16) million, Retail International EUR 2 (2) million, Property/Casualty Reinsurance EUR 18 (17) million, Life/Health Reinsurance EUR 23 (24) million and Corporate Operations EUR 27 (30) million. Of this, EUR 18 (15) million is consolidated.
4) This figure includes depreciation and amortisation of EUR 47 (45) million. These amounts are essentially attributable to the segments Retail International EUR 18 (18) million, Property/Casualty Reinsurance EUR 18 (15) million and Life/Health Reinsurance EUR 9 (10) million.

"Other income/expenses" do not in general include the personnel expenses incurred by our insurance companies, to the extent that these expenses are attributed to the functions by means of cost object accounting and allocated to investment expenses, claims and claims expenses, and acquisition costs and administrative expenses. This also applies to depreciation and amortisation of, and impairment losses on, intangible and other assets at our insurance companies.

(34) FINANCING COSTS

The financing costs of EUR 149 (147) million consist exclusively of interest expenses from borrowings that are not directly related to the operational insurance business. EUR 115 (113) million of these interest expenses is attributable to our issued subordinated liabilities and EUR 30 (30) 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

	2017	2016 1)
Current taxes for the reporting period	435	612
Prior-period current taxes	–52	2
Deferred taxes in respect of temporary differences	51	–70
Deferred taxes in respect of loss carryforwards	–9	55
Change in deferred taxes due to changes in tax rates	–37	–3
Reported tax expense	**388**	**596**

1) Adjusted in accordance with IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes.

Current and deferred taxes recognised in the financial year in other comprehensive income and directly in equity – resulting from items charged or credited to other comprehensive income – amounted to EUR 103 (17) 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

	2017	2016 [1]
Profit before income taxes	1,658	2,160
Expected tax rate	32.2%	32.2%
Expected tax expense	534	696
Change in rates applicable to deferred taxes	−37	−3
Difference due to foreign tax rates	−74	−120
Non-deductible expenses	134	123
Tax-exempt income	−149	−131
Valuation allowances on deferred tax assets	89	81
Prior-period tax expense	−65	7
Others	−44	−57
Reported tax expense	**388**	596

[1] Adjusted in accordance with IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes.

Calculation of the expected tax expense is based on the German income tax rate of 32.2% (32.2%). 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 23.40% (27.59)% in the reporting period. The tax rate corresponds to the average income tax burden of all Group companies. Income from the change in rates applicable to deferred tax of EUR 37 (3) million is attributable mainly to the reductions in local rates of tax in the USA and France (prior year: in UK) that will apply in future and the associated revaluation of deferred tax liabilities.

No deferred taxes were recognised in respect of taxable temporary differences of EUR 140 (123) 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 200 (193) million are expected to be realised in the amount of EUR 27 (55) million within one year and in the amount of EUR 173 (138) million after one year.

Current income taxes declined by EUR 5 (2) 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 11 (99) million in the reporting period. On the other hand, the reversal of previous impairment losses resulted in deferred tax income of EUR 6 (19) 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 94 (188) million.

AVAILABILITY OF UNRECOGNISED LOSS CARRYFORWARDS

An impairment loss was recognised on deferred tax assets in respect of gross loss carryforwards of EUR 1,308 (872) million and gross deductible temporary differences of EUR 48 (73) million because their realisation is not sufficiently certain. The impaired deferred tax assets for these items total EUR 250 (184) 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	Unlimited	Total	One year to five years	Six years to ten years	More than ten years	Unlimited	Total
	2017					2016 [1]				
Loss carryforwards	—	—	—	1,308	**1,308**	—	—	12	860	**872**
Temporary differences	—	—	—	48	**48**	—	—	—	73	**73**
Total	—	—	—	1,356	**1,356**	—	—	12	933	**945**

[1] Adjusted in accordance with IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes.

OTHER DISCLOSURES

NUMBER OF EMPLOYEES AND PERSONNEL EXPENSES

NUMBER OF EMPLOYEES

AVERAGE ANNUAL NUMBER OF EMPLOYEES

	2017	2016
Industrial Lines	3,410	3,324
Retail Germany	4,665	4,916
Retail International	7,527	7,761
Reinsurance companies	3,089	2,804
Corporate Operations	2,725	2,737
Total excluding vocational trainees	**21,416**	**21,542**
Vocational trainees	502	566
Total	**21,918**	**22,108**

The Group's total workforce at the reporting date numbered 22,059 (21,649).

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

	2017	2016
Wages and salaries	**1,241**	**1,202**
Social security contributions and other employee benefit costs		
Social security contributions	164	157
Post-employment benefit costs	74	60
Other employee benefit costs	24	24
	262	**241**
Total	**1,503**	**1,443**

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 94 ff. and the "Remuneration of the governing bodies of the parent company" subsection.

SHARE-BASED PAYMENTS

The following share-based payment schemes were operating within the Group in financial year 2017:

- 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 2017 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 31.12.2017 (in EUR)	32.21	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 31.12.2017	63,533	94,542	22,510	—
Provision as at 31.12.2017 (in EUR million)	2.05	0.84	0.20	—
Amounts paid out in FY 2017 (in EUR million)	1.50	2.70	0.17	0.09
Expense in FY 2017 (in EUR million)	0.30	0.01	—	—

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 108.20 as at 13 December 2017, an expected volatility of 20.23% (historical volatility on a five-year basis), an expected dividend yield of 4.62% and a risk-free interest rate of –0.75% for the 2009 allocation year, –0.64% for the 2010 allocation year and –0.48% for the 2011 allocation year.

In financial year 2017, the vesting period expired for 100% of the stock appreciation rights granted for the years 2007, 2009 and 2010, and for 80% of those granted for 2011. A total of 8,356 stock appreciation rights from the 2007 allocation year, 19,649 stock appreciation rights from the 2009 allocation year, 303,026 stock appreciation rights from the 2010 allocation year and 46,424 stock appreciation rights from the 2011 allocation year were exercised. The total amount paid out was EUR 4.5 million.

On this basis, the aggregate provisions, which are recognised in other non-technical provisions, amounted to EUR 3.1 (7.3) million for financial year 2017. The total expenditure amounted to EUR 0.3 (1.1) 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 first payment to some of the eligible executives was also made in the financial year 2017

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The total number of share awards granted depends on the value per share. The value per share is calculated as the unweighted arithmetic mean of the XETRA closing prices. To calculate this, the conditions for beneficiaries stipulate a period of five trading days before to five trading days after the meeting of the Supervisory Board that approves the consolidated financial statements for the previous financial year. The Talanx share awards are based on the value per share of Talanx AG, while the Hannover Re share awards are based on the value per share of Hannover Rück SE. For Hannover Rück SE executives, the period stipulated is 20 trading days before until ten trading days after the meeting of the Supervisory Board that approves the consolidated financial statements for the previous financial year. The 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

TALANX SHARE AWARDS

	2017	2016	
	Anticipated allocation in 2018 for 2017	Final allocation in 2017 for 2016	Anticipated allocation in 2017 for 2016
Measurement date	29.12.2017	23.3.2017	30.12.2016
Value per share award (in EUR)	34.07	33.20	31.77
Number allocated in year	192,950	189,471	195,122
of which: Talanx AG Board of Management	30,333	32,981	36,010
of which: Other boards of management	50,738	50,771	51,929
of which: Executives [1]	111,879	105,719	107,183

[1] 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.

CHANGES IN PROVISIONS FOR TALANX SHARE AWARDS

IN EUR THOUSAND

	Allocation year						
	2017	2016	2015	2014	2013	2012	Total
Allocation 2012	—	—	—	—	—	469	469
Allocation 2013	—	—	—	—	851	801	1,652
Allocation 2014	—	—	—	893	838	667	2,398
Allocation 2015	—	—	3,979	624	744	722	6,069
Allocation 2016	—	3,706	1,224	555	703	770	6,958
Provision as at 31.12.2016	**—**	**3,706**	**5,203**	**2,072**	**3,136**	**3,429**	**17,546**
Allocation 2017	5,266	1,016	1,060	611	746	234	8,933
Uptake 2017	—	—	—	—	—	3,663	3,663
Provision as at 31.12.2017	**5,266**	**4,722**	**6,263**	**2,683**	**3,882**	**—**	**22,816**

The personnel expenses are in respect of the share award scheme for the Board of Management distributed over the relevant term of the share awards or the shorter term of the service contracts, and for executives over the relevant term of the share awards.

The allocation for the financial year recognised in personnel expenses amounted to EUR 8.9 (7.2) million. This consists of expenses for the share awards for 2017 financial year as well as the dividend claim and the additional earned share of share awards granted in previous financial years. The value of share awards is also affected by the share price. The total dividends included in personnel expenses for previous financial years amounted to EUR 0.8 (0.6) million. The dividends distributed are taken into account, expected dividend claims are not included. Dividend claims are recognised at their discounted value.

In the year under review, the 92,998 share awards for the Board of Management, each with a value of EUR 33.20, plus the dividend entitlement of EUR 4,80 each, were finally paid out to the eligible Members of the Board of Management. The 3,280 share awards of executives for the financial year 2012 were paid out in 2017, with a value of EUR 33.20 each plus a dividend entitlement of EUR 6.15.

The additions to the provisions for the 2012 share awards is calculated on the basis of the difference between the share price on the last reporting date (EUR 31.77) and the price for the payment of share awards from March 2017 (EUR 33.20).

HANNOVER RE SHARE AWARDS

HANNOVER RE SHARE AWARDS

	2017	2016	
	Anticipated allocation in 2018 for 2017	Final allocation in 2017 for 2016	Anticipated allocation in 2017 for 2016
Measurement date for Board of Management	29.12.2017	16,3,2017	30.12.2016
Value per share award (in EUR)	104.90	107.15	102.8
Measurement date for Executives	29.12.2017	23,3,2017	30.12.2016
Value per share award (in EUR)	104.90	107.03	102.8
Number allocated in year	74,439	87,569	92,026
of which: Board of Management	9,537	10,244	10,704
of which: Executives	64,902	77,325	81,322

CHANGES IN PROVISIONS FOR HANNOVER RE SHARE AWARDS

EUR THOUSAND

	Allocation year						
	2017	2016	2015	2014	2013	2012	Total
Allocation 2012	—	—	—	—	—	1,839	1,839
Allocation 2013	—	—	—	—	1,426	1,442	2,868
Allocation 2014	—	—	—	1,534	2,364	2,549	6,447
Allocation 2015	—	—	1,658	3,102	4,288	5,020	14,068
Allocation 2016	—	1,918	2,429	1,920	2,177	2,133	10,577
Provision as at 31.12.2016	**—**	**1,918**	**4,087**	**6,556**	**10,255**	**12,983**	**35,799**
Allocation 2017	1,559	2,127	2,284	2,409	2,861	881	12,121
Uptake 2017	—	—	—	—	—	13,864	13,864
Provision as at 31.12.2017	**1,559**	**4,045**	**6,371**	**8,965**	**13,116**	**—**	**34,056**

The personnel expenses are in respect of the share award scheme for the Board of Management distributed over the relevant term of the share awards or the shorter term of the service contracts, and for executives over the relevant term of the share awards.

