Talanx Group Annual Report 2019

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Insurance. Investments.

Financial year at a glance

PROFILE

The Talanx Group is a multi-brand provider in the insurance and financial services sector. The Group companies operate under a number of different brands. These include HDI, delivering insurance solutions to retail customers and industrial clients, Hannover Re, one of the world's leading reinsurers, the bancassurance specialists neue leben insurers, PB insurers and TARGO insurers as well as Ampega, a funds provider and asset manager. The Hannover-based Group is active in more than 150 countries.

GROSS WRITTEN PREMIUMS

EUR billion

39.5

OPERATING PROFIT (EBIT)

EUR billion

2.4

GROUP NET INCOME

EUR million

923

PROPOSED DIVIDEND PER SHARE

EUR

1.50

NET RETURN ON INVESTMENT

%

3.5

RETURN ON EQUITY

%

9.8

GROUP KEY FIGURES

	Unit	2019	2018	2017	2016	2015
Gross written premiums	EUR million	**39,494**	**34,885**	**33,060**	**31,106**	**31,799**
by region						
Germany	%	22	25	26	28	29
United Kingdom	%	8	8	8	9	9
Central and Eastern Europe (CEE), including Turkey	%	8	8	9	8	8
Rest of Europe	%	16	16	15	15	14
USA	%	20	18	18	15	14
Rest of North America	%	3	2	2	3	3
Latin America	%	8	8	8	8	8
Asia and Australia	%	14	13	12	12	13
Africa	%	2	2	2	2	2
Gross written premiums by type and class of insurance						
Property/casualty primary insurance	EUR million	11,837	10,006	9,625	8,949	8,973
Primary insurance	EUR million	6,573	6,206	6,275	6,431	6,495
Property/casualty reinsurance	EUR million	13,411	11,622	10,229	8,726	8,759
Life/health reinsurance	EUR million	7,673	7,051	6,931	7,000	7,572
Net premiums earned	EUR million	**33,054**	**29,574**	**27,418**	**25,736**	**25,937**
Underwriting result	EUR million	**–1,833**	**–1,647**	**–2,546**	**–1,519**	**–1,370**
Net investment income	EUR million	**4,323**	**3,767**	**4,478**	**4,023**	**3,933**
Net return on investment [1]	%	**3.5**	**3.3**	**4.0**	**3.6**	**3.6**
Operating profit/loss (EBIT)	EUR million	**2,430**	**2,032**	**1,805**	**2,307**	**2,182**
Net income (after financing costs and taxes)	EUR million	**1,671**	**1,359**	**1,269**	**1,564**	**1,409**
of which attributable to shareholders of Talanx AG	EUR million	923	703	671	903	734
Return on equity [2]	%	**9.8**	**8.0**	**7.5**	**10.4**	**9.0**
Earnings per share						
Basic earnings per share	EUR	3.65	2.78	2.65	3.57	2.90
Diluted earnings per share	EUR	3.65	2.78	2.65	3.57	2.90
Combined ratio in property/casualty primary insurance and property/casualty reinsurance [3]	%	**98.3**	**98.2**	**100.4**	**95.7**	**96.0**
Combined ratio of property/casualty primary insurers [4]	%	98.3	100.6	101.2	98.1	98.0
Combined ratio of property/casualty reinsurance	%	98.2	96.6	99.8	93.7	94.5
EBIT margin primary insurance and Reinsurance						
EBIT margin primary insurance [4]	%	5.1	3.7	4.1	5.4	3.8
EBIT margin property/casualty reinsurance	%	9.8	12.6	12.5	17.2	17.2
EBIT margin Life/health reinsurance	%	8.1	4.0	3.5	5.2	6.3
Policyholders' surplus	EUR million	**20,089**	**16,999**	**16,961**	**16,631**	**15,374**
Equity attributable to shareholders of Talanx AG	EUR million	10,149	8,713	8,813	9,038	8,282
Non-controlling interests	EUR million	6,461	5,548	5,411	5,610	5,149
Hybrid capital	EUR million	3,479	2,738	2,737	1,983	1,943
Assets under own management	EUR million	**122,638**	**111,868**	**107,881**	**107,174**	**100,777**
Total investments	EUR million	**134,104**	**122,831**	**118,673**	**118,855**	**115,611**
Total assets	EUR million	**177,594**	**162,188** [5]	**158,397**	**156,626**	**152,760**
Carrying amount per share at end of period	EUR	**40.15**	**34.47**	**34.86**	**35.75**	**32.76**
Share price at end of period	EUR	**44.18**	**29.80**	**34.07**	**31.77**	**28.55**
Current dividend proposal and prior years' dividends (per share)	EUR	**1.50**	**1.45**	**1.40**	**1.35**	**1.30**
Market capitalisation of Talanx AG at end of period	EUR million	**11,169**	**7,533**	**8,613**	**8,031**	**7,217**
Employees	Full-time equivalents	**21,516**	**20,780**	**20,419**	**20,039**	**20,334**

[1] Ratio of net investment income excluding interest income on funds withheld and contract deposits and profit on investment contracts to average assets under own management.
[2] Ratio of net income excluding non-controlling interests to average equity excluding non-controlling interests.
[3] Combined ratio taking into account interest income on funds withheld and contract deposits, before elimination of intragroup cross-segment transactions.
[4] Excluding figures from the Corporate Operations segment.
[5] Adjusted in accordance with IAS 8, see the "Accounting policies" section of the Notes.

»Our road to success depends on agility at every level. This means expanding our digital mindset and, as a learning organisation, focusing even more closely on our customers. You cannot be too quick in today’s times. This is why we want to live a corporate culture that embodies not only the ideas of ›predict and control‹ but, increasingly, also ›sense and respond‹.«

Torsten Leue
(Chairman of the Board
of Management)

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

Letter to the Shareholders

Dear Shareholders,
ladies and gentlemen,

In 2019, Talanx accelerated its growth trajectory, recording a double-digit rise in premium income to nearly EUR 40 billion. At EUR 923 million, earnings hit a record high in our more than 115 year history, despite a challenging environment. In view of this, the Board of Management and Supervisory Board are proposing that the General Meeting should increase the dividend by a further 5 cents, to EUR 1.50. This outstanding success is due to our highly motivated global workforce of more than 23,000 people, and I would like to thank them warmly on behalf of the Board of Management for their hard work and dedication to our Company. We look forward with pleasure to continuing our successful work together.

As this shows, our ambitious Strategy 2022 initiative bore its first fruit last year, something that is also reflected in Talanx's share price performance. The price of your shares rose by more than 50% in 2019, twice as much as the Stoxx Europe 600 Insurance, the peer group index.

All divisions contributed to this encouraging performance.

The Industrial Lines Division made systematic progress with its restructuring objectives, especially in the fire insurance area. Prices rose by over 30% – well in excess of the 20% target adjustment. In line with this, the entire segment clearly returned to profitability with an operating result of EUR 159 million, putting it well on the way to hitting its long-term combined ratio target of 95%. As part of the growth initiative, HDI Global Specialty SE made excellent use of opportunities worldwide to record a profitable increase in premium income of more than 50%, to EUR 1.4 billion. This allowed it to leverage growth synergies between primary and reinsurance operations in its first year of operation.

»Our ambitious Strategy 2022 initiative bore its first fruit last year.«

In the Retail Germany Division, our strategic optimisation programme, "KuRS", is well ahead of schedule. Our 2019 operating result of EUR 230 million already puts us very close to our goal of EUR 240 million by 2021. Our strategic growth focus in the business customer area was highly successful and generated profitable growth of more than 7% in 2019 – well ahead of the market.

The Retail International Division saw another year of double-digit growth, recording an operating result of EUR 283 million. We continued our growth focus on five core markets in Latin America and Central/Eastern Europe. We are already among the top 5 market providers in Poland and Chile, and our strategic goal is to achieve this position in Brazil, Mexico and Turkey as well.

The Reinsurance Division profitably lifted its market share, recording double-digit growth in premium income. Its record operating result of EUR 1.8 billion again contributed significantly to Group net income. The Life/Health Reinsurance segment doubled its operating result to EUR 562 million, offsetting the year-on-year decline in Property/Casualty Reinsurance to EUR 1.3 (previous year: 1.4) billion, which was primarily due to large losses.

Torsten Leue, Chairman

We see the challenges posed by digital transformation as an opportunity. All divisions made progress in implementing the goals they had set themselves. Particularly encouraging is the fact that we have already been able to retire more than 50% of our strategically defined legacy systems in Germany, such as BS2000. This is the only way to give ourselves the freedom we need to successfully pursue our digital transformation. Our focus here is on introducing even simpler and more customer-centric data analytics processes, on the use of artificial intelligence, and on connecting with selected ecosystems that can enhance our profitability.

Talanx is committed to supporting the Paris Agreement on climate change and we updated and extended our sustainability strategy in the past year. Key elements include achieving carbon neutrality (starting in Germany), doubling our investments in renewable energies from the current figure of EUR 2.5 billion to EUR 5 billion in the longer term, fixed ESG criteria for our investments and a clear pledge to phase out coal-related activities by 2038.

We can look back on a successful year in which we successfully implemented the key milestones in our Strategy 2022 initiative. Continuing to enhance our culture of trust in a decentralised corporate structure based on transparent, fair and consistent dealings with one another is critical for our future success. Last year, more than 4,000 of our employees joined together in defining our corporate purpose, "Together we take care of the unexpected and foster entrepreneurship". This claim underscores impressively – and in particular authentically – why our staff love their work for our Company so much.

Dear shareholders, my Board of Management colleagues and I are confident that we also worked in your best interests over the past year and that we have created an extremely good cultural basis for successfully implementing our clearly defined Strategy 2022 initiative. My thanks go to you for your invaluable trust and I would be delighted to continue our journey with you.

Yours sincerely,

Board of Management

From left: Dr Jan Wicke, Sven Fokkema, Torsten Leue (Chairman), Dr Immo Querner, Jean-Jacques Henchoz, Dr Edgar Puls

Board of Management

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

Responsible on the Talanx Board
of Management for:
- Auditing
- Best Practice Lab
- Communications
- Corporate Development
- Corporate Office/Compliance/Legal
- Human Resources/Facility Management
- Investor Relations
- Sustainability/ESG

Dr Christian Hinsch
Deputy Chairman
(until 9 May 2019)
Burgwedel
former Deputy Chairman of the
Board of Management
HDI Haftpflichtverband der
Deutschen Industrie V. a. G., Hannover

Responsible on the Talanx Board
of Management for:
- Industrial Lines Division (until 9 May 2019)

Sven Fokkema
Wedemark
Chairman of the Board of Management
HDI International AG, Hannover

Responsible on the Talanx Board
of Management for:
- Retail International Division
- Reinsurance Captive (since 15 March 2019)

Jean-Jacques Henchoz
(since 1 April 2019)
Hannover
Chairman of the Board of Management
Hannover Rück SE, Hannover
(since 8 May 2019)

Responsible on the Talanx Board
of Management for:
- Reinsurance Division (since 1 April 2019)

Dr Edgar Puls
(since 9 May 2019)
Isernhagen
Member of the Board of Management
HDI Haftpflichtverband der
Deutschen Industrie V. a. G., Hannover
(since 19 June 2019)
Chairman of the Board of Management
HDI Global SE, Hannover (since 9 May 2019)

Responsible on the Talanx Board
of Management for:
- Industrial Lines Division (since 9 May 2019)

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
- Collections
- Controlling
- Finance/Participating Interests/ Real Estate
- Investments
- Reinsurance Captive (until 15 March 2019)
- Reinsurance Procurement
- Risk Management
- Taxes

Ulrich Wallin
(until 9 May 2019)
Hannover
Chairman of the Board of Management
Hannover Rück SE, Hannover
(until 8 May 2019)

Responsible on the Talanx Board
of Management for:
- Reinsurance Division (until 9 May 2019)

Dr Jan Wicke
Hannover
Chairman of the Board of Management
HDI Deutschland AG, Hannover

Responsible on the Talanx Board
of Management for:
- Retail Germany Division
- Business Organisation
- Data Protection
- Information Technology
- Procurement (Non-IT)

Supervisory Board

Herbert K. Haas
Chairman
(since 8 May 2018)
Burgwedel
Former Chairman of the
Board of Management,
Talanx AG

Ralf Rieger*
(since 19 May 2006)
Deputy Chairman
Raesfeld
Employee,
HDI Vertriebs AG

Dr Thomas Lindner
(since 27 June 2003)
Deputy Chairman
(since 8 May 2018)
Albstadt
Chairman of the Board of Directors,
Groz-Beckert KG

Franz Adamczyk*
(from 1 January 2019 until 9 May 2019)
Isernhagen
Head of Underwriting Property Specialities,
HDI Global SE

Antonia Aschendorf
(since 1 September 2011)
Hamburg
Lawyer,
Member of the Board of Management,
APRAXA eG
Director,
2-Sigma GmbH

Benita Bierstedt*
(since 9 May 2019)
Hannover
Employee,
E+S Rückversicherung AG

Rainer-Karl Bock-Wehr*
(since 9 May 2019)
Cologne
Head of Competence Centre Commercial,
HDI Kundenservice AG

Sebastian Gascard*
(since 9 May 2019)
Isernhagen
In-house Company Lawyer
(Liability Underwriter),
HDI Global SE

Jutta Hammer*
(since 1 February 2011)
Bergisch Gladbach
Employee,
HDI Kundenservice AG

Dr Hermann Jung
(since 6 May 2013)
Heidenheim
Former Member of the Board of Directors,
Voith GmbH

Dirk Lohmann
(since 6 May 2013)
Forch, Switzerland
Head of the Division,
Schroder Secquaero,
Schroder Investment Management
(Switzerland) AG

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

Jutta Mück*
(since 17 June 2009)
Diemelstadt
Account Manager Sales Industrial Lines,
HDI Global SE

Katja Sachtleben-Reimann*
(from 17 June 2009 until 9 May 2019)
Hannover
Employee,
HDI Service AG

Dr Erhard Schipporeit
(since 27 June 2003)
Hannover
Self-employed Business Consultant

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

Jörn von Stein*
(from 1 January 2017 until 9 May 2019)
Employee,
neue leben Lebensversicherung AG

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

Angela Titzrath
(since 8 May 2018)
Hamburg
Chairman of the Board of Management,
Hamburger Hafen und Logistik 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 2019

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
Herbert K. Haas, Chairman
Jutta Hammer
Dr Hermann Jung
Dr Thomas Lindner
Ralf Rieger
Dr Erhard Schipporeit

Personnel Committee
Herbert K. Haas, Chairman
Dr Thomas Lindner
Jutta Mück
Norbert Steiner

Standing Committee
Herbert K. Haas, Chairman
Dr Thomas Lindner
Ralf Rieger
Prof Dr Jens Schubert

Nomination Committee
Herbert K. Haas, Chairman
Dirk Lohmann
Angela Titzrath

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

Dear Ladies and Gentlemen,

The Supervisory Board performed the tasks and duties required of it by law, the Articles of Association and the Rules of Procedure in full in financial year 2019, as in the past. We addressed in detail the economic situation and risk position for Talanx AG and its major subsidiaries in Germany and in our foreign core markets. We advised the Board of Management on all issues that were material to the Company, continuously monitored its management of the business and were directly involved in decisions of fundamental importance.

Overview

We held four ordinary and one inaugural meeting of the Supervisory Board in the year under review. Two representatives of the Federal Financial Supervisory Authority (BaFin) took part in one Supervisory Board meeting in line with routine practice. The Supervisory Board's Finance and Audit Committee held five meetings and the Personnel Committee held two meetings. The Nomination Committee and the Standing Committee formed in accordance with the requirements of the German Codetermination Act (MitbestG) were not required to meet in 2019. The full Supervisory Board was briefed in each case on the work of the committees. In addition, we were briefed by the Board of Management in written and verbal reports on the course of business and the position of both the Company and the Group, based on the quarterly statements and the interim report for the first half of the financial year. At no point during the reporting period did we consider it necessary to perform inspections or examinations pursuant to section 111(2) sentence 1 of the German Stock Corporation Act (AktG). Where transactions requiring urgent approval arose in between meetings, the Board of Management submitted these to us for written resolution in line with the procedure laid down by the Chairman of the Supervisory Board. The chairmen of the Supervisory Board and of the Board of Management were in regular contact regarding material developments and transactions at the Company and the Talanx Group, and discussed questions relating to strategy, planning, performance, the risk situation, opportunity and risk management, and compliance. Altogether, we satisfied ourselves of the lawfulness, appropriateness, 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 on the Company's business situation and financial position, on risk management and opportunities taken, on major capital expenditure projects and on fundamental corporate policy issues. We were also kept informed of transactions that, although not requiring Supervisory Board approval, are required to be reported to us under 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 at the Company and the Group and in the regulatory environment. As in the previous year, we were briefed on the status of the outstanding approval processes for the internal model. At our meetings, we considered at length the reports provided by the Board of Management, made suggestions and proposed improvements. All meetings of the Supervisory Board and its committees were attended by all members.

Following examination and discussion with the Board of Management, we passed resolutions on transactions and measures requiring our approval in accordance with the law, the Articles of Association and the Rules of Procedure.

Key issues discussed by the full Supervisory Board

Reporting focused on the following issues, which were discussed in detail at our meetings: the performance of Company and its individual divisions, the challenges posed by digitalisation and changes to the regulatory environment, other potential acquisition projects abroad and the planning for 2020. We were informed of, and developed an understanding of, the reasons for any differences between the planning adopted and the actual course of business for preceding quarters.

At the meeting on 14/15 March 2019, the Supervisory Board was initially briefed on the situation regarding digitalisation in the Talanx Group and the roadmap towards developing a modern and sustainable IT infrastructure. The Supervisory Board also discussed the audited annual and consolidated financial statements along with the Board of Management's proposal for the appropriation of the distributable profit in the financial year 2018. The auditor stated that an unqualified audit opinion had been issued for both the single-entity and the consolidated financial statements. The Supervisory Board was briefed on a range of projects, initiatives and reportable events, including the restructuring of the fire insurance business, the development of US mortality business and the establishment of Talanx AG as a reinsurer. The Supervisory Board also discussed the agenda and proposed resolutions for Talanx AG's 2019 Annual General Meeting. In addition, it addressed upcoming changes to the Board of Management, the appropriateness and structure of the remuneration system for the members of the Board of Management, and obtained external opinions as part of its assessment. Moreover, it specified the variable remuneration due to the members of the Board of Management for the financial year 2018 and passed a resolution concluding an intercompany agreement and amending the allocation of individual Board of Management members' responsibilities.

An inaugural meeting of the Supervisory Board was held on 9 May 2019, immediately after the Annual General Meeting, due to the re-election of the employee representatives to the Supervisory Board. At this inaugural meeting, Mr Rieger was elected as first Deputy Chairman of the Supervisory Board in accordance with the German Co-determination Act. In addition, the Supervisory Board elected members to the vacant positions on its committees.

In the meeting on 10 May 2019, the Board of Management reported on the first quarter results and gave an outlook for the financial year. The Supervisory Board heard reports on a range of projects, initiatives and reportable events, including acquisition projects in Sweden, Vietnam, Turkey and the US. Additionally, the Supervisory Board received reports on the implications of the German Life Insurance Reform Act II, a retrocession analysis, cyber risks and adequate insurance solutions, received an explanation on the Group's personnel strategy, passed an amendment on the allocation of Board of Management responsibilities and discussed training programmes for the full Supervisory Board on the basis of its self-assessment.

At the meeting on 8/9 August 2019 in Warsaw, the Board of Management initially reported on the half-year results and expectations regarding the 2019 financial statements for both Talanx AG and the Group. This meeting focused on strategic areas (M&A in the Group; digitalisation in the Retail International Division) and reports on the status of the Polish companies TU Europa and WARTA; the latter also provided insights into its cutting-edge business processes and procedures. The Supervisory Board also received the annual report on expense ratios compared with competitors and was briefed on a number of projects, initiatives and reportable events, including an acquisition project in South America and the progress made in developing and expanding HDI Global Specialty.

At the meeting on 8 November 2019, the Board of Management reported on the third-quarter results and gave an outlook for the 2019 annual financial statements for Talanx AG and the Group. The Supervisory Board also discussed the declaration of conformity with the German Corporate Governance Code and the planning for the financial year 2020. It was briefed on a range of projects, initiatives and reportable events, including regarding the strategy of life insurance companies in the Retail Germany Division. Furthermore, the Supervisory Board addressed the process of setting divisional targets for 2020, agreed to conclude an intercompany agreement, passed a resolution amending the Rules of Procedure for the Board of Management and the Supervisory Board and received a report on the structure of the remuneration system.

Work of the committees

The Supervisory Board has established a number of committees to enable it to perform its duties efficiently. These are the Finance and Audit Committee, which has six members, the Personnel Committee and the Standing Committee, each of which has four members, and the Nomination Committee, which has three members. The committees prepare the discussions in, and the resolutions to be adopted by, the full Supervisory Board. They have also been delegated with the authority to pass resolutions themselves in specific areas. The minutes of Finance and Audit Committee and Personnel Committee meetings are also made available to those members of the Supervisory Board who do not belong to these committees. The members of the different committees are listed on page 8 of this Annual Report.

Along with preparing the discussions and resolutions by the full Supervisory Board, the Finance and Audit Committee examined in depth the Company's and the Group's interim report for the first six months of the year and quarterly statements, together with the individual components of the financial statements and the key performance indicators, as well as the results of the auditors' review of the interim report. Additionally, 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 and the results of a performance analysis of the Group companies acquired in the last five years. We regularly examined the risk reports and received an audit planning report from the auditors detailing the key audit matters. The Committee listened to reports on non-audit services provided by the auditors in accordance with the "whitelist", approved non-audit services included on this list and exercised its rights and duties within the extended framework of responsibilities resulting from the EU's audit reform. The Committee also received the annual reports from the four key functions (Risk Controlling, Actuarial, Internal Audit and Compliance), which were prepared and presented to us in case by the heads of these functions.

The Personnel Committee prepared the discussions and resolutions by the full Supervisory Board and set the provisional personal targets for the individual Members of the Board of Management for financial year 2020. It also made recommendations to the full Supervisory Board in relation to making and terminating appointments, determining Board of Management bonuses, reviewing fixed remuneration components and setting the divisional targets for 2020 for those Board of Management members who are responsible for divisions.

Corporate governance and declaration of conformity

The Government Commission on the German Corporate Governance Code published intended changes to the German Corporate Governance Code (the "Code") in 2019, which were discussed by the Supervisory Board. Corporate governance also remained a key priority for us. The efficiency of the Supervisory Board's activities was re-evaluated and the results of this self-assessment and the optimisation measures developed as a result were discussed. We examined the Board of Management's report on the consolidated non-financial statement (see page 58ff. of the Group management report). The audit firm PricewaterhouseCoopers GmbH (PwC) conducted a limited assurance review and issued an unqualified audit opinion. The Board of Management presented the report at the Finance and Audit Committee meeting on 12 March 2020 and the Supervisory Board meeting on 13 March 2020. Auditor representatives were present at both meetings and reported the material findings of their audit. No objections were raised following the Supervisory Board's own examination of the consolidated non-financial statement, and the result of the audit by PwC was noted and approved.

In addition, the members of the Supervisory Board have submitted self-assessments covering a range of key areas in accordance with insurance supervision requirements. As a result, individual training on specific areas was provided both at Talanx AG and at Group companies. In 2019, the Company offered two internal training events to all members of the Supervisory Board. Over half of the latter took the opportunity to find out more about reinsurance and IT and gain a deeper understanding of this area. Although the Supervisory Board considers the standards for good, responsible enterprise management formulated in the German Corporate Governance Code to be extremely important, it decided at the meeting on 8 November 2019 against complying with the following recommendations issued in the Code in the version valid at the time dated 7 February 2017: the recommendation on a severance payment cap in Board of Management contracts set out in section 4.2.3 paragraph 4, the recommendation on the chairmanship of the Audit Committee set out in section 5.3.2 paragraph 3 sentence 3, and the recommendation on the potential need for a cap on the payment of Talanx share awards set out in section 4.2.3 paragraph 2. 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 consolidated 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 annual financial statements for Talanx AG submitted by the Board of Management, the consolidated financial statements for the Talanx Group, which were prepared in accordance with the International Financial Reporting Standards ("IFRS") as adopted by the European Union, and the corresponding management reports were audited together with the bookkeeping by PricewaterhouseCoopers (PwC) GmbH, Wirtschaftsprüfungsgesellschaft, Hannover. The auditors were appointed by the Supervisory Board; the Finance and Audit Committee issued the detailed audit engagement and specified that, in addition to the usual audit tasks, special attention should be given to assessing the implementation of the RiTA project (establishing Talanx AG as an intragroup reinsurer) with an emphasis on underwriting accounts, the IFRS package and Solvency II reporting. The enforcement priorities set out by the German Financial Reporting Enforcement Panel (FREP) were also included in the audit activities performed by the auditors.

The audits performed by the auditors did not give rise to any grounds for objection. The auditors issued unqualified audit reports stating that the bookkeeping 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 statements documents and PwC's audit reports were circulated to all Members of the Supervisory Board well in advance. They were examined in detail at the Finance and Audit Committee meeting on 12 March 2020 and at the Supervisory Board meeting on 13 March 2020. The auditors took part in the discussions of the annual and consolidated financial statements by both the Finance and Audit Committee and the full Supervisory Board, reported on the performance of the audits and were available to provide us 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 have therefore been adopted. We agree with the statements made in the management reports regarding the Company's future development. After examining all relevant considerations, we concur with the Board of Management's proposal for the appropriation of the distributable profit.

The report on the Company's relationships with affiliated companies that was drawn up by the Board of Management in accordance with section 312 of the AktG was also audited by PwC GmbH 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 and reached the same conclusion as the auditors. We have no objections to the statement that is reproduced in this report.

Composition of the Board of Management and the Supervisory Board

After turning 65, Mr Karsten Faber retired from the Group and Talanx AG's Supervisory Board with effect from 31 December 2018. The board thanked him and expressed its gratitude for his many years of work. Mr Franz Adamczyk was elected to join the Supervisory Board of Talanx AG as the senior executive representative, replacing Mr Faber, effective 1 January 2019 until the end of the Annual General Meeting on 9 May 2019.

The term of office of the employee representatives on the Supervisory Board expired as of the end of the Annual General Meeting on 9 May 2019. Employees reappointed Ms Hammer, Mr Meister, Ms Mück, Mr Rieger and Prof. Dr Schubert. Ms Bierstedt, Mr Bock-Wehr and Mr Gascard were appointed as new members of the Supervisory Board, with the terms of Mr Adamczyk, Ms Sachtleben-Reimann and Mr von Stein ending at the close of the Annual General Meeting on 9 May 2019. The Supervisory Board thanked Ms Sachtleben-Reimann, Mr Adamczyk and Mr von Stein for their ever valuable contributions of varying lengths over the years.

Dr Puls was also appointed a member of the Board of Management with effect from the end of the company's Annual General Meeting on 9 May 2019, after Dr Hinsch stepped down as a member and Deputy Chairman of the Board of Management by mutual agreement at the same time. The Supervisory Board thanked Dr Hinsch for his many years of work on the Board of Management and expressed its gratitude for his work as Deputy Chairman.

Our thanks to the Board of Management and employees

The Supervisory Board would like to thank the members of the Board of Management and all employees worldwide. Their high dedication and motivation contributed to the best net income so far for the Company and the Group.

Hannover, 13 March 2020

On behalf of the Supervisory Board

Herbert Haas
(Chairman)

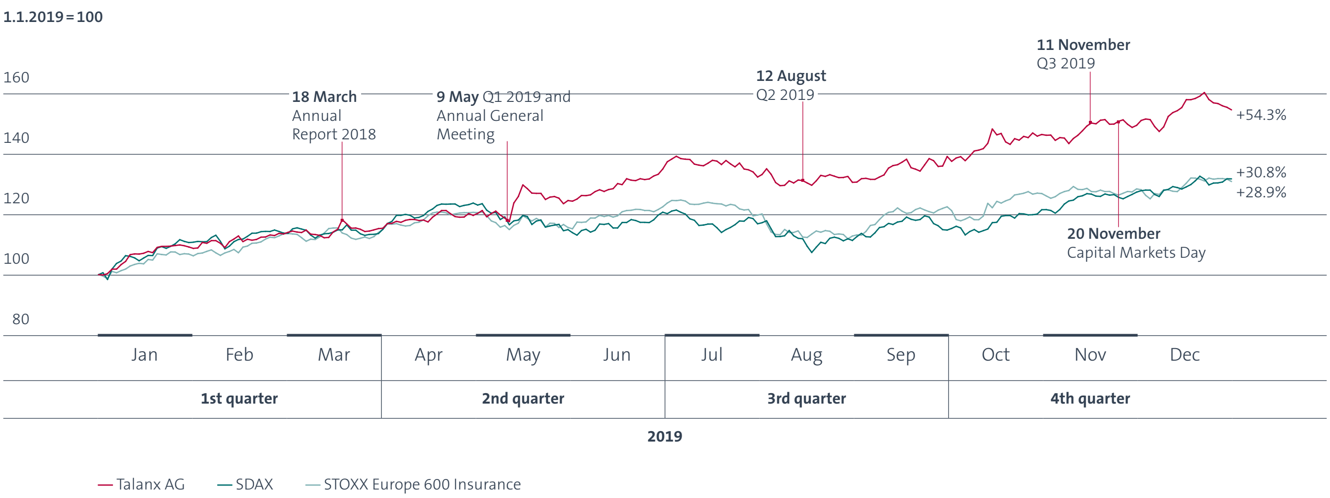
Talanx shares

Significant increase in share price

After the share price declined in 2018, Talanx shareholders enjoyed a sharp rise in the share price in 2019. It climbed by 48.3% to EUR 44.18. If the dividend of EUR 1.45 paid in May 2019 had been reinvested the day after the Annual General Meeting, performance would have risen to 54.3%. This means that the Talanx share performed almost twice as well as the most important European sector index for insurance – the STOXX Europe 600 Insurance, which rose by 30.8% in 2019 with reinvested dividends. The Talanx index is not listed in this index but it fared better than all 35 insurance stocks that are included. Our share also clearly outperformed the major German stock indices: DAX up 25.5%, MDAX up 31.15%, SDAX up 31.6%.

The share price essentially rose steadily throughout the year, interrupted only in the third quarter. It began to overtake benchmark indices around the time of the General Meeting on 9 May 2019 and continued to strengthen to the end of the year. This positive development continued even after the annual reporting date. On 31 January 2020, the share price was EUR 45.08, up 2.0% on the closing price for 2019, whereas the STOXX 600 Insurance fell by 1.1% and SDAX by 2.1% in the same period.

TALANX SHARE PERFORMANCE INDEX COMPARISONS



Source: Factset; data shows total shareholder return, i.e. price performance including reinvested dividends; 20-day average

Clear upturn for Hannover Re as well

Similar to the Talanx share, the Hannover Re share also performed excellently in 2019. The company, in which Talanx AG holds a 50.2% stake, reported a 52.4% increase in its share price (including reinvestment of dividends) over the year.

Index membership and shareholder structure

On the SDAX since September 2018

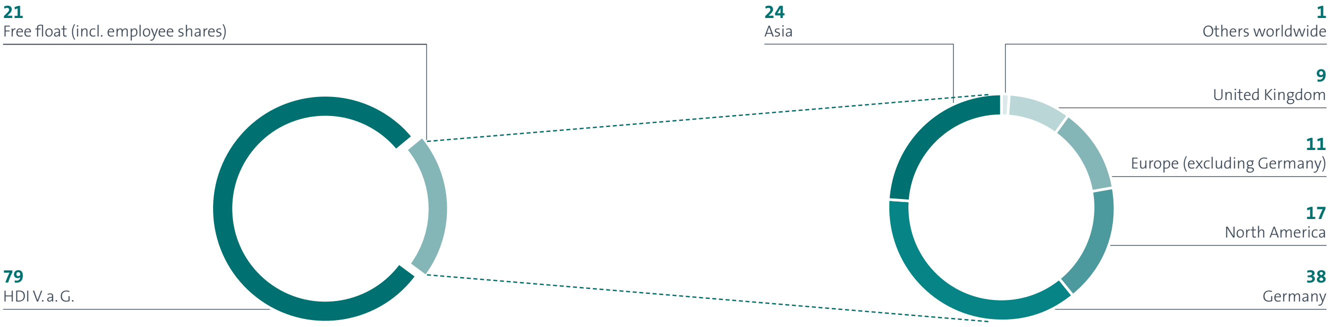
Talanx shares have been listed on the Frankfurt Stock Exchange (Prime Standard) and on the Hannover Stock Exchange since October 2012 and were listed on the MDAX until 24 September 2018. They have been listed on the SDAX ever since the German Stock Exchange transitioned to a new index methodology. Of the 70 stocks on the SDAX, the Talanx share came in second place for market capitalisation (of the free float) as at 31 December 2019 and 24th place in terms of trading volume in the 12 months of 2019.

Shareholder structure remains stable

The shareholder structure at Talanx AG remained fundamentally unchanged in 2019 in accordance with the definition of the German Stock Exchange. As in the previous year, the proportion of shares in free float came to 21% at the end of the year. In addition to HDI V. a. G. (79% share), the Japanese insurance group Meiji Yasuda also holds a stake above the reporting threshold of 3%. However, as this stake 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. Almost 60% of the free float is held by German and other European investors, with 17% of the free float attributable to investors from North America. The high share of Asian minority shareholders (24%) is essentially due to the share ownership at Meiji Yasuda. Private shareholders make up around one quarter of the free float.

SHAREHOLDER STRUCTURE AS AT 31.12.2019

In %



Capital market communication

Companies maintain close dialogue with investors

The Board of Management and the Investor Relations team met with around 180 institutional investors at investor conferences and numerous roadshows in Germany and abroad. Moreover, employees in the Investor Relations department have been and are still regularly involved in other events aimed at raising awareness of Talanx AG among private investors. A list of about 15 banks and brokers that prepare research reports on the Talanx share can be found on the IR website.

More modern format for Annual General Meeting

Record numbers of shareholders attended the General Meeting on 9 May 2019 (470 in attendance, 2018: 420). The participants enjoyed a new, more modern stage design, as well as lounges featuring an interactive room layout. Before the meeting, participants who had registered were invited by e-mail for the first time. This helped reduce costs and conserve natural resources. As a reward, participants took part in a raffle for some iPads. For the first time, it was also possible to access the Annual General Meeting by smartphone.

The 2020 Annual General Meeting will be held on Thursday 7 May 2020 in the Kuppelsaal of the Hannover Congress Centrum (HCC).

Capital Markets Day focuses on Industrial Lines

Talanx AG once again held its annual Capital Markets Day in November 2019. This year's event, which took place in Frankfurt am Main, focussed on strategy in Industrial Lines. The Division's management team, headed by the new CEO Dr Edgar Puls, described in detail how Industrial Lines is aiming to generate a return on equity of 8% to 10% in the medium to long term, despite the ongoing difficult market environment. In this context, discussion centred around the very successful "20/20/20" restructuring project in fire insurance, growth plans for the very promising area of speciality insurance and digitalisation efforts. The event was attended by around 30 analysts and investors and was also broadcast live on our IR website. A recording of this is still available online.

Talanx AG plans to hold its next Capital Markets Day on 17 November 2020, again in Frankfurt am Main.

Dividends

Increase in payout ratio possible after creating buffer

Talanx AG aims to ensure sustainable dividends. While our objective of a payout ratio of 35% to 45% of Group net income in accordance with International Financial Reporting Standards (IFRS) after taxes and minority interests (dividend per share never any lower than in the previous year) remains in place until further notice, we intend to build up a buffer that allows us to consider increasing the payout ratio. We have defined this buffer so that the retained profit brought forward in accordance with German accounting standards (HGB), which is calculated after deducting the newly proposed dividend, should be equal to 1.5 to 2 times the newly proposed dividend. This factor for the financial year 2019 is roughly 0.8, up on around 0.3 in 2018. After reaching 1.5 to 2 times the figure, the Talanx AG Board of Management will assess changing the dividend policy.

Proposed dividend: seventh consecutive increase

In May 2019, Talanx paid a dividend of EUR 1.45 per share for the financial year 2018 (2017 financial year: EUR 1.40), which represented a payout ratio of 52.2% (2017 financial year: 52.7%). The payout ratio for 2017 and 2018 was above the target range of 35% to 45%, as the target of a dividend per share no lower than in the previous year could be met only if a higher proportion of Group net income was paid than that specified by a payout ratio of 35% to 45%.

The Board of Management and Supervisory Board will propose a dividend of EUR 1.50 per share at Talanx AG's Annual General Meeting for the financial year 2019. Based on the annual average price of EUR 37.53 (XETRA closing price), this results in a dividend yield of 4.0% (4.3%). The payout ratio, based on IFRS earnings per share, is 41.1%. If a majority of shareholders at the 2020 General Meeting approve the proposed dividend, the dividend per share will be higher than in the previous year for the seventh consecutive year.

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	EUR 44.18 (30.12.2019)
Annual high	EUR 45.88 (17.12.2019)
Annual low	EUR 29.76 (2.1.2019)
Stock exchanges	XETRA, Frankfurt, Hannover, Warsaw
Trading segment	Prime Standard of the Frankfurt Stock Exchange

Share prices based on XETRA daily closing prices

Combined Management Report

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Fundamental information about the Group

Our company operates on the basis of a broad business model and gears its strategies towards markets and customers.

The Talanx Group

Business model

The Talanx Group is a multi-brand provider in the insurance and financial services sector. It employed roughly 23,300 people worldwide as at the 2019 year-end. The Group parent is Talanx AG, the listed financial and management holding company that is domiciled in Hannover. Talanx AG's majority shareholder (79.0%) is HDI V.a.G., a mutual insurance undertaking formed over 110 years ago. The free float including employee shares amounted to 21.0%, as in the previous year.

Group companies write business in the classes of insurance specified in the Regulation on Reporting by Insurance Undertakings (BerVersV); in some cases this business is directly written, while in others it takes the form of reinsurance (see the graphic).

CLASSES OF INSURANCE WRITTEN BY THE GROUP

TALANX GROUP

LIFE	CASUALTY	LIABILITY	MOTOR	AVIATION [1]
LEGAL PROTECTION	FIRE	BURGLARY AND THEFT	WATER DAMAGE	PLATE GLASS
WINDSTORM	COMPREHENSIVE HOUSEHOLDERS	COMPREHENSIVE HOME-OWNERS	HAIL	LIVESTOCK
ENGINEERING	OMNIUM	MARINE	CREDIT AND SURETY [2]	EXTENDED COVERAGE [3]
BUSINESS INTERRUPTION	TRAVEL ASSISTANCE	AVIATION AND SPACE LIABILITY	OTHER PROPERTY	OTHER NON-LIFE

[1] Including space insurance
[2] Reinsurance only
[3] For fire and fire loss of profits insurance

Talanx has its own companies or branch offices throughout the world and does business with primary insurance and reinsurance customers in more than 150 countries in all. Its retail business focuses firstly on Germany and, at an international level, primarily on the growth regions of Central and Eastern Europe (including Turkey) and Latin America.

The Talanx Group's divisions operate their core processes independently. The main core processes in Industrial Lines, which has an international focus, and in the reinsurance segments are product development, sales and underwriting, including the relevant technical supervision. The core processes in the retail segments comprise product development, rate setting, sales, product management and product marketing. The Corporate Operations segment is responsible for asset management, corporate development, risk management, human resources, other services and intragroup reinsurance of the primary insurance segments.

Legal and regulatory environment

Insurance companies (in both primary and reinsurance), banks and asset management companies around the world are subject to comprehensive legal and financial oversight by supervisory authorities. In the Federal Republic of Germany, this task is performed by the Federal Financial Supervisory Authority (BaFin). In addition, there are extensive legal provisions governing the companies' business operations. The regulatory framework has been tightened further in recent years, a process that has led to increasing complexity. This trend continued in 2019.

The Group responded to the Insurance Distribution Directive (IDD), which was implemented in Germany on 23 February 2018, by setting up projects in good time to ensure that the substantial requirements were met by the deadline. The IDD aims to protect consumer interests during the development and sale of insurance products, and sets out insurance product oversight and governance requirements.

On 25 January 2017, BaFin published Circular 2/2017 (VA), which provides guidance on the minimum requirements for the system of governance of insurance undertakings (MaGo). This circular explains high-level aspects of the system of governance as well as key terms such as "proportionality", "management boards" and "supervisory boards" from the supervisory authority's perspective. Although the MaGo is not directly legally binding, the Group takes the circular into consideration when designing its business organisation, especially in the areas of general governance, key functions, the risk management system, own funds requirements, the internal control system, outsourcing and emergency planning.

The German Act Implementing the Fourth EU Money Laundering Directive (GwG) came into effect on 26 June 2017. The Talanx Group companies affected by it have introduced rules and organisational measures to meet the resulting statutory requirements. The Fifth Money Laundering Directive, which entered into force on 30 May 2018, is to be transposed into national law by 10 January 2020. This was completed in Germany on 1 January 2020 when the amended Money Laundering Act came into force. Implementation of this at Talanx Group companies will be reviewed for the first time for the annual financial statements as at 31 December 2020.

Digitalisation 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 with a focus on IT security are playing an ever more significant role for Talanx Group companies. In the circular dated 10/2018 relating to insurance supervisory requirements for IT, BaFin provided information on the interpretation of the business organisation provisions in the German Insurance Supervision Act that relate to the companies' technical and organisational infrastructure. The Authority also published guidance on outsourcing to cloud providers.