The allocation for the financial year recognised in personnel expenses amounted to EUR 12.1 (10.6) million. This consists of expenses for the share awards for 2017 financial year as well as the dividend claim and the additional earned share of share awards granted in previous financial years. The value of share awards is also affected by the share price. The total dividends included in personnel expenses for previous financial years amounted to EUR 2.0 (2.0) million. The dividends distributed are taken into account, expected dividend claims are not included. Dividend claims are recognised at their discounted value.

In the year under review, the 16,452 share awards for the Board of Management, each worth EUR 107.15 plus the dividend entitlement of EUR 15,00 each, were finally paid out to the eligible Members of the Board of Management. The 97,144 share awards of executives for the financial year 2012 were paid out in 2017, with a value of EUR 107.03 each plus a dividend entitlement of EUR 15.00. The additions to the provisions for the 2012 share awards is calculated on the basis of the difference between the share price on the last reporting date (EUR 102.80) and the price for the payment of share awards from March 2017 (EUR 107.15 and EUR 107.03).

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, and the Group's experiences of similar cases as well as lessons learned from other companies, to the extent that these are known.

With the exception of proceedings in the course of our standard insurance and reinsurance business, there was no litigation essentially impacting the Group's net assets, financial position and results of operations in the reporting period and at the reporting date, including that listed in the following.

Following the squeeze-out (transfer of minority shareholders' shares to the majority shareholder in return for a cash settlement) at Gerling-Konzern Allgemeine Versicherungs-AG, Cologne, that was resolved in September 2006 and became effective in May 2007, former minority shareholders instituted award proceedings to have the appropriateness of the settlement reviewed. The proceedings are pending before the Cologne Regional Court. The material risk is limited by the number of shares entitled to a settlement (approximately 10 million shares) and the difference between the settlement already paid and the enterprise value of Gerling-Konzern Allgemeine Versicherungs-AG, which can be determined as of the measurement date.

In our view, the provisions recognised for litigation risk in each case, and the contingent liabilities disclosed for litigation are sufficient to cover the expected expenses.

EARNINGS PER SHARE

Earnings per share are calculated by dividing net income attributable to the shareholders of Talanx AG by the average number of outstanding shares. There were no dilutive effects, which have to be recognised separately when calculating earnings per share, either at the reporting date or in the previous year. In the future, earnings per share may be potentially diluted as a result of the share or rights issues from contingent or authorised capital.

EARNINGS PER SHARE

	2017	2016 [1]
Net income attributable to shareholders of Talanx AG for calculating earnings per share (in EUR million)	672	903
Weighted average number of ordinary shares outstanding	252,797,634	252,797,634
Basic earnings per share (in EUR)	2.66	3.57
Diluted earnings per share (in EUR)	2.66	3.57

[1] Adjusted in accordance with IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes.

DIVIDEND PER SHARE AND APPROPRIATION OF DISTRIBUTABLE PROFITS

A dividend for financial year 2016 amounting to EUR 1.35 per share was paid in the reporting period, resulting in a total distribution of EUR 341 million. A proposal will be made to the General Meeting to be held on 8 May 2018 to distribute a dividend for financial year 2017 in the amount of EUR 1.40 per share, resulting in a total distribution of EUR 354 million.The remainder of the distributable profit at Talanx AG (EUR 273 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

	2017	2016
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] (includes the equivalent of EUR 1,635 (1,329) million furnished by investors as security for technical liabilities from ILS transactions)	5,734	5,754
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]	3,623	3,056
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	2,053	2,033
Commitments under rental/lease agreements	488	445
Funding commitments and contribution payments in accordance with sections 221 ff. of the Insurance Supervision Act (VAG) as a member of the Statutory Guarantee Fund for Life Insurance Undertakings	445	520
Collateral for liabilities to various credit institutions in connection with investments in real estate companies and real estate transactions	508	594
Commitments under service agreements – primarily in connection with IT outsourcing contracts	398	337
Others	363	303
Total	**15,112**	**14,542**

[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.

The amounts disclosed in the table are nominal amounts.

A number of Group companies are proportionately liable for any underfunding at Gerling Versorgungskasse in their capacity as sponsors of Gerling Versorgungskasse VVaG.

Several Group companies are members of the pharmaceutical risk reinsurance pool, the German nuclear reactor insurance pool and the traffic accident pool “Verkehrsopferhilfe e. V.” In the event of one of the other pool members failing to meet its liabilities, the companies are obliged to assume that other member’s share in line with their proportionate interest.

Our subsidiary Hannover Rück SE enters into contingent commitments as part of its regular business activities. A number of reinsurance contracts between Group companies and external third parties contain letters of comfort, guarantees or novation agreements under which, if certain circumstances occur, Hannover Rück SE will guarantee the liabilities of the relevant subsidiary or assume its rights and obligations under the contracts.

The application of tax laws and regulations may be unresolved when tax items are accounted for. In calculating tax refund claims and tax liabilities, we have adopted the application that we believe to be most probable. However, the tax authorities may arrive at different views, which could give rise to additional tax liabilities in the future.

RENTS AND LEASES

LEASES UNDER WHICH GROUP COMPANIES ARE THE LESSEE

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 488 (445) million at the reporting date.

FUTURE LEASE OBLIGATIONS

EUR MILLION

	2018	2019	2020	2021	2022	Subsequent years
Payments	61	55	48	40	34	250

Operating leases resulted in expenses of EUR 71 (70) million for minimum lease payments in the reporting period.

Finance lease expenses at the reporting date were minimal, amounting to EUR 3 (3) million.

LEASES UNDER WHICH GROUP COMPANIES ARE THE LESSOR

The total amount of income due under non-cancellable leases in subsequent years is EUR 932 (785) million.

FUTURE RENTAL INCOME

EUR MILLION

	2018	2019	2020	2021	2022	Subsequent years
Income	172	167	155	140	121	177

Rental income in the reporting period totalled EUR 176 (166) 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 10,359 (11,086) 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 1,033 (1,144) thousand, corresponding to 30,333 (36,010) shares, under the Talanx Share Award scheme and a fair value of EUR 232 (263) thousand, corresponding to 2,171 (2,556) shares, under the Hannover Re Share Award scheme.

Former members of the Board of Management and their surviving dependants received total remuneration of EUR 765 (752) thousand. An amount of EUR 18,346 (18,776) 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 2,410 (2,506) thousand. There are no pension commitments to former members of the Supervisory Board or their surviving dependants.

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 94ff. 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	
	2017	2016	2017	2016
Financial statement audit services	19.0	18.3	9.3	8.2
Other assurance services	0.6	0.4	0.4	0.3
Tax advisory services	0.3	0.9	—	0.5
Other services	2.4	3.6	1.9	3.2
Total	22.3	23.2	11.6	12.2

KPMG AG Wirtschaftsprüfungsgesellschaft's fee for financial statement audit services primarily comprises the fees for auditing the consolidated financial statements including statutory extensions to the mandate, the audit review of the interim report and audits of the annual financial statements and solvency overviews of the subsidiaries included in the consolidated financial statements. The fees for other assurance services relate to the issuing of a comfort letter and legally or contractually stipulated audits. The fees for tax advisory services include in particular fees for tax return support services and tax advice on individual issues. The fees for other services cover advisory services in connection with the initial introduction of new accounting principles and training on current developments in accounting as well as quality assurance support services and IT-related advisory services.

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/corporate-governance) as described in the Board of Management's corporate governance declaration in the Group management report ("Corporate Governance" section).

On 7 November 2017, the Board of Management and Supervisory Board of our listed subsidiary Hannover Rück SE issued the declaration of conformity with the recommendations of the Government Commission on the German Corporate Governance Code required by section 161 of the AktG and made this declaration available to shareholders by publishing it in its annual report. The current and all previous declarations of conformity of Hannover Rück SE are published on the company's website (http://www.hannover-re.com/about/corporate/declaration/index.html).

EVENTS AFTER THE END OF THE REPORTING PERIOD

On 1 January 2018, the tax law changes adopted by the US government at the end of 2017 took effect. These provide for new tax regulations that have considerable financial implications for the subsidiaries that operate in the USA. It is unlikely that any appreciable negative effects on income will be incurred as a result. For more on this, please see the disclosures in the risk report, in the "Risk profile" section, subsection "Operational risk" on page 139ff.

Storm "Friederike" (also named "David") battered Europe on 18 January 2018, bringing gale-force winds from the west. In Germany, the worst-hit regions were North Rhine-Westphalia and Lower Saxony, where the Group has a high insurance density. For the Talanx Group, we are expecting this event to incur losses of up to EUR 60 million net.

By way of a purchase agreement dated 22 January 2018, the Group purchased 99.4% of the shares in the property insurer Liberty Sigorta A. S., Istanbul, Turkey. The acquisition is subject to conditions precedent, which are expected to be met in the first half of 2018. The acquisition was conducted via Talanx International AG, Hannover (Retail International segment). The total investment volume amounts to approximately EUR 5 million.

LIST OF SHAREHOLDINGS

The following information is disclosed in the consolidated financial statements of Talanx AG in accordance with section 313(2) of the German Commercial Code (HGB) and IFRS 12.10 (a) (i).

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 [16]	100.00	EUR	4,175	EUR	578
Alstertor Zweite Beteiligungs- und Investitionssteuerungs-GmbH & Co. KG, Hamburg [16]	100.00	EUR	8,598	EUR	–24
Ampega Investment GmbH, Cologne [17]	100.00	EUR	28,781	EUR	20,845
Ampega-nl-Euro-DIM-Fonds, Cologne [19]	100.00	EUR	474,307	EUR	2,428
Ampega-nl-Global-Fonds, Cologne [19]	100.00	EUR	51,295	EUR	5,847
Ampega-nl-Rent-Fonds, Cologne [19]	100.00	EUR	749,704	EUR	37,101
Ampega-Vienna-Bonds-Master-Fonds-Deutschland, Cologne [19]	100.00	EUR	281,983	EUR	–3,259
E+S Rückversicherung AG, Hannover [16]	64.79	EUR	922,413	EUR	351,000
EURO-Rent 3 Master, Cologne [19]	100.00	EUR	1,083,447	EUR	29,251
FUNIS GmbH & Co. KG, Hannover [16]	100.00	EUR	86,196	EUR	–4,303
Gerling Immo Spezial 1, Cologne [19]	100.00	EUR	305,506	EUR	939
GERLING Pensionsenthaftungs- und Rentenmanagement GmbH, Cologne	100.00	EUR	2,537	EUR	–564
GKL SPEZIAL RENTEN, Cologne [19]	100.00	EUR	1,024,142	EUR	43,190
Hannover America Private Equity Partners II GmbH & Co. KG, Hannover [16]	100.00	EUR	331,514	EUR	84,908
Hannover Beteiligungsgesellschaft mbH, Hannover [16]	100.00	EUR	2,334	EUR	–1,719
Hannover Insurance-Linked Securities GmbH & Co. KG, Hannover	100.00	EUR	20,382	EUR	6
Hannover Life Re AG, Hannover [16), 17)]	100.00	EUR	1,991,179	EUR	70,574
Hannover Re Euro PE Holdings GmbH & Co. KG, Hannover [16]	100.00	EUR	299,017	EUR	59,712
Hannover Re Euro RE Holdings GmbH, Hannover [16]	100.00	EUR	979,041	EUR	33,720
Hannover Re Global Alternatives GmbH & Co. KG, Hannover [16]	100.00	EUR	156,919	EUR	1,558
Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover [16), 17)]	100.00	EUR	2,341,925	EUR	248,791
Hannover Rück SE, Hannover [16]	50.22	EUR	2,905,716	EUR	843,399
HAPEP II Holding GmbH, Hannover [16]	100.00	EUR	3,905	EUR	2,403
HAPEP II Komplementär GmbH, Hannover [16]	100.00	EUR	41	EUR	3
HDI AI EUR Beteiligungs-GmbH & Co. KG, Cologne [6), 16)]	100.00	EUR	480,974	EUR	21,457
HDI AI USD Beteiligungs-GmbH & Co. KG, Cologne [6), 16)]	100.00	EUR	151,820	EUR	16,123
HDI Direkt Service GmbH, Hannover [5), 16), 17)]	100.00	EUR	51	EUR	31
HDI-Gerling Friedrich Wilhelm AG, Cologne [16]	100.00	EUR	509,223	EUR	47,800
HDI-Gerling Sach Industrials Master, Cologne [19]	100.00	EUR	318,070	EUR	25,008
HDI Globale Equities, Cologne [19]	100.00	EUR	316,084	EUR	46,476
HDI Global Network AG, Hannover [16), 17)]	100.00	EUR	191,564	EUR	21,511
HDI Global SE Absolute Return, Cologne [19]	100.00	EUR	51,897	EUR	51,897
HDI Global SE, Hannover [17]	100.00	EUR	406,536	EUR	–203,855
HDI Kundenservice AG, Cologne [5), 17)]	100.00	EUR	362	EUR	—
HDI Lebensversicherung AG, Cologne [16]	100.00	EUR	440,897	EUR	—
HDI Pensionskasse AG, Cologne [16]	100.00	EUR	39,955	EUR	350
HDI Risk Consulting GmbH, Hannover [5), 16), 17)]	100.00	EUR	1,626	EUR	1,241
HDI Versicherung AG, Hannover [16), 17)]	100.00	EUR	163,000	EUR	–19,089
HDI Vertriebs AG, Hannover [5), 16), 17)]	100.00	EUR	533	EUR	711
HGLV-Financial, Cologne [19]	100.00	EUR	1,616,132	EUR	72,448

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					
HILSP Komplementär GmbH, Hannover	100.00	EUR	34	EUR	2
HLV Municipal Fonds, Cologne [19]	100.00	EUR	128,410	EUR	128,410
TD Real Assets GmbH & Co. KG, Cologne [6), 16)]	100,00	EUR	4	EUR	–3
HNG Hannover National Grundstücksverwaltung GmbH & Co. KG, Hannover [6]	100.00	EUR	48,908	EUR	–189
HR GLL Central Europe GmbH & Co. KG, Munich [9), 16)]	99.99	EUR	453,798	EUR	5,392
HR GLL Central Europe Holding GmbH, Munich [13), 16)]	100.00	EUR	60,246	EUR	1,276
HR Verwaltungs-GmbH, Hannover [16]	100.00	EUR	8	EUR	–4
HV Aktien, Cologne [19]	100.00	EUR	3	EUR	–7
Infrastruktur Ludwigsau GmbH & Co. KG, Cologne [16]	100.00	EUR	32,079	EUR	1,395
International Insurance Company of Hannover SE, Hannover [16), 17)]	100.00	EUR	168,845	EUR	—
IVEC Institutional Venture and Equity Capital GmbH, Cologne	100.00	EUR	33,620	EUR	–1,850
Lifestyle Protection AG, Hilden [16), 17)]	100.00	EUR	5,749	EUR	–447
Lifestyle Protection Lebensversicherung AG, Hilden [16), 17)]	100.00	EUR	7,496	EUR	–784
neue leben Holding AG, Hamburg	67.50	EUR	85,772	EUR	15,455
neue leben Lebensversicherung AG, Hamburg [16), 17)]	100.00	EUR	77,608	EUR	11,200
neue leben Unfallversicherung AG, Hamburg [16), 17)]	100.00	EUR	3,596	EUR	3,493
nl LV Municipal Fonds, Cologne [19]	100.00	EUR	61,457	EUR	61,457
NL Master, Cologne [19]	100.00	EUR	60,182	EUR	1,857
PB Lebensversicherung AG, Hilden [16), 17)]	100.00	EUR	136,666	EUR	4,000
PB Pensionsfonds AG, Hilden [16), 17)]	100.00	EUR	9,599	EUR	816
PB Versicherung AG, Hilden [16), 17)]	100.00	EUR	9,499	EUR	6,237
PBVL-Corporate, Cologne [19]	100.00	EUR	359,009	EUR	82,410
Riethorst Grundstückgesellschaft AG & Co. KG, Hannover [6]	100.00	EUR	152,025	EUR	5,660
TAL Aktien, Cologne [19]	100.00	EUR	38,907	EUR	15,470
Talanx Asset Management GmbH, Cologne [5), 17)]	100.00	EUR	72,600	EUR	47,579
Talanx Beteiligungs-GmbH & Co. KG, Hannover [6), 16)]	100.00	EUR	22,922	EUR	4,383
Talanx Deutschland AG, Hannover [5), 17)]	100.00	EUR	1,519,576	EUR	54,139
Talanx Deutschland Bancassurance Communication Center GmbH, Hilden [5), 17)]	100.00	EUR	685	EUR	55
Talanx Deutschland Bancassurance GmbH, Hilden [5), 17)]	100.00	EUR	706,349	EUR	55,930
Talanx Deutschland Bancassurance Kundenservice GmbH, Hilden [5), 17)]	100.00	EUR	75	EUR	—
Talanx Deutschland Real Estate Value, Cologne [19]	100.00	EUR	191,316	EUR	99,929
Talanx Direct Infrastructure 1 GmbH, Cologne [16]	100.00	EUR	60	EUR	20
Talanx Immobilien Management GmbH, Cologne [5), 17)]	100.00	EUR	2,837	EUR	3,830
Talanx Infrastructure France 1 GmbH, Cologne	100.00	EUR	57,571	EUR	386
Talanx Infrastructure France 2 GmbH, Cologne	100.00	EUR	122,001	EUR	396
Talanx Infrastructure Portugal 2 GmbH, Cologne	100.00	EUR	23,395	EUR	–6
Talanx Infrastructure Portugal GmbH, Cologne	100.00	EUR	52,221	EUR	–74
Talanx International AG, Hannover [5), 17)]	100.00	EUR	1,868,846	EUR	81,537
Talanx Pensionsmanagement AG, Cologne [5), 17)]	100.00	EUR	1,817	EUR	605
Talanx Reinsurance Broker GmbH, Hannover [5), 16), 17)]	100.00	EUR	100	EUR	18,520
Talanx Service AG, Hannover [5), 16), 17)]	100.00	EUR	1,746	EUR	—
Talanx Systeme AG, Hannover [5), 16), 17)]	100.00	EUR	140	EUR	—
TAL-Corp, Cologne [19]	100.00	EUR	301,497	EUR	170,874
TAM AI Komplementär GmbH, Cologne [16]	100.00	EUR	56	EUR	5
TARGO Lebensversicherung AG, Hilden [16), 17)]	100.00	EUR	33,655	EUR	31,750
TARGO Versicherung AG, Hilden [16), 17)]	100.00	EUR	29,742	EUR	15,979
TD-BA Private Equity GmbH & Co. KG, Cologne [6), 16)]	100.00	EUR	278,070	EUR	17,518

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					
TD-BA Private Equity Sub GmbH, Cologne [16)]	100.00	EUR	99,200	EUR	7,195
TD Real Assets GmbH & Co. KG, Cologne [16)]	100.00	EUR	466,304	EUR	5,985
TD-Sach Private Equity GmbH & Co. KG, Cologne [6), 16)]	100.00	EUR	61,715	EUR	6,320
Windfarm Bellheim GmbH & Co. KG, Cologne [16)]	100.00	EUR	61,672	EUR	2,058
Windpark Mittleres Mecklenburg GmbH & Co. KG, Cologne [16)]	100.00	EUR	16,286	EUR	2,793
Windpark Parchim GmbH & Co. KG, Cologne [16)]	100.00	EUR	12,170	EUR	793
Windpark Rehain GmbH & Co. KG, Cologne [16)]	100.00	EUR	34,856	EUR	775
Windpark Sandstruth GmbH & Co. KG, Cologne [16)]	100.00	EUR	7,076	EUR	283
Windpark Vier Fichten GmbH & Co. KG, Cologne [16)]	100.00	EUR	6,967	EUR	290
WP Berngerode GmbH & Co. KG, Cologne [16)]	100.00	EUR	46,579	EUR	862
WP Mörsdorf Nord GmbH & Co. KG, Cologne [16)]	100.00	EUR	33,444	EUR	745
Foreign					
101BOS LLC, Wilmington, USA [10), 16)]	100.00	USD	51,644	USD	1,623
111ORD, LLC, Wilmington, USA [10), 16)]	100.00	USD	72,463	USD	2,133
1225 West Washington, LLC, Wilmington, USA [10), 16)]	100.00	USD	24,467	USD	385
140EWR, LLC, Wilmington, USA [10), 16)]	100.00	USD	64,279	USD	–15,123
320AUS LLC, Wilminton, USA [10), 16)]	100.00	USD	94,093	USD	424
3290ATL LLC, Wilmington, USA [10), 16)]	100.00	USD	71,075	USD	2,913
3541 PRG s.r.o., Prag, Czech Republic [13), 16)]	100.00	CZK	871,309	CZK	–5,458
402 Santa Monica Blvd, LLC, Wilmington, USA [10), 16)]	100.00	USD	–28	USD	947
7550IAD LLC, Wilmington, USA [10), 16)]	100.00	USD	70,511	USD	–2,250
92601 BTS s.r.o., Bratislava, Slovakia [13), 16)]	100.00	EUR	1,983	EUR	–1,413
975 Carroll Square, LLC, Wilmington, USA [10), 16)]	100.00	USD	49,898	USD	1,253
Akvamarin Beta, s.r.o., Prag, Czech Republic [13), 16)]	100.00	CZK	98,774	CZK	45,809
APCL Corporate Director No.1 Limited, London, United Kingdom [12), 16)]	100.00	GBP	—	GBP	—
APCL Corporate Director No.2 Limited, London, United Kingdom [12), 16)]	100.00	GBP	—	GBP	—
Argenta Continuity Limited, London, United Kingdom [12), 16)]	100.00	GBP	—	GBP	—
Argenta General Partner Limited, Edinburgh, United Kingdom [12), 16)]	100.00	GBP	—	GBP	—
Argenta Holdings Limited, London, United Kingdom [9), 16)]	100.00	GBP	43,121	GBP	10,741
Argenta Insurance Research Limited, London, United Kingdom [12), 16)]	100.00	GBP	—	GBP	—
Argenta LLP Services Limited, London, United Kingdom [12), 16)]	100.00	GBP	—	GBP	—
Argenta Continuity Limited, London, United Kingdom [12), 16)]	100.00	GBP	—	GBP	—
Argenta No.14 Limited, London, United Kingdom [12), 16)]	100.00	GBP	—	GBP	—
Argenta No.15 Limited, London, United Kingdom [12), 16)]	100.00	GBP	—	GBP	—
Argenta Private Capital Limited, London, United Kingdom [12), 16)]	100.00	GBP	6,827	GBP	4,026
Argenta Secretariat Limited, London, United Kingdom [12), 16)]	100.00	GBP	—	GBP	—
Argenta SLP Continuity Limited, Edinburgh, United Kingdom [12), 16)]	100.00	GBP	—	GBP	—
Argenta Syndicate Management Limited, United Kingdom [12), 16)]	100.00	GBP	7,462	GBP	2,019
Argenta Tax & Corporate Services Limited, London, United Kingdom [12), 16)]	100.00	GBP	1,105	GBP	400
Argenta Underwriting Asia Pte. Ltd., Singapore, Singapore [12), 16)]	100.00	SGD	1,200	GBP	–340
Argenta Underwriting Labuan Ltd, Labuan, Malaysia [12), 16)]	100.00	USD	75	GBP	–3
Argenta Underwriting No.10 Limited, London, United Kingdom [12), 16)]	100.00	GBP	–36	GBP	–7
Argenta Underwriting No.11 Limited, London, United Kingdom [12), 16)]	100.00	GBP	–32	GBP	–7
Argenta Underwriting No.1 Limited, London, United Kingdom [12), 16)]	100.00	GBP	22	GBP	—
Argenta Underwriting No.2 Limited, London, United Kingdom [12), 16)]	100.00	GBP	4,971	GBP	656
Argenta Underwriting No.3 Limited, London, United Kingdom [12), 16)]	100.00	GBP	1,933	GBP	1,702