The Talanx Group processes substantial volumes of personal data during application and contract management and when making payments. Our data protection management system has been designed to guarantee compliance with data protection requirements such as the European Union's General Data Protection Regulation (GDPR) and the German Federal Data Protection Act (BDSG) by focusing on providing advice and monitoring observance. Employees have been made aware of the need for them to handle the data with due care (training) and are required to undertake in writing to adhere to data protection requirements. Uniform procedures must be observed in the case of data protection requirements that are not tied to specific processes, such as when outsourcing providers are commissioned. The same applies to customers', shareholders' and employees' data protection rights.

For the companies in the Talanx Group, observing the law is a precondition for doing business successfully in the long term. The Group focuses hard on ensuring that our business and products comply with statutory, supervisory and tax law requirements. The mechanisms established as part of this process ensure that future legal developments and their consequences for our business are identified and assessed sufficiently early to enable the necessary adjustments to be made.

As securities issuers, Talanx AG and other Group companies are subject to capital market supervision in Germany, Poland and Luxembourg, among other countries.

Group structure

The Group's business is divided into "Insurance" – which has six reportable segments – and a seventh segment, "Corporate Operations".

Primary insurance comprises three divisions – **Industrial Lines, Retail Germany** (which consists of the Property/Casualty Insurance and Life Insurance segments) and **Retail International**. A separate member of the Board of Management is responsible for each of the divisions.

Industrial Lines operates worldwide; it is largely independent of third companies and is capable of leading international consortia. Since January 2019, specialty insurer HDI Global Specialty SE – a joint participating interest between HDI Global SE and Hannover Rück SE – offers tailor-made insurance solutions for industrial enterprises, groups, and small and medium-sized companies. HDI Reinsurance (Ireland) SE was assigned to the Industrial Lines Division as a result of the intragroup disposal of Talanx AG to HDI Global SE in the year under review, before being reported in the Corporate Operations segment. The in-house business written by HDI Reinsurance (Ireland) SE is partly reallocated to the ceding segments. The Retail Germany Division bundles insurance offerings for retail clients and small and medium-sized companies in Germany. The Retail International Division focuses on the strategic core markets of Latin America and Central and Eastern Europe (including Turkey).

Our **Reinsurance** operations comprise the Property/Casualty Reinsurance and Life/Health Reinsurance segments, which are operated by Hannover Rück SE. The target markets for Property/Casualty Reinsurance are Continental Europe and North America; in addition, the segment runs a number of global reinsurance lines and the specialty business worldwide. Life/Health Reinsurance is divided into the Financial Solutions and Risk Solutions units, which comprises longevity solutions, and mortality and morbidity insurance.

The **Corporate Operations** segment includes Talanx AG, which primarily performs strategic tasks. The Company has had a reinsurance license since January 2019 and is also active at an operational level. In addition, the segment includes the in-house service companies and the reinsurance broker Talanx Reinsurance Broker GmbH. Ampega Asset Management GmbH, Ampega Investment GmbH and Ampega Real Estate GmbH primarily manage the Group's investments and offer financial and other services.

GROUP STRUCTURE

TALANX AG

GESCHÄFTSBEREICH INDUSTRIEVERSICHERUNG INDUSTRIAL LINES DIVISION	GESCHÄFTSBEREICH PRIVAT- UND FIRMENVERSICHERUNG DEUTSCHLAND RETAIL GERMANY DIVISION	GESCHÄFTSBEREICH PRIVAT- UND FIRMENVERSICHERUNG INTERNATIONAL RETAIL INTERNATIONAL DIVISION	GESCHÄFTSBEREICH RÜCKVERSICHERUNG REINSURANCE DIVISION	KONZERNFUNKTIONEN CORPORATE OPERATIONS
	SCHADEN/UNFALLVERSICHERUNG PROPERTY/CASUALTY INSURANCE LEBENSVERSICHERUNG LIFE INSURANCE		SCHADEN-RÜCKVERSICHERUNG PROPERTY/CASUALTY REINSURANCE PERSONEN-RÜCKVERSICHERUNG LIFE/HEALTH REINSURANCE	
HDI Global SE	HDI Deutschland AG	HDI International AG	Hannover Rück SE	Ampega Asset Management GmbH
HDI Global Specialty SE	HDI Versicherung AG	HDI Seguros S. A. (Argentina)	E+S Rückversicherung AG	Ampega Investment GmbH
HDI Versicherung AG (Austria)	Lifestyle Protection AG	HDI Seguros S. A. (Brazil)	Hannover ReTakaful B.S.C. (c) (Bahrain)	Ampega Real Estate GmbH
HDI Global Seguros S. A. (Brazil)	neue leben Unfallversicherung AG	HDI Seguros S. A. (Chile)	Hannover Re (Bermuda) Ltd.	HDI Service AG
HDI Global Seguros S. A. (Mexico)	PB Versicherung AG	HDI Seguros S. A. (Colombia)	Hannover Reinsurance Africa Limited	HDI Systeme AG
HDI Global Insurance Limited Liability Company (Russia)	TARGO Versicherung AG	HDI Seguros de Vida S. A. (Colombia)	Hannover Life Re of Australasia Ltd.	Talanx Reinsurance Broker GmbH
HDI Global SA Ltd. (South Africa)	HDI Lebensversicherung AG	HDI Seguros S. A. de C. V. (Mexico)	Hannover Life Reassurance Bermuda Ltd.	
HDI Global Insurance Company (USA)	HDI Pensionskasse AG	HDI Seguros S. A. (Uruguay)	Hannover Re (Ireland) DAC	
HDI Global Network AG	Lifestyle Protection Lebensversicherung AG	TUiR WARTA S. A. (Poland)	Hannover Life Reassurance Africa Limited	
HDI Reinsurance (Ireland) SE	neue leben Lebensversicherung AG	TU na Życie WARTA S. A. (Poland)	Hannover Life Reassurance Company of America	
	PB Lebensversicherung AG	TU na Życie Europa S. A. (Poland)		
	PB Pensionsfonds AG	TU Europa S. A. (Poland)		
	HDI Pensionsmanagement AG	OOO Strakhovaya Kompaniya „CiV Life“ (Russia)		
	TARGO Lebensversicherung AG	HDI Assicurazioni S. p. A. (Italy)		
		Magyar Posta Biztosító Zrt. (Hungary)		
		Magyar Posta Életbiztosító Zrt. (Hungary)		
		HDI Sigorta A. Ş. (Turkey)		

Nur die wesentlichen Beteiligungen
Main participations only

Stand / As at: 31.12.2019

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 close collaboration between us and our industrial partners and retail clients, many of whom have worked with us for many years, in order to provide them with the best possible service. 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 we have sufficient independent risk capacities in all market phases to support our clients reliably and over the long term and to tap into promising markets. This diversification approach bolsters our independence, minimises our exposure to risk and enables us to sustainably grow the Group's success to the benefit of clients, investors and employees.

The Group parent is Talanx AG, a financial and management holding company. It ensures that the Group achieves its primary objective – sustainable, profitable growth and long-term value creation. 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 oriented towards the capital market, the high level of national and international product expertise, forward-looking underwriting policy and strong distribution resources of our operational divisions 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 creates a good basis for cooperation, in particular with a wide range of partners and business models.

The Group's strategy is geared towards achieving our ambitious and clearly defined growth and profitability targets by systematically expanding our strengths ("strengthen") and adopting a focused approach to our development areas ("develop"). The Group as a whole aims for a return on equity (in accordance with IFRS) of at least 800 basis points above the risk-free interest rate in order to ensure long-term value creation. Our objective is to increase earnings per share (EPS) by an average of at least 5% a year by 2022, underpinned by focused divisional strategies and a host of strategic growth initiatives. We also intend to continue to distribute no less than 35% to 45% of our consolidated earnings under IFRS to our shareholders, with future dividends remaining at least at the prior year's level in absolute terms. As strategic subsidiary conditions, we have also set ourself the goal of achieving limited market risk (≤ 50%) and a high regulatory solvency ratio (150% – 200%).

Our strengths, and by that measure the basis of our success, include the Group's distinctive entrepreneurial corporate culture with clear local responsibilities, the focus on B2B business – the source of over 80% of our premiums – and strong regional diversification in terms of the mix of business and products. In the medium term, we intend to further boost the share of business generated abroad so that this accounts for up to two thirds of total primary insurance premiums. These strengths already make our Group "traditionally different"!

Areas that we are continuing to develop include optimising capital management in order to maximise financial flexibility within the Group, providing first-class capital resources at all times and ensuring dividend stability in the long run. Capital for expanding business is used only where the strategic and profitability criteria have been met and business decisions are managed in such a way that capital and liquidity are transferred to the holding company whenever possible. For this purpose, both the Group capital structure and local capital resources of our subsidiaries are optimised on an ongoing basis. In addition, we will pool the reinsurance requirements for primary insurance on an intragroup basis at the holding company in order to take advantage of capital and diversification effects throughout the Group.

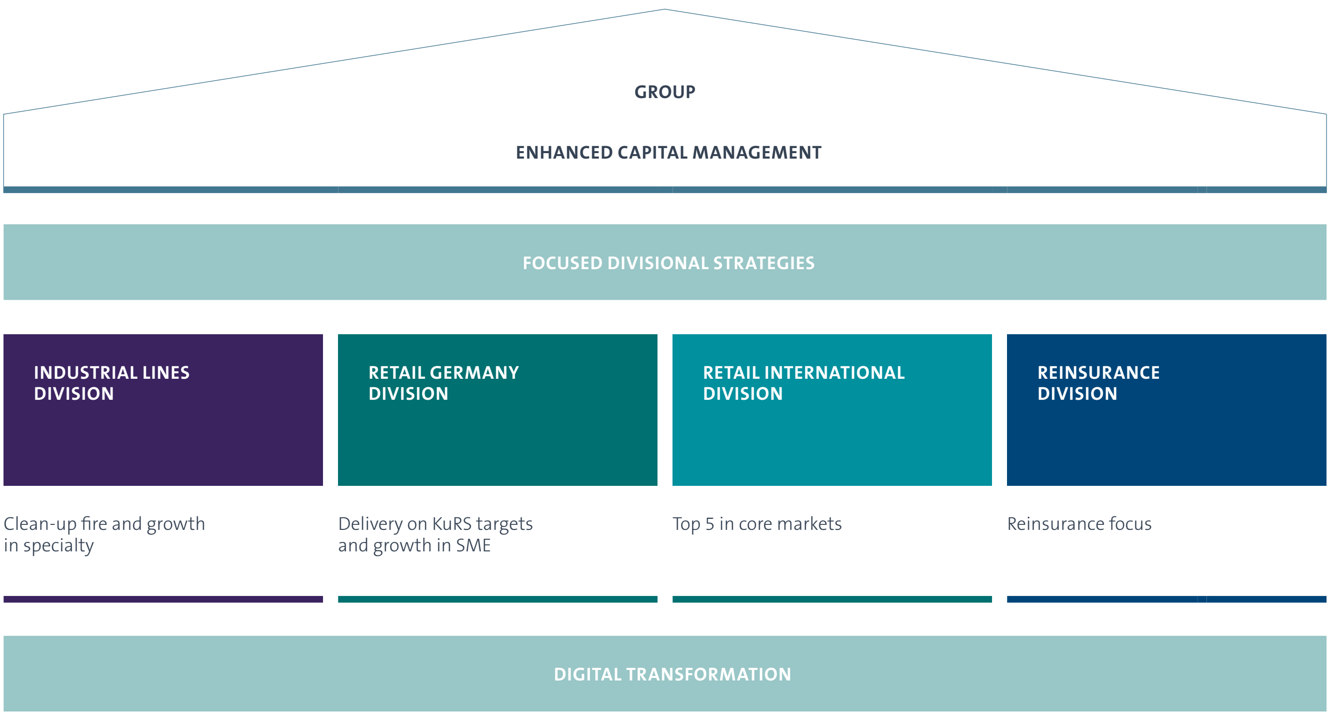
Another strategic focus of development is digital transformation, one of the key tasks for the next few years, which is explicitly driven by individual divisions in the Group. In doing so, we adopt the "traditionally different" approach while simultaneously taking account of varying local regulations and digital customer behaviour patterns. Digital transformation also places emphasis on advancing the IT and system environment as a basis for automation and process digitalisation ("get ready"), alongside the focal topics of data analytics centring around artificial intelligence and behavioural economics ("get skills") and ecosystems/partnerships ("get bundled"). These focal topics are directly supported by the holding company due to their Group-wide relevance.

The strategies of the individual divisions were once again refined and focussed. The Industrial Lines Division is focussing on the systematic restructuring of fire insurance business, international growth and the field of specialty insurance. The objective is to reduce the combined ratio in fire insurance, which currently accounts for around 20% of HDI Global SE's total portfolio, by at least 20 percentage points by 2020 ("20/20/20" programme). In contrast, we see particular growth potential for industrial business in international markets, in particular in North America, Europe and selected emerging markets. HDI Global Specialty SE was launched in 2019 as a joint participating interest between HDI Global SE and Hannover Rück SE. We expect the combination of Inter Hannover's underwriting expertise and HDI Global's worldwide sales and claims adjustment network to result in significant growth synergies in future.

The Retail Germany Division is consistently pursuing its strategic "KuRS" programme and aiming for further growth in business with small and medium-sized enterprises (SMEs). In the Retail International Division, we aim to continue our strong growth while also further advancing diversification. Our goal is to position ourself as a leader in the five defined core markets in Latin America and in central and eastern Europe, i.e. to be one of the top five providers. This is to be achieved by means of profitable organic and non-organic growth. The Reinsurance Division is concentrating on building further on its existing strengths, particularly with regard to competitiveness and profitability. Making consistent use of diversification benefits and continuing to expand integrated and innovative reinsurance offers plays a key role in this. In addition, 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.

Our human resources strategy is described in the "consolidated non-financial statement" section on pages 58ff. and our risk management approach is described in the risk report on pages 102ff., and so these aspects are not gone into in more detail here.

THE TALANX GROUP'S UMBRELLA STRATEGY



Enterprise management

The Talanx Group's strategy is geared towards long-term value creation for all Group stakeholders (and in particular investors, clients and employees). To achieve this, we focus on continuity, financial strength and profitability. At the same time, we also take the regulatory demands placed on insurance undertakings and rating agencies' expectations into account. Our system of targets is based on four pillars:

- Financial strength
- Sustainable growth
- Long-term value creation
- Optimal capital efficiency

Our end-to-end, integrated management system is designed to help us achieve these goals. It focuses primarily on four fundamental management processes that govern the interactions between Talanx AG and the divisions:

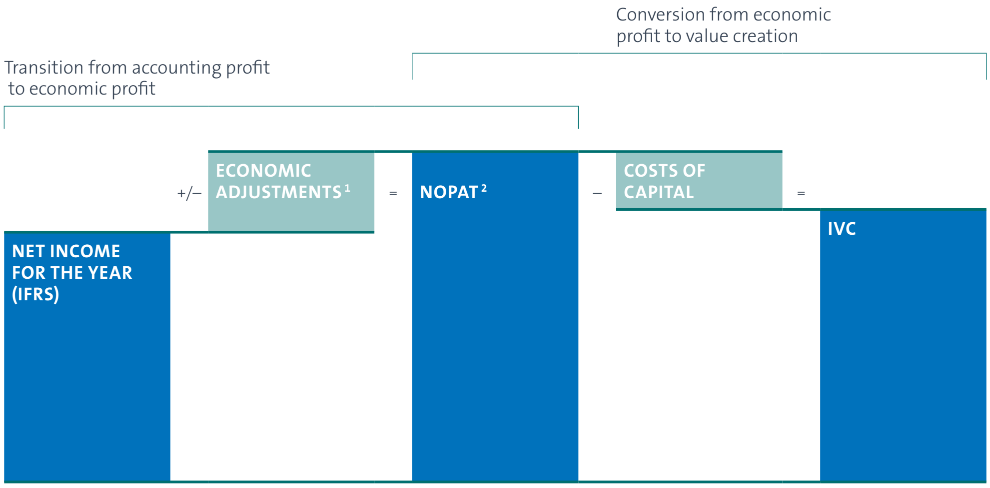
- Capital management
- Performance management
- Risk management
- Mergers & acquisitions

This interplay between Talanx AG and the operating divisions is underpinned by the Talanx Group's guiding organisational principle, which centralises Group management functions while delegating responsibility for earnings to the divisions.

We measure our Group's strong financial position using our Solvency II ratios and the S&P rating model.

In addition, we use Intrinsic Value Creation (IVC) to manage long-term growth in value and profitability, and to improve the Group's capital efficiency. This metric enables us to compare the different business models used by our Group companies. We use a five-year average when applying it so as to ensure that our management decisions are not based on the results for one year only, which could prove to be excessively volatile. The IVC measures economic net income net of the cost of capital. In addition to net income for the financial year under the IFRSs, economic net income takes into account the change in unrealised gains and losses on assets and liabilities for both investments and underwriting (see the calculation in the figure below). Cost of capital includes both the cost of the solvency capital required and the cost of excess capital. It can be broken down into the risk-free interest rate (the five-year average for ten-year German government bonds), a friction cost rate of 2% and, in the case of the solvency capital required, an additional risk margin of 4%. The cost rates are based on a value at risk of 99.5%, in line with the supervisory confidence level.

RECONCILIATION OF NET INCOME FOR THE YEAR (IFRS) TO IVC



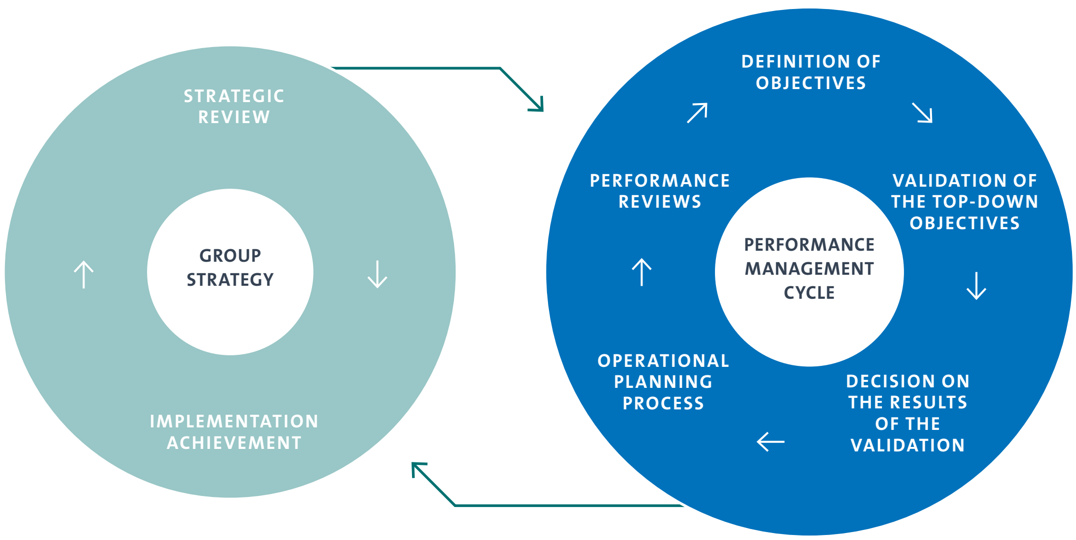
[1] Economic adjustments, e.g. change in the loss reserve discount.
[2] NOPAT: Net Operating Profit after Adjustment and Tax (economic profit).

Performance management

Performance management is at the core of our central management system. It ensures efficient, systematic Group management and links business activities at Group and company level with our strategic goals.

The performance management cycle combines our strategic and operational planning and is closely integrated with our Group strategy. It took the following form in the reporting period:

PERFORMANCE MANAGEMENT CYCLE



At the start of the annual performance management cycle, Talanx AG's Board of Management gives the divisions indicative objectives for the strategic and operative planning modules for the planning year concerned in order to enable them to align their business activities with the strategy. These objectives are derived from the Group's strategic management metrics and initiatives. The strategic management metrics include the return on equity (RoE), value creation (IVC) and the dividend. A risk budget and a minimum capital adequacy figure are also defined, providing the accompanying framework for these management metrics. Taken together, the indicative objectives formulated by the holding company's Board of Management therefore clearly define its expectations as to profitability, the ability to pay dividends, risk appetite and the level of security for each planning year.

After the indicative objectives have been set, the objectives defined are validated by the divisions in terms of their feasibility and then set by the Talanx Board of Management as the basis for operational planning.

The Group and the divisions use the management dashboard for business management. The management dashboard bundles all key strategic and operational management metrics, thereby providing an overview of whether the objectives of the Group and the divisions can be achieved sustainably. Running through the performance management process using the management dashboard allows us to ensure end-to-end, uniform management for the entire Group. 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 our strategic objectives into operational value drivers that are consistent with the strategy.

The operational management metrics at Group and segment level shown in the following table are purely financial performance indicators.

OPERATIONAL MANAGEMENT METRICS USED 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)
—	—	—	Value of new business (life)		Value of new business	Group net income
Combined ratio (net)	Combined ratio (net)	—	Combined ratio (net, property/casualty insurance only)	Combined ratio (net)	—	Net return on investment
EBIT margin	EBIT margin	EBIT margin	EBIT margin	EBIT margin	EBIT growth	Payout ratio
Return on equity	Return on equity		Return on equity	Return on equity		Return on equity

Combined ratio (net, property/casualty insurance)
Total net acquisition and administrative expenses including the net amount of net interest income on funds withheld and contract deposits, and claims and claims expenses, divided by earned premiums (net).

EBIT growth
The year-on-year change in operating profit (EBIT) in %.

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

Gross premium growth (adjusted for currency effects)
The growth in gross written premiums (GWP) is defined as nominal growth adjusted for currency effects: GWP for the current year at the prior year exchange rate minus GWP (prior year), divided by GWP (prior year).

Group net income
Consolidated net income for the period (after financing costs and taxes) not including non-controlling interests.

Net return on investment
The 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.

Return on equity
The ratio of net income for the period (after financing costs and taxes) not including non-controlling interests to average equity not including non-controlling interests.

Payout ratio
Payout in the following year, divided by Group net income for the period.

Value of new business (life insurance)
The present value of net income for future periods not including non-controlling interests that is generated from the new business portfolios in the current year. This is calculated on the basis of the same operational assumptions as those used to determine the Solvency II own funds at the end of the financial year.

Research and development

The Federal Financial Supervisory Authority (BaFin) granted Talanx AG a reinsurance license at the beginning of 2019. The Company is now no longer a pure holding company and instead also is engaged in operational business activities as an intragroup reinsurer for primary insurance. The Company does not conduct any product research and development of its own. However, we work continuously to refine our methods and processes in order to optimally fulfil our business purpose. This applies among others to Group Accounting, Compliance and Group Legal.

Our divisions analyse long-term changes (such as those relating to demographics or the climate) and technical innovations (such as digitalisation) and develop products and investments that are tailored to our customers and our markets.

Report on economic position

In the past financial year the Talanx Group continued its positive business development. Major goals were achieved or exceeded.

Markets and business climate

Macroeconomic development

The growth of the world economy in 2019 was significantly held back by high trade policy uncertainty due to the protectionist US trade policy, lingering fears over a no-deal Brexit and geopolitical conflict.

The German economy only narrowly avoided recession in the third quarter of 2019. Gross domestic product for the year as a whole grew by 0.6% after 1.5% in the prior year. In addition to declining export growth, the poor result was largely a result of one-time sector effects. The eurozone economy was hit particularly hard by the fall in export growth, while the ongoing high uncertainty regarding Brexit negotiations and internal political turmoil in Italy also impacted business and consumer sentiment. However, growth was supported by a resistant labour market and a tangible easing of fiscal and monetary policy, and it declined from 1.9% in 2018 to presumably 1.2 % in the year under review.

In the US, in addition to the general global slowdown in growth, factors such as the tapering off of fiscal policy stimulus, the drag of the refreshed escalation of the trade conflict with China and the Fed's tightening of monetary policy in 2018 caused growth momentum to slow considerably. Growth was mainly shored up by surprisingly resilient consumer spending and a change in monetary policy strategy. After 2.9% in 2018, US growth fell to 2.3% in the year under review.

A difficult external environment, lower oil and base metal prices in addition to reduced investor interest brought pressure to bear on economic development on the emerging markets. Economic growth in China was mainly squeezed by the refreshed escalation of the trade conflict with the US in 2019, and fell to its lowest level in 30 years at 6.1%.

REAL GDP

% change year-on-year	2019 [1]	2018
Germany	+0.6	+1.5
Eurozone	+1.2	+1.9
USA	+2.3	+2.9
China	+6.1	+6.7

[1] Bloomberg consensus forecasts as at 18 February 2020 (provisional figures).

Weak global growth and low overall commodities prices caused inflation rates to decline. Even in economies with higher labour market capacity utilisation, there was no significant price pressure. In the US and the eurozone, inflation rates fell to 1.8% and 1.2% after 1.9% and 1.5% in the prior year.

Accordingly, these factors led to a synchronised easing of monetary policy: The US Fed lowered its prime rate by 75 basis points and the European Central Bank implemented an extensive easing package in the second half of the year. Other major central banks loosened their monetary policy as well.

Capital markets

The weak development in growth and inflation, and the easing of monetary policy this entailed, led to a significant drop in interest rates and thus a continuation of the trend towards falling returns that began in autumn 2018. Ten-year US Treasury and Bund yields reached lows of less than 1.5% and –0.7 % in the summer. A moderate recovery in yield levels then began as the year progressed, with yields of around 1.9% in the US and –0.2% in Germany as at the end of the year. With the fundamental environment for corporate bonds remaining stable, risk premiums fell steadily over the year, enabling credit products to outperform the AAA government bond and covered bond (Pfandbrief) segment. The euro continued its development against the US dollar from the previous year, falling from around USD 1.14/EUR as at the start of the year to just under USD 1.11/EUR by the end of the year.

The global stock markets enjoyed a remarkable performance over 2019. The high price gains at the very beginning of the year can also be seen as a recovery after the capital market correction at the end of 2018. The subsequent volatile sideways tracking of the stock markets was characterised by the tension between high political uncertainty on the one hand and extensive easing measures by central banks on the other. As at the end of the year, the stock markets reported a positive trend in the fourth quarter, ending 2019 with an excellent performance over the year as a whole despite weak growth in earnings: The S&P 500 climbed by 28.9%, the DAX by 25.5%, the EURO STOXX 50 by 24.8% and the Nikkei by 18.2% over the year as a whole.

The German insurance industry

Property/casualty insurance

2019 saw stable property/casualty insurance premium growth year-on-year in the German insurance industry. The strong development, in property insurance in particular, was counteracted by the more sluggish economy and tough price competition.

German property insurers' losses from natural hazards were characterised by several extreme weather events in 2019, but were stable at the previous year's level and in line with the long-term average overall. Claims for storm and hail damage to motor vehicles virtually doubled compared to the prior year, largely as a result of a series of storms in early June alone. Other destructive events included the storms "Dragi" and "Eberhard" in March.

Life insurance

Premium income in the German life insurance industry was up significantly year-on-year in 2019. This was thanks to regular premium business, and in particular a dynamic performance in single premium business. Although interest rates declined once more, the German insurance industry was again able to generate a total return in excess of guaranteed returns in 2019.

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 now expanding its global presence in industrial insurance, including in Asia. The following section focuses primarily on developments in these international target regions.

Property/casualty insurance

As a whole, international property/casualty insurance saw slight premium growth in 2019. This was significantly higher in emerging markets than in developed insurance markets.

Losses caused by natural disasters was at the level of the long-term average of the past 30 years in the year under review. The share of insured claims was lower than in the prior year, partly on account of a higher share of flood damage, which is less likely to be insured than storm damage in developed countries. The most destructive events in the year were two severe cyclones in Japan, one of which caused extreme rainfall beyond the centre of the storm, followed by hurricane "Dorian" in the US and the Bahamas. The biggest cause of damage in Europe was a combination of heat waves, severe storms and hailstorms. Profitability in international property and casualty insurance improved in the year under review, though this was partly due to gains on investment.

Among the developed insurance markets, the strongest growth took place in **North America** and the **Asia-Pacific** region. This was bolstered by rising premiums in industrial property insurance.

The development in insurance premiums in property/casualty insurance in **Central and Eastern Europe** fell short of the long-term trend.

Premium growth was flat in **Latin America** as a result of overall economic growth failing to reach the expected level. In particular, growth drivers included rising prices in property insurance and industrial liability insurance (financial and professional liability).

The strongest premium growth in the emerging markets was once again achieved in **Asia,** with the highest upturns seen in China and India. Growth was driven by agricultural insurance in both countries, and by motor insurance in India.

The market environment for international **property/casualty reinsurance** remained challenging, partly on account of the price pressure of excess capacity for covering insurance risks. Treaty renewal rounds led to price increases on sub-markets, particularly in programmes that have been affected by losses and regions such as North America. Following very moderate large losses in the first half of 2019, the second half of the year saw a significant increase in losses as a result of natural disasters, particularly in Japan and the USA.

Life insurance

Despite a challenging business environment marked by persistently low to negative interest rates, premium income on international **life insurance** markets increased moderately year-on-year. While premium development was stagnant on the developed insurance markets, the emerging markets experienced strong increases once again after growth slumped in the prior year.

The economic recovery in **Latin America** stifled premium trends overall, although there were marked variations between countries.

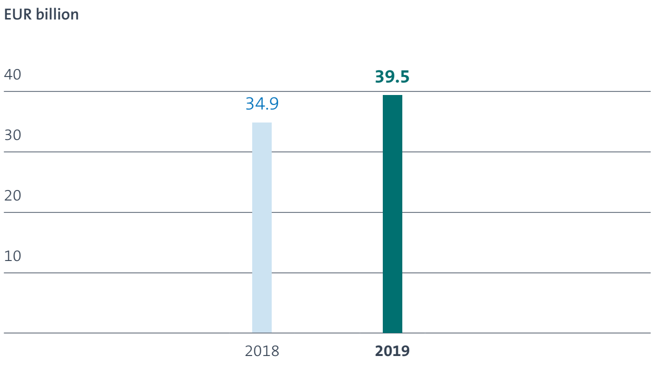
Asia was the growth engine among the developing nations. The developments in China in particular led to abundant positive effects and stimulated growth among the developing nations.

The international **life/health reinsurance** markets were characterised by intensive competition and consistently low interest rates. Growth stimulus was generated by brisk demand for longevity risk hedging products (retirement provision), particularly in Europe and North America. Demand for structured reinsurance solutions rose in Asia and the US thanks to the improved solvency, liquidity and capital situation.

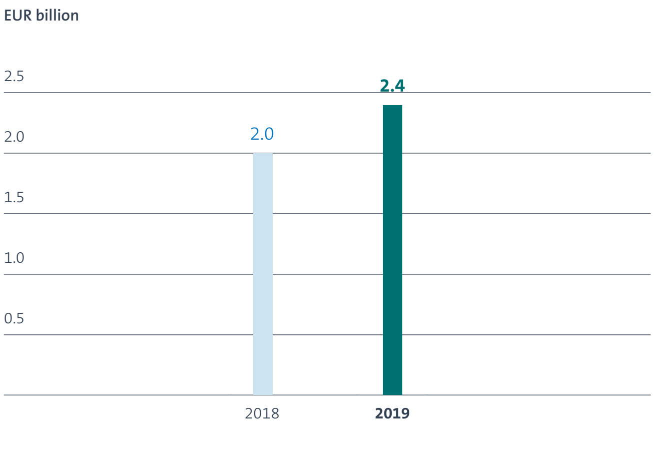
Business development

The Group continues to enhance profitability in primary insurance both in Germany and abroad. The Industrial Lines Division is focussing on thoroughly overhauling its fire insurance business, on growth in international business and in the area of specialty insurance. The Retail Germany Division is consistently pursuing its strategic "KuRS" programme and aiming for further growth in business with small and medium-sized enterprises (SMEs). The Retail International Division looks set to see its strong growth continue and we aim to be one of the top five in our core markets here. The Reinsurance Division is concentrating on building further on its existing strengths, particularly with regard to competitiveness and profitability. Good net investment income and other income had a positive impact on operating profit. Overall, the Group generated an excellent result of EUR 923 million.

GROSS WRITTEN PREMIUMS



OPERATING PROFIT/LOSS (EBIT)



Talanx focusses on robotics and artificial intelligence

Talanx and WorkFusion, a provider of intelligent automation software, are entering into a strategic partnership to accelerate end-to-end digitalisation of core business processes. In the first stage, WorkFusion software will be used for automated checks and automated processing of incoming documents in the property area when conducting business with German private and corporate clients at the Talanx subsidiary HDI.

Talanx signs UN PRI and goes carbon neutral across Germany

Talanx Group has continued to develop its sustainability strategy. It has signed the Principles for Responsible Investment (PRI) supported by the United Nations, thereby becoming part of a framework on sustainable investment. In addition, the Talanx Group has also decided to operate on a carbon-neutral basis in Germany from 2019 onwards. Both initiatives form part of its enhanced sustainability strategy, which focuses on operations, investment and underwriting and also includes social aspects.

Talanx AG expands sustainable investment strategy

The Talanx Group is continuing to steadily expand its sustainable investment strategy by acting as the major investor providing funding for solar farms in southern Spain in the form of a debt-financed project bond. Payment for the electricity generated will be covered under the regulated Spanish payment system for the next almost 20 years. The project bond, which is subject to amortisation, has an average term of under ten years, is rated AA ("stable") by S&P and offers attractive returns.

The Talanx Group has been funding Germany's largest offshore wind farm since the start of this year. As part of a project bond, two wind farms in the North Sea have been combined into one project: Hohe See (497 MW) and Albatros (112 MW). The wind farms are operational and connected to the grid. In total, these can provide power to around 710,000 households. It is the third large offshore wind farm project funded and supported by Talanx after Gode Wind 1 (2015) and Borkum Riffgrund 2 (2017).

Talanx defines underwriting policy for coal risks

The Talanx Group is withdrawing from coal-based risks in insurance cover in the long term. This reflects the company's support of the transformation towards a lower-emissions economy and shows that it is meeting the objectives of the Paris Agreement, which it has backed for years. 17 out of 28 member states of the European Union have already decided to phase out the use of coal or are discussing doing so. As an industry insurance partner, the Talanx Group is seeking constructive solutions to bolster climate protection in consultation with customers.

Group's course of business

- Gross written premiums up 13.2%
- Record earnings of EUR 923 million
- Return on equity improves to 9.8%

GROUP KEY FIGURES

EUR million	2019	2018	+/–
Gross written premiums	39,494	34,885	+13.2 %
Net premiums earned	33,054	29,574	+11.8 %
Underwriting result	–1,833	–1,647	–11.3 %
Net investment income	4,323	3,767	+14.8 %
Operating profit/loss (EBIT)	2,430	2,032	+19.6 %
Combined ratio (net, property/casualty only) in %	98.3	98.2	+0.1 pps.

MANAGEMENT METRICS

%	2019	2018	+/–
Gross premium growth (adjusted for currency effects)	11.9	8.7	+3.2 pps
Group net income in EUR million	923	703	+31.3 %
Net return on investment	3.5	3.3	+0.3 pps
Payout ratio[1]	41.1	52.2	–11.1 pps
Return on equity	9.8	8.0	+1.8 pps

[1] Based on the appropriation of distributable profits, see the "Other disclosures" section of the Notes, page 231.

Premium volume

Thanks to the good business development, including in structured reinsurance in the Property/Casualty Reinsurance segment, strong organic growth in the Industrial Lines Division and higher gross premiums in the Retail International Division, gross written premiums in the Group rose by 13.2% (11.9% adjusted for currency effects) to EUR 39.5 (34.9) billion. Net premiums earned increased by 11.8% to EUR 33.1 (29.6) billion; retention was down slightly at 88.4% (88.6%).

Underwriting result

The underwriting result fell by 11.3%, coming to EUR –1.8 (–1.6) billion in the Group as a whole. The reasons behind this include high large loss expenses, especially in the Property/Casualty Reinsurance segment, as well as higher provisions for the unearned premium reserve in the life segment of the Retail Germany Division. The combined ratio also rose slightly year-on-year to 98.3% (98.2%). Total large losses amounted to EUR 1,319 million, exceeding the annual budget of EUR 1,190 million.

Net investment income

Net investment income climbed by 14.8% to EUR 4.3 (3.8) billion. Extraordinary investment income rose in the year under review, thanks in part to a non-recurring effect in the Life/Health Reinsurance segment and an increase in hidden reserves realised to finance the additional interest reserve in the life segment in the Retail Germany Division. Ordinary net investment income remained stable, with a net return on investment of 3.5% (3.3%).

Operating profit and Group net income

Operating profit (EBIT) rose by almost 20% in the year under review to EUR 2.4 (2,0) billion, a result largely of the Industrial Lines Division, as well as Reinsurance. The Retail Germany Division also made a significant contribution to EBIT. The Group achieved record earnings of EUR 923 (703) million and a return on equity of 9.8% (8.0%) in the year under review.

Comparison of actual business development with the 2019 forecast

MANAGEMENT METRICS FOR THE GROUP

%	2019	Forecast for 2019 from the 2018 Annual Report
Gross premium growth [1] (adjusted for currency effects)	11.9	~ 4
Group net income [2] in EUR million	923	approx. 900
Net return on investment [3]	3.5	~ 2.7
Payout ratio [4]	41.1	35–45
Return on equity [5]	9.8	~ 9.5

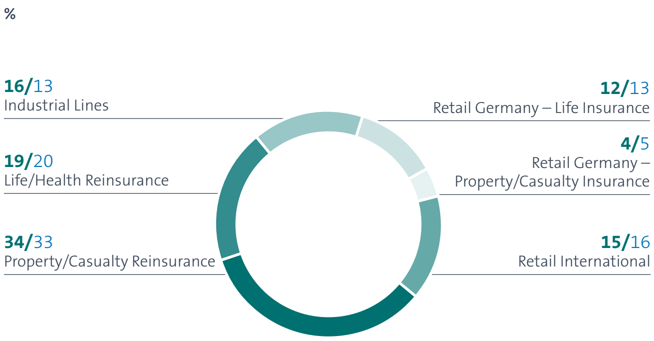
[1] The forecast for 2019 pertains to the printed forecast in the 2018 Group Annual Report. The forecast was adjusted to ">4%" during 2019.
[2] The forecast was adjusted to "EUR >900 million" during 2019.
[3] The forecast was adjusted to ">2.7%" during 2019.
[4] Based on the appropriation of distributable profits, see the "Other disclosures" section of the Notes, page 231.
[5] The forecast was adjusted to ">9.5%" during 2019.

Gross premium growth (adjusted for currency effects) in the reporting period amounted to 11.9% – significantly higher than the guidance for 2019 of over 4%, which was raised during the year. At EUR 923 million, Group net income was exactly in line with the 2019 outlook of over EUR 900 million, which was raised during the year. With a net return on investment of 3.5% and a return on equity of 9.8%, we exceeded the forecast of over 2.7% and 9.5% respectively, which was also increased during the year. The Board of Management and Supervisory Board are proposing a dividend of EUR 1.50 per share to the Annual General Meeting. The payout ratio, which is based on IFRS earnings per share and the proposal to the Annual General Meeting, is 41.1%; this figure is within the target range of 35% to 45%.

Performance of the Group's divisions

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

GROSS PREMIUMS BY SEGMENT



2019 / 2018

Industrial Lines

- "20/20/20" programme in Industrial Lines exceeds expectations
- Premium development shaped primarily by acquiring shares in HDI Global Specialty
- High net investment income despite challenging market environment and low interest rates

KEY FIGURES FOR THE INDUSTRIAL LINES DIVISION

EUR million	2019	2018	+/–
Gross written premiums	6,214	4,686	+32.6 %
Net premiums earned	2,968	2,635	+12.7 %
Underwriting result	–40	–240	+83.5 %
Net investment income	285	242	+18.1 %
Operating profit/loss (EBIT)	159	11	+1,400.9 %

MANAGEMENT METRICS FOR THE INDUSTRIAL LINES DIVISION

%	2019	2018	+/–
Gross premium growth (adjusted for currency effects)	30.8	7.1	+23.6 pps
Combined ratio (net)	101.4	109.1	–7.7 pps
EBIT margin	5.4	0.4	+5.0 pps
Return on equity	4.4	–0.7	+5.0 pps

Market development

Global industrial insurance business was marked by hardened market in almost all lines in financial year 2019. This market development supported profitability in the Industrial Lines Division. 2019 was again characterised by continued low interest rates and a challenging capital market environment.

The “20/20/20” programme aims to generate a risk-free additional premium of at least 20% and therefore underwriting gains by 2020 in fire insurance, which accounts for around 20% of our portfolio.

The “HDI Global 4.0” programme was launched in the financial year and features a focussed, two-tier approach comprising a perform and a transform phase. The perform phase already got off to a very successful start in the previous year as part of the “20/20/20” restructuring initiative in the fire line of business.

There is also a focus on selective growth, digitalisation and a change in culture in the Industrial Lines Division, with “HDI Global 4.0” expected to improve profitability and reduce volatility overall.

Premium volume

Gross written premiums in the Industrial Lines Division amounted to EUR 6.2 (4.7) billion as at 31 December 2019, and were therefore higher than expected. They increased by EUR 1.5 billion, or 32.6% (adjusted for currency effects: 30.8%). Increases in premiums were essentially generated from acquiring shares in HDI Global Specialty. Organic growth was EUR 581 million. Restructuring measures in fire insurance launched in 2018 are showing clear success. The expected premium loss associated with this on account of separating inadequately priced risks was offset considerably by risk-free additional premiums. Net premiums earned saw a smaller upturn than gross written premiums due to lower retention in specialty business in comparison to traditional industrial insurance business.