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					
Argenta Underwriting No.4 Limited, London,United Kingdom [12), 16)]	100.00	GBP	–152	GBP	—
Argenta Underwriting No.7 Limited, London, United Kingdom [12), 16)]	100.00	GBP	—	GBP	—
Argenta Underwriting No.8 Limited, London, United Kingdom [12), 16)]	100.00	GBP	–22	GBP	–1
Argenta Underwriting No.9 Limited, London, United Kingdom [12), 16)]	100.00	GBP	1,379	GBP	763
ASPECTA Assurance International Luxembourg S. A., Luxembourg, Luxembourg	100.00	EUR	14,902	EUR	427
Bonn FI Renda Fixa Crédito Privado, São Paulo, Brazil [19)]	100.00	BRL	143,673	BRL	–26,101
Broadway 101, LLC, Wilmington, USA [10), 16)]	100.00	USD	13,176	USD	658
Commercial & Industrial Acceptances (Pty) Ltd., Johannesburg, South Africa [11), 16)]	90.00	ZAR	13,333	ZAR	18,653
Compass Insurance Company Ltd., Johannesburg, South Africa [11), 16)]	100.00	ZAR	214,943	ZAR	28,611
Construction Guarantee (Pty) Ltd., Johannesburg, South Africa [8), 11)]	60.00	ZAR	—	ZAR	—
Eisenach FI Renda Fixa Crédito Privado, São Paulo, Brazil [19)]	100.00	BRL	160,967	BRL	6,221
Envirosure Underwriting Managers (Pty.) Ltd., Durban, South Africa [11), 16)]	51.00	ZAR	3,803	ZAR	591
Ferme Eolienne des Mignaudieres SNC, Toulouse, Franc	100.00	EUR	—	EUR	–66
Ferme Eolienne du Confolentais SNC, Toulouse, France [16)]	100.00	EUR	16,249	EUR	–433
Film & Entertainment Underwriters SA (Pty) Ltd., Johannesburg, South Africa [11), 16)]	51.00	ZAR	–12	ZAR	697
Firedart Engineering Underwriting Managers (Pty) Ltd., Johannesburg, South Africa [11), 16)]	70.00	ZAR	1,845	ZAR	1,234
FI Renda Fixa Hannover, São Paulo, Brazil [19)]	100.00	BRL	353,899	BRL	161,001
Fountain Continuity Limited, Edinburgh, United Kingdom [12), 16)]	100.00	GBP	—	GBP	—
FRACOM FCP, Paris, France [19)]	100.00	EUR	1,263,897	EUR	44,422
Garagesure Consultants and Acceptances (Pty) Ltd., Johannesburg, South Africa [11), 16)]	70.00	ZAR	884	ZAR	2,120
Gente Compañia de Soluciones Profesionales de México, S. A. de C. V., León, Mexico	100.00	MXN	16,048	MXN	4,865
Glencar Underwriting Managers, Inc., Chicago, USA [16)]	100.00	USD	5,148	USD	325
GLL HRE CORE Properties, L.P., Wilmington, USA [10), 16)]	99.90	USD	618,198	USD	–328
Hannover Finance, Inc., Wilmington, USA [9), 16)]	100.00	USD	164,494	EUR	1,020
Hannover Finance (Luxembourg) S. A., Luxembourg, Luxembourg	100.00	EUR	35,052	EUR	654
Hannover Finance (UK) Ltd., London, United Kingdom [16)]	100.00	GBP	2,694	GBP	–9
Hannover Life Reassurance Africa Ltd., Johannesburg, South Africa [11), 16)]	100.00	ZAR	534,324	ZAR	39,302
Hannover Life Reassurance Bermuda Ltd., Hamilton, Bermuda [16)]	100.00	USD	443,699	USD	52,393
Hannover Life Reassurance Company of America (Bermuda) Ltd., Hamilton, Bermuda	100.00	USD	10,370	USD	2,193
Hannover Life Reassurance Company of America, Orlando, USA	100.00	USD	411,166	USD	45,624
Hannover Life Re of Australasia Ltd., Sydney, Australia [16)]	100.00	AUD	495,812	AUD	15,075
Hannover Re (Bermuda) Ltd., Hamilton, Bermuda [16)]	100.00	USD	1,209,893	USD	128,058
Hannover Reinsurance Africa Ltd., Johannesburg, South Africa [11), 16)]	100.00	ZAR	764,519	ZAR	31,582
Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg, South Africa [9), 16)]	100.00	ZAR	206,527	ZAR	111,707
Hannover Re (Ireland) Designated Activity Company, Dublin, Ireland [16)]	100.00	USD	1,426,073	USD	–282,260
Hannover Re Real Estate Holdings, Inc., Orlando, USA [9)]	100.00	USD	771,070	USD	6,885
Hannover ReTakaful B. S. C. (c), Manama, Bahrain [16)]	100.00	BHD	72,699	BHD	6,507
Hannover Services (UK) Ltd., London, United Kingdom [16)]	100.00	GBP	893	GBP	126
HDI Assicurazioni S. p. A., Rome, Italy	100.00	EUR	226,090	EUR	14,780
HDI-Gerling de Mexico Seguros S. A., Mexico City, Mexico	100.00	MXN	168,744	MXN	1,860
HDI-Gerling Verzekeringen N. V., Rotterdam, Netherlands	100.00	EUR	132,464	EUR	674
HDI Global Insurance Company, Chicago, USA	100.00	USD	138,625	USD	14,534
HDI Global SA Ltd., Johannesburg, South Africa	100.00	ZAR	49,601	ZAR	5,347
HDI Global Seguros S. A., São Paulo, Brazil	100.00	BRL	65,004	BRL	2,186
HDI Immobiliare S. r. L., Rome, Italy	100.00	EUR	64,641	EUR	327
HDI Seguros de Garantía y Crédito S. A., Las Condes, Chile	99.82	CLP	6,097,117	CLP	1,530,305

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 Seguros de Vida S. A., Las Condes, Chile	100.00	CLP	2,736,636	CLP	–874,733
HDI Seguros S. A., Buenos Aires, Argentina	100.00	ARS	312,428	ARS	53,557
HDI Seguros S. A. de C.V., León, Mexico	99.76	MXN	1,336,479	MXN	241,219
HDI Seguros S. A., Las Condes, Chile	99.87	CLP	60,749,840	CLP	12,357,013
HDI Seguros S. A., Montevideo, Uruguay	100.00	UYU	155,558	UYU	2,119
HDI Seguros S. A., San Isidro, Peru	100.00	PEN	11,291	PEN	420
HDI Seguros S. A., São Paulo, Brazil	100.00	BRL	1,097,257	BRL	111,326
HDI Sigorta A. Ş, Istanbul, Turkey	100.00	TRY	332,472	TRY	40,897
HDI Specialty Insurance Company, Illinois, USA [15]	100.00	USD	—	USD	—
HDI Versicherung AG (Austria), Vienna, Austria	100.00	EUR	28,471	EUR	10,334
Hospitality Industrial and Commercial Underwriting Managers (Pty) Ltd., Johannesburg, South Africa [11), 16]	90.00	ZAR	1,764	ZAR	6,536
HR GLL CDG Plaza S. r. l., Bukarest, Romania [13), 16]	100.00	RON	151,086	RON	5,002
HR GLL Europe Holding S. à .r. l., Luxemburg, Luxembourg [13), 16]	100.00	EUR	198,268	EUR	1,617
HR GLL Griffin House SPÓLKA Z ORGANICZONA ODPOWIEDZIALNÓSCIA, Warsaw, Poland [13), 16]	100.00	PLN	37,478	PLN	2,355
HR GLL Liberty Corner SPÓLKA Z ORGANICZONA ODPOWIEDZIALNÓSCIA, Warsaw, Poland [13), 16]	100.00	PLN	49,385	PLN	3,413
HR GLL Roosevelt Kft, Budapest, Hungary [13), 16]	100.00	HUF	19,012,206	HUF	–87,935
HR US Infra Debt LP, George Town, Cayman Islands [16]	100.00	USD	53,609	USD	182
HR US Infra Equity LP, Wilmington, USA [10), 16]	100.00	USD	—	USD	—
INCHIARO LIFE Designated Activity Company, Dublin, Ireland	100.00	EUR	16,164	EUR	570
InLinea S. p. A., Rome, Italy	70.00	EUR	1,617	EUR	146
Integra Insurance Solutions Limited, Bradford, United Kingdom [16]	100.00	GBP	4,990	GBP	184
Inter Hannover (No. 1) Ltd., London, United Kingdom [16]	100.00	GBP	–66	GBP	—
Inversiones HDI Limitada, Santiago, Chile	100.00	CLP	164,807,216	CLP	–384,088
KBC ALFA Specjalistyczny Fundusz Inwestycyjny Otwarty, Warsaw, Poland [19]	100.00	PLN	1,669,906	PLN	20,135
Koln FI Multimercado Crédito Privado, São Paulo, Brazil [19]	100.00	BRL	200,066	BRL	–56,117
Landmark Underwriting Agency (Pty) Ltd., Bloemfontein, South Africa [11), 16]	65.50	ZAR	4,685	ZAR	1,945
Le Chemin de La Milaine S. N. C., Lille, France [16]	100.00	EUR	16,835	EUR	1,223
Leine Investment General Partner S. à r. l., Luxemburg, Luxembourg [16]	100.00	EUR	877	EUR	327
Leine Investment SICAV-SIF, Luxemburg, Luxembourg [16]	100.00	USD	64,430	USD	1,113
Le Louveng S. A. S., Lille, France [15), 16]	100.00	EUR	8,528	EUR	137
Le Souffle des Pellicornes S. N. C, Lille, France [16]	100.00	EUR	15,010	EUR	1,014
Les Vents de Malet S. N. C., Lille, France [16]	100.00	EUR	17,118	EUR	1,326
Lireas Holdings (Pty) Ltd., Johannesburg, South Africa [11), 16]	70.00	ZAR	209,880	ZAR	22,943
Magyar Posta Biztosító Részvénytársaság, Budapest, Hungary	66.93	HUF	101,077	HUF	2,395,059
Magyar Posta Életbiztosító Zrt., Budapest, Hungary	66.93	HUF	7,431,652	HUF	1,091,954
MUA Insurance Acceptances (Pty) Ltd., Cape Town, South Africa [11), 16]	100.00	ZAR	6,033	ZAR	5,608
Mustela s. r. o., Prague, Czech Republic [13), 16]	100.00	CZK	1,181,309	CZK	26,998
Names Taxation Service Limited, London, United Kingdom [12), 16]	100.00	GBP	10	GBP	—
Nashville West, LLC, Wilmington, USA [10), 16]	100.00	USD	29,160	USD	1,520
OOO Strakhovaya Kompaniya CiV Life, Moscow, Russia	100.00	RUB	2,307,381	RUB	791,768
OOO Strakhovaya Kompaniya HDI Strakhovanie, Moscow, Russia	100.00	RUB	248,421	RUB	80,086
Orion No.1 Professional Investors Private Real Estate Investment LLC, Seoul, Korea, South [14), 16]	99.65	USD	145,610	USD	312
PAG Real Estate Asia Select Fund Limited, Georgetown, Cayman Islands [9), 16]	100.00	USD	72,360	USD	–669
Peace G.K., Tokyo, Japan [14), 16]	99.00	JPY	5,186,767	JPY	52,767
Pipera Business Park S. r. l., Bucharest, Romania [13), 16]	100.00	RON	86,254	RON	7,377
Protecciones Esenciales S. A., Buenos Aires, Argentina	100.00	ARS	336,689	ARS	33,342

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					
Residual Services Corporate Director Limited, London, United Kingdom[12), 16)]	100.00	GBP	—	GBP	—
Residual Services Limited, London, United Kingdom[12), 16), 20)]	100.00	GBP	1	GBP	—
River Terrace Parking, LLC, Wilmington, USA[10), 16)]	100.00	USD	19,550	USD	522
Saint Honoré Iberia S.L., Madrid, Spain	100.00	EUR	812	EUR	341
Sand Lake Re, Inc., Burlington, USA[16)]	100.00	USD	11,977	USD	–177,569
SUM Holdings (Pty) Ltd., Johannesburg, South Africa[11), 16)]	72.20	ZAR	25,059	ZAR	5,326
Svedea AB, Stockholm, Sweden[16)]	53.00	SEK	16,387	SEK	10,058
Synergy Targeted Risk Solutions (Pty) Ltd., Johannesburg, South Africa[8), 11)]	100.00	ZAR	2,042	ZAR	—
TAG – FIC Multimercado Multi Strategy, São Paulo, Brazil[19)]	100.00	BRL	105,140	BRL	25,479
Talanx Finanz (Luxemburg) S. A., Luxembourg, Luxembourg	100.00	EUR	6,453	EUR	169
Talanx Reinsurance (Ireland) SE (formerly: Talanx Reinsurance (Ireland) PLC), Dublin, Ireland[16)]	100.00	EUR	188,744	EUR	10,615
Thatch Risk Acceptances (Pty) Ltd., Johannesburg, South Africa[11)]	70.00	ZAR	2,122	ZAR	4,489
Towarzystwo Ubezpieczeń Europa S. A., Wroclaw, Poland	50.00	PLN	892,006	PLN	41,270
Towarzystwo Ubezpieczeń i Reasekuracji WARTA S. A., Warsaw, Poland	75.74	PLN	1,998,203	PLN	258,995
Towarzystwo Ubezpieczeń na Życie Europa S. A., Wroclaw, Poland	100.00	PLN	665,206	PLN	9,973
Towarzystwo Ubezpieczeń na Życie "WARTA" S. A., Warsaw, Poland	100.00	PLN	344,420	PLN	19,625
Transit Underwriting Managers (Pty) Ltd., Cape Town, South Africa[11), 16)]	56.67	ZAR	–20	ZAR	–435

LIST OF SHAREHOLDINGS

2. Affiliated companies not included in the consolidated financial statements in accordance with IFRSs due to insignificance	Equity interest[1] in %		Equity[2), 3)] in thousand		Earnings before profit transfer[2), 4)] in thousand
Domestic					
FVB Gesellschaft für Finanz- und Versorgungsberatung mbH, Osnabrück, Germany	100.00	EUR	4,089	EUR	2,193
Infrastruktur Windpark Vier Fichten GbR, Bremen	100.00	EUR	—	EUR	4
HDI Schadenregulierung GmbH, Hannover[16), 17)]	100.00	EUR	25	EUR	–1
HEPEP II Holding GmbH, Cologne[16)]	100.00	EUR	167	EUR	–1,155
HEPEP III Holding GmbH, Cologne[16)]	100.00	EUR	721	EUR	–289
HEPEP III Komplementär GmbH, Cologne[16)]	100.00	EUR	4	EUR	–13
HEPEP II Komplementär GmbH, Cologne[16)]	100.00	EUR	41	EUR	–7
HEPEP IV Komplementär GmbH, Cologne[16)]	100.00	EUR	4	EUR	–16
Nassau Assekuranzkontor GmbH, Cologne[17)]	100.00	EUR	24	EUR	–1
Oval Office Grundstücks GmbH, Hannover[8), 16), 21)]	100.00	EUR	628	EUR	15
SSV Schadenschutzverband GmbH, Hannover[16), 17)]	100.00	EUR	200	EUR	305
Foreign					
Desarollo de Consultores Profesionales en Seguros S. A. de CV, León, Mexico	100.00	MXN	414	MXN	57
Gerling Insurance Agency, Inc., Chicago, USA[7)]	100.00	USD	—	USD	—
Hannover Mining Engineering Services LLC, Itasca, USA	100.00	USD	300	USD	—
Hannover Re Consulting Services India Private Limited, Mumbai, India	100.00	INR	112,771	INR	10,978
Hannover Re Risk Management Services India Private Limited, New Delhi, India	100.00	INR	59,598	INR	–8,347
Hannover Re Services Italy S. r. l., Milan, Italy	100.00	EUR	368	EUR	110
Hannover Re Services Japan, Tokyo, Japan[16)]	100.00	JPY	126,916	JPY	12,563
Hannover Re Services USA, Inc., Itasca, USA	100.00	USD	3,781	USD	307

LIST OF SHAREHOLDINGS

2. Affiliated companies not included in the consolidated financial statements in accordance with IFRSs due to insignificance	Equity interest [1] in %		Equity [2), 3)] in thousand		Earnings before profit transfer [2), 4)] in thousand
Foreign					
Hannover Risk Consultants B.V., Rotterdam, Netherlands	100.00	EUR	665	EUR	–51
Hannover Rück SE Escritório de Representação no Brasil Ltda., Rio de Janeiro, Brazil	100.00	BRL	3,408	BRL	485
Hannover Services (México) S.A. de C.V., Mexico City, Mexico	100.00	MXN	6,524	MXN	150
HDI-Gerling Welt Service AG Escritório de Representação no Brasil Ltda. São Paulo, Brazil	100.00	BRL	280	BRL	—
H.J. Roelofs Assuradeuren B.V., Rotterdam, Netherlands	100.00	EUR	913	EUR	–10
HMIA Pty Ltd., Sydney, Australia [16)]	55.00	AUD	1,069	AUD	1081
HR Hannover Re Correduría de Reaseguros S.A., Madrid, Spain [16)]	100.00	EUR	497	EUR	48
International Mining Industry Underwriters Ltd., London, United Kingdom [16)]	100.00	GBP	225	GBP	—
Mediterranean Reinsurance Services Ltd., Hong Kong, China [8)]	100.00	USD	52	USD	—
Private Joint Stock Company "EUROPA.UA" Lemberg, Ukraine	100.00	UAH	8,343	UAH	402
Private Joint Stock Company "EUROPA.UA Service", Lemberg, Ukraine	100.00	UAH	8,261	UAH	–1,510
Svedea Skadeservice AB, Stockholm, Sweden	100.00	SEK	284	SEK	—
U FOR LIFE SDN. BHD., Petaling Jaya, Malaysia [16)]	60.00	MYR	–21,304	MYR	–8,638

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 [16)]	88.00	USD	554	USD	–360
LI RE, Hamilton, Bermuda [16)]	100.00	USD	—	USD	—

LIST OF SHAREHOLDINGS

4. Associates valued using equity method in the consolidated financial statements	Equity interest [1)] in %		Equity [2)] in thousand		Earnings before profit transfer [2)] in thousand
Domestic					
HANNOVER Finanz GmbH, Hannover	27.78	EUR	81,509	EUR	18,078
neue leben Pensionsverwaltung AG, Hamburg [18)]	49.00	EUR	2,217	EUR	–126
WeHaCo Unternehmensbeteiligungs-GmbH, Hannover	40.00	EUR	89,440	EUR	16,232
Foreign					
Clarendon Transport Underwriting Managers (Pty) Ltd., Johannesburg, South Africa [11), 16)]	42.00	ZAR	18,512	ZAR	12,833
INDAQUA Indústria e Gestão de Águas S.A., Matosinhos, Portugal	49.94	EUR	–5,732	EUR	6,291
ITAS Vita S.p.A., Trento, Italy	34.88	EUR	100,880	EUR	2,719
Petro Vietnam Insurance Holdings, Cau Giay, Vietnam	35.74	VND	6,360,424,007	VND	637,304,575