Underwriting result

Despite exceeding the large loss budget, the net underwriting result – which was hit hard in the previous year – improved to EUR –40 (–240) million, primarily shored up by the effects of the “20/20/20” programme. This also prompted an improvement in the large loss and frequency loss ratio in the fire line of business. The net loss ratio in the Division was 79.9%, down on 87.3% in the prior year. At 21.4% (21.8%), the net expense ratio was on par with the previous year, reflecting growth and, in particular, strict cost discipline in virtually all areas. The total combined ratio for the Industrial Lines Division was 101.4% (109.1%), which was almost in line with the target of around 100%. The “HDI Global 4.0” programme is the cornerstone of sustainable profitability for the Division. Thanks to the initiative, the current financial year is expected to see a combined ratio below 100%.

Net investment income and other income/expenses

Despite challenges on capital markets, net investment income climbed by 18.1% in 2019 to EUR 285 million. This was driven chiefly by higher current income from alternative investments and income from fixed-income investments in line with the previous year.

At EUR –86 (9) million, other income/expenses was significantly lower than in the previous year but remains in line with expectations for the year under review and subsequent periods. The comparative period was boosted by a one-off effect from the sale of a real estate complex. In addition, 2019 figures included expenses relating to HDI Global Specialty for the first time.

Operating profit and Group net income

EBIT was in line with expectations in the year under review at EUR 159 (11) million due to effects described above. The Industrial Lines Division generated net income of EUR 103 (–16) million, thereby making a positive contribution to Talanx’s Group net income.

Comparison of actual business development with the 2019 forecast

MANAGEMENT METRICS FOR THE INDUSTRIAL LINES DIVISION

%	2019	Forecast for 2019 from the 2018 Annual Report
Gross premium growth (adjusted for currency effects)	30.8	≥ 20
Combined ratio (net) [1]	101.4	~ 100
EBIT margin	5.4	~ 5
Return on equity	4.4	~ 4

[1] The forecast for 2019 pertains to the printed forecast in the 2018 Group Annual Report. The forecast was adjusted to “~ 101%” during 2019.

Gross premium growth was up 32.6% (adjusted for currency effects: 30.8%), significantly above our original expectations. This is thanks to acquiring shares in HDI Global Specialty and the restructuring measures implemented in fire insurance in 2018.

The combined ratio in the Industrial Lines Division stood at 101.4%; it fell short of the expectations for 2019 to reach a combined ratio of 100.0%. Thanks to “HDI Global 4.0” we expect to reach this level in the current financial year.

The developments described above and a higher net investment income meant that the EBIT margin (5.4%) and the return on equity (4.4%) were in line with expected figures of approximately 5% and 4% respectively..

Retail Germany

Property/Casualty Insurance

- Significant growth in corporate customers and unemployment insurance
- Rise in net investment income
- Combined ratio declines

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

EUR million	2019	2018	+/–
Gross written premiums	1,588	1,564	+1.6 %
Net premiums earned	1,486	1,453	+2.4 %
Underwriting result	15	11	+54.0 %
Net investment income	119	89	+32.2 %
Operating profit/loss (EBIT)	98	69	+43.5 %

MANAGEMENT METRICS FOR THE PROPERTY/CASUALTY INSURANCE SEGMENT

%	2019	2018	+/–
Gross premium growth	1.6	2.6	–1.0 pps
Combined ratio (net)	99.0	99.3	–0.3 pps
EBIT margin	6.6	4.7	+1.9 pps

Premium volume

Written premium income at our property/casualty insurers increased by 1.6% to EUR 1,588 (1,564) million. Growth in the corporate customers/freelance professionals and unemployment insurance line in connection with the biometric core business of bancassurance exceeded the decline in motor insurance.

Underwriting result

The underwriting result from our property/casualty insurance business improved from EUR 11 million to EUR 15 million on the back of profitable growth and a higher run-off result. Both of these more than offset higher large losses and investment expenses, in particular in IT.

The (net) combined ratio declined by 0.3 percentage points to 99.0%.

Net investment income

The Division's net investment income increased by 32.2% to EUR 119 (89) million. This upturn can be attributed primarily to higher disposal gains of EUR 12 million, higher ordinary investment income of EUR 9 million and unrealised gains and losses of EUR 4 million.

Operating profit

Operating profit for the property insurance business was largely dominated by an improved net investment income. EBIT rose to EUR 98 (69) million. The EBIT margin improved to 6.6% (4.7%).

Comparison of actual business development with the 2019 forecast

MANAGEMENT METRICS FOR THE PROPERTY/CASUALTY INSURANCE SEGMENT

%	2019	Forecast for 2019 from the 2018 Annual Report
Gross premium growth[1]	1.6	≥ 3
Combined ratio (net)	99.0	~ 99
EBIT margin	6.6	≥ 5

[1] The forecast for 2019 pertains to the printed forecast in the 2018 Group Annual Report. The forecast was adjusted to "1 – 3%" during 2019.

Despite growth in the corporate customers/freelance professionals and unemployment insurance line in connection with residual debt business, premium income in the Property/Casualty segment fell short of the guidance for 2019 on account of lower income from motor vehicles business. At 99.0%, the line-specific combined ratio was as expected. The EBIT margin exceeding the forecast figure at 6.6% thanks to improved net investment income.

Life Insurance

- Higher premiums in single premium business and bancassurance biometric business
- Increase in net investment income due to higher gains realised to finance additional interest reserve

KEY FIGURES FOR THE RETAIL GERMANY DIVISION – LIFE INSURANCE SEGMENT

EUR million	2019	2018	+/–
Gross written premiums	4,612	4,516	+2.1 %
Net premiums earned	3,493	3,379	+3.3 %
Underwriting result	–1,602	–1,421	–12.8 %
Net investment income	1,786	1,587	+12.7 %
Operating profit/loss (EBIT)	131	111	+18.5 %
New business measured in annual premium equivalent	409	389	+5.1 %
Single premiums	1,442	1,264	+14.1 %
Regular premiums	265	263	+0.8 %
New business by product measured in annual premium equivalent	409	389	+5.1 %
of which capital-efficient products	174	143	+21.6 %
of which biometric products	141	137	+3.4 %

MANAGEMENT METRICS FOR THE LIFE INSURANCE SEGMENT

%	2019	2018	+/–
Gross premium growth	2.1	–1.3	+3.5 pps
EBIT margin	3.8	3.3	+0.5 pps

Premium volume and new business

Gross written life insurance premiums in the Life Insurance segment of the Retail Germany Division, including the savings elements from unit-linked life insurance policies, were up 2.1% on the prior year at EUR 4.6 (4.5) billion. Single premiums excluding bancassurance biometric business picked up by EUR 123 million, comfortably offsetting the anticipated EUR 67 million decline in regular premiums due to an increase in policies maturing. In addition, premium income from the biometric core business of bancassurance climbed by EUR 41 million.

Allowing for savings elements under our unit-linked products and the change in the unearned premium reserve, the net premium earned rose by 3.3% to EUR 3.5 (3.4) million.

New business in life insurance products – measured using the annual premium equivalent (APE), the international standard – rose by 5.1% to EUR 409 (389) million due to the upturn in both new single premium and regular premium business. The share of capital-efficient products, measured by total new business premiums, increased from 71% in the previous year to 76% in the financial year.

Underwriting result

The underwriting result fell to EUR –1.6 (–1.4) billion in the current financial year. Factors influencing the result included the compounding of technical provisions and policyholder participation in net investment income. These expenses are offset by investment income, which is not recognised in the underwriting result.

Net investment income

Net investment income picked up by 12.7% to EUR 1.8 (1.6) billion. This rise was driven chiefly by higher disposal gains to finance the addition to the additional interest reserve, which was necessary due to the considerably lower interest rates. At the same time, low interest rates resulted in a 4.9% drop in ordinary investment income to EUR 1.4 (1.5) billion.

Operating profit

Operating profit (EBIT) in the Life Insurance segment in the Retail Germany Division rose to EUR 131 (111) million.

Comparison of actual business development with the 2019 forecast

MANAGEMENT METRICS FOR THE LIFE INSURANCE SEGMENT

%	2019	Forecast for 2019 from the 2018 Annual Report
Gross premium growth	2.1	stable
EBIT margin	3.8	2–3

Premium income in the Life Insurance segment outperformed our expectations in 2019 thanks to growth in single premium business. Rising EBIT meant that the EBIT margin was slightly above the forecast.

Retail Germany Division as a whole

RETURN ON EQUITY FOR THE RETAIL GERMANY DIVISION AS A WHOLE

%	2019	2018	+/–
Return on equity	5.5	4.2	+1.3 pps

The division's Group net income climbed to EUR 133 (102) million. The return on equity thus rose slightly to 5.5% (4.2%).

Comparison of actual business development with the 2019 forecast

RETURN ON EQUITY FOR THE RETAIL GERMANY DIVISION AS A WHOLE

%	2019	Forecast for 2019 from the 2018 Annual Report
Return on equity	5.5	~5

Since Group net income was well above the previous year's level at EUR 133 (102) million, the return on equity of 5.5% slightly exceeded the forecast of around 5%.

Retail International

- Gross written premiums up by 11.8% adjusted for currency effects
- Combined ratio at 95.5%
- Return on equity climbs to 8.2%

KEY FIGURES FOR THE RETAIL INTERNATIONAL DIVISION

EUR million	2019	2018	+/–
Gross written premiums	6,111	5,552	+10.1 %
Net premiums earned	5,343	4,816	+10.9 %
Underwriting result	33	91	–63.4 %
Net investment income	381	321	+18.7 %
Operating profit/loss (EBIT)	283	268	+5.6 %

MANAGEMENT METRICS FOR THE RETAIL INTERNATIONAL DEVISION

	2019	2018	+/–
Gross premium growth (adjusted for currency effects)	11.8	7.4	+4.4 pps
Value of new business (life) in EUR million [1]	41	41	+0.9 %
Combined ratio (net, property/casualty only)	95.5	94.3	+1.2 pps
EBIT margin	5.3	5.6	–0.3 pps
Return on equity	8.2	8.1	+0.1 pps

[1] Excluding non-controlling interests; 2019: estimated figure, the final figure will be published in the 2020 Annual Report.

This division bundles the Talanx Group's international retail business activities and is active in both Europe and Latin America. In the Europe region, the Turkish HDI Sigorta A.Ş. acquired the Turkish Ergo Sigorta A.Ş. on 29 August 2019 with the aim of further expanding its market presence. The companies were merged on 2 December 2019. The division had already streamlined its Latin America portfolio in the first quarter by selling its 100% interest in HDI Seguros S.A., San Isidro, Peru.

Market developments

After economic and political volatility, insurance markets in the Europe region stabilised in 2019. On the Polish insurance market, 2018 saw the start of a soft market phase in motor retail business, bringing about a decline in average premiums and thus in growth momentum in 2019. After several quarters of the economic slowdown, the Turkish economy saw growth of 0.9% in the third quarter of 2019. After peaking at 25% in September 2018, inflation was curbed at 12% in 2019. The exchange rate also stabilised in comparison to the previous year, with the Turkish prime rate lowered to 12% accordingly. Property insurers saw growth of 21% in 2019, essentially in the motor insurance market.

Economic development in the Latin American region was stable in 2019. In Brazil, economic growth of 1.1% is expected for 2019. With growth of 1.2%, the Brazilian property insurance market also performed similarly as at the end of November. The Brazilian Congress passed a pension reform in 2019, which is key to sustainable growth moving ahead. Mexico's economy is expected to see growth of almost zero percent in 2019. By contrast, property insurers are anticipating premium growth of around 10.6%.

In Chile, violent protests that lasted for several weeks in the fourth quarter of 2019 took a considerable toll on the economy, with growth of 1.0% in the year as a whole. The Chilean property insurance market grew by 6.5% by the end of the third quarter.

Premium volume

The division's gross written premiums (including premiums from unit-linked life and annuity insurance) increased by 10.1% year-on-year to EUR 6.1 (5.6) billion. Adjusted for currency effects, gross premiums rose by 11.8% on the comparative period. Premium volume performed well in the two regions during the reporting period.

The Europe region reported growth in gross written premiums of 13.4% to EUR 4.4 billion; this growth was driven primarily by a 16.3% increase in premiums to EUR 1,638 million at the Italian HDI Assicurazioni S.p.A. Companies in Poland and Turkey also had a positive impact on gross written premiums in the region. TUiR WARTA S.A. in Poland boosted premium volume by 7.5% thanks to a higher number of insured vehicles in motor vehicle insurance. Adjusted for currency effects, premiums at the Turkish HDI Sigorta A.Ş. rose by 57.1%, largely driven by motor vehicle and homeowners insurance. The newly acquired Ergo Sigorta A.Ş. was included for four months and Liberty Sigorta A.Ş, which was acquired in the fourth quarter of 2018, was included for 12 months. Adjusted for currency effects, the growth in premium volume in Europe stood at 14.8%.

In the Latin America region, gross written premiums increased by 3.3% compared to the same period of the previous year to EUR 1,752 million. Adjusted for currency effects, the growth amounted to 5.9%, which was in part due to good performance in Mexico and Brazil. Premium growth at the Mexican HDI Seguros S.A. amounted to 10.1%, with homeowners insurance enjoying a particular upturn as a result of regional diversification. 46.5% of the premium volume generated in the region was accounted for by the Brazilian HDI Seguros S.A. Adjusted for currency effects, the company's gross written premiums rose by 3.8% to EUR 837 million, with the growth in homeowners insurance also playing a role here. Including the Colombian companies HDI Seguros S.A. and HDI Seguros de Vida S.A. for the entire year for the first time also had a positive impact on gross premium growth in the Latin American region.

Underwriting result

The combined ratio from property insurance companies increased by 1.2 percentage points year-on-year to 95.5%. This was essentially due to standardised disclosure adjustments in cost distribution. At 29.6%, the Division's expense ratio was up 1.1 percentage points on the previous year (28.5%), caused by changes in portfolio structures with a higher share of property insurance as well as the new cost allocation. The loss ratio was unchanged year on year.

In line with higher net investment income in the life insurance line, the underwriting result in life business fell by EUR 32 million.

Net investment income

Net investment income rose year-on-year by 18.7% to EUR 381 million in the 2019 financial year. The division's ordinary net investment climbed by 11.6% against the comparison period, essentially driven by higher investment volumes in Italy and Turkey and at the Polish TUiR WARTA S.A, as well as higher interest rates and investment volumes in Mexico. As a result, the average return on assets under own management rose by 0.2 percentage points to 3.3%.

Operating profit and Group net income

The Retail International Division generated an operating profit (EBIT) of EUR 283 million in the 2019 financial year, up 5.6% year-on-year. The Europe region contributed to the operating profit of the segment with EBIT of EUR 281 (234) million, a year-on-year increase of 20.0%, whereby this growth was primarily due to developments at TUiR WARTA S.A. in Poland. By contrast, EBIT of EUR 50 (56) million was generated in the Latin America region. The decline in EBIT in this region can be attributed primarily to the Chilean HDI Seguros S.A., where income was strained by negative non-recurring effects, in particular the violent protests in the fourth quarter and multiple natural disaster losses. Group net income after minority interests increased by 2.5% to EUR 164 (161) million. The return on equity rose by 0.1 percentage points to 8.2% compared to the same period in the previous year.

Comparison of actual business development with the 2019 forecast

MANAGEMENT METRICS FOR THE RETAIL INTERNATIONAL DIVISION

%	2019	Forecast for 2019 from the 2018 Annual Report
Gross premium growth (adjusted for currency effects)	11.8	5–10
Value of new business (life) in EUR million [1]	41	30–40
Combined ratio (net, property/casualty only)	95.5	~95
EBIT margin	5.3	5–6
Return on equity	8.2	8–9

[1] Excluding non-controlling interests; 2019: estimated figure, the final figure will be published in the 2020 Annual Report.

Adjusted for currency effects, the Retail International Division achieved gross premium income growth of 11.8% in the 2019 financial year, outperforming the prior-year forecast. The value of new business (life) also exceeded expectations at EUR 41 million. This upturn was essentially driven by the Polish Towarzystwo Ubezpieczeń na Życie "WARTA" S..A, which generated a higher premium volume in term life insurance. At 95.5%, the combined ratio for international property insurance companies reached its target. Both the EBIT margin, at 5.3%, and the return on equity, at 8.2%, also met expectations for 2019.

Additional key figures

RETAIL INTERNATIONAL DIVISION BY LINE OF BUSINESS AT A GLANCE

EUR million	2019	2018	+/–
Gross written premiums	**6,111**	**5,552**	**+10.1 %**
Property/Casualty	4,092	3,803	+7.6 %
Life	2,018	1,749	+15.4 %
Net premiums earned	**5,343**	**4,816**	**+10.9 %**
Property/Casualty	3,471	3,258	+6.6 %
Life	1,871	1,558	+20.1 %
Underwriting result	**33**	**91**	**–63.4 %**
Property/Casualty	160	186	–13.7 %
Life	–127	–95	–33.5 %
Others	—	—	— %
Net investment income	**381**	**321**	**+18.7 %**
Property/Casualty	200	174	+14.9 %
Life	188	152	+24.0 %
Others	–7	–5	–52.3 %
New business by product measured in annual premium equivalent (life)	**248**	**215**	**+15.2 %**
Single premiums	1,728	1,465	+18.0 %
Regular premiums	75	68	+9.3 %
New business by product measured in annual premium equivalent (life)	**248**	**215**	**+15.2 %**
of which capital-efficient products	138	117	+17.6 %
of which biometric products	68	63	+7.4 %

RETAIL INTERNATIONAL DIVISION BY REGION AT A GLANCE

EUR million	2019	2018	+/–
Gross written premiums	**6,111**	**5,552**	**+10.1 %**
of which Europe	4,359	3,843	+13.4 %
of which Latin America	1,752	1,695	+3.3 %
Net premiums earned	**5,343**	**4,816**	**+10.9 %**
of which Europe	3,827	3,414	+12.1 %
of which Latin America	1,516	1,400	+8.3 %
Underwriting result	**33**	**91**	**–63.4 %**
of which Europe	35	38	–8.5 %
of which Latin America	26	57	–54.2 %
Net investment income	**381**	**321**	**+18.7 %**
of which Europe	317	261	+21.5 %
of which Latin America	71	65	+8.9 %
Operating profit/loss (EBIT)	**283**	**268**	**+5.6 %**
of which Europe	281	234	+20.0 %
of which Latin America	50	56	–10.0 %

Reinsurance

Property/Casualty Reinsurance

- 20.4% upturn in gross premiums adjusted for currency effects
- North America, Asia, Germany and structured reinsurance enjoy strong growth
- Moderate improvements for prices and conditions, in some cases including in claims-free lines
- Large losses above budget at EUR 956 million

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

EUR million	2019	2018	+/–
Gross written premiums	14,781	11,976	+23.4 %
Net premiums earned	12,798	10,805	+18.5 %
Underwriting result	186	333	–44.1 %
Net investment income	1,093	1,065	+2.6 %
Operating profit/loss (EBIT)	1,256	1,364	–8.0 %

MANAGEMENT METRICS FOR THE PROPERTY/CASUALTY REINSURANCE SEGMENT

%	2019	2018	+/-
Gross premium growth (adjusted for currency effects)	20.4	16.2	+4.2 pps
Combined ratio (net)	98.2	96.6	+1.6 pps
EBIT margin	9.8	12.6	–2.8 pps

Business development

The global property/casualty reinsurance environment remained challenging in financial year 2019. Capital available to cover risks has exceeded demand for reinsurance cover for years. One cause of this is the high inflows of alternative additional capital from the insurance-linked securities (ILS) market in recent years, which had been putting pressure on reinsurance cover prices for years. In addition, the lower interest rates seen since 2019 restrict investment income and require strict discipline when it comes to technical underwriting. The past three years were also severely strained by large losses.

Both existing and new customers demonstrated increased demand in the contract renewal round on 1 January 2019 and, thanks to our good market position, we generated encouraging growth under satisfactory conditions. We renegotiated around 66% of our portfolio in the Property/Casualty Reinsurance segment (excluding facultative business and structured reinsurance) at this time. While price increases in January were largely still restricted to programmes affected by losses, we identified a broad, moderate improvement in prices and conditions for reinsurance cover in the treaty renewal rounds throughout the financial year for the first time in years. Prices also rose slightly in many primary insurance markets throughout the year, which was also partially reflected in the reinsurance business. Nonetheless, these recovery effects are still mild in absolute terms and so we believe there is still a need for further adjustments.

As a leading global reinsurer, Hannover Re continued to benefit in the renewal negotiations from its many years of stable customer relationships, its excellent financial standing and the ongoing trend of primary insurers towards consolidating their reinsurance partners.

Thanks to the rate increases described and significant growth, especially in the North America, Asia and Germany regions and from structured reinsurance, we further improved our market position in the Property/Casualty Reinsurance segment.

Premiums

Gross written premiums in the Property/Casualty Reinsurance segment increased by 23.4% to EUR 14.8 (12.0) billion. At constant exchange rates, the increase would have amounted to 20.4%. Retention decreased to 90.3% (90.7%). Net premiums earned climbed by 18.5% to EUR 12.8 (10.8) billion; adjusted for currency effects, growth would have stood at 15.8%.

Earnings

As in the previous two years, the 2019 financial year was marked by large losses that exceeded our expectations. The first half of the year was again shaped by very moderate large losses, whereas losses in the second half of the year were far higher than expected. The most expensive large loss in the year under review was hurricane “Dorian”, for which we paid or reserved net payments to our customers of EUR 195 million. We are anticipating net losses of EUR 184 million for typhoon “Hagibis” in Japan and EUR 84 million for typhoon “Faxai” in Japan. We expect a net loss of around EUR 86 million in connection with UK tour operator Thomas Cook entering insolvency. Our total net large losses were thus EUR 956 (850) million, exceeding the large loss budget of EUR 875 million.

The underwriting result dropped to EUR 186 (333) million. The combined ratio deteriorated to 98.2% (96.6%), above our target for the financial year of no higher than 97%. As well as high claims in the financial year and prior-year claims reported at a later date, this is also a result of our continued conservative approach to reserves.

Operating profit and net investment income

Net investment income in the Property/Casualty Reinsurance segment performed well, improving by 2.6% to EUR 1,093 (1,065) million. Operating profit (EBIT) declined by 8.0% to EUR 1,256 (1,364) million. The EBIT margin declined to 9.8% (12.6%).

Comparison of actual business development with the 2019 forecast

MANAGEMENT METRICS FOR THE PROPERTY/CASUALTY REINSURANCE SEGMENT

%	2019	Forecast for 2019 from the 2018 Annual Report
Gross premium growth (adjusted for currency effects)	20.4	significant growth
Combined ratio (net)	98.2	< 97
EBIT margin	9.8	≥ 10

The goal of achieving significant growth in gross written premiums, adjusted for currency effects, in the Property/Casualty Reinsurance segment was achieved. At constant exchange rates, the increase would have amounted to 20.4%. The combined ratio deteriorated to 98.2% (96.6%), above the target for the financial year of no higher than 97%. As well as high claims in the financial year and prior-year claims reported at a later date, this also reflected an ongoing conservative approach to reserves. The EBIT margin fell to 9.8% (12.6%), meaning that the target EBIT margin of at least 10% was almost achieved.

Life/Health Reinsurance

- Gross premium volume rises by 6.7% adjusted for currency effects
- Earnings improve in US mortality portfolio business after measures in previous year
- Extraordinary investment income due to revaluation of an equity investment

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

EUR million	2019	2018	+/–
Gross written premiums	7,816	7,200	+8.6 %
Net premiums earned	6,932	6,484	+6.9 %
Underwriting result	–411	–416	+1.3 %
Net investment income	682	491	+39.0 %
Operating profit/loss (EBIT)	562	262	+114.5 %

MANAGEMENT METRICS FOR THE LIFE/HEALTH REINSURANCE SEGMENT

%	2019	2018	+/–
Gross premium growth (adjusted for currency effects)	6.7	4.6	+2.1 pps
Value of new business [1] in EUR million	333	146	+128.6 %
EBIT growth [2]	114.5	14.4	+100.1 pps

[1] Excluding non-controlling interests; 2019: estimated figure, the final figure will be published in the 2020 Annual Report.
[2] Average annual growth in 2017 – 2019 (strategic target definition): +19,3%.

Business development

Global life/health reinsurance markets continue to be marked by stiff competition and a return to low interest rates in many regions in the year under review. Interest rates again came under pressure in the reporting period, especially in Europe and North America. This had an impact on net investment income at primary insurance and reinsurance undertakings, albeit only a moderate one. The change in interest rates also weighed on the profitability of underlying life insurance products. At the same time, however, this also created additional business opportunities for financially sound reinsurers such as Hannover Re, for example in the area of financial solutions, where we offer our customers individual reinsurance solutions to improve their solvency, liquidity and capital.

Business in longevity risk hedging also performed very well for us. Global demand for corresponding reinsurance solutions remained high, driven by high capital requirements for this kind of business at primary insurers and pension funds.

As part of our strategy, we cooperate with InsurTechs and other start-ups in order to develop new approaches and solutions together with our primary insurance customers. We launched the “hr | equarium” innovation platform in February to make it easier for them to access innovative solutions. This allows our cedants to access a number of insurance-specific products and solutions, as well as providing InsurTechs and other start-ups with access to our global customer network.

Premiums

Gross written premiums in the Life/Health Reinsurance segment increased by 8.6% to EUR 7.8 (7.2) billion. Adjusted for currency effects, this would have come to 6.7% and thus slightly exceeded our expectations of growth of between 3% and 5%. Retention amounted to 89.5% (90.7%). Net premiums earned climbed by 6.9% to EUR 6.9 (6.5) billion; adjusted for currency effects, growth would have stood at 5.1%.

Operating profit and net investment income

The underwriting result improved slightly to EUR –11 (–416) million. Net investment income performed extremely well, boosted by non-recurring income of EUR 99.5 million from releasing hidden reserves through profit or loss, which was necessary due to restructuring shares in an equity interest. Hannover Re’s share remained unchanged. Overall, the segment’s net investment income increased by 39.0% to EUR 682 (491) million.

Operating profit (EBIT) doubled to EUR 562 (262) million.

Comparison of actual business development with the 2019 forecast

MANAGEMENT METRICS FOR THE LIFE/HEALTH REINSURANCE SEGMENT

%	2019	Forecast for 2019 from the 2018 Annual Report
Gross premium growth (adjusted for currency effects)	6.7	moderate growth
Value of new business [1] in EUR million	333	≥ 110
EBIT growth [2]	114.5	> 5

[1] Excluding non-controlling interests; 2018: estimated figure, the final figure will be published in the 2020 Annual Report.
[2] Average annual growth in 2017 – 2019 (strategic target definition): +19,3%.

Gross written premiums in the Life/Health Reinsurance segment increased by 6.7% adjusted for currency effects, thus slightly exceeding expectations of moderate growth. At EUR 333 million, the value of new business was significantly higher than the forecast of over EUR 110 million. Operating profit (EBIT) doubled to EUR 562 (262) million, outperforming the long-term target of achieving growth of over 5%.

Reinsurance Division as a whole

RETURN ON EQUITY FOR THE REINSURANCE DIVISION AS A WHOLE

%	2019	2018	+/–
Return on equity	13.3	13.0	+0.4 pps

Group net income in the Reinsurance Division climbed by 14.4% to EUR 619 (540) million and the return on equity also rose by 0.4 percentage points to 13.3%.

Comparison of actual business development with the 2019 forecast

RETURN ON EQUITY FOR THE REINSURANCE DIVISION AS A WHOLE

%	2019	Forecast for 2019 from the 2018 Annual Report
Return on equity	13.3	~ 14

The Reinsurance Division increased its Group net income for the reporting period to EUR 619 (540) million, up 14.4%. The return on equity for the Reinsurance Division was 13.3%, lower than anticipated in the forecast.

Corporate Operations

- Talanx AG writing underwriting risks for the first time since 2019
- Gross written premiums up 20%

Talanx AG was awarded a reinsurance license by the Federal Financial Supervisory Authority (BaFin) and has been writing underwriting risks for the first time since 2019. This allows us to pool the reinsurance requirements for primary insurance at the holding company in order to take advantage of diversification effects throughout the Group, boost additional earnings potential and better implement groupwide retrocession cover. Thanks to pooling intragroup reinsurance, Standard & Poor's, as well as other rating agencies, has already raised Talanx AG's issuer rating from A– to A+.

The Group's reinsurance specialists

Underwriting business especially written via HDI Reinsurance (Ireland) SE (previously: Talanx Reinsurance (Ireland) SE) is reported in the Corporate Operations segment and partially ceded to Talanx AG via a quota share reinsurance agreement since 2019. Gross written premiums here amounted to EUR 64 (53) million in 2019, resulting from reinsurance cessions in the Industrial Lines, Retail Germany and Retail International divisions. The underwriting result in the Corporate Operations segment was EUR –15 (–5) million in 2019 and was characterised by additional reserves recognised in conjunction with commencing insurance business by Talanx AG.

The Group's investment specialists

In cooperation with its subsidiary Ampega Investment GmbH, Ampega Asset Management GmbH (previously: 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 have climbed to EUR 123 (112) billion. The total contribution to the segment's operating profit made by the two companies and Ampega Real Estate GmbH (previously: Talanx Immobilien Management GmbH) amounted to EUR 51 (55) million in 2019.

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 investment administration. Statistics from the German association BVI show that the investment sector generally enjoyed a good fourth quarter of 2019, reflected in rising share prices, stable – albeit low – interest rates and cash inflows in both retail and institutional business. This marks a positive change of direction compared to previous quarters, also demonstrated by the considerable upturn in assets under management against 2018. Nonetheless, despite the good final quarter, total net cash inflows in 2019 on the market as a whole are still lower than in the excellent previous years. The total volume of assets managed rose by 16.1% against the previous year to EUR 27.8 (23.9) billion. At EUR 12.7 (11.5) billion, half the total volume is managed on behalf of Group companies using special funds and direct investment mandates. Of the remainder, EUR 7.3 (6.0) billion was attributable to institutional third-party clients and EUR 7.7 (6.4) billion to the retail business. The latter is offered not only through the Group's own distribution channels and products such as unit-linked life insurance, but also via external asset managers and banks.

Operating profit

The operating profit in the Corporate Operations segment decreased to EUR –8 (0) million in 2019, essentially as a result of additional reserves recognised in conjunction with commencing insurance business by Talanx AG and the bonus fee for the placement of a bond of EUR 832 million to finance the "Borkum Riffgrund 2" offshore wind farm in the previous year. After financing costs, Group net income attributable to shareholders of Talanx AG for this segment amounted to EUR –97 (–80) million in 2019.

Net assets and financial position

Net assets

- Total assets up EUR 15.4 billion to EUR 177.6 billion
- Investments account for 76% of total assets

ASSET STRUCTURE

EUR million	2019		2018[1]	
Intangible assets	1,998	1%	1,953	1%
Investments	134,104	76%	122,831	76%
Investments for the benefit of life insurance policyholders who bear the investment risk	11,824	7%	9,990	6%
Reinsurance recoverables on technical provisions	8,483	5%	8,506	5%
Accounts receivable on insurance business	8,525	5%	7,251	4%
Deferred acquisition costs	5,940	3%	5,358	3%
Cash at banks, cheques and cash-in-hand	3,518	2%	3,362	2%
Deferred tax assets	326	0%	465	0%
Other assets	2,819	2%	2,457	2%
Non-current assets and assets of disposal groups classified as held for sale	57	0%	15	0%
Total assets	**177,594**	**100%**	**162,188**	**100%**

[1] Adjusted in accordance with IAS 8, see the "Accounting policies" section of the Notes.

Significant changes in the asset structure

The increase in total assets is primarily due to the increase in investments (up EUR +13.1 billion).

Intangible assets of EUR 2.0 (2.0) billion include EUR 893 (895) million of other intangible assets (including PVFP) and capitalised goodwill of EUR 1,105 (1,058) million. The other intangible assets are recognised in full. The 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	31.12.2019	31.12.2018
Other intangible assets before the deduction of non-controlling interests and the policyholders' portion, including deferred taxes	**893**	**895**
of which: attributable to non-controlling interests	108	104
of which: attributable to policyholders' portion	253	284
of which: attributable to deferred taxes	62	63
Other intangible assets after the deduction of non-controlling interests and the policyholders' portion, net of deferred taxes	**470**	**444**

The "technical provisions for life insurance policies where the investment risk is borne by the policyholders" item rose by EUR 1.8 billion (previous year: decrease of EUR 1.1 billion) in line with the increase in the "investments for the benefit of life insurance policyholders who bear the investment risk" item, which comprises investments relating to unit-linked insurance products. In the case of these life insurance products, for which the policyholders themselves bear the investment risk, the technical liabilities reflect the fair values of the corresponding investments.

As of the reporting date, the "Non-current assets and disposal groups classified as assets held for sale" item includes assets of EUR 15 million attributable to HDI Seguros de Vida S. A., Santiago, Chile, and property holdings of EUR 42 (6) million. In the prior year, assets of HDI Seguros S. A., San Isidro, Peru, totalling EUR 9 million were recognised under this item (see also the "Non-current assets and disposal groups held for sale" section of the Notes).

Asset management and objectives

The low interest rate environment remained the dominant factor in 2019, as in the past. The key interest rate in the eurozone was unchanged at 0.0% as at the reporting date. Monetary policy varied between economic areas. The growth of the world economy in 2019 was significantly held back by high trade policy uncertainty due to the protectionist US trade policy, lingering fears over a no-deal Brexit and geopolitical conflict. It has likely shrunk to its lowest level since the global financial crisis in 2009.

At the end of the year, the interest rate for ten-year German government bonds was around −0.19%, down approx. 43 basis points on the figure at the beginning of the year. Two-year bonds recovered marginally to around −0.63% (−0.66%) and five-year bonds came to −0.49% (−0.30%), putting all interest rates in negative territory.

In addition to these interest rate factors, changes in the US dollar exchange rate directly impacted our investments denominated in that currency. At 31 December 2018, the exchange rate was USD 1.15 to the euro. The dollar gained around 2.2% against the euro over the course of the financial year, ending the year at USD 1.12. As at the year-end closing date, the portfolio of US dollar-denominated investments amounted to EUR 23.2 (21.3) billion and was thus unchanged at 19% (19%) of total assets under own management.

Risk measurement and risk control are an extremely important part of our asset management. These two functions, and a robust and highly efficient interface between them and portfolio management, enabled our asset management team to monitor the portfolios continuously and hence manage risks efficiently. A number of existing risk measurement and control instruments were adapted to current market conditions.

75% (78%) of the securities in the fixed-income asset class are rated A or better. A broad-based system designed to limit accumulation risk resulted in a balanced mix of investments.

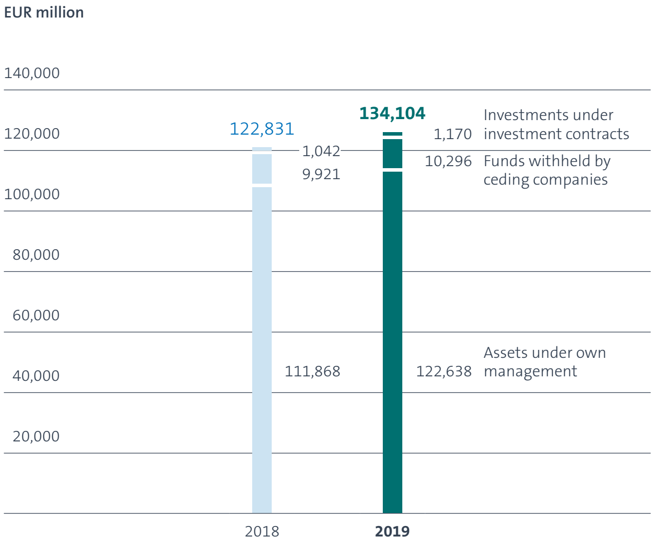
Our investment activities are bounded by the Group's internal risk model and the individual companies' risk budgets. We continued to optimise the portfolios in accordance with our asset/liability management guidelines and the individual companies' risk-bearing capacity.

The investment guidelines at Group, segment and company level provide a further framework for our activities; these are reviewed annually and amended where necessary for appropriateness in the light of regulatory and market restrictions.

Our high-quality investment process meant that our investment portfolio included almost no at-risk counterparties. Fixed-income investments continued to be the most important asset class.

Changes in investments

INVESTMENT PORTFOLIO



The total investment portfolio increased to EUR 134.1 (122.8) billion as at the end of the 2019 financial year. Assets under own management rose by 9.6% to EUR 122.6 billion. Growth in the portfolio of assets under own management was largely due to the increase in valuation reserves under "Available-for-sale financial instruments" (up EUR 4.0 billion) and cash inflows from the underwriting business, which were reinvested in accordance with the guidelines at the companies concerned. A bond issued by Hannover Rück SE in the fourth quarter also had a positive impact.

At EUR 1.2 billion, the portfolio of investment contracts was also slightly higher than at the start of the year (EUR 1.0 billion). Funds withheld by ceding companies rose by EUR 0.4 billion to EUR 10.3 billion in the year under review, chiefly in connection with the Property/Casualty Reinsurance segment.

Fixed-income investments remained the most significant asset class in 2019. Reinvestments were largely made in this asset class, taking the existing investment structure into account. The asset class contributed EUR 3.4 (3.0) billion to earnings, with the figure being almost totally reinvested in the reporting period.

INVESTMENT PORTFOLIO

%

2019/2018

BREAKDOWN OF ASSETS UNDER OWN MANAGEMENT BY ASSET CLASS

EUR million	2019		2018	
Investment property	3,193	3%	2,985	3%
Shares in affiliated companies and participating interests	398	0%	206	0%
Shares in associates and joint ventures	337	0%	265	0%
Loans and receivables				
Loans including mortgage loans	413	0%	460	0%
Loans and receivables due from government or quasi-governmental entities and fixed-income securities	27,228	22%	28,684	26%
Held-to-maturity financial instruments	336	0%	409	0%
Available-for-sale financial instruments				
Fixed-income securities	81,483	66%	70,165	63%
Variable-yield securities	2,067	2%	1,799	2%
Financial instruments at fair value through profit or loss				
Financial instruments classified at fair value through profit or loss				
Fixed-income securities	1,128	1%	1,344	1%
Variable-yield securities	147	0%	126	0%
Financial instruments held for trading				
Fixed-income securities	—	0%	—	0%
Variable-yield securities	122	0%	131	0%
Derivatives [1]	321	0%	239	0%
Other investments	5,465	4%	5,055	5%
Assets under own management	**122,638**	**100%**	**111,868**	**100%**

[1] Only derivatives with positive fair values.

Fixed-income securities

The portfolio of fixed-income investments (not including mortgage and policy loans) rose by EUR 9.6 billion in financial year 2019 to total EUR 110.2 (100.6) billion as at the year-end. At 82% (82%) 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 "Loans and receivables" and "Available-for-sale financial instruments" categories.

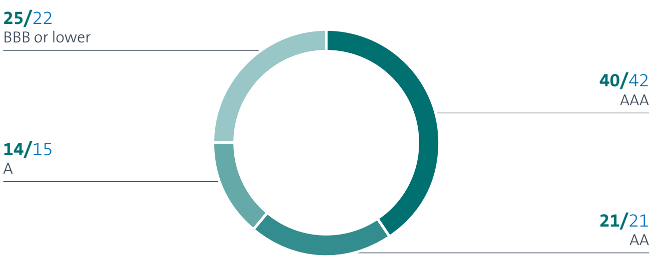
"Available for sale fixed-income securities" accounted for 74% (70%) of the total portfolio of fixed-income securities and rose significantly by EUR 11.3 billion to EUR 81.5 (70.2) billion. Corporate bonds, government bonds and German covered bonds (Pfandbriefe) accounted for the majority of these investments. Valuation reserves – i.e. net unrealised gains and losses – have climbed substantially from EUR 1.7 billion to EUR 5.6 billion since the end of 2018, largely due to the further decline in interest rates in our main currency areas as well as in some cases significantly lower risk premiums for corporate bonds. The volatility of "available for sale fixed-income securities" is reflected in equity.

Investments in the "Loans and receivables" category were primarily held in government securities or similarly secure securities. German covered bonds (Pfandbriefe) continue to account for the majority of the portfolio. Total holdings in fixed-income securities in the "Loans and receivables" category amounted to EUR 27.6 (29.1) billion as at the end of the year, or 25% (29%) of total holdings in the fixed-income asset class. Off-balance-sheet valuation reserves for "Loans and receivables" (including mortgage and policy loans) rose considerably to EUR 5.1 (3.8) billion.

Investments made in fixed-income securities in 2019 continued to focus on highly rated government bonds or securities from issuers with a similar credit quality. Holdings of AAA rated bonds amounted to EUR 44.7 (43.1) billion as at the reporting date.

RATING STRUCTURE FOR FIXED-INCOME SECURITIES

%



2019/2018

The Talanx Group pursues a comparatively conservative investment policy. As a result, 75% (78%) of securities in the fixed-income asset class are rated A or higher.

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 5.1 (4.1) billion, or 4.1% (3.7%) of assets under own management. This increase in the portfolio stems from growth in operating activities outside Europe. See the information provided in the "Risk report" on page 102ff. of the Group management report.

Equities and equity funds

During the financial year, the size of the equities portfolio remained stable year on year at around EUR 1.2 (1.1) billion. As a result, the equity allocation ratio after derivatives was 0.9% (0.9%) as at the year-end.

Net unrealised gains and losses on the Group's equity holdings (not including "Other investments") rose by EUR 92 million to EUR 166 (74) million.