LIST OF SHAREHOLDINGS

5. Associates not included in the consolidated financial statements using the equity method due to insignificance	Equity interest [1] in %		Equity [2] in thousand		Earnings before profit transfer [2] in thousand
Domestic					
Caplantic GmbH, Hannover	45.00	EUR	3,567	EUR	1,500
Elinvar GmbH, Berlin	37.50	EUR	706,349	EUR	55,930
Hannoversch-Kölnische Beteiligungsgesellschaft mbH, Hannover	50.00	EUR	28	EUR	—
Hannoversch-Kölnische Handels-Beteiligungsgesellschaft mbH & Co. KG, Hannover	50.00	EUR	16,010	EUR	1,562
VOV GmbH (formerly: VOV Verwaltungsorganisation für Vermögensschadenhaftpflicht-Versicherungen für Mitglieder von Organen juristischer Personen GmbH), Cologne	35.25	EUR	1,986	EUR	40
Foreign					
Energi, Inc., Peabody, USA	28.50	USD	–65	USD	–20,941
Monument Insurance Group Limited, Hamilton, Bermuda [16]	20.00	USD	628	USD	–67
Reaseguradora del Ecuador S. A., Guayaquil, Ecuador [16]	30.00	USD	16,865	USD	1,977
Sureify Labs, Inc., San Jose, USA [16]	20.66	USD	622	USD	–2,148
Trinity Underwriting Managers Limited, Toronto, Canada [16]	20.00	CAD	–1,711	CAD	29

LIST OF SHAREHOLDINGS

6. Joint ventures included in the consolidated financial statements using the equity method	Equity interest [1] in %		Equity [2] in thousand		Earnings before profit transfer [2] in thousand
Magma HDI General Insurance Company Ltd., Kolkata, India	25.50	INR	2,255,924	INR	–324,461

LIST OF SHAREHOLDINGS

7. Joint ventures not included in the consolidated financial statements due to insignificance	Equity interest [1] in %		Equity [2] in thousand		Earnings before profit transfer [2] in thousand
Domestic					
Ampega C-QUADRAT Fondsmarketing GmbH, Frankfurt [8]	50.00	EUR	113	EUR	88
Foreign					
C-QUADRAT Ampega Asset Management Armenia LLC, Yerevan, Armenia	25.10	EUR	510	EUR	57
Quality Insurance Services Luxembourg S. à. r. l., Luxemburg, Luxembourg	25.00	EUR	678	EUR	446

LIST OF SHAREHOLDINGS

8. Participating interests	Equity interest [1] in %		Equity [2] in thousand		Earnings before profit transfer [2] in thousand
Domestic					
FinLeap GmbH, Berlin	11.52	EUR	25,253	EUR	–3,470
IGEPA Gewerbepark GmbH & Co. Vermietungs KG, Fürstenfeldbruck	37.50	EUR	19,133	EUR	10,688
Internationale Schule Hannover Region GmbH, Hannover	15.72	EUR	4,210	EUR	521
Nürnberger Beteiligungs-AG, Nuremberg	2.33	EUR	638,839	EUR	43,245
OVB Holding AG, Cologne	0.70	EUR	88,270	EUR	12,690
Perseus Technologies GmbH, Berlin, Germany [15]	75.00	EUR	—	EUR	—

LIST OF SHAREHOLDINGS

8. Participating interests	Equity interest [1] in %		Equity [2] in thousand		Earnings before profit transfer [2] in thousand
Domestic					
RW Holding AG, Düsseldorf	0.54	EUR	391,526	EUR	–33,430
xbAV Beratungssoftware GmbH, Munich	5.02	EUR	166	EUR	–112
Foreign					
Centaur Animal Health, Inc., Olathe, USA	7.56	USD	1,886	USD	202
Credit Suisse (Lux) Gas TransitSwitzerland SCS, Luxembourg, Luxembourg	60.15	EUR	132,691	EUR	7,264
Inlife Holding (Liechtenstein) AG, Triesen, Liechtenstein	15.00	CHF	3,608	CHF	15,645
Kopano Ventures (Pty) Ltd, Johannesburg, South Africa [15]	6.59	ZAR	—		—
Liberty Life Insurance Public Company Ltd, Nicosia, Cyprus	3.30	EUR	7,873	EUR	–2,504
Life Invest Holding AG, Zurich, Switzerland [22]	15.00	CHF	38,776	CHF	36,776
Meribel Topco Ltd., St. Helier, Jersey [16]	20.11	EUR	844	EUR	–70
Qinematic AB, Lidingö, Sweden	10.71	SEK	–2,740	SEK	–2,107
Sommerset Reinsurance Ltd., Hamilton, Bermuda	16.90	USD	350,157	USD	–5,602

LIST OF SHAREHOLDINGS

9. Investments in large corporations exceeding 5% of the voting rights	Equity interest [1] in %		Equity [2] in thousand		Earnings before profit transfer [2] in thousand
Domestic					
Extremus Versicherungs-AG, Cologne	13.00	EUR	64,740	EUR	300
M 31 Beteiligungsgesellschaft mbH & Co. Energie KG, Düsseldorf	8.90	EUR	1,089,571	EUR	71,357
MLP AG, Wiesloch	9.48	EUR	392,672	EUR	18,219
Foreign					
Acte Vie S. A. Schiltigheim, France	9.38	EUR	9,258	EUR	170

[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 Agenta Holdings Limited.
[13] Included in the subgroup financial statements of HR GLL Central Europe GmbH & Co. KG.
[14] Included in the subgroup financial statements of PAG Real Estate Asia Select Fund Limited.
[15] Company was formed in the reporting period – no annual report/annual financial statements available yet.
[16] Figures as at 2017 financial year-end, provisional/unaudited.
[17] A profit/loss transfer agreement is in force.
[18] The net income for nl Pensionskasse AG, Hamburg, is included in the net income of this company.
[19] Investment fund.
[20] The company has 35 subsidiaries with equity of less than EUR 0.1 million.
[21] Figures for the financial year 1 April to 31 December 2016.
[22] Figures for the financial year 8 May 2015 to 31 December 2016.

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	298,933
Hannover Rueck SE Australian Branch, Sydney, Australia	EUR	220,125
Hannover Rueck SE Bahrain Branch, Manama, Bahrain	EUR	125,675
Hannover Rück SE Canadian Branch, Toronto, Canada	EUR	225,366
Hannover Rück SE, Hong Kong Branch, Wanchai, Hong Kong, China	EUR	288,928
Hannover Rück SE Korea Branch, Seoul, South Korea	EUR	47,134
Hannover Rueck SE Malaysian Branch, Kuala Lumpur, Malaysia	EUR	376,970
Hannover Rück SE Shanghai Branch, Shanghai, China	EUR	775,684
Hannover Rück SE Succursale Française, Paris, France	EUR	777,357
Hannover Rück SE, Tyskland Filial, Stockholm, Sweden	EUR	242,045
Hannover Rück SE, India Branch, Mumbai, India	EUR	58,437
HDI Global SE		
HDI Global SE – Branch for Belgium, Brussels, Belgium	EUR	203,130
HDI Global SE – Direction pour la France, Paris, France	EUR	360,988
HDI Global SE – Swiss Branch, Zurich, Switzerland	EUR	214,185
HDI Global SE – the Netherlands, Amsterdam, Netherlands	EUR	286,805
HDI Global SE – UK, London, England	EUR	251,999
HDI Lebensversicherung AG		
HDI Lebensversicherung AG – Austria Branch, Vienna, Austria	EUR	460,319
International Insurance Company of Hannover SE		
International Insurance Company of Hannover SE, Australian Branch, Sydney, Australia	EUR	62,296
International Insurance Company of Hannover SE, Canadian Branch, Toronto, Canada	EUR	54,364
International Insurance Company of Hannover SE, Italian Branch, Milan, Italy [2]	EUR	—
International Insurance Company of Hannover SE, Scandinavian Branch, Stockholm, Sweden	EUR	198,462
International Insurance Company of Hannover SE, UK Branch, London, United Kingdom	EUR	368,196

[1] Figures before consolidation.
[2] Branch is in liquidation.

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 on 28 February 2018 in Hannover.

Board of Management

Herbert K Haas,
Chairman

Dr Christian Hinsch,
Deputy Chairman

Torsten Leue

Dr Immo Querner

Ulrich Wallin

Dr Jan Wicke

INDEPENDENT AUDITORS' REPORT

To Talanx Aktiengesellschaft, Hannover

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND COMBINED MANAGEMENT REPORT

AUDIT OPINION

We have assessed the consolidated financial statements of Talanx Aktiengesellschaft, Hannover, and its subsidiaries (the Group). These statements consist of the consolidated balance sheet as at 31 December 2017, the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement for the financial year from 1 January to 31 December 2017 and the accompanying Notes including a summary of significant accounting policies. We have also assessed the combined management report of Talanx Aktiengesellschaft for the financial year from 1 January to 31 December 2017. In accordance with the German statutory requirements, we did not audit the contents of the consolidated non-financial statement and the Declaration on Corporate Governance and the Corporate Governance report, which can be found in the "Consolidated non-financial statement" section and the "Corporate Governance" section in the combined management report.

In our opinion, which is based on the findings of our audit,

- the attached consolidated financial statements comply in all material respects with IFRSs, as adopted by the EU, as well as the additional German statutory requirements in accordance with section 315e(1). of the HGB and give a true and fair view of the net assets and financial position of the Group as at 31 December 2017 and its results of operations for the year from 1 January to 31 December 2017 in accordance with those requirements
- the accompanying combined management report provides a true and fair view of the Group's position overall. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with the German statutory requirements and provides a true and fair description of the opportunities and risks associated with the expected development of the Group. Our audit opinion on the combined management report does not extend to the contents of the Group's aforementioned consolidated non-financial statement and Declaration on Corporate Governance or the Corporate Governance report.

In accordance with section 322(3) sentence 1 of the HGB, we declare that our audit has not led to any reservations as to the correctness of the consolidated financial statements and the combined management report.

BASIS FOR THE AUDIT OPINION

We carried out our audit of the consolidated financial statements and combined management report in accordance with section 317 of the HGB and EU Regulation (No 537/2014; hereinafter referred to as "EU-APrVO") and generally accepted German standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (IDW). Our responsibility in accordance with these requirements and guidelines is described further in the "Auditors' responsibility for the audit of the consolidated financial statements and combined management report" section of our report. We are independent from the Group companies, in agreement with the requirements under European and German commercial and occupational law and have fulfilled our other professional duties which are generally accepted in Germany in accordance with these requirements. In accordance with article 10(2f) of the EU-APrVO, we also declare that we have not provided any prohibited non-audit services in accordance with article 5(1) of the EU-APrVO. We believe that the evidence we gathered in the audit provides a sufficient and reasonable basis for our opinion on the consolidated financial statements and combined management report.