Real estate including shares in real estate funds

With a transaction volume well exceeding EUR 90 billion, 2019 also saw record figures. Buoyed by low interest rates and the ongoing good macroeconomic climate, the German investment market performed excellently. This was aided by a historically low vacancy rate for office space, which in turn affected rent prices. Accounting for around 40% of the total market volume, the "office" asset class remained very popular, followed by residential real estate which made up almost a quarter of the total volume. Multi-use inner-city office buildings and conventional retail parks were in demand in the commercial segment. However, very low demand for shopping centres put the "retail properties" segment under pressure last year, recording just a 12% share of the overall market. Reflecting this market environment, prime rents declined once again, especially in the office sector, coming to just around 2.9% at the end of 2019. Yields on logistics properties also recorded historic lows (around 3.75%). Take-up of office space in the top 7 locations again reached a record level of just over 4 million m^2, especially in Munich and Berlin. The vacancy rate in the top 7 locations was exactly 3% at the end of 2019. Approximately 1.1 million m^2 of office space was built in 2019, the most since 2010. Just under 2 million m^2 of office space is expected to be completed in 2020, with this figure even reaching 2.6 million m^2 in 2021.

The investment property portfolio totalled EUR 3.2 (3.0) billion as at the reporting date. An additional EUR 1,170 (985) million is held in real estate funds, which are reported as "Available-for-sale financial instruments".

Depreciation of EUR 61 (57) million was recognised on investment property in the reporting period. This rise reflects our increasing involvement in this area. Impairment losses amounted to EUR 9 (4) million. Impairment losses on real estate funds stood at EUR 7 (15) million. They were offset by reversals of impairment losses of EUR 1 (6) million, primarily in relation to investment property.

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

Infrastructure investments

Investments in infrastructure projects are a core component of asset management. Demand for these projects is largely immune to short-term economic volatility, which makes them highly plannable for institutional investors. At the same time, the projects are a good fit for an insurer's long-term investment horizon. Our affinity for long maturities and our expertise in this area allows us to leverage illiquidity, complexity and duration premiums. As a result, these carefully selected projects offer attractive returns for an acceptable level of risk. At present, our diversified infrastructure portfolio includes, among other things, finance for wind farms and solar farms, power grids, car parks and public-private partnership (PPP) projects in Germany and other countries in Europe.

Talanx continued to expand and diversify its infrastructure portfolio in 2019, including by adding rail transport and photovoltaics projects. As at the end of 2019, the Talanx Group had invested a total of around EUR 2.5 (2.1) billion in infrastructure projects. Direct infrastructure investments are also planned for the future, with a volume per project of between EUR 30 million and EUR 150 million (equity) and between EUR 50 million and EUR 200 million (debt), and an investment horizon of five to 30 years.

Net investment income

CHANGES IN NET INVESTMENT INCOME

EUR million	2019	2018
Ordinary investment income	3,503	3,445
of which current income from interest	2,713	2,711
of which attributable to profit/loss from shares in associates	35	7
Realised net gains on disposal of investments	938	584
Depreciation on and impairment losses/reversals of impairment losses on investments	–169	–180
Unrealised net gains/losses on investments	131	–12
Other investment expenses	272	261
Income from assets under own management	4,130	3,576
Net interest income from funds withheld and contract deposits	190	192
Net income from investment contracts	3	–1
Total	**4,323**	**3,767**

At EUR 4,323 (3,767) million, net investment income rose sharply against the previous year, due mostly to a considerable year-on-year increase in net realised gains and improved net gains/losses. This resulted in an annualised net return on investment of 3.5% (3.3%).

The EUR 58 million rise in ordinary investment income to EUR 3,503 (3,445) million is essentially driven by higher income from real estate. Despite ongoing low interest rates, ordinary income from fixed-income securities, including from the increase in the portfolio, is constant (EUR 2.7 [2.7] billion). It continues to represent the largest component of earnings. The initially substantial decline in interest rates and a moderate recovery of yield levels in the rest of the year resulted in an average coupon of 2.7% in the fixed-income securities portfolio, down slightly on the prior-year figure of 3.0%. Derivative financial instruments (including forward purchases) were used to hedge reinvestment risk, particularly in the case of life insurers in our Retail Germany – Life segment. Further information on the financial effects can be found in Note 13 in the "Notes to the consolidated balance sheet" section of the Notes.

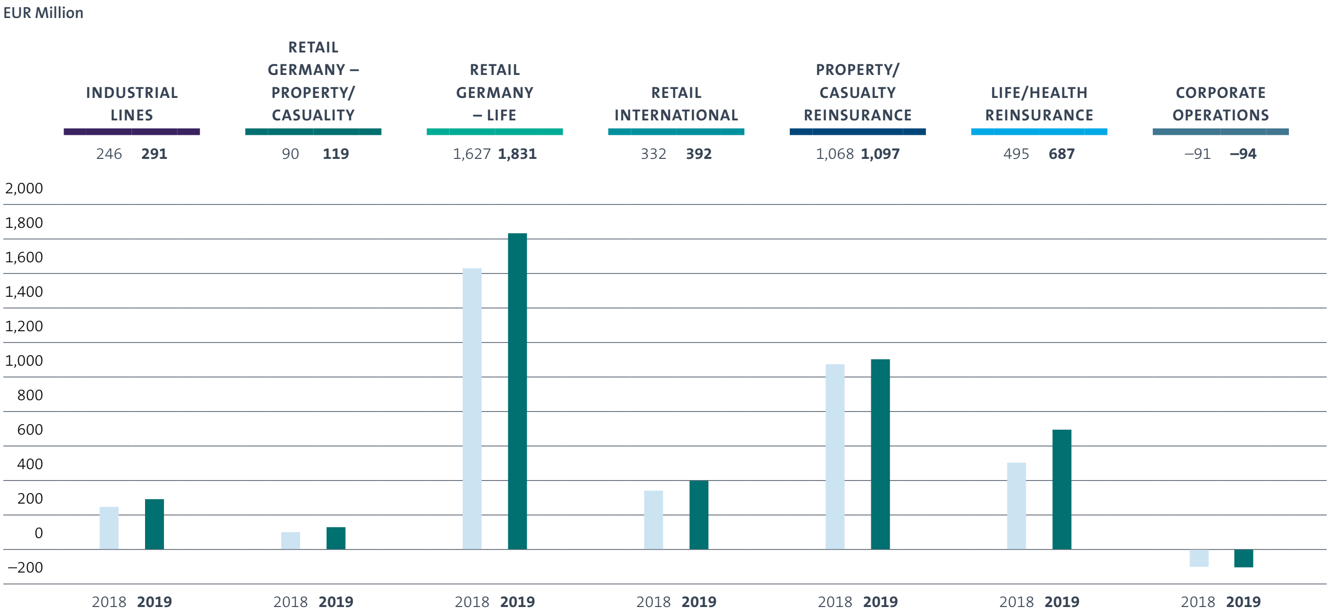
Total realised net gains on the disposal of investments in the financial year were well above the prior-year figure, at EUR 938 (584) million. The considerable EUR 353 million improvement resulted primarily from regular portfolio turnover in all segments, as well as from the requirement to realise unrealised gains in order to finance the additional interest reserve required by the HGB for life insurance and occupational pension plans. It also includes non-recurring income of EUR 100 million from releasing hidden reserves through profit or loss as a result of remeasuring the interest in Viridium.

Lower depreciation and amortisation was required overall in the reporting period compared to the prior year. These amounted to EUR –169 (180) million in total, net of reversals of EUR 2 (6) million. EUR 95 (89) million of this related to depreciation on directly held real estate and infrastructure investments. EUR 11 (24) million of impairment losses were attributable to equities, EUR 9 (4) million to real estate, EUR 2 (12) million to fixed-income securities and EUR 55 (56) million to other investments. The latter relates principally to impairment losses on alternative investments.

Unrealised net gains/losses rose from EUR –12 million to EUR 131 million thanks to market conditions. The increase was due to changes in the fair value of our assets held at fair value through profit or loss. This included, among other things, the unrealised net gains/losses of EUR 8 (–12) million on modco derivatives in the Life/Health Reinsurance segment.

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

NET INVESTMENT INCOME BY GROUP SEGMENT[1]



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

Currency effects

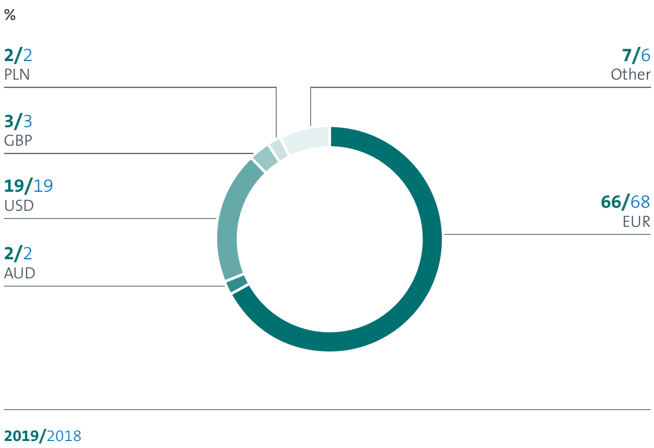
Given the international nature of the insurers in the Group, which is a result of our business model, there are currency-related interdependencies between our net assets and financial position.

As a general rule, our international insurers receive payments and pay claims in their respective national currencies. This means that assets are also held in foreign currencies (currency matching). Please see the disclosures in our risk report for further details. For the purposes of the consolidated financial statements, the exchange rates for key currencies are presented in the "Summary of significant accounting policies – Exchange differences on translating foreign operations" section of the Notes.

As far as matching currency cover is concerned, US dollar-denominated investments continue to account for the largest share of the Talanx Group's foreign currency portfolio, at 19% (19%). Sizeable exposures – amounting to 7% (7%) of total investments – are also held in pound sterling, Polish zloty and Australian dollars. All in all, 34% (32%) of total assets under own management were denominated in foreign currencies as at the reporting date.

Our assets under own management, including investment contracts, can be broken down by currency as follows:

INVESTMENTS



Financial position

Capital structure analysis

- Equity up EUR 2.3 billion year on year at EUR 16.6 (14.3) billion
- Technical provisions up EUR 8.6 billion to EUR 125.6 billion

CAPITAL STRUCTURE

EUR million	2019		2018[1]	
Equity	16,610	9%	14,261	9%
Subordinated liabilities	3,479	2%	2,738	2%
Technical provisions	125,614	71%	117,042	72%
Technical provisions for life insurance policies where the investment risk is borne by the policyholders	11,824	7%	9,990	6%
Other provisions	3,816	2%	3,681	2%
Liabilities	14,081	8%	12,781	8%
Deferred tax liabilities	2,160	1%	1,689	1%
Liabilities included in disposal groups classified as held for sale	9	0%	6	0%
Total equity and liabilities	**177,594**	**100%**	**162,188**	**100%**

[1] Adjusted in accordance with IAS 8, see the "Accounting policies" section of the Notes.

Significant changes in the capital structure

Overall, net technical provisions (i.e. less reinsurance recoverables on these obligations) rose by 7.9% or EUR 8.6 billion year-on-year to EUR 117.4 (108.8) billion. This increase was due to the loss and loss adjustment expense reserve (EUR 3.7 billion), the provision for premium refunds (EUR 2.8 billion) and the unearned premium reserve (EUR 1.2 billion). The increase in the loss and loss adjustment expense reserve was primarily attributable to the Property/Casualty Reinsurance and Industrial Lines segments.

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 88.3% (89.4%) at the reporting date. Investments exceeded provisions by EUR 15.5 (13.0) billion.

Off-balance-sheet transactions

Information on 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 is at the heart of the Group's investment strategy. The focus here is on asset/liability management: as far as possible, investment-market induced changes in the value of our investments should match the changes in our technical liabilities and should meet our liability-side requirements. This keeps our exposures stable in the face of capital market volatility.

In line with this, we mirror key features of our liabilities such as their maturity, currency structure and sensitivity to inflation, by investing where possible in assets that behave in a similar way. For further information, please also see our disclosures on page 102ff. of the risk report.

The so called effective duration of the Group's total fixed-income securities investment portfolio was 8.3 (7.9) across all segments in the year under review, corresponding to a so called Macaulay duration of 8.2 (8.1). In contrast to the Macaulay duration and the modified duration, the effective duration is used with almost all types of debt securities, and in particular also with callable, indexed and structured instruments. This means that no additional definitions are required. Within the individual segments, duration is managed in line with underwriting business requirements, as described above. For example, the effective duration of the investments in the Retail Germany Division 10.83 (10.8 years) is relatively long compared with that of the Industrial Lines Division 4.54 (4.85 years).This reflects the particular length of the capital commitment period in the case of life insurance products. The insurance providers and Ampega Asset Management GmbH liaise regularly to coordinate asset-side duration and liability-side requirements.

We also use derivative financial instruments to manage our assets as effectively as possible. For further information, please see Note 13 in the Notes to the consolidated balance sheet.

CAPITAL MANAGEMENT PROCESS

ENSURE TRANSPARENCY OF ACTUAL CAPITALISATION LEVELS → DETERMINE CAPITAL REQUIREMENTS → OPTIMISE CAPITAL REQUIREMENTS → OPTIMISE THE CAPITAL STRUCTURE → IMPLEMENT CAPITALISATION MEASURES

Talanx's capital management process builds on clear guidelines and workflows to optimise financing and allocation of funds within the Group.

Effective, efficient capital management is a core component of the Talanx Group's integrated management tools. In doing so, we differentiate between the HDI Group's regulatory perspective and the Talanx Group's economic perspective. We distinguish between the following capital concepts:

- Basic own funds
- Solvency capital required

The term "basic own funds" refers to the economic capital available in a business unit. These funds represent the surplus of assets over liabilities in the solvency balance sheet. They differ from equity under the IFRSs (adjusted for intangible assets) in that they disclose unrealised gains and losses on assets or liabilities after taxes, hybrid capital and surplus funds. For regulatory purposes, the HDI Group uses the concept of "eligible own funds". These differ from the Talanx Group's basic own funds in that they include HDI V. a. G.'s own funds and deduct the basic own funds in excess of the solvency capital required that are attributable to non-controlling interests ("haircut").

Solvency capital required is the amount of capital needed to operate the insurance business. It is calculated for supervisory purposes (Solvency II) using a confidence level of 99.5% for a one-year period. In the case of the HDI Group, the capital required for this purpose is determined using the approved internal capital model. The Talanx Group's solvency capital required differs from that of the HDI Group in that it accounts for pension plans differently and excludes HDI V. a. G. on account of the different consolidated group.

The ratio of basic own funds to solvency capital required is an indicator of capital adequacy. The confidence level of 99.97% (3,000-year shock) applied under the Talanx Group's risk strategy exceeds the level required by supervisory law (confidence level of 99.5%, 200-year shock).

The target corridor without transitional measures defined for the HDI Group's Solvency II ratio for supervisory law purposes is between 150% and 200%. The Talanx Group's minimum capital adequacy target from an economic perspective is 200%.

Talanx's primary capital management objective is to protect its financial strength and enhance its capital efficiency. In line with this, the Talanx Group systematically allocates capital in accordance with risk/return considerations and its target portfolio, above and beyond meeting its statutory and, as a secondary consideration, rating agencies' capital requirements (Standard & Poor's capital model requirements for an "AA" rating). Unneeded capital or liquidity is transferred to the holding company wherever possible. For example, if individual companies are significantly overcapitalised, capital management aims to systematically reduce the free excess capital and 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 excellent capital adequacy levels.

By optimising the Group's capital structure, our capital management activities safeguard our capital adequacy, both from a ratings standpoint and from a solvency and economic perspective. At the same time, they ensure that sustainable dividends are generated for shareholders, in keeping with Talanx's strategy. Going forward, our capital structure must continue to let us respond to organic and external growth opportunities at both Group and company level, and to offer the certainty that volatility on the capital markets and in the insurance business can be absorbed without undershooting our target confidence level. Talanx's efficient management of its capital resources is a strong signal to existing and potential investors that it uses the capital made available to it responsibly. All Group companies met their local minimum capital requirements in the reporting period. Talanx AG monitors its subsidiaries' capital resources with the utmost diligence as part of its Group-wide capital management activities.

Another core objective is the judicious substitution of equity surrogates such as hybrid capital for equity, which has a positive impact on the Group's capital structure.

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:

CHANGES IN THE EQUITY RATIO

EUR million	2019	2018 [1]
Total equity	16,610	14,261
of which non-controlling interests	6,461	5,548
Total assets	177,594	162,188
Equity ratio	9.4%	8.8%

[1] Adjusted in accordance with IAS 8, see the "Accounting policies" section of the Notes.

RETURN ON EQUITY

EUR million	2019	2018
Group net income [1]	923	703
Return on equity [2]	9.8%	8.0%

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

Changes in equity

Equity rose by EUR 2,349 million – an increase of 16.5% – to EUR 16,610 (14,261) million in the reporting period just ended.

Group equity (i.e. equity excluding non-controlling interests) amounted to EUR 10,149 (8,713) million.

The significant EUR 922 million increase in accumulated other comprehensive income and other reserves as against 31 December 2018 to EUR 665 million and the Group net income for the reporting period, EUR 923 (703) million of which is attributable to our shareholders and was allocated in full to retained earnings, combined with the dividend payment that reduces equity of EUR 367 (354) million to the shareholders of Talanx AG in May of the reporting period, resulted in a EUR 1,436 million (16.5%) rise in Group equity.

The increase in other reserves essentially reflects the positive change in unrealised gains on investments (up EUR 2,825 million/156.0%) and the rise in accumulated earnings from currency translation (up EUR 112 million/54.9%). This upturn was offset by changes in policyholder participation/shadow accounting (EUR –1,911 million/–90.2%) and the slight decline in measurement losses on cash flow hedges (EUR –3 million/–1.2%). The growth in unrealised gains on investments from EUR 1,811 million to EUR 4,636 million corresponds with the declines in spreads and in the risk-free interest rate seen during the reporting period. Changes in exchange rates – and particularly the appreciation of the US dollar against the euro – lifted the accumulated currency translation result to EUR –93 (–204) million.

Non-controlling interests rose by EUR 913 million (16.5%) to EUR 6.5 billion. Net income attributable to non-controlling interests in the reporting period amounted to EUR 748 (656) million. The dividend payment to non-Group shareholders of EUR 402 (380) million mainly related to the Hannover Re Group.

EQUITY BY DIVISION [1] INCLUDING NON-CONTROLLING INTERESTS

EUR million	31.12.2019	31.12.2018
Segment		
Industrial Lines	2,378	2,364
of which non-controlling interests	62	—
Retail Germany	2,572	2,443
of which non-controlling interests	76	61
Retail International	2,335	2,149
of which non-controlling interests	251	231
Reinsurance	11,166	9,491
of which non-controlling interests	6,654	5,773
Corporate Operations	–1,889	–2,228
of which non-controlling interests	—	—
Consolidation	47	42
of which non-controlling interests	–582	–517
Total equity	**16,610**	**14,261**
Group equity	10,149	8,713
Non-controlling interests	6,461	5,548

[1] Equity for the divisions is defined as the difference between the assets and liabilities of the division concerned.

The negative figure reported by the Corporate Operations segment reflects Talanx AG's leverage. As the Group holding company, Talanx AG is responsible for Group financing in the area of primary insurance and for the Corporate Operations companies. The associated liabilities mainly relate to pension provisions of EUR 1,186 (1,141) million, notes payable of EUR 1,065 (1,065) million, a subordinated bond of EUR 750 (750) million and provisions for taxes of EUR 45 (41) million. These liabilities are matched on Talanx AG's balance sheet by liquid assets, tax refund claims and, above all, by the carrying amounts of its interests in its subsidiaries, which are eliminated against the proportionate equity for the latter in the consolidated financial statements.

Changes in unrecognised valuation reserves

The unrecognised valuation reserves shown in the following table have not been adjusted for technical liabilities. Valuation reserves amounted to EUR 5.1 (3.8) billion and primarily related to loans and receivables. Further information can be found in the Notes to the consolidated balance sheet for the following items: "Investment property", "Loans and receivables", "Held-to-maturity financial instruments", "Other investments", "Investments under investment contracts", "Other assets", "Subordinated liabilities", "Notes payable and loans" and "Other liabilities".

EQUITY AND UNRECOGNISED VALUATION RESERVES

EUR billion	2019	2018
Group equity	16.6	14.3
Unrecognised valuation reserves before taxes including shares attributable to policyholders and non-controlling interests	5.6	4.4

Liquidity and financing

Talanx AG's cash inflows are primarily derived from dividends and profit and loss transfers from subsidiaries, as well as from equity and debt raised on the capital market. When coordinating capital requirements for the Talanx Group and the individual divisions, one of Talanx AG's core tasks is to optimise the Group's access to liquidity while minimising financing costs. Regular liquidity planning and an investment strategy aligned with liquidity requirements ensured that the Group was able to meet its payment obligations at all times. Moreover, a number of current account arrangements provide reliable access to internal Group funds, further enhancing the financial flexibility of both Talanx AG and the Talanx Group.

In addition, the Group had two syndicated variable-rate credit lines as at 31 December 2019, each with a volume of EUR 250 million. The credit lines run until 2021 and, at the latest, 2023 respectively. As in the prior year, these credit lines had not been 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 a group of 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. For more information see Note 26 in the "Notes to the consolidated balance sheet".

In addition, a master agreement with HDI V.a.G. allows the Group to offer HDI subordinated bonds with a maturity of five years and a volume of up to EUR 500 million for subscription on a revolving basis. For more information see the note on "Related party disclosures" in the "Other disclosures" section of the Notes.

Hannover Rück SE placed a subordinated bond of EUR 750 million with a term of 20 years on the European capital market in October 2019. The bond cannot be called under normal conditions before 9 July 2029. Further information can be found in Note 18 of the "Notes to individual items of the consolidated balance sheet". In the prior year, the Hannover Re subgroup issued a ten-year bond with a volume of EUR 750 million and a term of ten years.

In addition to the funds resulting from the changes in equity described above, we can also use our assets to cover provisions and liabilities. Various credit institutions have furnished 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 of the risk report.

Debt analysis

Our subordinated bonds and other debt instruments ("subordinated bonds") are used to supplement our equity so as to optimise our 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	2019	2018
Subordinated bonds issued by Hannover Finance (Luxembourg) S.A.	999	997
Subordinated bonds issued by Talanx AG	750	750
Subordinated bonds issued by Talanx Finanz (Luxemburg) S.A.	500	500
Subordinated bond issued by Hannover Rück SE	1,186	446
Subordinated loan taken out by HDI Assicurazioni S.p.A.	27	27
Subordinated bond issued by HDI Assicurazioni S.p.A.	14	14
Notes payable issued by Talanx AG	1,065	1,065
Notes payable issued by Hannover Rück SE	743	743
Mortgage loans taken out by HR GLL Central Europe GmbH & Co. KG	145	169
Loans from infrastructure investments	93	102
Mortgage loans taken out by Hannover Re Real Estate Holdings, Inc.	129	97
Mortgage loans taken out by Real Estate Asia Select Fund Limited	121	57
Other	15	16
Total	**5,787**	**4,983**

Further information on borrowing and changes to it can be found in Note 18 and Note 26 of the "Notes to the consolidated balance sheet".

Analysis of the consolidated cash flow statement

The consolidated cash flow statement is of only limited informational value for the Group. The latter's cash flow is largely determined by its business model, which is typical for a primary insurance and reinsurance undertaking. We generally receive premiums in advance for risks we have taken on and only make payments later on in the event of a claim. Funds are parked in interest-bearing investments until they are needed so as to earn regular income. We therefore do not regard the cash flow statement as a substitute for liquidity planning or financial planning, and nor do we use it as a management tool.

CASH FLOW SUMMARY

EUR million	2019	2018
Cash flows from operating activities	6,972	3,823
Cash flows from investing activities	−6,654	−3,538
Cash flows from financing activities	−203	−92
Net change in cash and cash equivalents	116	193

Cash flows from operating activities are characterised chiefly by changes in cash flow from the insurance business and investment income. The increase results primarily from the change in the technical provisions for life insurance policies where the investment risk is borne by the policyholders.

Cash outflow from investing activities was determined primarily by the purchase of financial instruments and cash inflow from the sale and maturity of financial instruments and takes into account changes in investments for the benefit of life insurance policyholders who bear the investment risk.

Cash flows from financing activities were impacted primarily by dividend payments for the last financial year and taking up subordinated liabilities. Please see our remarks in the presentation on the reconciliation of debts from financing activities in the Notes (consolidated cash flow statement) and in the explanations in Notes 18 and 26.

Cash and cash equivalents, which include cash at banks, cheques and cash-in-hand, and which also represent the total cash flows from operating activities, investing activities and financing activities, increased by EUR 156 million overall year-on-year to EUR 3.5 billion.

Group ratings

The Talanx Group and its companies again received very good ratings from international ratings agencies Standard & Poor's (S&P) and A. M. Best in the year under review. Generally, a distinction must be made between insurer financial strength ratings and issuer or counterparty credit ratings. The former primarily assess a company's ability to meet obligations to policyholders, while the latter rate its general credit quality.

Ratings decisions were made for a number of Talanx companies at the beginning of the reporting period, reflecting Talanx's revised strategy. Talanx AG was awarded a financial strength rating by S&P and A. M. Best for the first time. S&P awarded the Company an A+ ("strong") rating with a stable outlook, while A. M. Best awarded it an A ("excellent") rating, also with a stable outlook. After being granted a reinsurance license by the Federal Financial Supervisory Authority (BaFin) in December 2018, Talanx AG was classified as an operational holding company by the rating agencies. The change in the intragroup majority shareholder resulted in a change to the rating for HDI Global Specialty SE at the beginning of the reporting period, and is now classified as a core company in the Talanx Primary Insurance Group. In line with this, HDI Global Specialty SE now has a financial strength rating of A+ ("stable" outlook) from S&P, and of A (also with a "stable" outlook) from A. M. Best.

Financial strength ratings

FINANCIAL STRENGTH RATINGS FOR 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. and a number of its insurance 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's Reinsurance Division.

S&P's ratings for the Talanx Primary Insurance Group and Hannover Re subgroups remained unchanged in the reporting period, as did the stable outlook. The Talanx Primary Insurance Group's financial strength rating was confirmed at A+, stable outlook, in August 2019, with S&P attesting to its solid regional diversification and extremely strong capitalisation. S&P also confirmed the Hannover Re Group's financial strength rating of AA– in July 2019, an extremely strong assessment compared to competitors. The group's business risk profile and excellent diversification were highlighted as particular strengths. S&P also upgraded Hannover Re's two South African subsidiaries, Hannover Reinsurance Africa Ltd. and Hannover Life Reassurance Africa Ltd., in the reporting period. These are now again also rated AA– with a stable outlook on the basis of the guarantee given by Hannover Rück SE. The S&P financial strength ratings for the other subsidiaries remained stable in the reporting period, and were therefore unchanged.

A. M. Best assigned the primary insurance companies in the Talanx Group a financial strength rating of A ("excellent") and a "stable" outlook. The Hannover Re subgroup was given an A+ ("superior") rating with a stable outlook. A. M. Best justified the continuing very high ratings for the two subgroups on the grounds of their healthy earnings situation and excellent capitalisation. A. M. Best also upgraded the company PVI Reinsurance Corporation in the year under review to a financial strength rating of B++ ("Good"), stable outlook.

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 consider Talanx AG's credit quality to be good. In August 2019, S&P confirmed Talanx AG's issuer rating at A+ with a stable outlook. This puts the rating at the same level as the financial strength rating of the subsidiaries in the Talanx Primary Insurance Group. A. M. Best also confirmed Talanx AG's issuer rating at A+ with a stable outlook in September 2019.

In addition, there are various issuer ratings for bonds issued and/or guaranteed by Talanx AG. These ratings and all other issue ratings for bonds and loans issued by Group companies are set out in the disclosures on the consolidated balance sheet, in the Notes to the consolidated balance sheet under Note 18 "Subordinated liabilities" and Note 26 "Notes payable".

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

Talanx AG (condensed version in accordance with the HGB)

The annual financial statements and the management report for the financial year 2019, in the version in force at the reporting date, were prepared in accordance with the provisions of the German Commercial Code (HGB), the German Stock Corporation Act (AktG), the German Insurance Supervision Act (VAG) and the German Regulation on the Accounting of Insurance Undertakings (RechVersV).

Net income for the financial year in accordance with HGB is a key management metric for Talanx AG as the distributable dividends are measured in accordance with net income for the financial year under HGB.

Results of operations

STATEMENT OF INCOME (HGB)

EUR million	2019	2018
Technical account		
Net income before equalisation reserve	–6	—
Change in equalisation reserve and similar reserves	–2	—
Net technical result	**–7**	**—**
Non-technical reserve		
Income from investments	836	586
Investment expenses	5	122
Other income	30	4
Other expenses	256	242
Non-underwriting result	**606**	**226**
Result from ordinary activities	599	226
Taxes on income	17	14
Net income for the financial year	**582**	**212**

Talanx AG was awarded a reinsurance license by the Federal Financial Supervisory Authority (BaFin) on 21 December 2018 and has been able to underwrite non-life risks as a reinsurer since January 2019. Talanx AG will cover risks from Group companies in the Primary Insurance Group. As a result of this, the technical account was disclosed for the first time. The net technical result in the financial year was EUR –7 (—) million and includes both technical start-up losses and, in particular, an initial loss from the transfer of a loss portfolio for past years.

Performance in lines of business

INSURANCE BUSINESS AS A WHOLE

	2019		2018	
EUR million	Gross	Net	Gross	Net
Premiums	39	39	—	—
Premiums earned	38	38	—	—
Expenses on insurance claims	29	29	—	—
Expenses for insurance operations	15	15	—	—
Underwriting result (net)	–7	–7	—	—
%				
Expense ratio	76.2	76.2	—	—
Cost ratio	38.9	38.9	—	—
Combined ratio	115.1	115.1	—	—

Gross premium income came to EUR 39 million in the financial year 2019. Motor insurance accounted for the largest share of gross premium income at 52.6%.

GROSS PREMIUMS BY LINE OF BUSINESS

	2019	
	EUR million	%
Motor vehicle insurance	21	52.6
All risk insurance	5	13.4
Other insurance	5	12.3
Liability insurance	4	9.5
Fire insurance	2	6.1
Engineering insurance	2	4.6
Marine and aviation insurance	—	1.3
Casualty insurance	—	0.2
Total	**39**	**100.0**

Motor vehicle insurance

Gross premium income for the motor vehicle insurance line came to EUR 21 million, representing 52.6% of total premiums. The net loss ratio was 76.0%. After a EUR 1 million transfer to the equalisation reserve, the underwriting result remaining was EUR –4 million.

All risk insurance

All risk insurance accounted for 13.4% of gross premiums at EUR 5 million. The net loss ratio was 80.0% and the underwriting result broke even.

Other insurance
Other insurance accounted for a EUR 5 million share of gross premiums (12.3%), with a loss ratio of 44.4%. Net income before the equalisation reserve broke even, coming to EUR –1 million after a transfer to the equalisation reserve.

Liability insurance
The liability insurance line made up EUR 4 million of gross premiums, representing a share of 9.5%. The underwriting result was EUR –2 million. No equalisation reserve was established. The loss ratio was 121.2%.

Other lines
The remaining 12.2% of gross premium income is divided between engineering insurance (EUR 2 million), fire insurance (EUR 2 million), marine and aviation insurance and personal accident insurance lines. The underwriting result for the other lines after the equalisation reserve broke even.

Non-underwriting business

Net investment income increased to EUR 831 (464) million. A key driver of this was net income from long-term equity investments, which rose to EUR 674 (438) million. HDI Global SE generated profit of EUR 51 million in 2019 (after a loss of EUR 118 million in the prior year). This improvement was due predominantly to the fire line of business thanks to low large losses and successful restructuring. HDI Deutschland AG's net income from long-term equity investments also rose to a total of EUR 140 (86) million. This was driven in part by the positive effect on profit or loss of the "KuRS" restructuring programme, with net investment income also aided by the expected gain on disposal from the intra-Group disposal of HDI Reinsurance (Ireland) SE, Dublin, in 2019 for EUR 138 million.

Other comprehensive income improved slightly to EUR –225 (–238) million, thanks chiefly to income resulting from a change in interest rates on general tax provisions.

Tax expenditure came to EUR 17 (14) million in the reporting period. Net income for the financial year rose year-on-year to EUR 582 (212) million. After adding in the retained profit brought forward of EUR 119 (273) million, the distributable profit amounted to EUR 700 (485) million. The appropriation of the distributable profit can be found in the Notes to the Group Annual Report in the section "Other disclosures" under the item "Dividend per share and appropriation of the distributable profit".

Net assets

BALANCE SHEET STRUCTURE – ASSETS (HGB)

EUR million	2019	2018
Investments in affiliated companies and other long-term equity investments	7,398	7,545
Other investments	619	646
Deposits with ceding companies	68	—
Miscellaneous other assets	1,063	706
Total assets	**9,149**	**8,897**

As in previous years, Talanx AG's balance sheet is shaped by its role as a holding company and, on the assets side, largely by its interests in its subsidiaries, which are denominated in euros. Total assets rose by 2.8% to EUR 9,149 (8,897) million. Investments in affiliated companies and other long-term equity investments dropped to EUR 7,398 (7,545) million, primarily in view of the intra-Group disposal of HDI Reinsurance (Ireland) SE, Dublin. Other investments decreased to EUR 619 (646) million as overnight deposits and time deposits were reduced in favour of cash at banks and cash-in-hand under other assets. Deposits with ceding companies of EUR 68 (—) million were recognised for the first time in 2019 as a result of launching reinsurance business. Miscellaneous other assets increased to EUR 1,063 (706) million, driven largely by higher receivables under profit/loss transfer agreements and from affiliated companies from the sale of HDI Reinsurance (Ireland) SE, Dublin. The purchase price will be finalised and paid in 2020.

BALANCE SHEET STRUCTURE – EQUITY AND LIABILITIES (HGB)

EUR million	2019	2018
Equity	5,312	5,097
Subordinated liabilities	1,250	1,250
Technical provisions	71	—
Other provisions	1,051	983
Other liabilities	1,464	1,566
Total equity and liabilities	**9,149**	**8,897**

As at the reporting date, Talanx AG had agreed two available, syndicated variable-rate credit lines denominated in euros with two separate banking groups, which can be drawn down if necessary. The variable interest rate is based on Euribor plus a premium. The credit lines had a nominal value of EUR 250 million each as at the reporting date; as a result, a total of EUR 500 million had not been utilised, the same as in the prior year. On the basis of a cooperation agreement concluded with HDI Haftpflichtverband der Deutschen Industrie V.a.G. in 2016, Talanx AG is also able to offer HDI Haftpflichtverband der Deutschen Industrie V.a.G. subordinated bonds with a maturity of five years and a volume of up to EUR 500 million on a revolving basis. No such offer was made in 2019.

Talanx AG's capital structure and the composition of its liabilities primarily reflect its role as a holding company, a role which has now been expanded to include the new reinsurance business. Equity amounted to EUR 5,312 (5,097) million. The increase of EUR 215 million was due entirely to the distributable profit.

Technical provisions of EUR 71 (—) million were recognised for the first time as part of launching the reinsurance business. Other provisions increased to EUR 1,051 (983) million, attributable mainly to the rise in provisions for pensions and other post-employment benefits.

The decline in other liabilities to EUR 1,464 (1,566) million essentially reflected that liabilities from profit/loss transfer agreements to subsidiaries were eliminated that only existed in the previous financial year.

Financial position

Liquidity planning – which is performed by the Accounting department at least once a month – ensures that Talanx AG can meet its payment obligations at all times. This is flanked by an investment strategy that is aligned with liquidity requirements.

Talanx AG's main inflows of funds come from profit and loss transfer agreements with affiliated companies, income from participating interests and interest income from loans. The Group Controlling & Finance and Cash Management departments liaise regularly on expected liquidity flows during liquidity planning. The Company mainly uses its funds are to make interest and principal repayments on liabilities, and to pay dividends. Additionally, activities associated with acquiring or selling companies can lead to short-term inflows and outflows of liquidity.

The Company focuses on long-term reliability and capital strength when selecting lenders. Ampega Asset Management GmbH is responsible for ongoing monitoring of lenders' capital strength.

Targets in accordance with sections 76(4) and 111(5) of the AktG

With regard to targets for the proportion of women on the Board of Management and in the next two management levels below Talanx AG's Board of Management in accordance with sections 76(4) and 111(5) AktG, please see our comments in the "Declaration on Corporate Governance" in accordance with sections 289f and 315d HGB in the section of this report entitled "Corporate Governance".

Remuneration report

Talanx AG's remuneration system is the same as the remuneration system for the Talanx Group. The amounts shown in the remuneration report represent the Board of Management's remuneration in the financial year for work performed for the Talanx Group. In addition to remuneration components relating to work for Talanx AG, the amounts shown also include remuneration for work performed for the companies consolidated in the Talanx Group.

Risk report

As the holding company of a Group offering insurance and financial services with companies that operate primarily in the insurance industry, Talanx AG's business performance is subject to the same risks as that of the Talanx Group. Talanx AG's launch of operating reinsurance business at the beginning of 2019 does not significantly alter its risk profile. Talanx AG's earnings, and hence its risk, are mainly determined by its income from long-term equity investments and by profit and loss transfers from the individual companies. Talanx AG shares the risk associated with its long-term equity investments and subsidiaries firstly in proportion to its long-term equity interests in them and secondly via intragroup reinsurance. The Group risk report sets out the risks applicable to the subsidiaries and to Talanx AG itself.

Talanx AG recognised a loss ratio of 76.2% in its first financial year as a reinsurer, with the loss ratio for the financial year coming to 69.5%. The run-off is essentially characterised by a loss portfolio and is recognised at EUR –3 million without taking into account subsequent offsetting premiums. A run-off ratio does not yet provide meaningful information as business was launched on 1 January this year.

As at 31 December 2019, Talanx reported funds withheld by ceding companies of EUR 68 million for its primary cedant HDI Reinsurance (Ireland) SE, Dublin. There were no indications of impairment required as at the reporting date. There were also no material receivables due from cedants as at 31 December 2019. The maturities of receivables from cedants depends on the respective reinsurance contracts. They become due after the reinsurance accounts have been submitted in accordance with the contract.

Scenarios were examined for the first time in 2019 and so there are no prior year figures. No equities portfolios are available as at 31 December 2019 and so no stress tests were conducted.

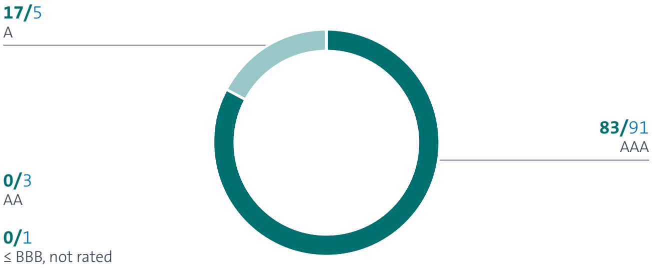
SCENARIOS FOR FAIR VALUE CHANGES IN SECURITIES

EUR million	2019
Change in portfolio on a fair value basis	
Portfolio	
Equities and other variable-yield securities	
Equity prices –20%	–
Fixed-income securities and other loans	
Increase in yield + 100 basis points	–0.1
Decrease in yield –100 basis points	+0.1

Talanx AG predominantly holds securities rated AAA, with only a very small number rated lower than A.

SECURITIES BY RATING CLASS

%



2019 / 2018

Report on expected developments and on opportunities

Talanx AG is closely intertwined with the Group companies and plays a correspondingly large role in the Group, and so the statements made in the Group forecast and report on opportunities also reflect expectations for the parent company Talanx AG. We expect to see a decline in net income for the financial year for Talanx AG in 2020, essentially a result of the non-recurring gain on the disposal of HDI Reinsurance (Ireland) SE, Dublin, in 2019.

Moreover, on 1 January 2019, Talanx AG began operations as an intragroup reinsurer and received the necessary reinsurance license from the Federal Financial Supervisory Authority (BaFin). We pool the reinsurance requirements for primary insurance at the holding company in order to take advantage of diversification effects throughout the Group. Both Standard & Poor's and A. M. Best subsequently upgraded Talanx AG's issuer rating by two notches. Future effects will particularly focus on investing capital more efficiently within the Group. From a Group perspective, there are no material changes to the risk profile.

Dependent company report

The report on relationships with affiliated companies that has to be prepared by the Board of Management in accordance with section 312 AktG stated that Talanx AG received appropriate consideration for all transactions with affiliated companies under the circumstances known at the time the transactions were conducted. There were no measures requiring to be reported in the reporting period.

Overall assessment of the economic situation

Talanx AG's management believes that business fared very well in the reporting period considering the overall economic environment and the conditions prevailing in the industry. Both gross premiums and EBIT rose considerably year on year and Group net income achieved the forecast, which had been raised during the year, setting a new record. Profits saw growth in all four divisions, with Industrial Lines and Reinsurance enjoying particular improvement despite large losses remaining high. The "20/20/20" programme, which aims to make fire insurance profitable, is making progress more quickly than expected.

All divisions reported growth in gross premiums. Group operating profit saw double-digit percentage gains, due chiefly to higher EBIT in the Industrial Lines Division and in the Life/Health Reinsurance segment. The Group return on equity slightly outperformed our forecast. The picture in the individual divisions was mixed: although reinsurance failed to reach its target, the other divisions met or exceeded their forecasts.