PARTICULARLY IMPORTANT FACTS FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Particularly important facts are facts which we judged to be of the highest importance for the audit of the consolidated financial statements for the financial year from 1 January to 31 December 2017. These facts were taken into consideration as a whole during our audit of the consolidated financial statements and when forming our opinion; we do not submit a separate opinion on these facts. The following description follows the order of balance sheet items as they appear in the consolidated financial statements.

VALUATION OF FINANCIAL INSTRUMENTS MEASURED USING VALUATION MODELS

As regards accounting principles, please refer to the information in the Notes on pages 167 and 169 – 172. In addition, further disclosures on the items are made on pages 154 and 215 – 220. Statements on the risks arising from financial instruments are made in the combined management report on pages 132 – 138.

Risk for the consolidated financial statements

As at the reporting date investments amounted to EUR 118,673 million, of which EUR 75,799 million were valued at the fair value, as shown on page 216 in the Notes. The fair values of these financial instruments in the amount of EUR 71,878 million are in turn calculated using third party valuation models or indications of value.

The valuation of financial instruments, the fair values of which must be measured using third party valuation models or indications of value, involves a degree of uncertainty. Valuation using valuation models and taking account of parameters that can be deduced from active markets relates in particular to over-the-counter securities, other loans and derivatives. The margin of discretion is greater the more input factors are used, which are not observable on the market, but are based on estimates by the company.

The valuation of financial instruments necessitates extensive disclosures in the Notes on valuation techniques and margins of discretion.

Our auditing procedure

We carried out our audit of financial instruments following a risk-based approach, with the assistance of valuation specialists. In particular, this involved the following activities:

- We audited the process for recording portfolio data and the valuation parameters (yield curves, spreads) in the portfolio management system including the controls set up for this purpose. By carrying out functional checks, we verified the efficacy of internal controls in place.
- For financial instruments valued using a valuation model, we assessed IFRS conformity and the adequacy of each model used and of the calculation of the assumptions and parameters incorporated in the valuation. We did this for instruments selected on the basis of risk considerations.
- Based again on risk considerations, we verified the calculated fair values of selected items based on our own calculations or reconciled them with external information. We used our own valuation specialists to perform recalculations of financial instruments. This involved deducing parameters incorporated in the calculation from market data and determining our own fair value, which we compared with the company's results.
- Based on the fair values determined by the company, we verified the accuracy of the subsequent measurement presented and the impact on results. In this context, we assessed whether write-downs and reversals were accurately performed and reported.
- We checked the disclosures in the Notes to determine whether they correspond to the financial accounting standards and, in particular, that suitable disclosure was made regarding accounting policies.

Our conclusions

The valuation models used are adequate and consistent with IFRSs. The input factors used by the company are adequate. The information and data in the Notes comply with the accounting standards.

VALUATION OF LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

As regards accounting principles, please refer to the information in the Notes on pages 167, 175 and 176 and on pages 235 – 238 to find further details on the loss and loss adjustment expense reserve. Risk information is given in the Group combined management report on pages 122 – 126.

Risk for the consolidated financial statements

The loss and loss adjustment expense reserves totalled EUR 42,537 million as at the reporting date.

The valuation of loss and loss adjustment expense reserves is mainly based on actuarial methods and statistical analysis and forecasting. This includes assumptions about premiums, ultimate loss ratios, processing periods, factors and speed based on past experience. In addition to ceding duties, the company's own estimates of the expected total loss amount is included in the valuation of loss and loss adjustment expense reserves for large losses not yet settled.

The valuation of loss and loss adjustment expense reserves involves uncertainty with regard to the likely amount of losses and is therefore subject to a high degree of discretion. This applies in particular to insured events that had occurred on the reporting date but were not yet reported (unknown late losses). It also applies to large losses whose valuation is based on assumptions regarding the total insured market loss and the regional loss exposure. Taking into account the results of the actuarial methods and other information relating to the uncertainties associated with the calculations, it is the management who ultimately determines the amount of the loss and loss adjustment expense reserve.

Our auditing procedure

We consulted our own actuaries, acting as part of the audit team, when assessing the loss and loss adjustment expense reserves. In particular, we carried out the following audit procedures:

- We looked at the process for determining the reserves, identified the main checks and tested their structure and efficacy. The checks cover both the completeness and accuracy of the data used and the qualitative and quantitative elements of the valuation.
- We assessed the plausibility of the main assumptions used – including the loss ratio – and the frequency and amount of losses divided into basic and large losses. We focused on determining the reserves for insurance claims which had occurred but had not yet been reported.
- For significant segments, we carried out separate calculations for reserves that we selected based on risk considerations. This involved using statistical probabilities to determine a point estimate and a suitable range in each case.
- We compared the level of reserves as at the reporting date with the figure for previous years. We inspected the documentation for the underlying calculations or qualitative justifications with a view to assessing the plausibility of the amendments made to the expected value calculated using actuarial methods.

Our conclusions

The methods used and the underlying assumptions for the valuation of the reserve for known and unknown insured events are adequate.

VALUATION OF THE BENEFIT RESERVE

As regards accounting principles, please refer to the information in the Notes on pages 167 and 175 and page 234 to find further details on individual items. Risk information is given in the Group combined management report on pages 126 – 130.

Risk for the consolidated financial statements

The company lists a benefit reserve of EUR 54,596 million (around 34.5% of the total assets) in its consolidated financial statements.

In addition to the volume parameters and calculation specifications, the valuation of the benefit reserve is subject to various assumptions that can significantly influence the benefit reserve amount. The valuation is largely dependent on the actuarial projections of the underlying insurance business and the actuarial methods used. The significant assumptions include the interest, biometric variables and cost assumptions. Deviations in these assumptions give rise to significant potential for error because certain policies are associated with very long terms. It should also be noted that the benefit reserve is based on a large number of regulations and tariffs that apply to individual policies.

Our auditing procedure

During the audit, we introduced actuaries of our own to our audit team to assess the benefit reserve. In particular, we essentially carried out the following audit procedures:

- We looked at the process for determining the reserves, identified the main checks and tested their structure and efficacy. This involves using a control-based approach to assess how insurance policies are recorded, allocated to portfolios and presented in the Group's portfolio management systems. We then assess how these portfolio values are transferred and processed further in the companies' statistical systems and how they are transferred to the ledger. We pay particular attention to checks which ensure that new products are correctly classified and/or changes in assumptions are correctly implemented in the systems.
- We then perform an assessment, based on our own calculations, of the portfolios containing all the major rates in primary life insurance to ensure the accuracy of individual policies in terms of the valuation of the benefit reserve. This involves using our own auditing programmes to map the company rates used, performing an automated transfer of the master data from the portfolio management systems at these rates and determining the values of individual policies with our auditing programmes. In Life Reinsurance, extensive annual case-by-case assessments and comprehensive substantive audit procedures are performed on a yearly basis to assess the accuracy of the valuation.
- During our assessment of the adequacy of significant assumptions, we analysed the actuarial processes used for derivation purposes.
- We also perform a special appraisal of the assumptions underlying the reserve top-ups for the longevity risk in the light of previous mortality rates and anything peculiar to the company's portfolio.
- Moreover, we subject trends associated with individual parts of the benefit reserve to a detailed plausibility check. This involves assessing trends over time and for the financial year based on our own analytical projections and matching these against the reported values.
- We analysed the trend in respect of the benefit reserve in comparison with the previous year, in particular to check whether this corresponds to the assumptions for current business trends and our expectations based on market observations.
- To this end, we performed an adequacy test to establish whether the accounting principles and methods used were consistent with IFRSs and adequate. If market interest rates were used for valuation purposes, we performed an adequacy test on the discount rates used by comparing these with parameters determined on the basis of market observation. For this, we paid particular attention to the adequacy test for the mortality solutions business in the US.
- We checked the disclosures in the Notes to determine whether they correspond to the financial accounting standards and, in particular, that suitable disclosure was made regarding uncertain estimates and sensitivities.

Our conclusions

The valuation assumptions made when valuing the benefit reserve are adequate and balanced overall. The information and data in the Notes are adequate.

OTHER INFORMATION

The legal representatives are responsible for other information. Other information comprises:

- the consolidated non-financial statement
- the Declaration on Corporate Governance
- the Corporate Governance report
- other parts of the Annual Report except the audited consolidated financial statements, combined management report and our auditors' report.

Our audit opinion on the consolidated financial statements and combined management report does not extend to other information and we therefore do not issue either an audit opinion or any other form of audit conclusion to that end.

In conjunction with our audit, we are responsible for reading other information and appraising whether it

- deviates significantly from the consolidated financial statements, combined management report or the knowledge we gain during our audit or
- appears to be materially misrepresented in any other way.

LEGAL REPRESENTATIVES' AND SUPERVISORY BODY'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND COMBINED MANAGEMENT REPORT

The legal representatives are responsible for preparing the consolidated financial statements, which comply in all material respects with IFRSs, as adopted by the EU, as well as the additional German statutory requirements in accordance with section 315e(1) of the HGB, and ensuring that the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with those requirements. Furthermore, the legal representatives are responsible for the internal checks which they have deemed necessary in order to prepare consolidated financial statements that contain no material – deliberate or accidental – misrepresentations.

When preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's ability to continue as a going concern. They are also responsible for specifying any relevant facts related to the Group continuing as a going concern. Furthermore, they are responsible for ensuring accounts are drawn up on a going concern basis, unless there is an intention to liquidate the Group or discontinue business operations or there is no realistic alternative.

The legal representatives are also responsible for preparing the combined management report, which provides a true and fair view of the Group's position overall and complies in all material aspects with the consolidated financial statements, is in accordance with the German statutory requirements and provides a true and fair description of the opportunities and risks associated with the future development of the Group. In addition, the legal representatives are responsible for any precautions and measures (systems) they deem necessary for preparing a combined management report in accordance with German statutory requirements and providing sufficient and reasonable evidence for the statements made in the combined management report.

The Supervisory Board is responsible for monitoring the Group's accounting process as it prepares the consolidated financial statements and the combined management report.

AUDITORS' RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND COMBINED MANAGEMENT REPORT

We aim to ascertain with reasonable assurance whether the consolidated financial statements as a whole contain any material – deliberate or accidental – misrepresentations and whether the combined management report provides a true and fair view of the Group's position overall and complies in all material aspects with the consolidated financial statements and any findings made during the audit, is in accordance with the German statutory requirements and provides a true and fair description of the opportunities and risks associated with the future development of the Group. We also aim to produce an auditors' report which contains our audit opinion on the consolidated financial statements and combined management report.

Reasonable assurance represents a high degree of certainty but is no guarantee that an audit carried out in accordance with section 317 of the HGB, the EU-APrVO, the generally accepted German standards for the audit of financial statements promulgated by the IDW will always discover any material misrepresentation. Misrepresentations may be the result of violations or inaccuracies and are deemed to be material if they could reasonably be expected to influence, individually or collectively, the economic decisions of users made on the basis of these consolidated financial statements and the combined management report.