The Group is financially robust and, despite lower interest rates, its solvency ratio continues to be well above the level required by law and on the upper end of our target range. The Board of Management is of the opinion that the Group's economic situation is sound as at the preparation date of the management report. The persistently low interest rate environment, fuelled by central bank policy, and the regulatory environment remain challenging, particularly for life insurance activities in Germany. Despite the corridor approach introduced in 2018, which is to be welcomed, it was therefore again necessary to significantly strengthen the additional interest reserve in the year under review. By contrast, we do not believe that the UK's exit from the European Union on 31 January 2020 will have a material impact on the Talanx Group's net assets, financial position and results of operations.

Other reports and declarations

In addition to financial indicators, the Group also pays close attention to non-financial indicators.

Consolidated non-financial statement

Introduction

The Talanx Group takes ecological, social and governance aspects into account in its business activities. As an international insurance group and long-term investor, we are committed to responsible corporate governance based on sustainable value creation. Our customers generally enter into long-term relationships with us. We therefore take a forward-looking approach so as to ensure that we can continue to deliver on the promises made to our customers in the future, too.

Pursuant to the German Commercial Code (HGB), this consolidated non-financial statement was prepared in accordance with the requirements of section 315b and section 315c in conjunction with sections 289c to 298e of the HGB. It was also drawn up in accordance with the Global Reporting Initiative's GRI Standards.

The Talanx Group has only defined financial ratios/financial key performance indicators. There are no non-financial key performance indicators that are relevant to its business within the meaning of section 289c(3) no. 5 of the HGB.

Comprehensive information on our investments is provided in the "Net assets and financial position" section of the report on our economic position. We only refer to the consolidated financial statements in the section "ESG in insurance solutions" on page 70. There is no connection between the amounts reported in the Talanx Group's consolidated financial statements pursuant to section 289c(3) no. 6 of the HGB and the non-financial matters.

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 combined management report. PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft performed a limited assurance review of the consolidated non-financial statement in accordance with ISAE 3000 (Revised) (see the review opinion on page 245 f.).

References to information that is not included in the management report or the consolidated financial statements are not part of this consolidated non-financial statement.

In accordance with section 315b(1) 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 consolidated 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 statement by referring to this consolidated non-financial statement. Hannover Rück SE has not exercised the exemption option and publishes its own combined non-financial statement in its combined management report.

Description of the business model

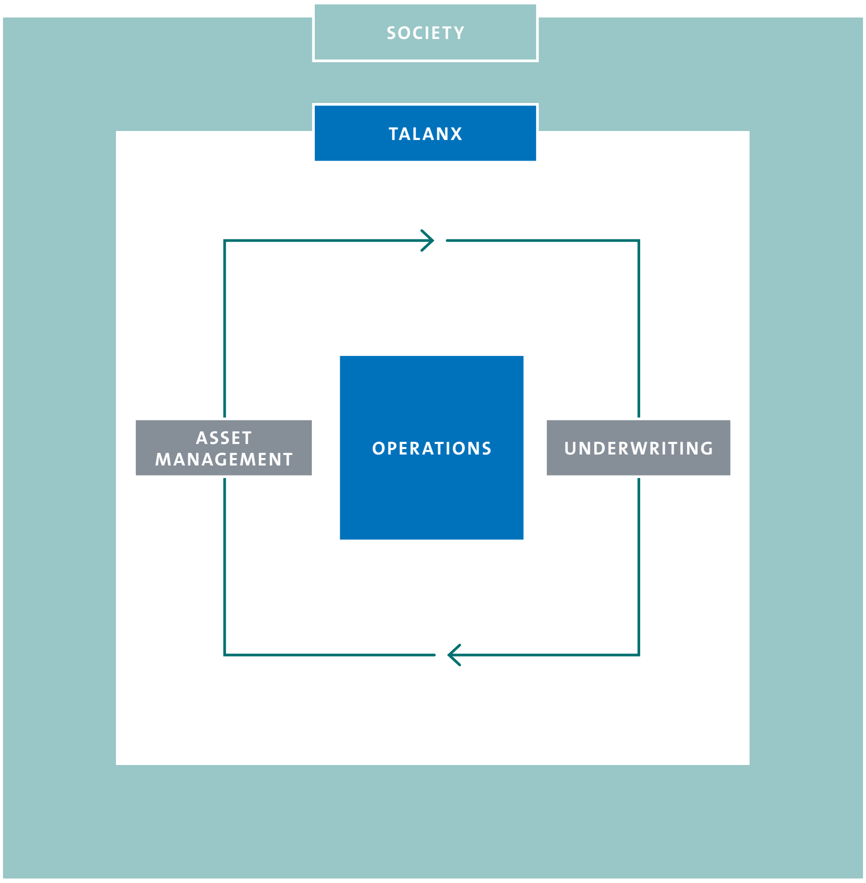
The Talanx Group is a multi-brand provider in the insurance and financial services sector. A detailed description of its business model is given in the "Business model" section of the combined management report (page 18).

Sustainability strategy and governance

Our sustainability strategy has been 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 in line with ecological and social challenges – in keeping with the Ten Principles set out in the UN Global Compact and the UN Sustainable Development Goals (SDGs).

We worked together with the Corporate Development department in financial year 2019 to enhance our sustainability strategy. Its contents and strategic cornerstones were discussed in detail and resolved during a closed-door meeting of the Board of Management that was held in the autumn.

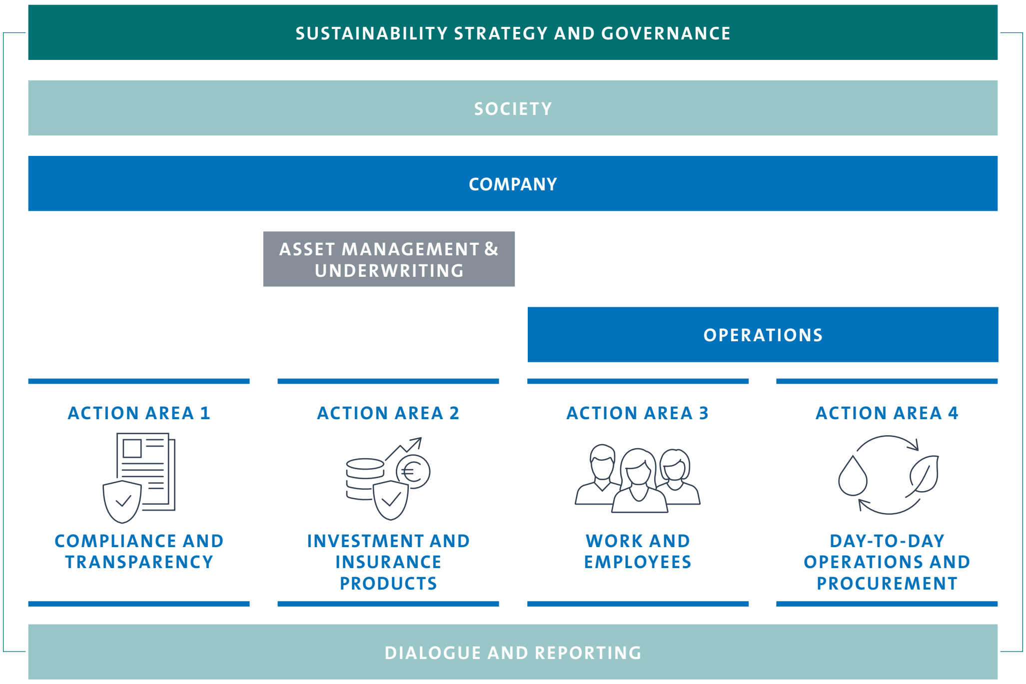
THE TALANX GROUP'S SUSTAINABILITY STRATEGY



The revised version addresses not only the social context in which the Talanx Group operates but also and in particular our core business: asset management, underwriting and operations. The main ways in which we at Talanx can contribute to sustainable development is through our asset management and insurance products. This is why we aim to integrate sustainability aspects more closely with our asset management activities (in line with the ESG criteria adopted by the Talanx Group), our insurance products and services, and our operational processes. Our enhanced sustainability strategy builds on our internal discussions to date of the SDGs (which included a priorities workshop attended by a number of specialist departments, among other things) and focuses in particular on the following SDGs: SDG 4 (Quality Education), SDG 5 (Gender Equality), SDG 7 (Affordable and Clean Energy), SDG 8 (Decent Work and Economic Growth), SDG 9 (Industry, Innovation and Infrastructure), SDG 12 (Responsible Consumption and Production) and SDG 13 (Climate Action).

In addition, the strategy and our 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 comprises two overarching areas – "Sustainability Strategy and Governance" and "Dialogue and Reporting" – plus four action areas:

THE TALANX GROUP'S SUSTAINABILITY STRATEGY – ACTION AREAS



We updated and expanded our 2014 stakeholder survey in financial year 2018. We identified the topics that are relevant for the consolidated non-financial statement using an internal survey of internal stakeholders and an online survey of external ones, plus telephone interviews with experts that were conducted in close cooperation with an external partner. We asked our internal stakeholders about the categories "relevance from their own perspective", "impact of business activities" and "relevance to the business". Our external stakeholders evaluated the relevance of the topics from their own individual perspectives. In the surveys, we investigated a variety of potential material issues and ranked them for importance on a scale ranging from 1 (= not important) to 7 (= extremely important). We classified issues that received an average score of 5.0 or more in the evaluation as "material". In addition, we held an internal workshop to prioritise the impacts of the Talanx Group's operations on the non-financial matters and included these in our assessment. Talanx AG's Board of Management defined "climate change" as an additional material aspect during the revision of our sustainability strategy in 2019 and confirmed the material topics from the previous year. Prior to this, we had included climate-related statements in the "ESG in asset management" and "ESG in insurance solutions" aspects. This means we have now identified a total of nine material issues within the meaning of the HGB; we also report on three other aspects voluntarily in the following. The allocation of the issues was adjusted compared to the previous year as defined within the meaning of the HGB.

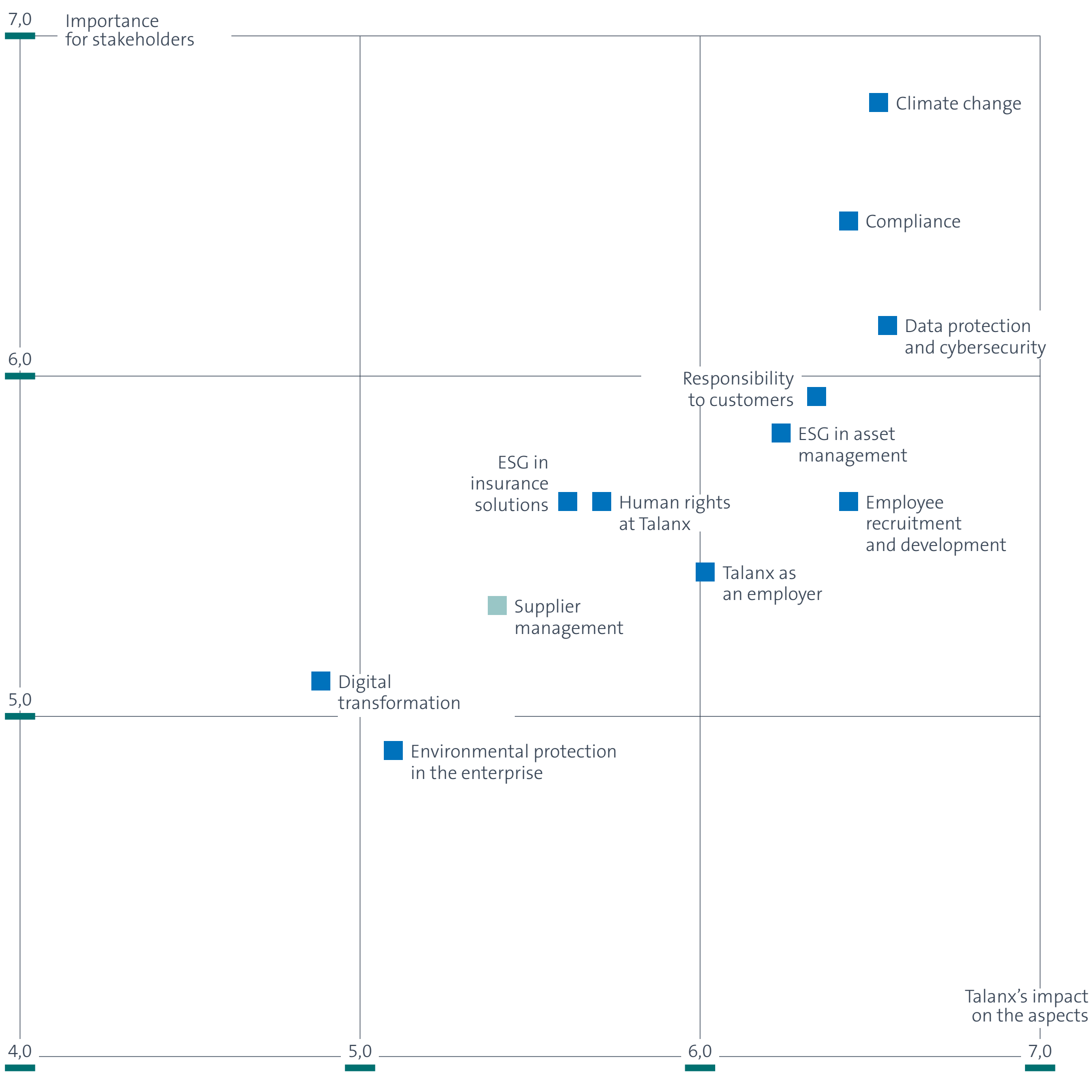
MATERIAL TOPICS AND CONTENTS OF THE CONSOLIDATED NON-FINANCIAL STATEMENT – AN OVERVIEW

Material topics	Non-financial aspects	Section of consolidated non-financial statement
Compliance	Anti-corruption and bribery matters	63 f.
Responsibility to customers	Social matters	64 ff.
Data protection and cybersecurity	Social matters	66 ff.
Digital transformation[1]	Social matters	68
ESG[2] in asset management	Social matters	69 f.
ESG in insurance solutions	Social matters	70
Employee recruitment and development	Employee matters	71 f.
Talanx as an employer	Employee matters	72 ff.
Human rights at Talanx	Respect for human rights	74
Supplier management[1]	Respect for human rights	75
Climate change	Environmental matters	75
Environmental protection in the enterprise[1]	Environmental matters	75 ff.

[1] Relevant issue that was not identified as material pursuant to the HGB but which is reported voluntarily.
[2] ESG = Environmental, social, governance.

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 TOPICS FOR THE TALANX GROUP



Measured on a scale from 1 (= not important) to 7 (= extremely important).
■ Topic that is relevant to the Talanx Group's business. ■ Topic that is not relevant to the Talanx Group's business.

Above and beyond the material topics in accordance with the HGB, we have voluntarily included three additional relevant issues that do not qualify as material under the HGB in the consolidated non-financial statement. These are:

- Digital transformation
- Supplier management
- Environmental protection in the enterprise

We perform our sustainability management activities throughout the Group. Ownership of the topic lies with the full Board of Management of Talanx AG. As is the case with the Group's other goals, values and strategies, the Board of Management resolves and monitors enhancements to Talanx's sustainability strategy, its sustainability goals and the implementation of the associated measures. The Board of Management has underlined the importance of sustainability for the Group by issuing a Sustainability Commitment; this additional information is published voluntarily on our website (https://www.talanx.com/~/media/Files/T/Talanx/pdfcontent/nachhaltigkeit/talanx_commitment_en.pdf).

At an organisational level, Group Communications is responsible for sustainability, and frames and coordinates sustainability management activities for the Talanx Group. This includes developing sustainability goals and preparing 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 divisions and Corporate Operations. The goals and measures are agreed, and data for reporting are captured, in consultation with a competence team comprising representatives from all divisions, the relevant companies, Corporate Operations and Talanx AG departments.

Hannover Rück SE has defined its own sustainability strategy. It publishes a separate sustainability report and a separate combined non-financial statement. Talanx AG and Hannover Rück SE maintain regular contact on sustainability issues and coordinate concrete activities with each other.

Risk assessment of non-financial aspects

The HGB 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. We identify risks throughout the Group using key indicators and a number of risk surveys. We have collected information on qualitative risks systematically using a Group-wide risk capture system. We address risks spanning multiple divisions, such as compliance risks, by involving the areas or experts concerned. To ensure that we have identified all risks, 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 the context of the non-financial aspects, we were unable to identify any material and extremely likely risks linked to the Group's operations or its business relationships, products or services that have or could have severe adverse impacts on the non-financial matters; this was the case both for the review by our sustainability management organisation and within our risk management processes. The same applies to Hannover Rück SE, which publishes its own combined non-financial statement. We monitor emerging risks such as climate change whose risk content cannot yet be reliably assessed as part of our Group-wide risk management process. We capture and assess these risks using a group-wide process that integrates experts from a number of different units, plus external expertise and material.

For a basic overview of our risk management system, please refer to the risk report on page 102ff. of the combined management report.

Anti-corruption and bribery matters

Compliance

For our Group, complying with the law is a vital prerequisite for sustained business success. This means that compliance is an integral part of all Group activities. In addition to the areas of our compliance programme that we have defined as core or coordination topics, we put particular emphasis on ensuring that environmental and social laws and regulations are observed.

Our Group-wide Code of Conduct[1], which is available in nine languages, is an effective tool that makes our commitment to complying with the laws in force transparent. It formulates fundamental legal and ethical requirements and duties that our staff have to abide by during their work. It expressly highlights the ban on money laundering and illegal financing, and expressly draws attention to the fact that the competent anti-money laundering officer and compliance officer must be informed of all suspected cases. It also sets out specific rules of conduct 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.

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 discussed and adopted as binding by the Group's companies in Germany and abroad. Additional details on the compliance policy are provided in business- and company-specific rulebooks.

Infringements of the law and of our rules can be reported anonymously at any time via a whistle-blowing system on our website. This online platform is currently available in German and six other languages. Alternatively, employees can pass on information to their line manager or directly to the compliance officer responsible for the company in question within the Talanx Group or the division concerned.

Our training plan, which is tailored to specific target groups, gives employees regular opportunities to refresh, broaden and deepen their knowledge of and expertise in selected compliance topics. We brief new employees on these issues as part of induction events. Web-based training (WBT) offerings have also become another important training instrument now. In addition to our anti-corruption courses, which ensure that gifts are dealt with correctly, we offer target-group-specific training on financial sanctions and embargoes, integrity, the capital market and antitrust law.

[1] Hannover Re has its own Business Principles, a revised version of which was formally adopted by the company's executive board on 29 May 2017. These apply in addition to Talanx AG's Code of Conduct, which expresses the Talanx Group's value system.

The Talanx Group's compliance organisation is an independent department. It is headed by the Chief Compliance Officer, who is also the Corporate Governance Officer and an authorised representative of Talanx AG, and who reports directly to the Chairman of Talanx AG's Board of Management. The compliance officers responsible for the individual divisions and Group companies report to the Group Chief Compliance Officer. The Compliance department is responsible for establishing and upgrading Group guidelines and structures designed to ensure compliance, for following up on complaints and compliance breaches, and for internal training within the Group. In addition, in-depth advice is provided on relevant compliance issues on an ad hoc basis 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 Chief Compliance Officer prepares an annual report for the Board of Management on material compliance issues and developments.

The Chief Compliance Officer also holds classroom training sessions for managers several times a year to promote the Group's compliance culture. This regular dialogue helps Group Compliance identify any consulting needs in good time and to develop customised training offerings for these. In addition to holding international compliance managers' meetings, we have introduced a regular virtual compliance meeting format known as ComplianceXchange, in which Group Compliance and local compliance officers from around the world regularly share best practice solutions and local developments in individual countries. This is flanked by information materials on specific compliance questions that are tailored to the needs of the different interest groups and that are permanently available on Talanx's intranet.

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. Fundamental information on dealings with these key interests groups is set out in our Code of Conduct for Business Partners, which was finalised and approved by the Board of Management in financial year 2019 (see the "Supplier management" section on page 75 of the consolidated non-financial statement).

GOALS AND MEASURES: "COMPLIANCE"

Goal	Measure	Scope	Deadline	Status
Review Compliance Guidelines for sustainability criteria and incorporate where necessary	Expand compliance management system to include Group-wide integrity management	Talanx Group	2020	In process
Optimise compliance management	Revise compliance manual	Hannover Re	2020	Done
	Optimise classification of compliance risks	Hannover Re	2020	Done
	Introduce Group-wide compliance plan, which will be used for the first time in 2020	Hannover Re	2020	In process
	Intensify cooperation with compliance officers at international locations	Hannover Re	2020	In process
	Regularly review corruption risk based on compliance risk analyses produced as part of compliance planning	Talanx Group	Ongoing	Done

The Group's compliance management system consists of the following elements: the compliance culture and rules, training and communication, organisation, compliance risks, core and coordination topics, and compliance monitoring and improvement. The latter builds on the compliance policy, which comprises Talanx's Code of Conduct, its Compliance Guidelines and work instructions.

Adherence to the compliance requirements is verified by Group Compliance and during internal audits. Content reviews of the applicable compliance policies are performed regularly and revisions made where necessary. The annual compliance report informs the Supervisory Board about significant compliance risks and the measures taken to ensure that existing requirements are met. For details, please refer to the risk report on page 102ff. of the combined management report.

Social matters

Responsibility to customers

In the "responsibility to clients" group of topics, easy-to-understand information about insurance solutions, the financial incentives for fair sales advice provided by the remuneration system, and rapid, transparent claims processing are material for us. These have a significant impact on customer satisfaction. Meeting customer needs is our top priority and is also reflected in our 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.

The Regulation on Information Obligations for Insurance Contracts (VVG-InfoV) imposes extensive duties on the insurance industry to inform their customers, which we comply with in full.

Above and beyond this, providing easy-to-understand information about insurance solutions is a key component of the Code of Conduct for Insurance Distribution produced by the German Insurance Association (GDV). We have also committed voluntarily to complying in full with this code.

GOALS AND MEASURES: "RESPONSIBILITY TO CUSTOMERS"

Goal	Measure	Scope	Deadline	Status
Easy-to-understand information about insurance solutions	The relevant companies in the Retail Germany Division have signed up to the Code of Conduct issued by the German Insurance Association (GDV). Following the implementation of the Insurance Distribution Directive (IDD), the companies have undertaken to abide by the revised, IDD-compliant version of the Code.	Germany and HDI Global SE	2018	Ongoing
Financial incentives for fair sales advice in the remuneration system	The provisions of the EU's Insurance Distribution Directive (IDD) were implemented at HDI Deutschland AG's and HDI Global SE's subsidiaries on schedule	Germany and HDI Global SE	2018	Done

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.

Following the implementation of the EU's Insurance Distribution Directive (IDD), manufacturers of insurance products have to comply with more extensive supervisory and management requirements. These are met by the companies in the Retail Germany Division.

HDI obliges its tied agents and the banks and other partners with which it works to put determining customer needs at the heart of their brokerage activities during consultations. 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 expressly waived such a record is an integral part of our application/contract documentation. The standardised digital sales processes provided by HDI also provide for a basic consultation document to be drawn up that is made available to customers.

Giving customers easy-to-understand information and focusing on their needs are a component of independent reviews and audits. We introduced a compliance management system in 2016 for HDI Versicherung AG, HDI Lebensversicherung AG and our bancassurance companies to ensure that the code is properly implemented. In 2018, HDI Versicherung AG and HDI Lebensversicherung AG were recertified by an independent auditor.

In the area of payment protection insurance, the sector implemented additional transparency standards and consumer rights at the beginning of 2018 as part of the introduction of new statutory requirements: among other things, consumers are now actively informed that payment protection insurance is voluntary and is not a precondition for being granted a loan. Consumers have the right and the opportunity to terminate the agreement at any time throughout its life. Additionally, the GDV and the banking associations are developing voluntary undertakings designed to further increase transparency. The banking partners for the Group's bancassurance companies (e.g. Hamburger Sparkasse AG, Postbank – a branch of DB Privat- und Firmenkundenbank AG, and TARGOBANK AG) are already working on disclosing to customers not just the loan instalment payment but also, for comparative purposes, the loan instalment payment that would be due if no payment protection insurance were payable. As a result, customers can directly see the monthly charge attributable to the payment protection insurance policy in addition to the amount explicitly disclosed in the agreement.

Within the Group, we aim to continually improve the fairness and transparency of our advisory services. Our Group-wide Code of Conduct and Compliance set the standards for this at all levels.

The GDV Code of Conduct for Insurance Distribution emphasises the importance of having qualified sales 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 either the intermediary's independence or customer interests. We implemented the requirements of the EU's Insurance Distribution Directive, including the related delegated acts and the various transpositions of the IDD into national law, on schedule in 2018.

The HDI Compliance Steering Committee is the core steering and oversight body both for the compliance management systems that are used by those companies that have signed up to the GDV Code of Conduct and for the implementation of the requirements relating to material risk takers in the Retail Germany Division resulting from the entry into force of the IDD and the relevant national legislation.

In order to ensure that intermediaries have the necessary qualifications and expertise required for advising customers, Talanx Group companies have been active 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. 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, we have drafted new sample agreements and drawn up clear rules for restructuring additional remuneration.

Our national and international Group companies use a variety of instruments to poll customer satisfaction – from their own customer surveys at various customer contact points through external assessment tools down to specialist conferences and the stakeholder dialogues that form part of our sustainability management.

Above and beyond this, we did not set any specific goals for the "responsibility towards customers" group of topics during the reporting period.

Data protection and cybersecurity

Information is an essential basis for our daily work. Customer data, and company and capital market information underpin all key decision-making and business processes: 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 we collect, process and store personal data in connection with human resources management, shareholders and our 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. We transfer personal data 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 and the like. External recipients are bound by contract and/or the law to comply with the data protection requirements.

The Group's Code of Conduct requires all 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 lay down binding rules for the material data protection requirements. We conduct awareness-raising measures and training, and perform random checks, on the basis of these Group requirements. Centrally defined methods have been specified for dealing with data subjects' rights (e.g. the right to access stored personal data), ensuring that the processes are implemented correctly. A system of reporting to 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.

Changes to interpretations (e.g. as a result of court rulings and pronouncements by data protection authorities) of the EU's General Data Protection Regulation (GDPR) and other statutory data protection requirements are assessed and communicated by the company data protection officers. In individual cases, interpretations or further details from the relevant authorities are still outstanding; these must be monitored and implemented following a brief analysis. Isolated complex modifications are still in the process of being implemented. We have established a common data protection framework for those of our branches and subsidiaries that are domiciled in the EU or the European Economic Area (EEA). The branch or subsidiary concerned must also observe the national legal data requirements. In 2019, we launched a structured survey of the implementation status of our Group measures; the results will be reported to senior management at the beginning of 2020.

GOALS AND MEASURES: "DATA PROTECTION AND CYBERSECURITY"

Goal	Measure	Scope	Deadline	Status
Supplement data protection solutions to incorporate initial experience gained since May 2018 (data protection guidelines, sample texts, checklists, etc.)	Review the requirements and the solutions used in the light of experience and interpretations to date	Germany	2019	Done
Train all senior executives and hold refresher courses every two years (attendance ratio at least 95%)	Roll-out e-learning data protection training course: refresher training concept to be completed in 2019 (the first roll-out took place in May 2018)	Germany	2019	Done
Extend the data protection training programme	Revise the training content (e-learning) and increase attendance ratio for employees (including new employees) achieved in 2018	Germany	2019	Done
Optimise the components of the data protection management system	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	2019	Done
Continue establishment of support services for foreign data protection management within the Primary Insurance group	Establish collaborative model for EU locations outside Germany to ensure compliance with minimum data protection standards	Talanx Group EU locations	2020	In process
Expand ad hoc monitoring policy in accordance with Art. 37 GDPR	Overview of ad hoc monitoring performed in functions and projects and at processors to assess compliance of processes and applications with data protection requirements	Germany	2020	In process
Expand policy for data protection coordinators (contacts within functions); among other things, these should perform function-specific data protection monitoring	Continue appointment and training of data protection coordinators and roll out modified policy for data protection monitoring by data protection coordinators appointed	Germany	2020	In process
Train all senior executives and hold refresher courses every two years (attendance ratio at least 95%)	Roll-out e-learning-based data protection course as refresher training for course held in May 2018	Germany	2020	In process
Implement employee data protection training	Roll-out e-learning-based data protection course as refresher training for course held in May 2018	Germany	2020	In process
Assess monitoring required for EU locations	Used structured survey to establish necessary monitoring measures to be performed by Group Data Protection at EU locations (starting in November 2019)	Talanx Group EU locations	2020	In process
Maintain ISO 27001 certification	Perform annual monitoring audits and obtain recertification of information security management systems after three years	Talanx Group	Ongoing	In process

We have established a data protection management system within the Group (Primary Insurance and Reinsurance Group). The system that has been established is largely based on the requirements of the GDPR. However, it has a number of different, target-group-specific focuses.

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, which are described in the following:

Group Data Protection is responsible for designing the data protection management system for companies belonging to HDI Deutschland AG. It issues data protection requirements, implements awareness-raising measures (training courses, etc.), monitors compliance and assists in operational design (consulting), as well as reporting to senior management.

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 implemented.

HDI International AG's subsidiaries have implemented the data protection management activities at a local level 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.

In 2019, we launched a structured questionnaire-based survey at HDI Global SE's and HDI International AG's EU locations with the objective of capturing the implementation status of Group requirements. We aim to use the results to identify areas where enhancements are needed along with areas in which the Talanx Group should conceivably perform detailed checks or provide consulting.

The business model used at Hannover Re gives rise to different risks that 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 Compliance organisation's structures are used to implement these minimum data protection law standards. Responsibilities are established and documented at Group level. Interfaces to Data Protection Management have been implemented. The GDPR does not affect all Hannover Re companies equally, e.g. if they are domiciled outside the EU or the EEA. Above and beyond this, local data protection laws must be observed.

Regardless of whether or not the GDPR applies in a particular case, the compliance officers appointed and the local data protection officers are responsible for local data protection requirements. Where necessary, they develop additional local data protection guidelines and interface with Hannover Re's Data Protection Officer in Germany.

Hannover Re's Data Protection Officer coordinates overarching aspects of the data protection management system that has been established within the Hannover Re Group. He advises on solutions to data protection law issues and monitors compliance with the GDPR and other data protection regulations. Data protection law requirements are monitored in close cooperation with Group Auditing using a documented interface. The findings of the separate data protection reporting system are included in the compliance report, among other things.

Group Data Protection at Talanx did not receive any notifications of reportable data breaches or incidents in the reporting period.

Clients, employees and partners trust Talanx Group companies every day with sensitive data that would also be extremely interesting to others outside the Company. We use an information security management system to keep these data safe. This system successfully underwent in-depth ISO 27001 certification in 2013 and has been reviewed externally every year since then. Flanking measures include the use of ISAE 3402 (ISAE stands for the International Standard on Assurance Engagements) and the IT-Grundschutz Catalogues published by the Federal Office for Information Security (BSI). Since HDI Deutschland AG and HDI Global SE meet the Federal Republic of Germany's critical infrastructure criteria, they have been linked to the central registry operated by the GDV, the German Insurance Association, since 2018.

Information security plays an important role in the selection of, and collaboration with, external service providers. For example, we require service providers to comply with, and audit them to, the same standards as our internal IT services.

The security standards in place at Talanx are continuously enhanced by an internal, growth-oriented unit that has been specifically authorised to perform this task and that reports directly to the Group CIO; the results are constantly monitored. In addition, our staff in this area regularly network with other experts, for example via the BSI's cybersecurity alliance, the Allianz für Cyber-Sicherheit (ACS). In addition to consciously managing IT risks, we use ongoing awareness campaigns to sensitize employees to security issues.

Digital transformation

Digital transformation is a strategic focus at the Talanx Group. It is being driven forward by the divisions, in line with our distributed Group structure. One focus is on upgrading our IT and systems environment to provide a basis for automation and for digitalising processes ("get ready"). The other two focus areas are content-related: data analytics, which addresses the issues of artificial intelligence and behavioural economics ("get skills"), and ecosystems/partnerships ("get bundled"). The holding company provides specific support, e.g. through international cooperation in our Group Digital Lab and AI & BE Lab, by scaling innovative best practices using "agile desks" and by entering into scouting and market intelligence partnerships with both start-ups and established enterprises.

GOALS AND MEASURES: "DIGITAL TRANSFORMATION"

Goal	Measure	Scope	Deadline	Status
Improve efficiency Increase revenue Enhance our cooperation readiness/interfacing ability	Defined initiatives and KPIs for the individual divisions	Industrial Lines Division	2022	In process
		Retail International Division	2022	In process
		Retail Germany Division	2022	In process
		Reinsurance division	2020	In process

ESG in asset management

The Talanx Group has total assets under management of approximately EUR 134.1 billion. As in the prior year 82% was invested in fixed-income securities as at 31 December 2019, while equities accounted for just under 1%. Roughly 3% was invested in real estate. The remainder is attributable to asset classes such as private equity and infrastructure, and to cash positions, funds withheld by ceding companies and investment contracts. Investors, analysts and customers are becoming more and more interested in how the Talanx Group takes social and ecological issues into account in its asset management activities. This is why we are increasingly avoiding investments in non-sustainable investments. To do this, we have developed a Group-wide ESG screening process. At the same time, we want to make a positive impact through our asset management. We do not currently measure or quantify these effects.

In financial year 2019, Talanx AG signed up to the United Nations' Principles for Responsible Investment (PRI), a finance initiative that provides a framework for sustainable investing. This has strengthened its sustainability strategy and committed it to observing the PRI's six principles for responsible investing.

Our Responsible Investment Committee (RIC) has set out filter criteria for securities investments since 2017. It also examines whether to hold or sell individual positions. The committee is chaired by Talanx AG's CFO. We have also analysed securities investments throughout the Group for compliance with ESG criteria since 2017. Screening is performed on the basis of the UN Global Compact's Ten Principles. In addition to these ten universal principles, which relate to the areas of human rights, labour standards, the environment and anti-corruption, we exclude investments in controversial weapons such as anti-personnel mines. In 2018, we expanded our list of screening criteria to include coal. We no longer invest in companies that derive more than 25% of their revenue or generate more than 25% of their power from coal. Above and beyond this, we are limiting the duration of our investments to 2038. This is in line with the Talanx Group's sustainability strategy, which sets out the goal for the Group in Germany of exiting coal entirely by that year. We also extended our list of screening criteria in 2019 to include oil sands. The new screen excludes companies that generate more than 25% of revenues from this source. We also check before making new securities purchases whether the issuers meet the ESG criteria. We use separate investment guidelines for asset classes such as infrastructure and real estate that cannot currently be included in the screening procedure. Among other things, we exclude investments in facilities involving a significant potential environmental impact such as nuclear power projects. We commission an external service provider to perform ESG screening every six months. This involves assessing all tradable fixed-income securities and shares included in the Talanx Group's assets under own management.

Investments in core infrastructure are another component of asset management. Since demand in this area is largely immune to short-term economic volatility, it is an excellent planning choice for institutional investors. At the same time, the projects are a good fit for an insurer's long-term investment horizon. Our affinity for long maturities and our expertise in this area allow us 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 our core selection criteria for investments is a regulated environment, e.g. in the form of statutory feed-in fees, incentive-based regulation and public-private partnerships (PPPs). 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 been indirectly involved in infrastructure projects for some time via funds and has also participated directly in selected projects since the beginning of 2014, providing both equity and debt. At present, our diversified infrastructure portfolio includes, among other things, finance for wind and solar farms, power grids and public-private partnership projects in Germany and the rest of Europe.

GOALS AND MEASURES: "ESG IN ASSET MANAGEMENT"

Goal	Measure	Scope	Deadline	Status
Check sustainability criteria when selecting investments	RIC to continuously review and, where appropriate, fine-tune the sustainability approach applied in asset management	Talanx Group	Ongoing	In process
Increase investments in infrastructure and renewable energies to up to EUR 5 billion	Continue sectoral diversification of infrastructure portfolio	Talanx Group	Ongoing (longer-term goal)	In process
Enhance the sustainability approach adopted in asset management	Use negative screening criteria, perform negative screening every six months and apply a best-in-class approach	Hannover Re	2020	In process

Additionally, direct infrastructure investments with investment volumes of between EUR 30 million and EUR 150 million per project (equity) and between EUR 50 million and EUR 250 million (debt) are planned; the investment horizon is 5–30 years. As at the end of 2019, the Talanx Group had invested a total of approximately EUR 2.5 (2.1) billion in infrastructure projects. Roughly EUR 1.5 billion of this figure is attributable to renewable energy sources. For 2020, the Infrastructure Investments team expects new investments to total approximately EUR 300–400 million of equity and debt.

ESG in insurance solutions

Our inclusion of social matters and support for environmentally friendly products and projects are in line with the growing importance attached by customers to these issues. Customer satisfaction can also improve employees' satisfaction and identification with their employer. In addition, insurance products today increasingly have to be reviewed for their ecological and social impact and their relevance to sustainable development.

Our 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, impacts can be remedied or mitigated. Information on provisions for asbestos-related claims is contained in our risk report on page 102ff. Positive social impacts include the core purpose of the insurance business – 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 uses a number of policies and guidelines to ensure compliance with human rights at industrial policyholders, such as its internal Code of Conduct and its Code of Conduct for Business Partners.

In the long term, the Talanx Group's goal is to increase the inclusion of sustainability criteria in its insurance products and services. This is why it defined an underwriting policy for coal risks in the spring of 2019. It is withdrawing in the long term from insuring coal risks and is no longer underwriting risks for newly planned coal-fired power stations and coal mines. However, in individual cases and following a review of the technical standards, Talanx will permit a limited number of exceptions to the ban on insurance cover in states in which coal accounts for a particularly large proportion of the energy mix and where there is insufficient access to alternative energy sources. Since coal can only be phased out responsibly in the medium to long term, we aim not to have any coal-fired power stations or coal mines in our portfolio by 2038.

In financial year 2019, Talanx's Board of Management decided, in the interests of increasing internal transparency about ESG aspects in underwriting, to add a fixed item – "Responsible Underwriting Committee" (RUC) – to the agenda for the first Board of Management meeting ever year. The aim is for this body to also look more closely at ESG aspects in underwriting, starting in January 2020.

GOALS AND MEASURES: "ESG IN INSURANCE SOLUTIONS"

Goal	Measure	Scope	Deadline	Status
Support, develop and expand sustainable insurance solutions	Reduce exposure to fossil fuels	Hannover Re	2020	In process
	Increase exposure to renewable energies	Hannover Re	2020	In process
	Support various sustainability initiatives, including in developing and threshold countries	Hannover Re	2020	In process
	Expand sustainable insurance solutions in Life & Health area	Hannover Re	2020	In process

A large number of products from the Talanx Group's insurance companies support more 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. Additionally, the Industrial Lines Division would cover prototype development, such as for tidal power plants. Insurance cover would start with construction and extend for many years of operation by the customer. In this way, Talanx Group companies are supporting Germany's change in energy policy.

Equally, Hannover Re promotes the increased use of climate-related products such as weather insurance and energy savings insurance. It also contributes to social advances in underdeveloped regions by offering solutions such as microinsurance and agricultural insurance. These enable people without large financial reserves to insure themselves against basic risks such as sickness, occupational disability, the consequences of natural disasters or failed harvests. In addition, Hannover Re is actively involved in developing index-based disaster finance concepts, which guarantee South American and Asian states rapid financial aid in case of natural disasters.

No information is currently available on the monetary value of products and services that were developed by the Talanx Group to deliver a specific environmental or social benefit.

Employee matters

Our human resources activities aim to support our staff in their work in such a way that we can achieve our corporate goals as optimally as possible, retain existing employees and attract new ones. Key elements of our human resources work – such as human resources support and human resources development – are closely aligned and coordinated. These areas all play a major role in addressing current human resources issues, from ensuring a positive, agile culture through contemporary recruitment processes and staff qualification/professional development topics down to designing incentive systems and state-of-the-art working conditions.

Employee recruitment and development

Our employees use their talents in numerous ways to drive forward our business success and promote customer satisfaction. Our professional programmes assist in employee development and help staff continuously enhance their skills. Our human resources activities also take demographic change, the decline in the number of experts in certain areas and changes in the world of work into account. We use a variety of strategic approaches to ensure we always have adequate numbers of talented young staff. These include dual-track vocational training and degree courses, graduate trainee programmes for particular functions and induction programmes for young professionals. Recruitment and employee development is also governed by our diversity management policy. We define this term in this context as consciously promoting variety among the workforce and ensuring equal opportunities so that all employees can deploy their skills and talents as optimally as possible. Human resources controlling is responsible for planning, managing and monitoring human resources activities and processes within the Talanx Group. Key elements of this process include regular analyses of changes in the headcount and human resources reporting (both internal and external). Our Operational Auditing Competence Centre regularly performs risk and process audits for the human resources area in accordance with the principles set out by the Institute of Internal Auditors (IIA).

External human resources marketing measures help position the Talanx Group as an attractive employer. For example, we are making increased use of social media channels to communicate with potential applicants. In 2019, the Group took part in a number of university and careers fairs with the aim of positioning the companies in the Talanx Group as an attractive employer.

GOALS AND MEASURES: "EMPLOYEE RECRUITMENT AND DEVELOPMENT"

Goal	Measure	Scope	Deadline	Status
Review human resources guidelines for sustainability criteria and supplement these where necessary	Analyse/review existing guidelines for sustainability criteria	Primary Insurance Germany	Ongoing	In process
Ensure adequate numbers of talented young staff	Facilitate initial vocational training and dual-track degree programmes	Primary Insurance Germany	Ongoing	In process
Maintain/restore employees' working capacity	■ Roll out employee health days/ health management to locations ■ Employee qualification offerings ■ Sports offerings for employees ■ Continue existing health/screening and prevention programmes	Primary Insurance Germany	Ongoing	In process
		Hannover Re	2020	In process
Extend further education measures for specialists and managers	Personal development and induction programmes for specialists/experts, managers and project team leaders Continuing professional development per employee in 2019: 2.7 days	Primary Insurance Germany	Ongoing	In process
	Encourage all employees to participate in professional development measures, and review and enhance training offering for all employees	Hannover Re	2020	In process

Initial vocational training is a key component of our activities to attract and retain talented young staff 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 in the range of 80% to 90% for years. A number of different companies within the Talanx Group offer a wide range of training options, from classic vocational training through to bachelor's degrees.

A broad range of internal training opportunities ensures our employees have the skills they need to perform their current and future tasks. We are increasingly deploying new learning formats here, which permit both digital learning and collaborative learning based on targeted networking within the Group. In addition, our financial support for in-service vocational training and degree programmes promotes employability in general.

Identifying and developing high flyers and high-potential employees is a core element of our human resources development work. Customised development programmes are used to prepare and qualify high-potentials for their future work. Since 2018, our development programme for young professionals aims to ensure that the best vocational trainees and dual-track degree students stay with the Group. In addition, we offer ongoing qualification measures designed to develop employees' professional and methodological expertise and strengthen their personal skills. We established our Agility Campus in 2018 to support our transformation into an agile organisation. This offering, which is aimed at both managers and employees, comprises a number of different modules, teaches participants about agile methods and helps create an agile mindset. In addition, our employee reviews, feedback instruments and personal stocktaking exercises provide staff with a feedback framework that can help them to reflect on their own behaviour and adapt it to changing 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 Group divisions. The focus in 2019 was on digital transformation.

The Talanx Group's university marketing strategy focuses on selected universities in order to recruit suitable graduates for the Group. In addition, our 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, actuarial science and insurance 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, mobile working opportunities 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 long periods of staff service for the Group.

At Group level, Hannover Re has also expanded its staff retention, development and empowerment measures. As in the past, activities in the reporting period revolved around providing support for employees and managers on how to deal with the impact of the tangible changes in the world of work, such as those caused by agile working and by automated/digitalised workflows. Managers took advantage of a number of different formats to familiarise themselves with the topics of change management and agility, with the goal of introducing relevant aspects into their daily work. The basics were taught in a well-attended two-day seminar, while opportunities for introducing the topics and all the various issues associated with then were addressed as appropriate in more detail – alongside other topics – during the "Praxistage", or examined in customized workshops for individual departments. In addition, Hannover Re continued offering prevention seminars designed to improve resilience.

Talanx as an employer

Our diversity management activities aim to promote a corporate culture that is open, respectful and appreciative, and in which people with different individual skills can work happily together. Our goal is to actively strengthen diversity so as to maintain and enhance our Company's competitiveness. The Talanx Group employs men and women from an extremely wide range of national, ethnic, religious and personal backgrounds. There are numerous examples of developments that are changing the nature of work within the Group. These include a rising number of female and older employees, the entry into the workforce of generations Y and Z, the need for greater mobility and an improved work-family balance, and increasing globalisation and an associated rise in the proportion of people from migrant backgrounds. Active diversity management is built into the planning, management and monitoring of human resources activities and processes within the Talanx Group, and is part of human resources controlling (see also the "Employee recruitment and development" section on page 71 f.).

GOALS AND MEASURES: "TALANX AS AN EMPLOYER"

Goal	Measure	Scope	Deadline	Status
Diversity/increase proportion of women in management positions (rate of increase depends on the starting position for the company concerned)	Recruit women to at least 25% of vacant management positions at all levels of the hierarchy in Germany	Germany (primary insurance)	Ongoing	In process
	Recruit women to at least 35% of management positions	WARTA Group	Ongoing	In process
	Mentoring programme for women	Germany (primary insurance)	Ongoing	In process
	Frauen@Talanx network	Germany (primary insurance)	Ongoing	In process
	Seminar offering for women	Germany (primary insurance and reinsurance)	Ongoing	In process
	Women accounted for 17.4% of second- and third-level management positions at the company's Hannover location (target: 18%), and 17.1% at Group level	Hannover Re	Ongoing	In process
Women should account for at least 18% of second- and third-level management positions at our Hannover location	Repeat the mentoring programme for women in 2019 and 2020	Hannover Rück	Ongoing	In process
Work-family balance/work-life balance	■ Flexible working time models (flexible and part-time working, where the tasks performed permit flexibility) ■ Mobile working ■ Deferred compensation scheme ■ Contribution to childcare costs ■ Parent-child office ■ Talingo EAP (external advice for employees) ■ Health days	Germany (primary insurance)	Ongoing	In process
	■ Flexible working time models (flexible working, models for part-time working and working from home, and mobile working) ■ Company crèche at the Hannover location	Hannover Re	2020	In process
Internationality	■ International Management Development Programme (MDP) ■ Shadowing opportunities for foreign employees ■ Secondments abroad	Talanx Group	Ongoing	In process
Employee survey	"Organisational Health Check" survey	Talanx Group	Annually	In process
Remuneration and performance	■ Positions assigned to salary bands set out in collective agreement for the insurance industry ■ Use of Hay job evaluation method, including associated remuneration system, for management functions	Talanx Group (not including Hannover Re)	Ongoing	In process

The Group takes a large number of measures to promote diversity, prevent discrimination and support its employees' development regardless of their origins. The Group Board of Management's "Diversity Commitment" undertakes to acknowledge, value and incorporate diversity as part of Talanx's corporate culture. In addition, the Board signed the Diversity Charter, which serves as a binding basis for our activities, back in 2013. Equally, the Board of Management takes diversity into consideration when making appointments to management positions, in line with the Company's Corporate Governance Principles.

The "Frauen@Talanx" women's network gives the Talanx Group's female employees a platform for gender-specific networking. Its members act as contacts for female colleagues from their divisions and as multipliers. The women's network is sponsored by Torsten Leue, the Chairman of Talanx AG's Board of Management.

The Talanx Group is keen to ensure a successful work-life balance and supports this by offering flexible working time models, opportunities for part-time work and a deferred compensation scheme. Additionally, mobile working enables employees to manage their daily work more flexibly and hence, for example, improve their work-family balance.

Since 2014, parents in the first year after returning to work following parental leave have received a tax-free Group subsidy of up to EUR 100 a month towards the cost of looking after their preschool children. Parent-child offices at a number of locations help solve short-term childcare problems.

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. Health days were held at all locations in Germany during the reporting period. In addition, employees can take advantage of free, anonymous external counselling and a family service in the case of private, professional or psychological issues.

To understand how employees view the Group's culture and organisation, Talanx's Board of Management invited around 23,300 or so employees to take part in an "Organisational Health Check" (OHC) survey for the first time at the end of 2019. The Talanx OHC comprises roughly 30 questions and will be repeated every year.

The Group's remuneration system comprises a performance-driven and responsibility-based salary plus results-based components and attractive social benefits. Salary adjustments based on internal and external remuneration analyses ensure that the remuneration paid by the Group is competitive. At Talanx, individual salaries depend on the function performed and the employee's personal professional qualifications and performance. Jobs are assigned to the salary bands set out in the collective agreement for the insurance industry and, in the case of management positions, salaries are based on a non-employee-specific job evaluation that is performed using the standardised Hay method.

Respect for human rights

Human rights at Talanx

The following statement on the steps that the Group has taken during the financial year ending on 31 December 2019 to prevent forms of modern slavery and human trafficking is provided in accordance with section 54(5) of the UK Modern Slavery Act 2015:

As an international group with around 23,300 employees worldwide, we are aware of the obligations towards our employees and business partners that result from our size and market position. Consequently, we are committed to respecting human rights and actively supporting employee rights worldwide in line with the applicable laws, conventions and regulations in this area. To reinforce this and to make the importance of compliance transparent for our employees and business partners, Talanx has adopted a range of internal rules and regulations designed to ensure and monitor its compliance with human rights. A number of works agreements on human resources topics also exist. Particularly relevant in this context are the sections on Talanx's Code of Conduct and the whistle-blowing system (see the relevant paragraphs of the "Compliance" section on page 63 ff. of the consolidated non-financial statement) and on the Code of Conduct for Business Partners (see the following section on "Supplier Management"), which we resolved in financial year 2019. In addition to the measures described above, we launched a revision of Talanx's Code of Conduct in the reporting period.

GOALS AND MEASURES: "HUMAN RIGHTS"

Goal	Measure	Scope	Deadline	Status
Review Talanx's Code of Conduct	Stronger focus on the human rights aspect	Talanx Group	2022	In process

There were no other results in the "human rights at Talanx" group of topics and nor were any more far-reaching projects implemented; a comprehensive policy has not been resolved to date.

Supplier management

Although we consider the risk of human rights abuses and of significant negative environmental impacts 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 developed a uniform Group Code of Conduct for Business Partners in the reporting period, which was resolved by the Board of Management, in order to underscore our commitment and to be able to exert a positive influence over and above the legal requirements. The document covers both IT and non-IT procurement and sets out binding rules on the following topics: anti-corruption and bribery matters, respect for human rights, environmental, social and other employee matters, data protection and the protection of business secrets.

We already launched the implementation process for the new code of conduct in the individual divisions during the reporting period.

GOALS AND MEASURES: "SUPPLIER MANAGEMENT"

Goal	Measure	Scope	Deadline	Status
Take sustainability criteria into account more in procurement	Develop and successively implement a uniform Group code of conduct for suppliers in appropriate languages	Talanx Group	2018	In process
Continuously assess approximately 90% of suppliers (measured in terms of procurement volumes) in accordance with environmental and social standards	Ongoing supplier selection and assessment in accordance with environmental and social standards	Hannover Re	2020	In process

Hannover Re also uses a similar code and has developed corresponding procedures. Its key suppliers and subcontractors are required to comply with the minimum standards set out in Hannover Re's Code of Conduct for Suppliers. In line with this, supplier management at our Hannover location provides for supplier assessments to be performed at event-driven intervals. Suppliers are evaluated on the basis of self-assessments and using an application-based procedure; in the case of a critical assessment in an environmental, social or governance (ESG risk category) they are put on a negative list, which means that no further orders will be placed with them.

Environmental matters

Climate change

For us as a global insurance group, climate change is a material sustainability aspect that has a significant impact on all our business activities. Consequently, effective climate protection is fundamental to our sustainability agenda. We are committed to the transformation process aimed at reducing emissions from business and intend to make a constantly growing contribution to this via the three elements of asset management, underwriting and environmental management.

Due to the complexity of the challenges resulting from climate change, the departments belonging to the Talanx Group share information both regularly and on an ad hoc basis (see the "Sustainability strategy and governance" section on page 59 ff. of the consolidated non-financial statement). Particularly important in this context are the Responsible Investment Committee (RIC) and Responsible Underwriting Committee (RUC), which are helping to put Talanx's sustainability strategy into practice.

The challenges posed by climate change impact all areas of the entire Talanx Group. Climate aspects can potentially have negative effects on the Company's net assets, financial position and results of operations, and on its reputation. As climate change affects various aspects, please see the corresponding sections of the consolidated non-financial statement for a presentation of the related targets and measures. In the reporting period Talanx's Board of Management formulated the overarching strategic goal of achieving carbon neutrality at its German locations from financial year 2019 onwards. We established our corporate carbon footprint in Germany for the first time and have already compensated for approximately 31,000 tonnes of unavoidable CO_2 emissions by participating in two high-quality compensation projects in Uganda (reforestation: VCS & CCBS project) and Brazil (sustainable forestry: VCS & CCBS project); as a result, we have achieved this sustainability goal. Talanx's approach is firstly to avoid and then to reduce greenhouse gases, and only in a third step to compensate for them.

Environmental protection in the enterprise

As a service provider, the Talanx Group has a comparatively small environmental impact. The effects that we do produce stem mainly from the employees at our locations, who consume energy and materials, take business trips and travel to and from work every day. Nevertheless, the Talanx Group aims to minimise the negative ecological impact of its business operations. Our attempts to make our day-to-day operations and procurement activities sustainable and cost-efficient focus on using resources sparingly. This applies in particular to the consumption of energy, water and materials.

Talanx pursues the goal of reducing emissions and energy consumption; this goal is constantly monitored. In addition, we perform energy audits in accordance with DIN EN 16247 in line with the German Energy Services Act (EDL-G). We used our participation in the collaborative ÖKOPROFIT project in 2018 specifically to take stock of our situation, analyse our weaknesses and develop measures to improve our internal environmental management. Our analysis and reviews also incorporate ESG rating results.

GOALS AND MEASURES: "ENVIRONMENTAL PROTECTION IN THE ENTERPRISE"

Goal	Measure	Scope	Deadline	Status
Reduce CO_2 emissions and the consumption of energy and resources	Successively migrate to renewable energies	Germany	2018 onwards	Implementation ongoing
	Optimise energy consumption by adjusting timer programs, using efficient LED lighting in all buildings owned by the Talanx Group, and making greater use of occupancy detectors in offices (implementation of measures arising from the energy audit)	Germany	approx. 2026	In process
	Step up internal communication on cutting energy and paper consumption in the workplace (continuously raise employee awareness of sustainability issues)	Germany	Ongoing	In process
Expand and promote sustainable mobility policies	Equip all company cars with a Climate Card fuel card, which ensures that the CO_2 emissions are compensated in full.	Germany	2020	In process
	Mobility policy/sustainability strategy: a) Only vehicles in energy efficiency classes A and B will be permitted as new company cars (status vehicles) b) Plug-in hybrid vehicles that are eligible for subsidies under the German Electromobility Act (EmoG) will be permitted as new company cars c) Company cars do not have to be used as the preferred means of transport; climate-friendly alternatives such as rail travel are also permitted d) The holding period for vehicles will be reduced to 48 months. This will enable a more rapid switch to new technologies.	Germany	2020	In process
	Electromobility a) Implementation of plans for expanding charging stations at locations currently ongoing b) Company cars (hybrids) can be charged at locations. Monthly employer subsidy for private charging. c) Planning stage: Pilot project for all-electric vehicles as company cars d) Planning stage: Change to rules governing SUVs, from 2021 onwards only plug-in hybrids will be permitted	Germany	2020	In process
	Use e-smarts for city trips in Hannover, Cologne, Hamburg and Dortmund in order to reduce pollutant emissions	Germany	2017 onwards	In process
	In a pilot project at our central location in Hannover, employees are being offered the opportunity to charge electric vehicles or e-bikes at charging towers or charging stations. Expansion of the scheme to additional locations is starting.	Germany, Hannover	2017 onwards	In process
	Implement the measures resulting from the "ÖKOPROFIT" project	Germany, Hannover	2019	In process
Expand and promote corporate environmental protection	Participate in the "Hannover ohne Plastik" (HOP – "Hannover without Plastic") initiative. Measures include reducing plastic bottles by using water coolers, and reducing plastic packaging in canteens and cafeterias. Removal of waste paper baskets and plastic inserts in offices in Hannover and Cologne	Hannover, Cologne	2019 onwards	Implementation ongoing
	Cap on power spikes	Germany	2019 onwards	Implementation ongoing
Load management	■ Reduce electricity consumption per employee by 10% ■ Cut carbon-neutral heating energy requirements by 5% ■ Cut paper consumption by 15% ■ Keep water consumption and CO_2 emissions constant	Hannover Re	2020	In process
Continuously enhance environmental management	■ Drive forward shift to climate-neutral locations (international), ■ (Re)certify environmental management system	Hannover Re	2020	In process

The Talanx Group has sourced green electricity for its locations in Germany since the start of financial year 2019. The power is sourced in accordance with RenewablePLUS green energy label requirements. The certificate issued to Talanx in 2019 covered deliveries of 24,408 MWh.

Our 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. We want to reduce the number of internal business trips by making greater use of videoconferencing technology.

For the Talanx Group as a service provider in the insurance and finance areas, the “materials used” aspect mainly relates to paper consumption. The volume of other materials used in the production of insurance cover and other services is not significant. We focus on a variety of sustainability seals when procuring paper. 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 established standard environmental protection processes by introducing a DIN EN ISO 14001 certified environmental management system at its Hannover location, and defined concrete targets in its environmental programme. Since then, the environmental management system has undergone annual certification audits; as from 2016, these have been conducted in accordance with the revised DIN EN ISO 14001:2015 standard. In addition, Hannover Re has published a validated EMAS III environmental statement every year since 2016.

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 pursuant to 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 sets out key statutory requirements for the management and governance of German listed companies and contains internationally and nationally recognised standards for good, responsible governance. The Code aims to promote confidence in German corporate governance by investors, customers, employees and the general public. Section 161 of the German Stock Corporation Act (AktG) requires the boards of management and supervisory boards of German listed 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 or are not being followed and why ("comply or explain").

The Board of Management and Supervisory Board hereby declare in accordance with section 161 of the AktG that, when implementing the German Corporate Governance Code in the current version dated 7 February 2017, Talanx AG departed from the following recommendations of the Code in the period since the last declaration of conformity was issued on 9 November 2018, and that it continues to do so. In all other cases, the recommendations of the Code in the current version dated 7 February 2017 were and continue to be complied with.

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

Part of the variable remuneration paid to members of the Board of Management takes the form of Talanx share awards. The maximum number of share awards at the grant date depends on the total amount of variable remuneration, which is capped. This means that the granting of share awards is subject to this cap. Share awards are subject to a four-year vesting period. As a result, members of the Board of Management are exposed to both positive and negative developments at the Company during this period, as reflected in the share price. After the vesting period expires, the value of the share awards is paid out to the members of the Board of Management. The amount paid out is determined on the basis of Talanx's share price as of the payout date, plus an amount equal to the total dividends per share distributed during the vesting period. This means that the share awards are aligned with how Talanx's shares perform financially.

Consequently, the amount of variable remuneration resulting from share award grants is capped on the grant date, but is not capped again on the payout date. The Company believes that it does not make sense to impose a further cap as of the payout date on the amount of variable remuneration resulting from the share awards, given that the latter are designed to align the interests of shareholders and members of Talanx AG's Board of Management. In the Company's view, making payments in the form of Talanx share awards corresponds in economic terms to a compulsory investment in Talanx shares with a four-year holding period.

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

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

Terminating a contract of service early without good cause is only possible by mutual agreement. Even if the Supervisory Board were to insist on severance caps being agreed when entering into or renewing Board of Management contracts, this would not rule out the possibility of negotiations relating to a Board of Management member's departure also extending to such a severance cap. In addition, the Company's freedom to negotiate an exit would be restricted if a severance cap were agreed; this could be particularly disadvantageous if it is unclear whether good cause for termination exists. Therefore, Talanx AG believes it is in the Company's interests to depart from the recommendation set out in section 4.2.3 (4) of the Code.

3. Section 5.3.2 (3) sentences 2 and 3 of the Code (chairmanship of the Audit Committee)

The current Chairman of the Finance and Audit Committee is also the Chairman of the Supervisory Board. Prior to his appointment as a member of the Supervisory Board, he was a member and Chairman of the Company's Board of Management. Our goal is for his exceptional knowledge of the primary insurance and reinsurance business, and his many years of experience in managing the Company and the Group to remain at Talanx AG's service, and for the work of the Supervisory Board to benefit from it in this key role. Additionally, since he also held the position of Chief Financial Officer at an earlier point in time he has extensive knowledge and experience of applying accounting principles and internal control procedures in the primary insurance and reinsurance sectors. He is therefore particularly well suited to his role as Chairman of the Finance and Audit Committee. By combining this position with his position as Chairman of the full Supervisory Board, he coordinates the work of the two bodies and can therefore optimise their efficiency. For this reason, the Company believes that the current Chairman of the Supervisory Board is optimally suited to chairing the Finance and Audit Committee. It is therefore in the Company's interests to depart from the recommendations contained in section 5.3.2 (3) sentences 2 and 3 of the Code.

Apart from the above-mentioned departures, the Company will continue to comply with all recommendations of the German Corporate Governance Code in the version dated 7 February 2017 in the future, too.

Hannover, 8 November 2019

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

[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).

The declaration of conformity and further information on corporate governance at Talanx can be found on our website at https://www.talanx.com/corporate-governance/entsprecherklaerung/2019.aspx. 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.

Targets 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

The female quota on Talanx AG's Supervisory Board is defined at at least 30% in accordance with the statutory regulations. More than 30% of the Supervisory Board of Talanx AG – both in its entirety and divided by employee representatives and shareholders representatives – are women.

The Supervisory Board has resolved to aim to appoint at least one woman to the Board of Management in the period 1 July 2017 to 30 June 2022. A target proportion of 20% has been set for the first management level under the Board of Management and 30% for the second.

Corporate Governance report

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 (https://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

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 listed German companies.

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 6 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 7 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 period of office that began in 2018 – or 2019 for the employee representatives – is the first period of office to be taken into account in this regard.

The Supervisory Board is to have a number of independent shareholder members that it considers to be appropriate. The number of at least five independent members from the Company and from the Board of Management, as well as at least two independent members from the controlling shareholder is considered appropriate; employee representatives on the Supervisory Board are not taken into account here.

Diversity concept – targets for Board of Management and Supervisory Board composition and status of implementation

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. At present, the Supervisory Board has five female members. One woman sits on each of the Nomination Committee, the Finance and Audit Committee and 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.

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.

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 paid to the Board of Management and the Supervisory Board

The remuneration report beginning on page 84 ff. 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.

Securities transactions subject to disclosure requirements (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 disclosures and publications required in accordance with Article 19(2) and (3) of the Market Abuse Regulation but also publishes the Directors' Dealings on its website.

Shares held by the Board of Management and the 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 2019.

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. This general approach is reflected in the way the Group-level process for identifying compliance risks is reviewed and refined on a regular basis. As a result, an up-to-date risk map is available at all times and paves the way for the risk-oriented resource input in terms of 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. The compliance guidelines embody the contents of the code and set out minimum requirements in respect of core compliance issues. They are split into topic and Division-specific instructions. 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. In addition, the compliance policy was supplemented by a Code of Conduct for Business Partners in the year under review, which refined the processes for the examination of business partners and further signalled Talanx's commitment to responsible business practices.

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 based on a communication and training plan tailored to different specific groups.

In terms of staff, Talanx's compliance organisation consists of the Chief Compliance Officer, and additional compliance officers responsible for the individual divisions of the Talanx Group. Exceptions to this are the Hannover Re subgroup and HDI Global Specialty SE, which have their own compliance organisations that liaise closely with Talanx's Compliance department. Compliance officers are appointed in the decentralised Group units in Germany and abroad and are the first point of contact regarding compliance questions for local employees.

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. This includes the explanations on the acquisition of own shares.

Restrictions on voting rights and the transfer of shares

In the case of section 136 AktG, voting rights of the shares concerned are excluded by law. Beyond that, there are not currently any restrictions on voting rights and the transfer of shares.

Direct and indirect interests in the share capital exceeding 10% of the voting rights

HDI Haftpflichtverband der Deutschen Industrie V.a.G., HDI-Platz 1, 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.

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 company (section 24(1) sentence 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 71 ff. 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 71(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 contingently by up to EUR 31,599,700 at the same Annual General Meeting (Contingent Capital II). 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) authorising the Board of Management, subject to the approval of the Supervisory Board, to increase the share capital on one or more occasions in the period up to 10 May 2022 by a maximum of EUR 157,998,521.25 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. Shareholders' pre-emptive rights may be disapplied in the case of cash capital increases for certain specified purposes, subject to the approval of the Supervisory Board. They may be disapplied in the case of non-cash capital increases, also subject to the approval of the Supervisory Board, where this 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.

Distribution agreements with DB Firmen und Privatkundenbank AG (legal successor of Deutsche Postbank AG) and with its Postbank sales subsidiaries, based on the cooperation agreements with Deutsche Postbank AG dated 18 July 2007, each contain a clause that, in the event of the direct or indirect acquisition of control 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 terminatio.

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 2019 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.

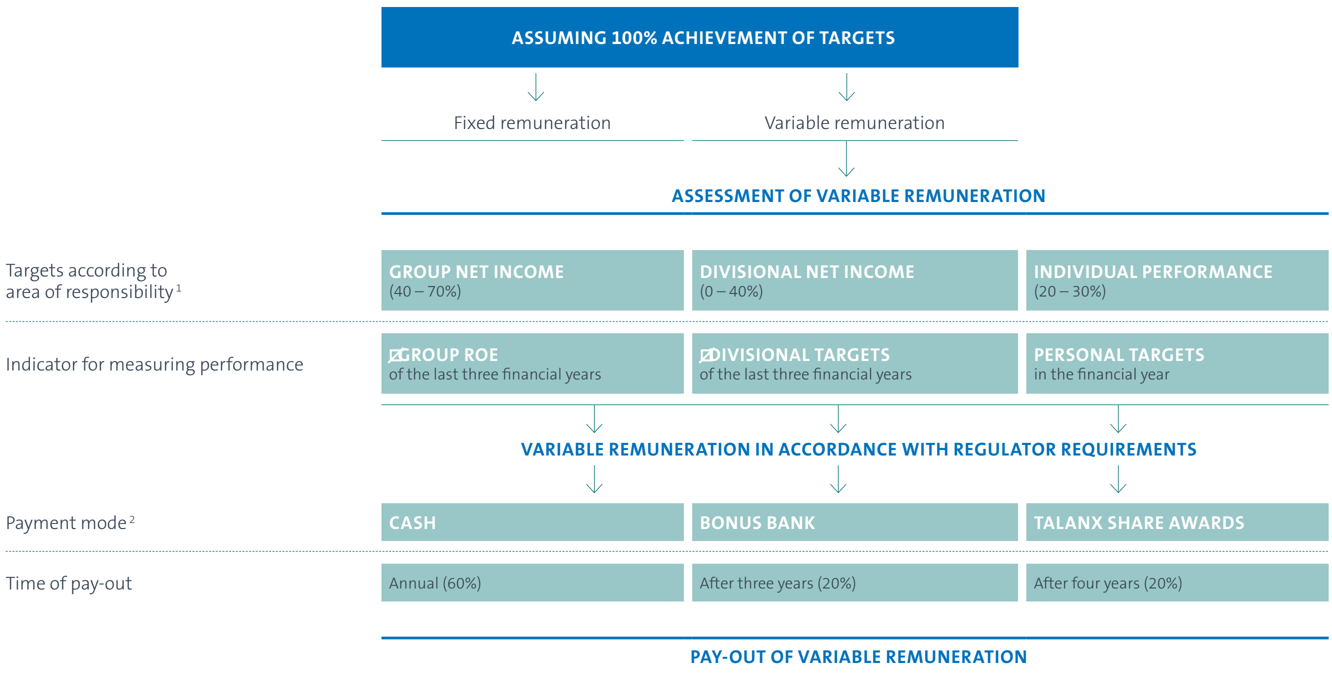
The remuneration report is based on the recommendations of the German Corporate Governance Code (version applicable to the 2019 financial year dated 7 February 2017) and contains information that is included in the Notes to the 2019 consolidated financial statements in accordance with IAS 24 "Related 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 (Vorst AG) 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).
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 55% to 75% 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 2019: 0.28%). 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: 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. 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		
Share of variable remuneration Chairman of the Board of Management and Chief Financial Officer: 70% Divisional managers on the Board of Management: 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 (8% RoE from 2019 onwards) plus risk-free interest rate; for 2019: 8.28% ■ 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; ■ Calculation of RoE: Group net income in accordance with IFRS (excluding non-controlling interests)/ arithmetical mean of Group equity in accordance with IFRS (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		
Share of variable remuneration Chairman of the Board of Management and Chief Financial Officer: 0% Divisional managers on the Board of Management: 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 annual targets ■ Amount determined by Supervisory Board after due assessment of extent to which targets were achieved
Individual bonus		
Share of variable remuneration Chairman of the Board of Management and Chief Financial Officer: 30% Divisional managers on the Board of Management: 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.

An active 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.

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 2017. Please see our remarks in the declaration of conformity in the "Declaration on Corporate Governance" section on page 78 ff. 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 12,329 (9,820) 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 [9]		Performance-related remuneration [1,8]		
					Short-term	Medium-term
		I	II	III	IV	V
Name		Fixed remuneration	Non-cash benefits/fringe benefits	Variable remuneration payable	of which remuneration from memberships of Group supervisory bodies [2]	Allocated to bonus bank [3]
Torsten Leue	**2019**	850	12	1,008	123	336
	2018	760	12	633	7	211
Herbert K. Haas (until 8 May 2018)	**2019**	—	—	—	—	—
	2018	317	10	311	292	104
Dr Christian Hinsch [10] (until 9 May 2019)	**2019**	212	6	308	8	5
	2018	576	14	424	8	141
Sven Fokkema (since 9 May 2018)	**2019**	450	13	433	—	144
	2018	290	8	247	—	82
Jean-Jacques Henchoz (since 9 May 2019)	**2019**	693	1,077	836	—	279
	2018	—	—	—	—	—
Dr. Edgar Puls (since 9 May 2019)	**2019**	232	6	210	3	70
	2018	—	—	—	—	—
Dr Immo Querner	**2019**	638	19	582	113	194
	2018	638	19	461	128	154
Ulrich Wallin (until 9 May 2019)	**2019**	245	2	408	—	136
	2018	630	14	893	—	298
Dr Jan Wicke	**2019**	677	—	650	13	217
	2018	630	—	573	13	191
Total	**2019**	**3,997**	**1,135**	**4,435**	**260**	**1,381**
	2018	**3,841**	**77**	**3,542**	**448**	**1,181**

1 No governing body resolution regarding the amount of performance-related remuneration for 2019 had been taken as at the 2019 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 2019.
3 The figure shown represents the nominal amount; payment will be made in full or in part from 2023 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 2024 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 44,18 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 2020.
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 172,30 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 2020.
8 Payments for performance-related remuneration in 2018 exceeded the provisions recognised for this by a total of EUR 330 (199) thousand. The total amount recognised for performance-related remuneration in 2019 and the number of share awards for 2019 were increased accordingly.
9 The non-performance related remuneration includes a special payment of EUR 1 million for Mr Henchoz.
10 The figure shown represents the benefits for Dr Hinsch's work performed as an active member of the Board of Management. His further benefits for financial year 2019 of EUR 923 thousand are included in the aggregate benefits of former members of the Board of Management.

	Performance-related remuneration[1,8]				
		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]
	336	—	2,542	7,609	—
	211	—	1,827	7,079	—
	—	—	—	—	—
	104	—	846	3,485	—
	5	—	536	112	—
	141	—	1,296	4,741	—
	144	—	1,184	3,266	—
	82	—	709	2,761	—
	50	229	3,164	1,121	1,330
	—	—	—	—	—
	70	—	588	1,582	—
	—	—	—	—	—
	194	—	1,627	4,390	—
	154	—	1,426	5,161	—
	28	108	927	632	562
	67	229	2,131	2,254	1,982
	217	—	1,761	4,906	—
	191	—	1,585	6,408	—
	1,044	**337**	**12,329**	**23,618**	**1,892**
	950	**229**	**9,820**	**31,889**	**1,982**

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
Torsten Leue	**2019**	71	—	459	—			**530**
	2018	38	—	142	—	—	—	**180**
Herbert K. Haas (until 8 May 2018)	**2019**	—	—	452	—			**452**
	2018	89	—	98	—	—	—	**187**
Dr Christian Hinsch (until 9 May 2019)	**2019**	—	—	469	—			**469**
	2018	51	—	138	—	—	—	**189**
Sven Fokkema (since 9 May 2018)	**2019**	60	—	46	—			**106**
	2018	24	—	—	—	—	—	**24**
Jean-Jacques Henchoz (since 9 May 2019)	**2019**	15	70	—	—			**85**
	2018	—	—	—	—	—	—	**—**
Dr Edgar Puls (since 9 May 2019)	**2019**	21	—	—	—			**21**
	2018	—	—	—	—	—	—	**—**
Dr Immo Querner	**2019**	77	—	427	—			**504**
	2018	43	—	129	—	—	—	**172**
Ulrich Wallin (until 9 May 2019)	**2019**	25	97	168	1,012			**1,302**
	2018	43	173	82	899	—	—	**1,197**
Dr Jan Wicke	**2019**	41	—	376				**417**
	2018	33	—	—	—	—	—	**33**
Total	**2019**	**310**	**167**	**1,945**	**1,012**	**—**	**—**	**3,434**
	2018	**321**	**173**	**589**	**899**	**—**	**—**	**1,982**

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 2018 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 2018 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 two active Members of the Board of Management 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 is 50% 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 four active Members 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 these contracts amounts to 20% or 25% of pensionable income (fixed annual remuneration).

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 1,479 (1,784) thousand. The service cost (and/or annual funding contribution) for active Members of the Board of Management amounted to EUR 1,555 (1,655) thousand. Individualised disclosures are presented and explained in the following table.

ACCRUED PENSION RIGHTS FOR ACTIVE MEMBERS OF THE BOARD OF MANAGEMENT

EUR thousand

Name		Pension commitment[1]	Present value of DBO[2]	Cost of retirement provisions[3]
Torsten Leue	**2019**	350	5,936	578
	2018	350	4,661	546
Herbert K. Haas (until 8 May 2018)	**2019**	—	—	—
	2018	478	13,183	317
Dr Christian Hinsch (until 9 May 2019)	**2019**	325	8,711	228
	2018	325	7,658	217
Sven Fokkema[4] (since 9 May 2018)	**2019**	60	499	90
	2018	41	339	48
Jean-Jacques Henchoz[4] (since 9 May 2019)	**2019**	52	149	188
	2018	—	—	—
Dr Edgar Puls[4] (since 9 May 2019)	**2019**	94	938	90
	2018	—	—	—
Dr Immo Querner	**2019**	217	5,244	206
	2018	217	4,429	196
Ulrich Wallin (until 9 May 2019)	**2019**	258	—	—
	2018	258	6,874	173
Dr Jan Wicke[4]	**2019**	123	1,031	175
	2018	115	776	158
Total	**2019**	**1,479**	**22,508**	**1,555**
	2018	**1,784**	**37,920**	**1,655**

1 Value of the agreed annual pension that can be achieved 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, or an annual funding contribution for defined contribution pension commitments, respectively..
4 There is a defined contribution pension commitment.

Total payments made to former Members of the Board of Management and their surviving dependants, for which there were 8 (8) commitments in force in the year under review, amounted to EUR 2,222 (1,098) thousand. Provisions recognised for pension obligations towards this group of people totalled EUR 33,881 (31,517) 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 IN THE YEAR UNDER REVIEW IN ACCORDANCE WITH SECTION 4.2.5(3) (1ST BULLET POINT) OF THE GERMAN CORPORATE GOVERNMENT CODE

EUR thousand		Benefits granted										
		I	II	III	IV	V	VI	VII	VIII	IX	X	
Name		Fixed remuner-ation	Fringe benefits	Total (I + II)	One-year variable remuner-ation	Multi-year variable remuner-ation (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	Overall remuner-ation
Torsten Leue, Chairman of the Board of Management (since 8 May 2018) Head of Division (until 8 May 2018)	**2019[1]**	850	12	**862**	797	532	266	266	—	**2,191**	578	**2,769**
	(Min.)[2]	850	12	**862**	—	–580	–580	—	—	**282**	578	**860**
	(Max.)[3]	850	12	**862**	1,593	1,062	531	531	—	**3,517**	578	**4,095**
	2018[1]	760	12	**772**	670	446	223	223	—	**1,888**	546	**2,434**
Herbert K. Haas (until 8 May 2018)	**2019[1]**	—	—	**—**	—	—	—	—	—	**—**	—	**—**
	(Min.)[2]	—	—	**—**	—	–621	–621	—	—	**–621**	—	**–621**
	(Max.)[3]	—	—	**—**	—	—	—	—	—	**—**	—	**—**
	2018[1]	317	10	**327**	797	531	266	266	—	**1,655**	—	**1,655**
Dr Christian Hinsch, Deputy Chairman of the Board of Management (until 9 May 2019)	**2019[1]**	212	6	**218**	264	—	—	—	—	**482**	228	**710**
	(Min.)[2]	212	6	**218**	—	–264	–264	—	—	**–46**	228	**182**
	(Max.)[3]	212	6	**218**	528	—	—	—	—	**746**	228	**974**
	2018[1]	576	14	**590**	559	373	186	186	—	**1,522**	217	**1,739**
Sven Fokkema, Head of Division (since 9 May 2018)	**2019[1]**	450	13	**463**	390	260	130	130	—	**1,113**	90	**1,203**
	(Min.)[2]	450	13	**463**	—	–85	–85	—	—	**378**	90	**468**
	(Max.)[3]	450	13	**463**	780	520	260	260	—	**1,763**	90	**1,853**
	2018[1]	290	8	**298**	253	169	84	84	—	**720**	48	**768**
Jean-Jacques Henchoz, Head of Division (since 9 May 2019)	**2019[1]**	693	1,077	**1,770**	630	420	210	45	165	**2,820**	188	**3,008**
	(Min.)[2]	693	1,077	**1,770**	—	—	—	—	—	**1,770**	188	**1,958**
	(Max.)[3]	693	1,077	**1,770**	1,260	840	420	90	330	**3,870**	188	**4,058**
	2018[1]	—	—	**—**	—	—	—	—	—	**—**	—	**—**
Dr Edgar Puls, Head of Division (since 9 May 2019)	**2019[1]**	232	6	**238**	203	136	68	68	—	**577**	90	**667**
	(Min.)[2]	232	6	**238**	—	—	—	—	—	**238**	90	**328**
	(Max.)[3]	232	6	**238**	405	270	135	135	—	**913**	90	**1,003**
	2018[1]	—	—	**—**	—	—	—	—	—	**—**	—	**—**
Dr Immo Querner, Chief Financial Officer	**2019[1]**	638	19	**657**	491	328	164	164	—	**1,476**	206	**1,682**
	(Min.)[2]	638	19	**657**	—	–509	–509	—	—	**148**	206	**354**
	(Max.)[3]	638	19	**657**	981	654	327	327	—	**2,292**	206	**2,498**
	2018[1]	638	19	**657**	491	327	164	164	—	**1,475**	196	**1,671**
Ulrich Wallin, Head of Division (until 9 May 2019)	**2019[1]**	245	2	**247**	274	183	91	22	70	**704**	—	**704**
	(Min.)[2]	245	2	**247**	—	–319	–319	—	—	**–72**	—	**–72**
	(Max.)[3]	245	2	**247**	547	364	182	43	139	**1,158**	—	**1,158**
	2018[1]	630	14	**644**	743	496	248	60	188	**1,883**	173	**2,056**
Dr Jan Wicke, Head of Division	**2019[1]**	677	—	**677**	550	366	183	183	—	**1,593**	175	**1,768**
	(Min.)[2]	677	—	**677**	—	–538	–538	—	—	**139**	175	**314**
	(Max.)[3]	677	—	**677**	1,100	734	367	367	—	**2,511**	175	**2,686**
	2018[1]	630	—	**630**	510	340	170	170	—	**1,480**	158	**1,638**

1 Target (value at achievement of a target of 100%).
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.

INFLOW IN/FOR THE YEAR UNDER REVIEW IN ACCORDANCE WITH SECTION 4.2.5(3) (2ND BULLET POINT) OF THE GERMAN CORPORATE GOVERNMENT CODE 2017

EUR thousand

Name		Fixed remuneration	Fringe benefits	Total	One-year variable remuneration [1]
Torsten Leue, Chairman of the Board of Management (since 8 May 2018) Head of Division (until 8 May 2018)	**2019**	850	12	**862**	791
	2018	760	12	**772**	584
Herbert K. Haas (until 8 May 2018)	**2019**	–	–	**–**	28
	2018	317	10	**327**	773
Dr Christian Hinsch, Deputy Chairman of the Board of Management	**2019**	212	6	**218**	434
	2018	576	14	**590**	492
Sven Fokkema, Head of Division (since 9 May 2018)	**2019**	450	13	**463**	256
	2018	290	8	**298**	–
Jean-Jacques Henchoz, Head of Division (since 9 May 2019)	**2019**	693	1,077	**1,770**	–
	2018	–	–	**–**	–
Dr Edgar Puls, Head of Division (since 9 May 2019)	**2019**	232	6	**238**	–
	2018	–	–	**–**	–
Dr Immo Querner, Chief Financial Officer	**2019**	638	19	**657**	474
	2018	638	19	**657**	504
Ulrich Wallin, Head of Division	**2019**	245	2	**247**	922
	2018	630	14	**644**	859
Dr Jan Wicke, Head of Division	**2019**	677	–	**677**	550
	2018	630	–	**630**	540

1 Inflow (amount paid out) in the year under review.
2 Inflow in accordance with German tax law.
3 For example claw-backs.

Supervisory Board remuneration

The remuneration of the Supervisory Board for their work at Talanx AG is governed by article 12 of the Articles of Association of the Company. 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 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.

								Inflow
	Multi-year variable remuneration [2]							
	Bonusbank (3 years)	Talanx share awards (4 years)	Hannover Re share awards (4 years)	Hannover Rück stock appreciation rights (10 years)	Other [3]	Total	Pension expense	Total remuneration
	197	245				**2,095**	578	**2,673**
	186	291	—	—	—	**1,833**	546	**2,379**
	250	306				**584**	—	**584**
	232	411	—	—	—	**1,743**	317	**2,060**
	173	206				**1,031**	228	**1,259**
	157	264	—	—	—	**1,503**	217	**1,720**
	—	—				**719**	90	**809**
	—	—	—	—	—	**298**	48	**346**
	—	—	—			**1,770**	188	**1,958**
	—	—	—	—	—	**—**	—	**—**
	—	—				**238**	90	**328**
	—	—	—	—	—	**—**	—	**—**
	167	209				**1,507**	206	**1,713**
	159	253	—	—	—	**1,573**	196	**1,769**
	304	80	361			**1,914**	—	**1,914**
	278	90	427	—	—	**2,298**	173	**2,471**
	159	139				**1,525**	175	**1,700**
	106	—	—	—	—	**1,276**	158	**1,434**

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 2,514 (2,634) thousand. The details are given in the following table.