We exercise reasonable discretion and maintain a critical approach during audits. Furthermore:

- we identify and assess the risks of material – deliberate or accidental – misrepresentations in the consolidated financial statements and combined management report, plan and carry out audit procedures in response to these risks and gather sufficient and reasonable evidence to serve as a basis for our audit opinion. There is a greater risk that we will not discover material misrepresentations associated with violations as opposed to inaccuracies as violations may involve fraudulent collaboration, fabrication, deliberate omissions, misleading representation or bypassing internal checks.
- we gain an understanding of the relevant internal systems of control for auditing the consolidated financial statements and the relevant precautions and measures for auditing the combined management report in order to plan audit procedures which are adequate for the current circumstances but where the objective is not to issue an audit opinion on the efficacy of these systems.
- we assess the adequacy of the accounting policies used by the legal representatives and evaluate how reasonable their estimated values and related data are.
- we draw conclusions about the adequacy of the going concern accounting approach used by the legal representatives and, on the basis of the evidence gathered in the audit, whether there is significant uncertainty surrounding events or circumstances that could raise significant doubts about the Group's ability to continue as a going concern. If we conclude that there is significant uncertainty, we are required to draw attention in the auditors' report to the corresponding data contained in the consolidated financial statements and the combined management report or, if this data is inadequate, to modify our audit opinion accordingly. We draw our conclusions based on the evidence obtained during the audit up to the date of our auditors' report. However, future events or circumstances may lead to a situation where the Group can no longer continue as a going concern.
- we assess the overall presentation, structure and contents of the consolidated financial statements including the data contained therein. We also assess whether the consolidated financial statements represent the underlying transactions and events in such a way that the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with the IFRSs, as adopted by the EU, and the additional German statutory requirements in accordance with section 315e(1) of the HGB.
- we gather sufficient and reasonable evidence for the company's accounting information or operating activities within the Group in order to issue an audit opinion on the consolidated financial statements and combined management report. We are responsible for leading, supervising and carrying out the audit of the consolidated financial statements. We accept sole responsibility for our audit opinion.
- we assess how far the combined management report is consistent with the consolidated financial statements, whether it has been produced in accordance with the relevant legislation and the view it gives of the Group's position.
- we carry out audit procedures on the forecasts represented in the combined management report by the legal representatives. Based on sufficient and reasonable evidence gathered in the audit, we retrace in particular the significant assumptions on which the legal representatives based the forecasts and assess whether the forecasts were adequately derived from these assumptions. We do not issue an independent audit opinion on the forecasts or the assumptions they are based on. There is a considerable and unavoidable risk that future events may differ significantly from the forecasts.

We discuss a range of relevant matters with those responsible for supervision including the planned scope and schedule of the audit as well as significant audit findings, including any weaknesses in the internal control system that we identify during our audit.

We issue a declaration to those responsible for supervision that we have complied with the relevant independence criteria and discuss with them all relationships and other matters that may reasonably be assumed to affect our independence and any related preventive measures adopted.

From all the matters we discussed with those responsible for supervision, we determine which were the most important in terms of the audit of the consolidated financial statements for the current reporting period and thereby define which are particularly important from an audit perspective. We describe these matters in the auditors' report, unless any laws or other legislation preclude their public disclosure

OTHER STATUTORY AND LEGAL REQUIREMENTS

OTHER DATA IN ACCORDANCE WITH ARTICLE 10 EU-APrVO

We were elected as auditors of the consolidated financial statements by the Annual General Meeting of 11 May 2017. We were instructed by the Supervisory Board on 16 May 2017. We have been auditing Talanx AG as a capital market-oriented company since it went public in 2012.

We declare that the audit opinion provided in this auditors' report is consistent with the supplementary report to the Audit Committee in accordance with article 11 of the EU-APrVO (audit report).

RESPONSIBLE AUDITORS

The auditor responsible for the audit is Florian Möller.

Hannover, 9 March 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft

Florian Möller Wirtschaftsprüfer (German Public Auditor)	Christoph Czupalla Wirtschaftsprüfer (German Public Auditor)

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, 28 February 2018

Board of Management

Herbert K Haas,
Chairman

Dr Christian Hinsch,
Deputy Chairman

Torsten Leue

Dr Immo Querner

Ulrich Wallin

Dr Jan Wicke

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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.

BASIC OWN FUNDS
Excess of assets over liabilities less the amount recognised for own shares in the solvency balance sheet and the subordinated liabilities, as defined in section 89(3) of the German Insurance Supervision Act (VAG).

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 IFRSs, it is reported as a component of equity.

EQUITY METHOD
An accounting method used to measure equity investments (> associate) in the consolidated financial statements under which the carrying amount of the investment in the consolidated balance sheet is adjusted to reflect changes in the investor's share of the investee's equity.

EXPENDITURES ON INSURANCE BUSINESS (ACQUISITION COSTS AND ADMINISTRATIVE EXPENSES)
Total commissions, selling expenses, personnel expenses, non-personnel operating expenses and ongoing administrative expenses.

EXPENSE RATIO
The ratio of acquisition costs and administrative expenses (net) to net premiums earned.

EXPOSURE
The level of danger inherent in a risk or portfolio of risks.

EXTRAORDINARY INVESTMENT INCOME
Income from realised and unrealised gains and losses, including impairment losses/write-downs and their reversal.

FACULTATIVE REINSURANCE
Participation by the reinsurer in a separate individual risk assumed by the primary insurer. Contrast with: > obligatory reinsurance.

FAIR VALUE
The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

FOR OWN ACCOUNT (ALSO: NET)
In insurance: after deduction of > passive reinsurance.

FUNDS HELD BY CEDING COMPANIES/ FUNDS HELD UNDER REINSURANCE TREATIES
Collateral provided to cover insurance liabilities that an insurer retains from the cash funds it has to pay to a reinsurer under a reinsurance treaty. In this case, the insurer reports funds held under a reinsurance treaty, while the reinsurer reports funds held by a ceding company. Interest is payable/receivable on these funds.

GOODWILL
The amount that a purchaser is prepared to pay – in light of future profit expectations – above and beyond the value of all tangible and intangible assets after deduction of liabilities.

GROSS
In insurance: before deduction of > passive reinsurance.

HARD MARKET
A market phase during which premium levels are typically high. Contrast with: > soft market.

HYBRID CAPITAL
Subordinated debt and profit participation rights that combine characteristics of both debt and equity.

IMPAIRMENT
A write-down (impairment loss) that is recognised if the present value of the estimated future cash flows of an asset falls below its carrying amount.

INCURRED BUT NOT REPORTED (IBNR)
A reserve for losses that have already occurred but have not yet been reported.

INSURANCE-LINKED SECURITIES (ILS)
Financial instruments used to securitise risks under which the payment of interest and/or the repayment of the principal depends upon the occurrence and magnitude of an insured event.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)
Formerly known as IASs (International Accounting Standards), these accounting standards have been applied at Talanx since 2004.

INVESTMENT GRADE
A rating of BBB or better awarded to an issuer on account of its low credit risk.

INVESTMENTS UNDER INVESTMENT CONTRACTS
Investment contracts with no discretionary surplus participation that do not involve any significant underwriting risk and are recognised in accordance with IAS 39 "Financial Instruments: Recognition and Measurement".

LAPSE RATE FOR LIFE INSURANCE PRODUCTS
The ratio of the sum of cancelled policies and other premature withdrawals to the average business in force (index published by the German Insurance Association/GDV).

LETTER OF CREDIT (LOC)
A form of bank guarantee. In the USA, for example, it is a common method of furnishing collateral in the reinsurance business.

LIFE INSURANCE
Collective term covering those types of insurance that are concerned in the broader sense with the risks associated with the uncertainties of life expectancy and life planning. These include insurance relating to death, disability and retirement provision, as well as marriage and education.

LIFE/HEALTH INSURANCE (ALSO: PERSONAL LINES)
Lines of business concerned with the insurance of persons, specifically life, annuity, health and personal accident insurance.

LOSS RATIO
The net loss ratio based on amounts reported in the financial statements: the ratio of claims and claims expenses (net), one element of which is the net other technical result, including amortisation of the shareholders' portion of the PVFP – to net premiums earned. > PVFP

LOSS RATIO FOR PROPERTY/CASUALTY INSURANCE PRODUCTS
a) Gross: the ratio of the sum of claims expenditures (gross) and the gross other technical result to gross premiums earned.
b) Net: the ratio of the sum of claims expenditures (net) and the net other technical result to net premiums earned.

MAJOR LOSS (ALSO: MAJOR CLAIM)
A loss of exceptional size compared with the average loss for the risk group in question and that exceeds a defined loss amount. Since 2012, major losses have been defined as natural catastrophes and other major losses in which the portion held by the Talanx Group is in excess of EUR 10 million gross.

MARKET CONSISTENT EMBEDDED VALUE – MCEV
A special methodology for valuing life insurance companies or life/health insurance portfolios that reflects the long-term nature of the life insurance business and the associated risks. In particular, using a market-consistent approach is designed to enhance comparability. A market-consistent valuation is obtained by using risk-neutral assumptions with regard to expected investment income and the discounting method. The swap curve is also introduced as a risk-neutral term structure.

MATCHING CURRENCY COVER(AGE)
Cover for technical liabilities denominated in foreign currencies by means of corresponding investments in the same currency in order to avoid exchange rate risk.

MODIFIED COINSURANCE (MODCO) TREATY
A type of reinsurance treaty under which the ceding company retains the assets that secure the reinsured reserves in a separate account, thereby creating an obligation to make payments to the reinsurer at a later date. The payments include a proportionate share of the gross premiums and the income from the securities.

MORBIDITY
A measure of the incidence of disease relative to a given population group.

MORTALITY
A measure of the incidence of death within a given time interval relative to the total population.

NET
In insurance: after deduction of > passive reinsurance.

NET INCOME
EBIT less financing costs and taxes on income.

NET RETURN ON INVESTMENTS
The ratio of net investment income, not including interest income on funds withheld and contract deposits, or income from > investments under investment contracts, to average assets under own management.

NET TECHNICAL EXPENSES
Claims and claims expenses, acquisition costs and administrative expenses and other technical expenses, in each case net of reinsurance recoverables.

NEW BUSINESS MARGIN (LIFE)
The ratio of the value of new business to the present value of new business premiums 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.

OTHER OPERATING INCOME
Income from ordinary activities, such as realised gains on investments or currency translation gains.

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 exclu-sively 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.

INDEX OF KEY TERMS

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Online Annual Report
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FINANCIAL CALENDAR 2018

8 May
Annual General Meeting

11 May
Quarterly Statement as at 31 March 2018

13 August
Interim Report as at 30 June 2018

23 October
Capital Markets Day

12 November
Quarterly Statement as at 30 September 2018

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