INDIVIDUAL REMUNERATION OF SUPERVISORY BOARD MEMBERS [1]

EUR thousand

Name	Function	Type of remuneration	2019 [2]	2018 [2]
Herbert K. Haas [3] (since 8 May 2018)	■ Chairman of the ▪ Supervisory Board ▪ Personnel Committee ▪ Finance and Audit Committee ▪ Nomination Committee ▪ Standing Committee	Basic remuneration	182	181
		Variable remuneration	171	167
		Remuneration for committee activities	141	133
		Attendance allowances	21	23
			515	**504**
Wolf-Dieter Baumgartl [3] (until 8 May 2018)	■ Chairman of the ▪ Supervisory Board ▪ Personnel Committee ▪ Finance and Audit Committee ▪ Nomination Committee ▪ Standing Committee	Basic remuneration	—	69
		Variable remuneration	—	53
		Remuneration for committee activities	—	43
		Attendance allowances	—	9
			—	**174**
Dr Thomas Lindner	■ Deputy Member of the Supervisory Board (since 8 May 2018) ■ Member of the ▪ Personnel Committee (since 8 May 2018) ▪ Finance and Audit Committee ▪ Nomination Committee	Basic remuneration	75	66
		Variable remuneration	70	56
		Remuneration for committee activities	50	41
		Attendance allowances	10	11
			205	**174**
Ralf Rieger [3]	■ Deputy Chairman of the Supervisory Board ■ Member of the ▪ Finance and Audit Committee	Basic remuneration	81	81
		Variable remuneration	70	65
		Remuneration for committee activities	25	25
		Attendance allowances	8	8
			184	**179**
Prof. Dr Eckhard Rohkamm (until 8 May 2018)	■ Deputy Chairman of the Supervisory Board ■ Member of the ▪ Personnel Committee ▪ Finance and Audit Committee ▪ Standing Committee	Basic remuneration	—	27
		Variable remuneration	—	37
		Remuneration for committee activities	—	18
		Attendance allowances	—	5
			—	**87**
Franz Adamczyk (since 1 January until 9 May 2019)	■ Member of the Supervisory Board	Basic remuneration	18	
		Variable remuneration	15	
		Attendance allowances	1	
			34	**—**
Antonia Aschendorf [3]	■ Member of the Supervisory Board	Basic remuneration	80	80
		Variable remuneration	47	43
		Attendance allowances	5	7
			132	**130**
Benita Bierstedt (since 9 May 2019)	■ Member of the Supervisory Board	Basic remuneration	32	
		Variable remuneration	27	
		Attendance allowances	4	
			63	**—**
Rainer-Karl Bock-Wehr (since 9 May 2019)	■ Member of the Supervisory Board	Basic remuneration	42	
		Variable remuneration	27	
		Attendance allowances	4	
			73	**—**
Sebastian L. Gascard (since 9 May 2019)	■ Member of the Supervisory Board	Basic remuneration	42	
		Variable remuneration	27	
		Attendance allowances	6	
			75	**—**
Karsten Faber (until 31 December 2018)	■ Member of the Supervisory Board	Basic remuneration	—	50
		Variable remuneration	—	43
		Attendance allowances	—	7
			—	**100**
Jutta Hammer [3]	■ Member of the ▪ Supervisory Board ▪ Finance and Audit Committee (since 8 May 2018)	Basic remuneration	60	58
		Variable remuneration	47	43
		Remuneration for committee activities	25	16
		Attendance allowances	8	9
			140	**126**
Dr Hermann Jung	■ Member of the ▪ Supervisory Board ▪ Finance and Audit Committee (since 8 May 2018)	Basic remuneration	50	50
		Variable remuneration	47	43
		Remuneration for committee activities	25	16
		Attendance allowances	8	9
			130	**118**

INDIVIDUAL REMUNERATION OF SUPERVISORY BOARD MEMBERS [1]

EUR thousand

Name	Function	Type of remuneration	2019 [2]	2018 [2]
Dirk Lohmann	■ Member of the Supervisory Board; Nomination Committee	Basic remuneration	50	50
		Variable remuneration	47	43
		Attendance allowances	5	6
			102	**99**
Christoph Meister	■ Member of the Supervisory Board	Basic remuneration	50	50
		Variable remuneration	47	43
		Attendance allowances	5	7
			102	**100**
Jutta Mück [3]	■ Member of the Supervisory Board; Personnel Committee (since 9 May 2019)	Basic remuneration	60	60
		Variable remuneration	47	43
		Remuneration for committee activities	16	—
		Attendance allowances	9	9
			132	**112**
Katja Sachtleben-Reimann (until 9 May 2019)	■ Member of the Supervisory Board; Personnel Committee	Basic remuneration	18	50
		Variable remuneration	20	43
		Remuneration for committee activities	9	25
		Attendance allowances	2	10
			49	**128**
Dr Erhard Schipporeit [3]	■ Member of the Supervisory Board; Finance and Audit Committee	Basic remuneration	80	80
		Variable remuneration	77	73
		Remuneration for committee activities	33	35
		Attendance allowances	16	18
			206	**206**
Prof. Dr Jens Schubert	■ Member of the Supervisory Board; Standing Committee	Basic remuneration	50	50
		Variable remuneration	47	43
		Attendance allowances	5	7
			102	**100**
Norbert Steiner	■ Member of the Supervisory Board; Personnel Committee	Basic remuneration	50	50
		Variable remuneration	47	43
		Remuneration for committee activities	25	25
		Attendance allowances	7	10
			129	**128**
Angela Titzrath (since 8 May 2018)	■ Member of the Supervisory Board; Standing Committee	Basic remuneration	50	32
		Variable remuneration	47	27
		Attendance allowances	5	2
			102	**61**
Jörn von Stein [3] (until 9 May 2019)	■ Member of the Supervisory Board	Basic remuneration	18	58
		Variable remuneration	20	43
		Attendance allowances	1	7
			39	**108**
Total [4]			**2,514**	**2,634**

[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. For the variable remuneration provisions formed are shown on the basis of estimates.
[3] Including Supervisory Board and Advisory Board remuneration from consolidated companies.
[4] The total amounts reflect the remuneration for all active members of the Supervisory Board during the period under review. Payments made in relation to 2018 remuneration exceeded provisions by a total of EUR 91 (38). The total amount for 2019 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 relatives in the reporting period. No contingent liabilities existed in favour of this group of persons.

There were no 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	2019	2018
Salaries and other short-term remuneration	12,081	10,094
Other long-term benefits [1]	1,381	1,181
Awards of shares and other equity-based remuneration [2]	1,381	1,181
Cost of retirement provisions [3]	1,555	1,338
Total	**16,398**	**13,794**

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 2018, which was paid out in April 2019, stood at 26.5%.

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 233 of the Notes.

Risk report

Risk strategy

Talanx's risk strategy is derived from, and is therefore directly linked with our Group strategy. The main aims of risk management are to guarantee our predefined strategic risk position while complying with the risk budget. Our strategic risk position is defined as follows:

- There is a 90% probability that the Group will generate positive net income in accordance with the IFRSs
- The Group's economic capital must be able at a minimum to withstand an aggregated theoretical 3,000-year shock ("probability of ruin"). The capital adequacy ratio has an AA rating under the Standard & Poor's (S&P) Capital Model
- The Group's investment risk is capped at a maximum of 50% of the total risk capital requirement

In addition, Talanx's risk strategy takes the supervisory requirements into account.

The confidence level that the Group has chosen for its economic capital ensures that it will also be able to cope with any new risks that arise. At 99.97%, it is clearly in excess of the figure of 99.5% stipulated by the supervisory authorities.

Both our Group strategy and our risk strategy are reviewed annually and adjusted as necessary.

Talanx Enterprise Risk Model (TERM)

TERM is an internal model for managing the risk kernel, i.e. the Talanx Group. We have expanded our model to also cover HDI V.a.G. for regulatory purposes. At Group level, modelling covers all components, including operational risk, and is a complete internal model.

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

The results of the model run as at 31 December 2019 were not available when the financial statements were prepared. The Group has set a target corridor of 150% to 200% for its regulatory solvency ratio before adjustment for approved transitional measures. We will publish the actual ratio in May 2020 in the Solvency and Financial Condition Report as at 31 December 2019.

Business organisation

Supervisory law requires the Group and all its insurance and reinsurance companies to have a proper, effective business organisation in place that ensures sound, prudent business management. The following four key functions have been established throughout the Group in line with this:

- the independent risk controlling function (risk management function),
- the compliance function,
- the internal audit function and
- the actuarial function.

Talanx AG's Board of Management has set out policy guidelines defining the principles, tasks, processes and reporting obligations for each of these key functions. These guidelines also specify that the key functions rank equally and have equal rights. When performing their duties, function heads are subject only to the – non-technical – instructions issued the Board of Management. They have all requisite rights to obtain information, and report directly to the Board of Management.

The heads of the key functions, like the members of the Board of Management and of the Supervisory Board, have to meet special supervisory requirements as regards their professional qualifications and personal characteristics.

Risk management system

Structure of the risk management system

The risk management system represents the sum of all measures in place for identifying, analysing, assessing, communicating, monitoring and managing risks and opportunities. The Group manages its risk management system along the lines of an enterprise risk management system. The system's design and structure draw heavily on the ISO 31000 standard for risk management.

We use our internal model as the starting point for deriving a limit and threshold system that is designed to ensure our risk-bearing capacity. This system is suited to assessing risks in the Group (including risks associated with participating interests) both individually and in the aggregate.

The risk budget is defined in such a way as to be consistent with the limit and threshold system, both for the Group and for the divisions. It describes a contingent risk potential that reflects the Board of Management's risk appetite as derived from the company's goals and targets. In addition, it takes the divisions' risk-bearing capacity into account.

The Group's risk management function ensures consistent implementation of the risk management system by directly integrating the risk management units at the divisions and subsidiaries with its own risk management activities. It does this using binding Group guidelines and by participating in the relevant bodies and/or decision-making and escalation processes.

The following table provides an overview of the tasks performed by the main bodies and management staff involved in the risk management process.

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 ■ Defines the risk strategy, including limits and thresholds ■ Responsible for proper functioning of risk management ■ Approves model amendments ■ Approves key Group guidelines
Executive Risk Committee (ERC)	■ Manages, coordinates and prioritises Group-wide risk issues ■ Adjusts limits within fixed materiality thresholds ■ Approves guidelines and other frameworks in line with the Group frameworks for the governance of the Group's internal model, to the extent that these do not require the approval of the full Board of Management ■ Preliminary cross-segment examination of issues that must be submitted to the full Board of Management
Risk Committee	■ A risk monitoring and coordinating body charged with the following key tasks: ■ Critical monitoring and analysis of the Group's overall risk position with a particular focus on the risk budget approved by the Board of Management and on the risk strategy ■ Monitoring of measures taken within the Group to manage 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 ■ The CRO is involved in key Board of Management decisions
Central Group Risk Management	■ Group-wide risk monitoring function ■ Expertise in/responsible for methodological issues, 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 functions	■ Risk monitoring functions in the divisions ■ Ensure 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

The Group CRO (Chief Risk Officer) meets the supervisory requirements for this key function (independent risk control function). In order to strengthen enterprise risk management, the Group CRO has also been a member of the Board of Management at HDI Service AG since September.

The risk management system's organisational structure and escalation processes comply with Solvency II.

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

Risk management process and communication

We use key risk metrics and risk surveys to identify the risks to which our Group is exposed. We capture qualitative risks systematically using a Group-wide risk capture system. Risks spanning multiple divisions, such as compliance risks, are addressed by involving the responsible experts from the divisions concerned. Product risks are identified at an early stage as part of our new products process.

A high-level risk assessment is also performed during modelling and validation of our internal model. The latter is key to ensuring that diversification effects are presented adequately.

Solvency risk analysis and risk measurement for regulatory purposes is performed using our internal model. In addition, we use a series of models for the operational management of certain risk categories. In contrast to TERM, our internal model, the model runs performed here are generally more frequent and much more granular when it comes to modelling the underlying financial instruments.

Risk assessment includes an end-to-end appraisal of the information produced during risk analysis, so as to ensure that the Board of Management can make risk-informed decisions. In line with our ISO-based risk management philosophy, we define the model uncertainties that are inherent to the use of models.

Risk reporting

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

The Solvency and Financial Condition Report, supervisory reporting and our Own Risk and Solvency Assessment are key items in the reporting cascade. These core reports are produced annually. In addition, we produce a range of short-term reporting formats allowing up-to-date information to be provided on the latest risk developments.

The contents and frequency of these reports are set out in guidelines. Both the documentation and the reporting process are regularly reviewed by Internal Audit and the supervisory authorities.

Accounting-related internal control system and risk management system

The key requirements regarding the consolidated financial reporting process that must be met by the internal control system (ICS) and the risk management system that have been implemented at Talanx AG can be described as follows:

- There is a clear separation of the functions involved in the financial reporting process
- The financial systems used are protected against unauthorised access at the IT level. Where possible, standard security software is used for the systems concerned.
- The processes, controls, working instructions and guidelines for the accounting-related internal control and risk management systems are recorded in the overarching ICS documentation. They are reviewed as and when required, but at least once a year, for appropriateness and to determine whether any changes are necessary.

Financial reporting must comply not only with the local accounting standards but also with International Financial Reporting Standards (IFRSs). To ensure that this is the case, controls have been implemented as part of the process of preparing the consolidated financial statements to ensure that the data in the financial statements are complete and accurate. Potential risks arising from the Group financial reporting process are identified and assessed by Group Accounting and included in the Group's risk management process.

The Group's internal IFRS accounting policies are set out in an accounting manual. The latter ensures that the International Financial Reporting Standards are applied consistently and correctly throughout the Group, and is regularly updated and amended to reflect changing legal requirements. Group Accounting ensures compliance with the requirements.

We use an IT system featuring standardised reporting and consolidation rules to prepare the consolidated financial statements. Intragroup transactions are examined in an upstream reconciliation process and eliminated where necessary. Written instructions ensure that appropriate procedures are followed here. An approval process for manual accounting entries ensures that the principle of dual control is applied to items that exceed certain value limits.

The subsidiaries are responsible for ensuring compliance with the Group's accounting policies and for proper and timely performance and operation of their accounting-related processes and systems. A package review, which is performed and documented by Group Accounting employees, has been implemented as part of the process of preparing the consolidated financial statements.

Talanx AG's consolidated financial statements are audited by the auditor as of the reporting date; the Group's half-yearly financial statements are reviewed.

Risk profile

This report has been prepared in accordance with German Accounting Standard (GAS) 20, which serves as the basis for the following presentation and categorisation of our risks:

- underwriting risk
- default risk on accounts receivable on insurance business
- investment risks
- operational risk
- other material risks

Underwriting risk

Underwriting risk refers to the danger of an unexpected disadvantageous change in the value of the insurance liabilities in the solvency balance sheet. Such a deviation may be due to random chance, error or a change in the assumptions underlying the calculation (e.g. biometrics, loss amounts, payout duration or costs of loss adjustment).

Underwriting risks in property/casualty insurance

Reserve risk

Reserve risk refers to unexpected disadvantageous changes in the value of insurance liabilities that have an effect on the amount of the loss run-off. Key reasons for these changes include the loss amount, the payout duration and the loss adjustment costs. Reserve risk is used to take loss events occurring before the reporting date into account.

The adequacy of the reserves for asbestos-related claims and environmental damage is usually assessed on the basis of the survival ratio as well. This expresses the number of years for which the reserves would last if payments were to continue to be made at the average amount for the last three years. At the end of the year under review, our survival ratio in the Property/Casualty Reinsurance segment was 30.1 (30.0) years; reserves for asbestos-related claims and environmental damage amounted to EUR 125 (177) million.

Loss run-off triangles are another tool used within the Group to review our assumptions. These triangles show how reserves change over time as claims are settled and the reserves required to be recognised are recalculated as at each reporting date. Adequacy is monitored using actuarial methods (see "Notes to the consolidated balance sheet – Equity and liabilities", Note 21). In addition, we engage external actuarial and audit firms every year to validate the quality of our actuarial calculations of the adequacy of the reserves.

One of the main ways in which our subsidiary Hannover Rück SE partially hedges inflation risk is by including securities offering inflation-linked coupons and repayments in its portfolio. 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. These bonds are used to protect this portion of the loss reserves against inflation risk.

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

For the risks described above, 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 710 (622) million.

Premium risk

The term premium risk describes unexpected disadvantageous changes in insurance liabilities. These arise from fluctuations in the occurrence, frequency and severity of insured events. In contrast to reserve risk, premium risk includes any loss events (excluding natural disasters) that occur after the reporting date. Premium risk is determined by comparing expected premium income with future loss events.

The Group largely manages and reduces the various components of premium risk using claims analyses, actuarial modelling, selective underwriting, specialist audits and regular monitoring of the claims experience, as well as by appropriate reinsurance cover. See Note 21 of the Notes to the consolidated financial statements for details of the run-off triangles. The reinsurers' credit ratings are given in the "Risks arising from the default of accounts receivable on insurance business" section.

One way in which we address the premium risk that we have assumed is by taking out appropriate reinsurance cover. The retention ratio expresses the volume of reinsurance cover relative to gross written premiums and shows the proportion of underwritten risks retained by ourselves. For information on the activity of Talanx AG as an intragroup reinsurer, see the condensed Talanx AG management report (pages 54 ff.).

PROPERTY/CASUALTY INSURANCE RETENTION RATIOS BY SEGMENT

%	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Industrial Lines	50.2	58.6	55.2	53.4	51.8	50.9	44.5	45.6	44.1	46.1
Retail Germany – Property/Casualty	95.0	94.5	94.6	95.4	95.6	95.6	94.9	94.6	92.9	91.6
Retail International	88.7	89.3	89.0	87.9	87.3	88.9	88.5	88.5	88.7	92.4
Property/Casualty Reinsurance	90.3	90.7	89.7	88.5	89.3	90.6	89.9	90.2	91.3	88.9
Total property/casualty insurance	**81.0**	**83.9**	**82.4**	**80.7**	**80.7**	**81.0**	**79.3**	**79.8**	**79.8**	**78.9**

NET LOSS RATIO BY SEGMENT

%	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Industrial Lines	79.9	87.3	85.7	74.9	76.5	81.2	81.8	75.2	66.8	82.0
Retail Germany – Property/Casualty	61.0	63.4	64.6	66.7	64.2	74.1	67.0	65.2	67.5	69.4
Retail International	65.8	65.8	66.2	65.4	64.9	65.3	66.3	68.9	70.4	75.6
Property/Casualty Reinsurance	69.0	67.0	71.2	66.7	69.3	68.9	70.3	70.7	78.8	72.0
Total property/casualty insurance	**69.5**	**69.5**	**71.9**	**67.8**	**69.1**	**70.8**	**70.8**	**70.3**	**74.4**	**73.6**

The decline in the loss ratio by 7.4 percentage points to 79.9% in the Industrial Lines segment is due primarily – despite the expected figure for large losses being exceeded – to the effects of the "20/20/20" programme. This prompted an improvement in the large loss and frequency loss ratio in the fire line. The loss ratio in the Retail Germany – Property/Casualty segment moved back by 2.4 percentage points, is chiefly due to profitable growth and an improved run-off result. At 65.8%, the loss ratio in the Retail International segment is on par with the previous year. In the Property/Casualty Reinsurance segment the loss ratio increased by 2.0 percentage points in comparison to the previous year. As in the previous year, this was driven by large losses being higher than expected, prior-year claims reported at a later date as well as the ongoing conservative approach to reserves.

Overall, the loss ratio is stable at 69.5%, unchanged year on year. The moderate loss ratio seen in previous years also reflects our cautious underwriting policy and success in active claims management.

Large losses are losses that exceed a defined amount or meet criteria that make them particular significant for property/casualty insurance. The following table shows the large losses for the financial year, broken down into natural catastrophes and other large losses, in absolute figures and as a percentage of the Group's combined ratio:

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

EUR million	2019	2018
Large loss budget	1.190	1,125
Large losses (net)	1,319	1,244
of which natural catastrophes	773	722
of which other large losses	546	522
%		
Combined ratio for property/casualty primary insurance and reinsurance	98.3	98.2
of which large losses (net)	6.4	6.8

[1] The Group's share of natural catastrophes and other large losses in excess of EUR 10 million gross.

Concentration risk

In non-life insurance, concentration risk mainly results from geographical concentrations, reinsurance and investment clusters, and insured natural catastrophe risks and man-made disasters.

Natural catastrophe risk as part of premium risk deals with future loss events. The extremely high potential impact of loss events caused by natural disasters mean that these are addressed separately. A standardised global event set has been established to analyse such natural hazard events (extreme scenarios and accumulations).

The most recent calculations for the Group's net losses (annual total losses) in the following natural hazard accumulation scenarios are as follows:

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

EUR million	2019	2018
200-year loss Atlantic hurricane	2,605	2,294
200-year loss US/Canadian earthquake	2,350	1,926
200-year loss Asia-Pacific earthquake	1,692	1,446
200-year loss European storm	1,151	846
200-year loss Central and South-American earthquake	1,600	1,505
200-year loss European earthquake	1,226	1,134
200-year loss European flood	811	776

[1] Actual developments in the area of natural hazards may differ from model assumptions.
[2] Since 2019 Europe hail/summer storm and UK storm flood included.

We also regularly test other accumulation scenarios. Peak exposures from accumulation risks are covered by taking out specific reinsurance cover.

Concentration risk is capped by limiting the maximum permissible natural catastrophe risk by hazard region at Group and division level. The risk modelling and business planning processes work together closely to achieve this.

Loss expectations are modelled during business planning using the large loss budget, among other things. For 2019, there were slight budget overruns at Group level and in the divisions. Net large losses in the financial year amounted to EUR 1,319 (1,244) million; among other things, this figure included losses from hurricane "Dorian" in the US (net loss: EUR 213 million) and typhoon "Hagibis" in Japan (net loss: EUR 197 million).

The property insurers' loss reserves by region (after adjustment for the reinsurers' share of these reserves) can be broken down as follows:

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVE[1]

EUR million	Gross	Re	Net[2]
31.12.2019			
Germany	9,635	4,149	5,485
United Kingdom	4,104	342	3,762
Central and Eastern Europe (CEE), including Turkey	2,641	265	2,376
Rest of Europe	8,824	–376	9,199
USA	10,746	174	10,572
Rest of North America	1,529	1,169	360
Latin America	1,917	235	1,682
Asia and Australia	4,265	121	4,144
Africa	302	8	295
Total	**43,962**	**6,086**	**37,875**
31.12.2018			
Germany	9,403	1,057	8,346
United Kingdom	3,829	654	3,175
Central and Eastern Europe (CEE), including Turkey	2,152	168	1,984
Rest of Europe	8,421	1,783	6,638
USA	10,146	519	9,627
Rest of North America	1,231	1,533	–302
Latin America	1,830	166	1,664
Asia and Australia	3,366	161	3,205
Africa	266	12	254
Total	**40,644**	**6,053**	**34,591**

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

The breakdown of premiums in the property/casualty primary insurance area by type and class is as follows:

PREMIUMS BY TYPE AND CLASS OF INSURANCE[1]

EUR million	Gross written premiums	Net written premiums
31.12.2019		
Property/casualty primary insurance		
Motor insurance	4,249	3,941
Property insurance	3,567	1,655
Liability insurance	2,384	1,562
Casualty insurance	359	306
Marine	727	443
Other property/casualty insurance	672	394
Property/casualty reinsurance	14,781	13,347
Total	**26,739**	**21,647**
31.12.2018		
Property/casualty primary insurance		
Motor insurance	4,014	3,818
Property insurance	2,973	1,497
Liability insurance	1,822	1,374
Casualty insurance	349	286
Marine	530	378
Other property/casualty insurance	418	303
Property/casualty reinsurance	11,976	10,868
Total	**22,082**	**18,524**

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

Technical risks, life

Typical life insurance risks are derived from the fact that policies grant guaranteed long-term biometric and/or investment benefits. Whereas the premium for a given benefit is fixed at the inception of the policy for the entire policy period, the underlying parameters may change over time. This also applies to the legal framework underlying the contractual relationship, which is defined by the legislators and the courts. Changes that can aggravate the risk here are discussed in the "Operational risks" section.

The ratio of reinsurance cover to gross written premiums can be seen from the retention ratio, which shows the proportion of underwritten risks that we have retained ourselves.

RETENTION RATIO IN LIFE/HEALTH INSURANCE BY SEGMENT

%	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Retail Germany – Life Insurance	93.9	93.6	95.2	95.4	95.8	95.2	93.9	94.4	93.6	92.9
Retail International	98.9	98.8	98.5	98.5	97.2	98.0	95.8	89.7	82.8	84.1
Life/Health Reinsurance	89.5	90.7	91.7	90.4	84.2	83.9	87.7	89.3	91.0	91.7
Total life/health insurance	**92.1**	**92.6**	**93.6**	**92.9**	**89.1**	**89.6**	**90.9**	**91.3**	**91.8**	**91.8**

Biometric risks and lapse risks in life primary insurance

Biometric actuarial assumptions such as mortality, longevity and morbidity are established at the inception of a contract. Over time, these assumptions may prove to be no longer accurate, and additional expenditure may be needed to boost the benefit reserve. Therefore, the adequacy of the underlying biometric actuarial assumptions is regularly reviewed.

Epidemics, a pandemic or a global shift in lifestyle habits may change the risk situation for contracts under which death is the insured risk.

In the case of annuity insurance, the risk situation may change first and foremost as a result of steadily improving medical care and social conditions as well as unexpected medical innovations. These factors increase longevity and lead to insurees in the aggregate drawing benefits for longer than the calculated period.

Premiums and technical provisions are calculated on the basis of prudent biometric actuarial assumptions. We ensure the adequacy of the latter by regularly comparing the claims expected on the basis of the mortality and morbidity tables with the claims that have actually been incurred. Adequate safety margins are applied for error risk, random fluctuation risk and change risk.

Most life primary insurance policies are 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, we largely pass the resulting surpluses on to policyholders, in line with statutory requirements. The impact on earnings of changes in risk, cost and interest rate expectations can therefore be mitigated by adjusting policyholders' future surplus participation.

We use reinsurance contracts primarily to provide additional protection against biometric risks. We establish reserves to ensure that we can meet our commitments under these policies at all times. These are calculated among other things on the basis of assumptions as to future biometric data trends such as those for mortality and occupational disability. In addition, specially trained life actuaries establish safety margins that also make sufficient allowance for change risk.

Life insurance policies also entail lapse risk. For example, an unusual cluster of cancellations could result in the available liquid assets being insufficient to cover the benefits payable. This could lead to unplanned losses being realised when assets are sold. To mitigate this risk, the Group's life insurers maintain a sufficiently large portfolio of short-term investments and regularly analyse the situation regarding cancellations. They also regularly compare and manage the durations of their assets and liabilities.

What is more, cancellations may result in defaults in premium refunds from insurance intermediaries, which is why intermediaries are carefully selected.

Higher levels of cancellations may also increase the cost risk if new business drops off significantly and fixed costs – unlike variable costs – cannot be reduced in the short term.

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

We perform scenario and sensitivity analyses in our internal model in order to quantify underwriting risk. These analyses relate to our basic own funds and help indicate which areas to focus on from a risk management perspective.

UNDERWRITING RISK SENSITIVITY RANGES, LIFE PRIMARY INSURANCE

%	2019	2018
Mortality/morbidity +5% (excluding annuity business)	–3 to 0	–3 to –1
Mortality –5% (annuity business only)	–4 to 0	–4 to –1
Lapse rate +10%	–2 to 0	–2 to 0
Expenses +10%	–5 to 0	–5 to –1

The exposure of the Group's life insurers depends on the type of insurance product concerned. For example, a mortality rate that is lower 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 including investment risk

In endowment life insurance, a basic distinction is made between unit-linked policies and traditional policies with guaranteed actuarial interest rates, with the latter accounting for the majority of the Group's portfolio. While with unit-linked policies the investment risk is borne by customers, under traditional policies the insurer promises customers a guaranteed return on the savings elements of the premium. In the case of newly-developed (modern classic) products, we work with significantly curtailed guarantees in order to meet increasing solvency capital requirements.

In the case of our German life primary insurance, the most significant risk is that investments do not generate sufficient returns to meet liabilities to customers. The guaranteed returns on savings elements under traditional life insurance policies largely depend on the policies' actuarial interest rate generation. Actuarial interest rates are between 4% (4%) and 0.9% (0.9%) per annum, depending on the tariff generation concerned. Taking into account the additional interest reserve following the change to the calculation method in 2018, the average guaranteed interest rate for the Group's German life insurance companies and for HDI Pensionskasse AG as at 31 December 2019 was 1.78% (1.95%). The interest guarantee risk is also the dominating concentration risk.

In particular, due to the limited availability of long-term fixed-income securities on the capital markets, it is only possible to match completely the maturities for the interest liabilities to a certain extent. As a result, fixed interest rates on the assets side regularly have a somewhat shorter term than those on the liabilities side (this is known as a duration mismatch or asset-liability mismatch).

At Group level, the Macaulay duration for fixed-income securities (including interest rate derivatives) as at 31 December 2019 was 8.2 (8.1) years, while the average remaining term for the gross loss reserves including the gross benefit reserves was 9.3 (9.5) years. If we also include the expected future surplus participation for life insurance with options and guarantees, the duration (Macaulay duration) of the liabilities increases to 12.2 (12.0) years.[1]

The duration mismatch shown in these two cases means that the basic own funds are sensitive to the discounting assumptions used in the model. For terms beyond 20 years, these are not derived from the capital markets, but instead follow the industry convention used by the European supervisory authorities in the Solvency II regime. 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 the basic own funds underestimate the liabilities 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, the 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 the liabilities to policyholders and interest rate sensitivity and overestimate the basic own funds.

Interest guarantee risk exposure is calculated on the basis of our investment risks. These are presented together with the relevant stress tests and sensitivities in the "Investment risks" section.

In the case of unit-linked life insurance contracts, the technical provisions are recognised in the amount of the fund volumes held for the policyholders. This means that changes in share prices have a direct impact on the amount of the technical provisions for unit-linked insurance, although this is offset by equal effects on the investments. There are still open questions on specific legal consequences relating to the invalidity of the exclusion deadlines relating to the right of objection and right of withdrawal in respect to agreements concluded between 1994 and 2007 in policy and proposal models without proper instructions. Consequently, the basic own funds are only impacted by investments that are not held for the benefit of life insurance policyholders who bear the investment risk. Here a drop in share prices would have a negative impact, albeit a very minor one as the equity ratio is currently small.

Technical risks in life/health reinsurance

Biometric risks are especially important in life/health reinsurance. Reserves in this area are recognised on the basis of the information provided by our ceding companies and reliable biometric actuarial assumptions. We use quality assurance measures to ensure that the provisions calculated by ceding companies in accordance with local accounting principles satisfy all requirements as to the calculation methods and assumptions to be used.

[1] The figure reported here is based on the ratio of the cash flows of the liabilities calculated using the valuation models to the certainty equivalent path; this corresponds to the most recent requirement set out by EIOPA in its insurer stress test.

New business written by the Group in all regions complies with our global framework of underwriting guidelines. These guidelines are reviewed annually to ensure that they appropriately reflect the type, quality, level and origin of the risks. Specific underwriting guidelines cater to the particular features of individual markets. Regular, structured monitoring of compliance with this framework of underwriting guidelines reduces the credit risk associated with cedant insolvency or a deterioration in their credit quality. Particularly comprehensive reviews are normally performed in the case of new business or when international portfolios are acquired.

We have confidence in our underwriters' expertise and assign responsibilities to them as part of a multilevel authorisation system. Our decentralised organisation manages risks where they arise, adopting a uniform approach throughout the Group to gain an overall view of the risks involved in life/health reinsurance. The global underwriting guidelines provide our underwriters with a suitable framework for this. Life/health reinsurance risks are reflected in the internal capital model.

Interest guarantee risk, which is so important in life primary insurance, is of little relevance to life/health reinsurance risk, owing to contract structures in the latter area. The risk profile there is dominated by mortality and longevity risks, as some of the contracts have to pay death benefits while others pay survival benefits. Additionally, life/health reinsurance is exposed to lapse risks, as the payment flows resulting from the reinsurance contracts also depend on policyholders' lapse behaviour. We take a prudent approach to calculating the diversification effect between mortality and longevity risks; contracts are usually arranged for different regions, age groups and people.

Hannover Re took over a large life/health reinsurance portfolio from the USA in 2009. Recently mortality experience for this portfolio in 2019 was better than expected. We monitor how the underlying mortality develops on an ongoing basis.

Based on information available at present, we continue to assume that the US mortality business will generate a positive earnings figure overall. Should further information cause us to conclude that this is no longer the case, this would have a non-recurring negative impact on the IFRS result. If the cedants in question affected by rate adjustments exercise their right to withdraw, this could also have a negative impact on the IFRS result in a few remaining individual cases.

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

UNDERWRITING RISK SENSITIVITIES, REINSURANCE DIVISION

%	2019	2018
Mortality +5% (excluding annuity business)	−10 to −7	−9 to −7
Morbidity +5%	−4 to −2	−3 to −1
Mortality −5% (annuity business only)	−4 to −2	−3 to −2
Lapse rate +10%	−2 to 0	−3 to −1
Expenses +10%	−1 to 0	−1 to 0

Derivatives embedded in life insurance contracts and not recognised separately

Life primary insurance products may include the following significant options for policyholders:

- minimum return/guaranteed interest rate
- surrender and premium waiver options
- increase in the insured benefit without another medical examination
- option under deferred annuity policies to take the insurance benefit as a one-time payment (lump-sum option) instead of drawing a pension

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

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 (Also see "Notes to the consolidated balance sheet – assets" under Note 13 in the Notes to the consolidated financial statements.).

Default risk on accounts receivable on insurance business

Accounts receivable on insurance business are exposed to default or credit risk. This applies in particular to receivables due from reinsurers, retrocessionaires, policyholders and insurance intermediaries. Value adjustments, write-downs and write-offs of receivables would result if such risks were to materialise.

Accounts receivable from policyholders and insurance intermediaries are generally unsecured. There is no material financial risk for the Group in these cases as the amounts involved are small and the range of debtors is diverse.

Additionally, credit risk arises in the primary insurance business on accounts receivable from reinsurers and in the reinsurance business on receivables from retrocessionaires. In reinsurance ceded, we take care to ensure that the reinsurers concerned are financially highly sound, especially in the case of accounts with a long run-off period.

The Group counters the default risk on accounts receivable from reinsurers and retrocessionaires using Group-wide policies and guidelines. Reinsurance partners are carefully selected by security committees made up of experts, and their creditworthiness is continually monitored. To do so, we use information from external rating agencies.

Information on outstanding receivables more than 90 days past due at the reporting date and on the average default rate over the last three years is given in Note 14 of the Notes to the consolidated financial statements.

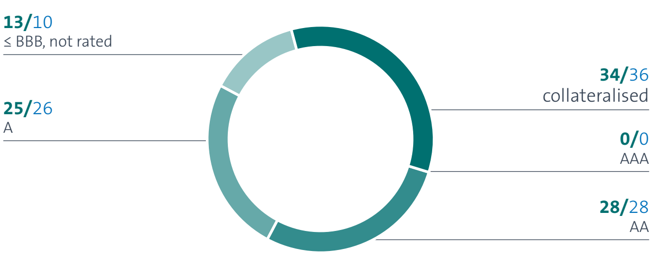
The reinsurance recoverables on technical provisions amount to EUR 8.5 (8.5) billion. This figure is partially matched firstly by guarantees and secondly by cash deposits and other offsetting items amounting to EUR 2.9 (3.1) billion, which are reported as funds withheld under reinsurance treaties.

Since we are also the active reinsurer for most of our reinsurers and retrocessionaires (particularly in the Property/Casualty Reinsurance segment), there is some potential for offsetting defaults against our own liabilities. An amount of EUR 5.6 (5.4) billion remains after deducting the items mentioned above.

The rating structure here is as follows:

REINSURANCE RECOVERABLES ON TECHNICAL PROVISIONS BY RATING CLASS

%



2019/2018

A total of 81% (84%) of our reinsurance partners/retrocessionaires in the unsecured portion have a category A rating or higher. 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) – gross of any collateral or other arrangements that reduce default risk – is equivalent to the maximum default risk exposure at the reporting date.

Funds withheld by ceding companies represent the collateral (e.g. cash deposits and securities accounts) furnished by Group companies to non-Group cedants. This does not trigger payment flows and cannot be used by the cedants concerned without our companies' consent. The duration of this collateral is matched to the corresponding provisions. If a ceding company defaults on funds it has withheld, the technical provisions are reduced by the same amount, which means that credit risk is 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 and of gross expenses for insurance operations, was EUR –888 (13) million in the reporting period.

Investment risks

Market risk covers both fluctuations in the value of investments on the asset side of the balance sheet and effects on the underwriting risks caused by capital markets developments that are recognised economically on the liabilities side. Fluctuations in the value of investments are the result of changes in their market price, which if unfavourable may result in impairment losses being charged.

In line with the principle of commercial prudence, our investment policy is 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 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, changes in credit spreads affect the market price of fixed-income securities.

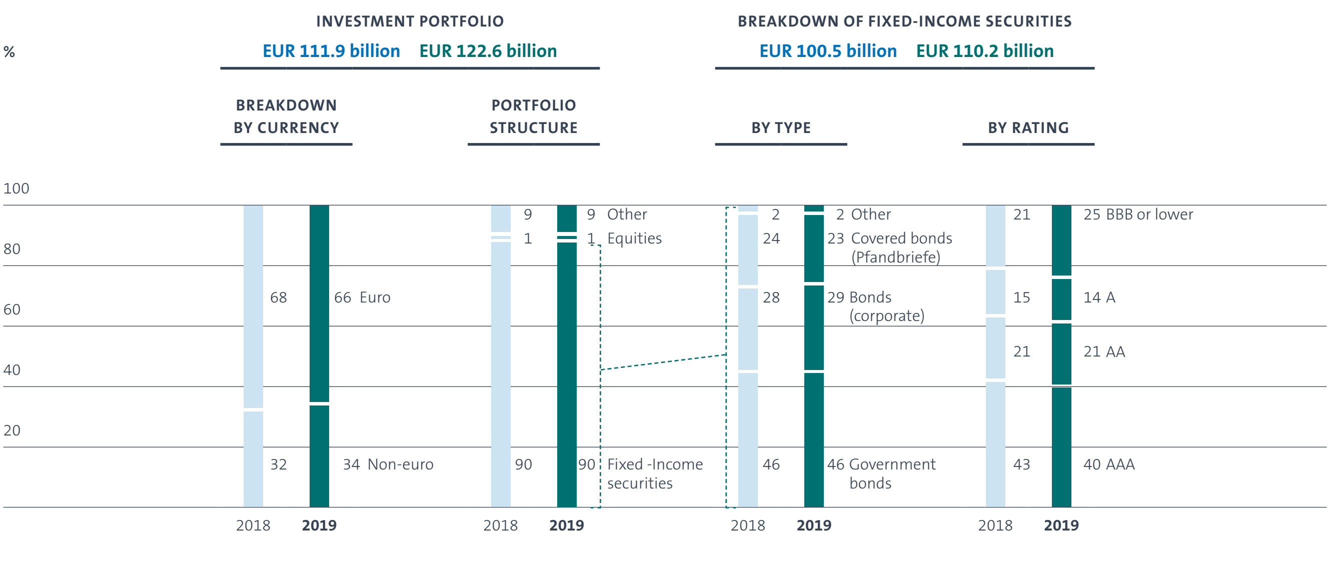
Equity price risk arises from negative changes in the value of equities, equity derivatives and equity index derivatives held in the portfolio.

Currency risk results from exchange rate fluctuations. These have a particularly pronounced impact if there is a currency imbalance between the technical liabilities and the assets.

Real estate risks may result from negative changes in value, which may occur either directly or via fund units. They can be triggered by a deterioration in the features of a particular property or by a general downturn in market prices.

Exposure to these risks is largely managed using the investment portfolio structure. The following table shows the Talanx Group's portfolio, broken down by currency, asset class and rating, using the valuations reported in the IFRS financial statements.

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



The portfolio is dominated by fixed-income securities, 75% (79%) of which hold a minimum of an A rating. We add selected high-yield bonds with short maturities to our bonds with excellent credit ratings and long durations. The majority of our investments are denominated in euros, with the US dollar being the main currency outside this area.

Government bonds account for 46% (46%) of the fixed-income securities. We use a default risk exposure when modelling these in TERM, in contrast to the Solvency II standard formula.

Despite our relatively low-risk portfolio, the investment volume involved means that market risk is still highly significant for the Group's risk profile. We assess the market risks with TERM. The term material refers particularly to interest rate risk and credit risk.

We display the risk concentration in the model, which contains not only the effect of issuer concentration on its own but also the impact of correlations resulting from economic and geographical links between issuers.

Market risk is primarily monitored and managed using our limit and threshold system. One key aspect here involves regularly reviewing the value at risk (VaR), taking into account not only the investments themselves but also the forecast cash flows for the technical liabilities and their sensitivity to market risk factors. The ALM VaR is calculated using a confidence level of 99.5% and a holding period of ten days. In other words, there is only a 0.5% probability that this estimated potential loss will be exceeded within ten days.

As at 31 December 2019, the ALM VaR was EUR 1,786 (1,531) million, or 1.4% (1.3%) of the investments under consideration. In comparison to the previous year, the ALM VaR ratio is virtually unchanged.

Additionally risk early warning uses a version of the model in which shorter time periods are taken into account and the most recent market observations have a stronger impact on the risk indicators thanks to exponential weighting. This version of the ALM VaR model is much more sensitive to current changes in capital market volatility and can also provide an early warning of increases in risk.

Stress tests and scenario analyses complement the range of management tools. For interest rate-sensitive products and equities, we calculate potential changes in fair value on a daily basis using a historical worst-case scenario, which allows us to estimate 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 from issuers exposed to 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 (gross) assets under own management as at the reporting date. The effects shown do not take taxes or the provision for premium refunds into account. Consequently, effects resulting from policyholders' participation in life/health primary insurance surpluses are not included in the analysis. Taking these effects into account would reduce the effects on earnings and equity shown below significantly.

CHANGE SCENARIOS FOR 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]	31.12.2019 Change in portfolio on a fair value basis [2]	31.12.2018 Change in portfolio on a fair value basis [2]
Equities [3]						
	Equity prices	+20 %	12	185	197	178
	Equity prices	+10 %	5	93	97	89
	Equity prices	–10 %	–1	–93	–94	–88
	Equity prices	–20 %	2	–186	–184	–176
Fixed-income securities						
	Increase in yield	+200 bp	–58	–10,529	–16,652	–14,075
	Increase in yield	+100 bp	–36	–5,766	–9,165	–7,669
	Decrease in yield	–100 bp	49	6,488	10,167	8,386
	Decrease in yield	–200 bp	111	13,784	21,711	17,869
Exchange rate-sensitive investments						
	Appreciation of the EUR [4]	+10 %	–3,803	–309	–4,113	–3,620
	against USD		–2,056	–252	–2,308	–2,121
	against GBP		–409	–5	–414	–355
	against PLN		–254	–2	–256	–233
	against other currencies		–1,085	–49	–1,134	–912
	Depreciation of the EUR [4]	–10%	3,803	309	4,113	3,620
	against USD		2,056	252	2,308	2,121
	against GBP		409	5	414	355
	against PLN		254	2	256	233
	against other currencies		1,085	49	1,134	912

1 Gross (before taxes and surplus participation).
2 Including financial instruments classified as loans and receivables and held-to-maturity financial assets
3 Including derivatives.
4 Exchange rate movements against the euro of +/–10%, based on the carrying amounts.

The Group enters into derivative transactions

- to hedge existing assets, mainly against price risk or interest rate risk
- to prepare for subsequent purchases of securities or
- to generate additional earnings from existing securities.

The Group also uses OTC derivatives, which involve counterparty risk, to a limited extent.

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

The use of derivative products is regulated in internal guidelines. These aim to guarantee the best and lowest-risk use of forward purchases, derivative financial instruments and structured products, and to ensure that supervisory requirements are met. This means that the use of such instruments is subject to very strict limits.

We constantly monitor the investment guideline requirements and the statutory provisions governing the use of derivative financial instruments and structured products, and list derivative positions and transactions in detail in our reporting. We reduce the risk of financial default by counterparties arising from the use of OTC derivatives by netting and by entering into collateral agreements.

Further information on the use of derivative financial instruments can be found in Note 13 of the Notes to the consolidated balance sheet – assets.

Credit risk

Credit risk or counterparty credit risk refers to a deterioration in debtors' credit quality that results in them being unable to make agreed payments in part or in full. In addition, the value of financial instruments can decline as a result of impaired issuer credit quality. Credit risks can be broken down into the following key categories:

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

Credit risk is divided into the following subrisks during risk modelling: spread, migration and default risk, and correlation and concentration risk. While spread, migration and default risk can be quantified at the level of individual assets, correlation and concentration effects can only be observed in specific portfolio contexts. Correlations show the interrelationships between different issuers' credit quality. In other words, correlation and concentration risks measure the concentration of investments at individual issuers, including such interrelationships in credit quality.

Counterparty credit risk is capped using Talanx's system of limits and thresholds and by its investment guidelines, and is continuously monitored. Limits are set at portfolio, issuer/counterparty and in some cases also at asset class level, ensuring a broad mix and spread within the portfolio. Defined escalation processes are triggered when limits are exceeded.

Issuer credit quality is a 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. Most new investments are made in investment-grade securities. 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 credit quality. To reduce counterparty risk, OTC transactions are only entered into with a select group of counterparties, and cross-product master netting and collateral agreements are agreed (see the information provided in Note 13 of the Notes to the consolidated financial statements). In addition, credit default swaps ensure efficient credit risk management.

We assess counterparty credit risk at individual counterparty level using the following features:

- the default probability, which is derived from the composite rating (second-best of the available agency ratings from Standard & Poor's, Moody's, Fitch and Scope). This describes the probability that a debtor will default within a defined period of time.
- the loss given default (LGD), which is derived from the volume of collateral furnished and the seniority of an issue
- the exposure at default (EAD), which represents the expected amount of the receivable at the time of default

An expected loss and a credit value at risk (CVaR) are calculated for the portfolios, taking ratings/the allocated probability of default and the expected loss given default (LGD) into account. The CVaR represents the amount of the (unexpected) loss that will not be exceeded within a year for a probability of 99.5%. The stochastic simulation used to calculate the CVaR takes into consideration issue-specific features, portfolio concentrations (e.g. in sectors and countries) and correlations between the individual assets. This approach ensures in particular that 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 serve as the basis for monitoring and managing credit risk.

As at 31 December 2019, the credit VaR for the Group as a whole was EUR 5,804 (4,865) million, or 4.7% (4.3%) of the assets under own management. In other words, the average credit risk for investments increased year-on-year. The internal risk calculations capture all investments exposed to credit risk. This also includes European government bonds, which are notionally considered to be risk-free under the Solvency II standard model.

The year-on-year rise in the credit VaR is the result of further international diversification of investments with selective risk-taking. As previously, the investments are still based on the conservative reinvestment strategy in the Group's investments. In addition, infrastructure investments were again expanded; these have slightly above-average risk weighting factors in the credit VaR due to their relatively long terms.

CREDIT VAR STRESS TESTS

EUR million	31.12.2019	31.12.2018
Rating downgrade by one notch	6,990 (+20%)	5,903 (+21%)
Rating downgrade by two notches	8,412 (+45%)	7,160 (+47%)
Increase of ten percentage points in LGD	6,493 (+12%)	5,526 (+14%)

The table shows the sensitivity of the CVaR to 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.

As regards its assets under own management, the Group's exposure to government bonds with a rating of less than A– amounted to EUR 5.1 (4.1) billion on a fair value basis, or 4.1% (3.7%) of the total.

EXPOSURE TO BONDS WITH A RATING OF LESS THAN A–

EUR million	Rating[1]	Government bonds	Semi-government bonds	Financial bonds	Corporate bonds	Covered bonds	Others	Total
31.12.2019								
Italy	BBB	2,722	—	742	564	478	—	**4,506**
Brazil	BB–	332	—	68	368	—	15	**784**
Mexico	BBB+	157	1	164	337	—	—	**659**
Hungary	BBB	585	—	18	13	29	—	**645**
Russia	BBB–	316	24	39	211	—	—	**589**
South Africa	BB+	133	—	4	91	—	1	**229**
Portugal	BBB	36	—	27	42	1	—	**107**
Turkey	BB–	134	—	26	31	4	—	**196**
Others BBB+		145	—	96	115	—	—	**356**
Others BBB		213	50	115	127	—	—	**505**
Others <BBB		304	52	112	163	—	247	**879**
31.12.2018								
Italy	BBB	2,319	—	547	501	454	—	**3,821**
Brazil	BB	270	—	42	354	—	4	**670**
Mexico	BBB+	120	3	59	267	—	—	**449**
Hungary	BBB–	541	—	2	11	26	—	**580**
Russia	BB+	239	15	25	146	—	—	**425**
South Africa	BB+	147	—	5	52	—	2	**206**
Portugal	BBB–	38	—	11	53	20	—	**122**
Turkey	BB+	18	—	26	32	3	—	**79**
Others BBB+		73	—	52	70	—	—	**195**
Others BBB		161	6	124	114	—	—	**405**
Others <BBB		197	26	108	139	—	255	**725**

[1] External issue ratings (Standard & Poor's, Moody's, Fitch or another rating agency appointed by Talanx [ECAI]). Where external issue ratings are available from more than one agency, the second-best rating is used.

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

Within the Group as a whole, financial assets totalling EUR 914 (766) million serve as collateral for liabilities and contingent liabilities. Of this amount, carrying amounts of EUR 26 (28) 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 banks for liabilities relating to investments in real estate businesses and real estate transactions. This collateral amounted to EUR 701 (647) million as at the reporting date.

Further information on collateral pledged by the Group can be found under "Disclosures on the nature and extent of significant restrictions" in the "Consolidation" section of the Notes to the consolidated financial statements.

As regards Hannover Rück SE, various banks have furnished guarantees in the form of letters of credit as surety for technical liabilities totalling EUR 1.6 (1.3) billion. In addition, assets with a fair value of EUR 96 (121) million have been furnished as collateral to the Group that can be sold or transferred as collateral even if the owner is not in default on payment.

As at the reporting date, the portfolio did not contain any material past-due investments that were not impaired, since past-due securities (with the exception of mortgage loans secured by charges on property) are impaired immediately. See Note 30 for information on impairment losses charged on investments in the year under review.

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 in time to meet our financial obligations as they fall due. Our exposure here depends on the size of the obligations involved. For example, illiquid markets might mean we could not sell holdings at all (or only after a delay) or that we could not close out open positions (or only at a discount). Risk assessment here is based heavily on qualitative analyses, among other things. We regard the entire risk as being relevant. We do not see any risk concentrations.

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

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 non-life insurance are all positive.

CASH FLOWS AND LIQUID FUNDS FROM THE INSURANCE BUSINESS [1]

EUR million	31.12.2019	31.12.2018
Gross written premiums including premiums from unit-linked life and annuity insurance	25,248	21,628
Claims and claims expenses incurred (gross)	−14,070	−12,247
Acquisition costs and reinsurance commissions paid plus administrative expenses	−6,788	−5,883
Liquid funds	**4,390**	**3,498**

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

The Group's life insurers monitor liquidity risk by regularly comparing net claims and claims expenses paid during the financial year with existing investments (during the year, the budgeted amounts are used for the former item). Appropriate margins are established to allow for potential unforeseen increases in net claims and claims expenses paid, and the ability to liquidate investments is monitored.

Liquidity risk at Group level is mitigated 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 any necessary payments at all times. Planning for underwriting payment obligations is based, among other things, on the expected due dates, which take reserve run-off patterns into account.

Talanx AG holds a minimum liquidity buffer to be able to meet any short-term liquidity requirements within the Group. Another aspect of liquidity management is to provide a sufficiently large credit line. For further information, please see the "Liquidity and financing" subsection of the "Net assets and financial position" section of the Group management report. Above and beyond this, Talanx AG ensures the Group has access to long-term and, if necessary, also short-term sources of external finance.

In addition to the assets available to cover provisions and liabilities, LoC facilities amounting to the equivalent of EUR 3.0 (2.4) billion have been put in place with banks. Their durations vary and they run until 2023 at the latest. A number of LoC facilities include standard contractual clauses that give the banks concerned 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 adverse events occur, such as a significant rating downgrade.

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

Operational risks

Operational risk comprises the risk of losses arising from the failure of internal processes, inappropriate employee behaviour or decision-making, or adverse effects resulting from external market events as well legislation and court decisions. Operational risk is an inevitable corollary of our business and cannot be totally avoided.

We have recorded and described the Group processes, and assigned key controls to them within the internal control system so as to identify the operational risks entailed in our workflows. We assess operational risks using scenarios and by obtaining the advice of experts.

The main subcategories for operational risk and the measures taken to mitigate them are described in the following:

One risk that we see is in the area of business continuity and IT service continuity. It is possible that business operations could be impacted by natural events or the results of human error. We counter this risk by taking preventive measures, such as monitoring the status of core IT systems and using redundant designs. In addition, we have created mechanisms for dealing with crises (e.g. emergency planning and the Group-level crisis management team).

Another risk is the risk of loss arising from the potential inappropriateness or failure of internal processes, or from inadequate data quality. The use of an effective internal controlling system is a key way of reducing this risk. We have also established Group-wide process management standards, and enhance them continuously.

Legal, tax and compliance risks are other operational risks. This category also explicitly includes the risk of legal change. A number of central Group functions, and particularly Compliance, Legal and Tax, monitor the risk situation here closely and advise our subsidiaries and technical departments.

One example of this are tax law changes based on pronouncements by the Federal Ministry of Finance (BMF). For example, in its letter dated 17 July 2017, the BMF adopted a restrictive position on the fiscal treatment of various securities transactions that were previously not only common, but also generally classified as unproblematic from a tax law perspective, and that were therefore also entered into by individual companies in the Group as part of their normal investment activities. However, according to the external expert opinions we have obtained there is no legal basis for highly probable tax demands and that, alternatively, rights of recourse against the relevant contract partners would have a high chance of success.

A draft bill was published by the German Federal Ministry of Finance (BMF) for an act that would cap sales commission from life insurance and residual debt insurance. It would limit sales commission and remuneration from life insurance policies to a maximum of 2.5% of the gross premium restricted to 35 years. The sales commission may be increased to up to 4% of the gross premium if certain qualitative criteria are met. When taking out residual debt insurance, the cap would be set at 2.5% of the insured loan amount. The planned statutory cap on commission would have a noticeable impact on the Group companies in question, in particular in relation to selling residual debt insurance.

In addition to the risk of legal change, the Group is involved in court and out-of-court proceedings as part of its normal business activities. The outcome of such proceedings is usually uncertain. In our view, none of these proceedings have a material negative impact on the Group's financial position.

The risk arising from negligent or deliberate breaches of laws, and in particular from offences against property or breaches of internal regulations by employees and/or third parties, is another component of operational risk. Here, too, we counter this risk internally primarily through compliance training and the measures provided for under the internal control system (ICS). In cases of suspicion, special audits may also be performed by Internal Audit, for example.

Information and IT security risk refers to risks that could potentially endanger the completeness, confidentiality or availability of information or IT systems. We have done justice to the growing importance of these risks by instituting Group-wide information security guidelines and through regular communications measures that are designed to increase security awareness. Our internal IT service provider, HDI Systeme AG (previously Talanx Systeme AG), is certified in accordance with ISO 27001 – Information Security, while external partners are obliged to comply with high standards. The IT Security Department that has been established at Group level is the first line of defence when it comes to combating the risk of cyberattacks; this is done primarily using technical measures.

The Group is focussing on including third-party providers as a way of consolidating and improving the operational stability of its IT infrastructure and making it more flexible, as well as of permanently reducing its IT infrastructure costs and operating costs. The interfaces between internal and external services, their quality and the scope of the services provided, are monitored on an ongoing basis and appropriate adjustments made, taking opportunities and risks into account.

We classify non-IT outsourcing risks as operational risks; we define these as risks that arise from (partial) outsourcing – either within the Group or to third parties – of (key) functions or activities relevant to the operation of the insurance business that could also be performed by the company itself. These risks are captured in the Group's risk management processes and its ICS. Specific internal requirements and regulations exist for the management of outsourced activities. The vast majority of outsourcing relationships entered into by subsidiaries remain 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 is that these risks cannot be analysed meaningfully with mathematical models, which means that we have to rely mainly on qualitative analyses in these cases. Risks analysed in this way are included in our ORSA.

We define "emerging risks" as risks whose hazard potential can only be quantified vaguely and whose impact is difficult to assess. For example, increasing uncertainty about political developments around the world and in individual countries can lead to market jitters and to an increased likelihood of systemic shocks. The spread of new technologies, medicines or materials can have downstream effects that 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 a potential misalignment between our corporate strategy and the constantly changing general 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 the need to accommodate 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 that could damage the Company's reputation as a consequence of unfavourable public perception. Our well-established communication channels, professional 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. We define this as the risks associated with incorrect decisions resulting from uncertainty due to a potential partial or total lack of information as to the understanding or knowledge of an event, its repercussions or its likelihood. The steps we have taken to restrict model risk include implementing quality assurance measures and a rigorous model adjustment process.

Projects are generally used to address complex tasks that to this extent may also be associated with specific operational risks (project risks). In particular, project risks arise in the context of major IT projects.

The Group's other risks also implicitly include Talanx AG's participation risks; these relate in particular to the performance of subsidiaries, earnings stability in our portfolio of participating interests, 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.

Pension obligations, especially those assumed by Talanx AG in the course of its acquisition of Gerling, may result in the need to establish additional reserves if there are biometric changes, if interest rates remain at the current low level or fall even further, or if pending lawsuits relating to the fact that the pensions have not been adjusted make further additions necessary.

Rising inflation may also lead to additional expenses if it means that pension adjustments have to be larger than planned. We regularly review the adequacy of the underlying actuarial assumptions in order to counter this risk.

The United Kingdom left the EU on 31 January 2020 (so-called Brexit). While the UK will continue to be subject to EU law during the 11-month transition period, it is uncertain what changes there will be under the still unknown relationship between the EU and the UK in 2021 onwards. We have prepared the organisational structure of our UK business for a hard Brexit as a precautionary measure, since a significant proportion of the Group's premiums come from the UK. Hannover Re entities and HDI Global SE are particularly affected by this. If business is conducted by third-country branches, this will result in increased regulatory and capital costs. By contrast, no significant changes are anticipated for reinsurance business written in the UK by Group companies in Hannover and Ireland. The macroeconomic ramifications, and hence in particular the implications for the capital markets, remain high given the political uncertainty. We cannot rule out significant price fluctuations in individual market segments in future as a result of Brexit. Such potential price fluctuations represent an elevated level of uncertainty that is not currently fully reflected in the risk models, which are based on historical time series. All in all, our current analyses suggest that the impact of Brexit on the Talanx Group is manageable.

The Italian banking system has been troubled by a high level of non-performing loans for a number of years, due not least to continuing weak economic growth. A few problem banks have been resolved or taken over. As a result, receivables may have to be written down to their fair value.

In the case of an unfavourable further development in the spread and severity of the novel "Covid-19" virus, the world economy can be detrimentally impacted, something which would also negatively impact some of our individual companies or the Group. In life insurance it is unclear how strongly the virus influences mortality and longevity risks. We have very little exposure in what are currently the most affected regions. In operating terms, there is currently very little impact on our companies. We have implemented relevant business continuity planning which enables us to maintain business operations for a limited time period, even if there are severe restrictions on the infrastructure. At the present moment in time there is a high level of uncertainty about what is to happen moving forward.

From a Group perspective, the fact that Talanx AG has launched its own operational reinsurance business does not represent a material change to our risk profile. Further details on Talanx AG's reinsurance business can be found in the report on expected developments.

Summary of the overall risk position

From our perspective, no risks are discernible that could have a material adverse effect on the Group's net assets, financial position and results of operations. The Talanx Group has a functioning and appropriate system of governance and risk management, which has already reached a high standard and which is it consistently enhancing. We are therefore able to identify our risks in a timely manner, and to manage them effectively.

The following risks – listed in order of their importance – determine the Group's overall risk profile: investment risks; premium and reserve risk in property/casualty insurance; natural catastrophe risk; life insurance underwriting risk; and operational risk.

Diversification is particularly important for managing our overall risk. We are broadly based both geographically and in terms of our business offering. As a result, we consider ourselves to be well positioned to handle even an accumulated materialisation of risks.

The solvency assessment performed in accordance with Solvency II indicates that the Group is adequately capitalised.

Report on expected developments and on opportunities

Economic environment

We expect global growth to accelerate moderately overall in 2020. We anticipate weaker growth in the first half of 2020, but expect to see growth gather momentum as the year progresses. The outbreak of the corona virus is likely to delay this recovery. However, we anticipate only a temporary negative impact on growth.

The easing of monetary policy, in combination with the improving business climate, is increasingly achieving its full potential. However, we feel that economic risks are still high and could mean a bumpy ride over the year.

After weak growth in the year under review, we expect the eurozone to stabilise at a low level. The gradually more expansive fiscal policy is also helping to shore up growth. Political risks such as the as yet unresolved Brexit and the development in Italy will likely add up to a great deal of uncertainty in 2020 as well. This is compounded by the imponderables resulting from the corona virus.

We anticipate continuing growth in the US. In particular, this growth outlook is supported by the preliminary agreement reached in the trade conflict with China and interest rate cuts by the US Fed in the year under review. However, the strong potential for trade policy conflict and the presidential elections in November constitute central political risks for 2020.

The emerging markets are likely to benefit more than most from the stabilisation of world trade and relaxed global monetary policy, moderate rates of inflation and lower oil prices. The slowdown in economic growth in China is continuing. Following the signing of a preliminary trade agreement with the US and given the pro-growth measures taken to date and those in planning, we anticipate an only moderate decline in growth momentum.

Capital markets

Lingering geopolitical uncertainty, accompanied by only very moderate improvement in growth prospects, leaves little room to hope for higher interest rates. The stable fundamental corporate environment, aided by the ECB's return to expansive policy and its resumption of an open-ended bond buying programme, also points to the expectation of an at least stable development in spread products. However, after the very positive development on the capital markets in the previous year, the probability of short-term setbacks is high.

We anticipate moderate upside potential on the stock markets in 2020. Factors such as economic stabilisation and expansive monetary policy, together with good returns on equities in a low-interest environment, will remain the central growth drivers.

Future state of the industry

German insurance industry

Despite the positive trend in the insurance industry in 2019, the macroeconomic environment continues to be characterised by economic risk factors, hence forecasts are generally subject to reservations. Following the economic cooldown in recent months and assuming that macroeconomic conditions do not deteriorate significantly in 2020, the insurance industry should achieve slightly increasing premium volumes year on year in 2020 according to the German Insurance Association (GDV).

We expect premium income in **property/casualty insurance** to continue to rise in Germany in 2020, albeit at a slower rate than in the reporting period. Given the increased demand for natural hazard insurance, we expect that premium increases will be most pronounced in homeowners insurance.

Following a pick-up in premium volume for **German life insurers** in the year under review, the GDV expects premiums to continue their growth in 2020, albeit at a slower pace than in the reporting period. 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 2020.

International insurance markets

In international property/casualty insurance, we expect premium income in 2020 to grow at the level of the year under review. We predict that growth momentum will slow slightly on the developed insurance markets, while the trend on the emerging markets will pick up slightly. Profitability should remain stable in 2020, which demands strict underwriting discipline in view of the consistently low interest rates.

We expect to see premium income at the level of the year under review in the developed **European insurance markets** in 2020, whereas we anticipate a slightly negative performance in the US. We are forecasting rising premium growth in **Central and Eastern Europe,** and even more so in **Latin America**. The strongest performance in the coming year will likely again be reported by the emerging markets of Asia, with China leading the way.

We believe that **international life insurance markets** will improve slightly in terms of development; following the slump in the year under review, emerging markets should see a sharp upturn in real premium growth. Nonetheless, consistently low interest rates are continuing to squeeze profitability.

Overall, we anticipate declining premium growth in **Central and Eastern Europe** but rising growth rates in **Latin America** in 2020. Performance in **Asia** will presumably maintain its high level or even improve slightly.

Focus and forecasts for the Talanx Group in financial year 2020

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 profit-driven underwriting policy. In 2020, we will continue to leverage the attractive growth perspectives of HDI Global Specialty SE. In the Retail Germany Division, we see further successes of 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, especially in the property/casualty business. In light of the profits from the treaty renewal round as at 1 January 2020, we expect solid growth at slightly improved conditions in the Property/Casualty Reinsurance segment. We anticipate moderate premium growth in the Life/Health Reinsurance segment. From 2020, as a reinsurer Talanx AG is assuming risks directly from Group companies. In turn, Talanx AG can buy reinsurance cover on the market. We anticipate positive effects on Group net income from leveraging diversification advantages at Group level, additional investment income and more favourable refinancing options as a result of an improved rating.

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 ■ Expansion of specialty business ■ 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	■ Solid growth in Property/Casualty Reinsurance ■ Establish a selective underwriting policy in Property/Casualty Reinsurance ■ Moderate premium growth 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 exchange rate shocks
- no significant fiscal or regulatory changes
- a large-loss burden in line with expectations

Talanx Group

MANAGEMENT METRICS

%	2020
Gross premium growth (adjusted for currency effects)	~ 4
Net return on investment	~ 2,7
Group net income in EUR million	">900" to 950
Return on equity	">9.0" to 9.5
Payout ratio	35 – 45

We expect an increase in gross premiums (adjusted for currency effects) of around 4% for the Talanx Group in 2020. The IFRS net return on investment is expected to be around 2.7%. We are aiming for Group net income in a range of "more than EUR 900 million" up to EUR 950 million. It follows that we expect our return on equity to be "more than 9%" up to 9.5% in 2020, considerably surpassing our strategic target of at least 800 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 not be any more major disruptions on the currency and capital markets caused by the corona virus as at present. Our express aim is to continue to pay out 35% to 45% of Group net income as dividends and to ensure that this dividend is no lower than in the previous year.

Industrial Lines

MANAGEMENT METRICS FOR THE INDUSTRIAL LINES DIVISION

%	2020
Gross premium growth (adjusted for currency effects)	≥ 2
Combined ratio (net)	< 100
EBIT margin	~ 5
Return on equity	~ 5

We anticipate an increase of gross premium income (adjusted for currency effects) of at least 2% in financial year 2020. A major growth contribution is likely to come from the specialty business which has been bundled in HDI Global Specialty SE since 1 January 2019. The division will vigorously continue the "20/20/20" restructuring initiative in the fire line of business which it commenced in 2018 and the resultant insights and instruments, also in connection with the new "HDI Global 4.0" strategy, as well as benefiting from the price increases which have already been introduced in fire insurance. Overall, for 2020 we thus anticipate that the Industrial Lines Division will post a positive underwriting result, i.e. achieve a combined ratio below 100%. Provided large losses remain with the large losses budget and there is no turbulence on currency and capital markets, the EBIT margin should be around 5% and the return on equity in the region of 5%.

Retail Germany

Property/Casualty Insurance

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

%	2020
Gross premium growth	stable
Combined ratio (net)	~ 96
EBIT margin	8–9

For the Property/Casualty Insurance segment we anticipate stable gross written premiums in 2020. The "KuRS" programme is likely to result in further considerably improved profitability, so that we anticipate a combined ratio of approximately 96%. As a result, we expect to see an EBIT margin of between 8% and 9%.

Life insurance

MANAGEMENT METRICS FOR THE RETAIL GERMANY DIVISION – LIFE INSURANCE SEGMENT

%	2020
Gross premium growth	stable
EBIT margin	~ 3

In the Life Insurance segment, the division is still focusing on capital-efficient retirement provision products and biometric risks, and particularly on growth opportunities in occupational retirement provisions. We anticipate stable gross written premiums in 2020. Assuming that there is no further decline in interest rates, we expect an EBIT margin of around 3% for 2020.

Retail Germany overall

RETURN ON EQUITY MANAGEMENT METRIC FOR THE RETAIL GERMANY DIVISION OVERALL

%	2020
Return on equity	5–6

We consider the return on equity of the Retail Germany Division on an overall basis and expect it to stand between 5% and 6% for 2020.

Retail International

MANAGEMENT METRICS FOR THE RETAIL INTERNATIONAL DIVISION

%	2020
Gross premium growth (adjusted for currency effects)	moderate growth
Value of new business[1] (life) in EUR million	~ 40
Combined ratio (net, property/casualty insurance)	~ 95
EBIT margin	5–6
Return on equity	8–9

[1] Excluding non-controlling interests.

In the Retail International Division, we are aiming for moderate growth in gross written premiums (adjusted for currency effects) in 2020. While a decline in single premiums is expected in life insurance, gross premiums should rise in the property/casualty business. We anticipate the value of new business to be around EUR 40 million in 2020. The combined ratio is likely to be around 95%. We expect to see an EBIT margin of 5–6% and a return on equity of 8–9% in 2020.

Reinsurance

Property/Casualty Reinsurance

MANAGEMENT METRICS FOR THE PROPERTY/CASUALTY REINSURANCE SEGMENT

%	2020
Gross premium growth (adjusted for currency effects)	solid growth
Combined ratio (net)	≤ 97
EBIT margin	≥ 10

On the basis of the treaty renewal round in the Property/Casualty Reinsurance segment as at 1 January, we anticipate solid growth at slightly improved conditions for the current financial year. We are remaining true to our selective underwriting policy which is to underwrite, for the most part, only business that meets our margin requirements. For the treaty renewal rounds through the financial year, we generally anticipate more considerable price impulses, especially for natural disaster risks, particularly in Japan, Latin America and in the Caribbean.

On the basis of our good rating, our many years of stable client relationships and our low combined ratio, we should again be in a position to generate a good result, provided that the large-loss burden is consistent with our expectations. Our goal for the combined ratio here remains a figure not exceeding 97%. The EBIT margin for Property/Casualty Reinsurance should remain at at least 10%.

Life/Health Reinsurance

MANAGEMENT METRICS FOR THE LIFE/HEALTH REINSURANCE SEGMENT

%	2020
Gross premium growth (adjusted for currency effects)	moderate growth
Value of new business [1] in EUR million	≥ 110
EBIT growth [2]	> 5

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

In the Life/Health Reinsurance segment we are anticipating moderate growth of gross premiums on the basis of constant currency rates. For EBIT we anticipate average growth of more than 5% over a three-year period. The value of new business should exceed the target of at least EUR 110 million.

Reinsurance Division overall

RETURN ON EQUITY MANAGEMENT METRIC FOR THE REINSURANCE DIVISION OVERALL

%	2020
Return on equity	12–13

For 2020, the Talanx Group expects return on equity for the entire Reinsurance Division to come to between 12% and 13%, and thus above the strategic target of 900 basis points above the five-year average for ten-year German government bonds.

Overall assessment by the Board of Management

The Talanx AG Board of Management's objectives focus on reliable continuity, a high and stable return on equity, financial strength and sustainable profitable growth and so are gearing the Talanx Group towards 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. For this purpose, we have structured our organisation in tune with the needs of our customers, meaning that it is our customers who point the way in our lean structure. Our main focus is on bolstering our own strengths and pooling forces within the Group in order to generate sustainable and profitable growth.

The Talanx Group actively addresses the challenges presented by a globalised world and has set itself the goal of above-average success in business abroad. Strategic cooperation and acquisitions of companies with good sales positions in the defined regions of Latin America and central and eastern Europe will help the Group prosper abroad. The Industrial Lines Division offers Industrial groups and small and medium-sized enterprises industrial insurance services across the world while, at the same time, wins new customers in local markets abroad. The foreign companies incorporated under HDI International conduct local business with private and corporate clients. Reinsurance is intrinsically an international business. Global diversification is one of the key aspects of reinsurance when it comes to ensuring that large and complex risks remain sustainable.

Opportunities management

Identifying and tapping opportunities is an integral part of our performance management process. We see the consistent exploitation of available opportunities as a key business task that is crucial to achieving our corporate objectives. The core element of our opportunities management process is the integrated management dashboard with key performance indicators. It forms the link between our strategic and operational opportunities management.

In the area of strategic opportunities management, Group management evaluates the strategic targets and specific strategic core issues and these are broken down into indicative targets for the divisions. Previously, these were identified as part of the annual performance management cycle on the basis of our umbrella strategy.

On this basis, the divisions validate the targets in accordance with indicative objectives and develop specific targets and strategic action programmes. 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 management dashboard 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. 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

Climate change: Increasing greenhouse gas emissions are causing average temperatures on earth to rise. With this comes a surge in extreme weather, which significantly amplifies the losses from natural disasters and means that we, as insurers, can assume that the need for insurance solutions to protect against risks from natural catastrophes will also rise. This affects both primary insurance and reinsurance. We have developed and refined risk models that assess risks from natural disasters and we also have extensive expertise in the area of risk management. This puts us in a position to offer our customers tailor-made insurance solutions to hedge against existential risks. Climate change also means that it is increasingly important to meet rising energy needs with renewable energy. As institutional investors, this allows us to step up investments in alternative areas such as wind parks.

Should the demand for insurance for these developments rise faster than expected, this could have a positive impact on our premium growth and results of operations, and could lead to us exceeding our forecasts.

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 significant and prolonged 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 German insurance market, too, is showing 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.

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 partnerships, but often use a number of different banks and are not fully integrated with their partners' market presence. In 2018, we launched a digital insurer in Brazil together with Bank Santander. The new company will operate under the name "Santander Auto" and will provide exclusively motor insurance using Santander's sales platform.

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: 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.

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, improve its competitiveness and 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 continue to be successful only 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 and make even better 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 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 digitalisation, 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 makes processing insurance claims much faster, more cost-effective and much less complicated. We are already using IT systems to enable us to make customised offers to customers and to determine premiums automatically and in real time. Above all, however, digitalisation offers us the opportunity, as a large internationally active Group, to profit from scale effects. Digitalisation has brought about changes in terms of customer behaviour and loss adjustment expectations, in particular for younger generations of customers who expect speedy and simple solutions. We have developed a loss service app in order to respond to these new customer needs. The app allows customers to submit a loss report with key information on the damage in just a few minutes. To be able to help customers quickly after unusual loss events – such as heavy rains, storms or severe hail – we have developed a virtual call centre assistant. This voice bot uses artificial intelligence to ask customers for basic information. This saves time for our employees, which they can actively use for measures to be arranged individually for the customers in need.

If we are able to implement the digitalisation projects in the Group and have them accepted by customers 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.

Knowledge management: Knowledge and innovation management are increasingly important in the insurance sector. We have set up a Best Practice Lab at the Group in order to foster the exchange of knowledge and innovation: international experts come together in "excellence teams" to discuss specific topics and develop new solutions together. These topics include pricing, sales, marketing, damage, fraud management, the customer service centre and digitalisation. The results and solutions conceived at the Best Practice Lab are made available to our companies so that they can use these to bring about lasting improvements to their processes and methods.

If our Best Practice Lab allows us to generate new solutions and ideas more quickly than currently anticipated, this could have a positive impact on our premium growth and results of operations, and could lead to us exceeding our forecasts.

Agility: In today's age of information, changes in the globalised world are unfolding faster than ever. The world is shaped by volatility, uncertainty, complexity and ambiguity (VUCA). If we as an insurance company want to be able to keep up with the pace of change, we must transform into an agile organisation. We believe that being an agile organisation means being a learning organisation that puts the needs of its customers at the heart of what it does in order to boost company profits. This is why we are committed to interdisciplinary and creative teams, open and direct communication, flat hierarchies and adopting a positive approach to mistakes. We have numerous initiatives in place to support our company's transition to an agile organisation. Our work places are designed to minimise communication channels and promote cross-divisional communication. Our agility campus provides a space for our employees to get familiar with agile methods and acquire the skills to develop new solutions on their own. Our teams hold daily stand-up meetings in order to improve teams' self-management. Other examples include our hackathons that we run as a way of pooling new ideas which we then work on in our digital lab. Agility opens up opportunities for clients, employees and investors. Clients benefit from new insurance solutions that are tailor-made to their needs. Agile work methods provide employees with more creative opportunities and allow them to grow by taking on new challenges. Last but not least, investors benefit from increasing company profits, satisfied clients and employees who are able to realise their full potential.

If we implement the transition to an agile organisation more quickly than 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.

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Consolidated balance sheet

as at 31 December 2019

CONSOLIDATED BALANCE SHEET – ASSETS

EUR million	Notes	31.12.2019			31.12.2018[1]
A. Intangible assets					
a. Goodwill	1			1,105	1,058
b. Other intangible assets	2			893	895
				1,998	**1,953**
B. Investments					
a. Investment property	3		3,193		2,985
b. Shares in affiliated companies and participating interests	4		398		206
c. Shares in associates and joint ventures	5		337		265
d. Loans and receivables	6/12		27,641		29,144
e. Other financial instruments					
i. Held to maturity	7/12	336			409
ii. Available for sale	8/12	83,550			71,964
iii. At fair value through profit or loss	9/12/13	1,718			1,840
f. Other investments	10/12		5,465		5,055
Assets under own management			**122,638**		**111,868**
g. Investments under investment contracts	11/12/13		1,170		1,042
h. Funds withheld by ceding companies			10,296		9,921
Investments				**134,104**	**122,831**
C. Investments for the benefit of life insurance policyholders who bear the investment risk				11,824	9,990
D. Reinsurance recoverables on technical provisions				8,483	8,506
E. Accounts receivable on insurance business	14			8,525	7,251
F. Deferred acquisition costs	15			5,940	5,358
G. Cash at banks, cheques and cash-in-hand				3,518	3,362
H. Deferred tax assets	28			326	465
I. Other assets	12/13/16			2,819	2,457
J. Non-current assets and assets of disposal groups classified as held for sale[2]				57	15
Total assets				**177,594**	**162,188**

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

CONSOLIDATED BALANCE SHEET – EQUITY AND LIABILITIES

EUR million	Notes			31.12.2019	31.12.2018 [1]
A. Equity	17				
a. Subscribed capital		316			316
Nominal amount: 316 (previous year: 316) Contingent capital: 158 (previous year: 158)					
b. Reserves		9,833			8,397
Equity excluding non-controlling interests			**10,149**		**8,713**
c. Non-controlling interests in equity			6,461		5,548
Total equity				**16,610**	**14,261**
B. Subordinated liabilities	12/18		3,479		2,738
C. Technical provisions					
a. Unearned premium reserve	19	9,837			8,590
b. Benefit reserve	20	56,859			56,234
c. Loss and loss adjustment expense reserve	21	49,651			45,887
d. Provision for premium refunds	22	8,511			5,703
e. Other technical provisions		755			628
			125,614		**117,042**
D. Technical provisions for life insurance policies where the investment risk is borne by the policyholders			11,824		9,990
E. Other provisions					
a. Provisions for pensions and other post-employment benefits	23	2,284			2,144
b. Provisions for taxes	24	561			650
c. Miscellaneous other provisions	25	971			887
			3,816		**3,681**
F. Liabilities					
a. Notes payable and loans	12/26	2,308			2,245
b. Funds withheld under reinsurance treaties		4,550			4,441
c. Other liabilities	12/13/27	7,224			6,095
			14,081		**12,781**
G. Deferred tax liabilities	28		2,160		1,689
H. Liabilities included in disposal groups classified as held for sale [2]			9		6
Total liabilities/provisions				**160,983**	**147,927**
Total equity and liabilities				**177,594**	**162,188**

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

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

Consolidated statement of income

for the period from 1 January to 31 December 2019

EUR million	Notes	2019	2018[1]
1. Gross written premiums including premiums from unit-linked life and annuity insurance		39,494	34,885
2. Savings elements of premiums from unit-linked life and annuity insurance		943	1,006
3. Ceded written premiums		4,473	3,848
4. Change in gross unearned premiums		–1,065	–479
5. Change in ceded unearned premiums		–42	–22
Net premiums earned	**29**	**33,054**	**29,574**
6. Claims and claims expenses (gross)	31	29,210	26,746
Reinsurers' share		2,845	3,229
Claims and claims expenses (net)		**26,366**	**23,517**
7. Acquisition costs and administrative expenses (gross)	32	9,141	8,217
Reinsurers' share		698	610
Acquisition costs and administrative expenses (net)		**8,442**	**7,607**
8. Other technical income		60	66
Other technical expenses		139	163
Other technical result		**–79**	**–97**
Net technical result		**–1,833**	**–1,647**
9. a. Investment income	30	4,909	4,455
b. Investment expenses	30	779	879
Net income from assets under own management		**4,130**	**3,576**
Net income from investment contracts	30	3	–1
Net interest income from funds withheld and contract deposits	30	190	192
Net investment income		**4,323**	**3,767**
of which share of profit or loss of equity-accounted associates and joint ventures		35	7
10. a. Other income	33	1,114	1,072
b. Other expenses	33	1,173	1,160
Other income/expenses		**–60**	**–88**
Profit before goodwill impairments		**2,430**	**2,032**
11. Goodwill impairments		—	—
Operating profit/loss (EBIT)		**2,430**	**2,032**
12. Financing costs	34	191	170
13. Taxes on income	35	568	503
Net income		**1,671**	**1,359**
of which attributable to non-controlling interests		748	656
of which attributable to shareholders of Talanx AG		923	703
Earnings per share			
Basic earnings per share (EUR)		3.65	2.78
Diluted earnings per share (EUR)		3.65	2.78

[1] Adjusted in accordance with IAS 8, see the "Accounting policies" section of these Notes.

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

Consolidated statement of comprehensive income

for the period from 1 January to 31 December 2019

EUR million	2019	2018
Net income	**1,671**	**1,359**
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	–176	–35
Tax income (expense)	51	10
	–126	**–25**
Changes in policyholder participation/shadow accounting		
Gains (losses) recognised in other comprehensive income for the period	10	1
Tax income (expense)	—	—
	10	**1**
Total items that will not be reclassified to profit or loss, net of tax	**–115**	**–24**
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	4,379	–1,450
Reclassified to profit or loss	–331	–218
Tax income (expense)	–588	330
	3,460	**–1,338**
Exchange differences on translating foreign operations		
Gains (losses) recognised in other comprehensive income for the period	226	197
Reclassified to profit or loss	—	—
Tax income (expense)	–22	—
	204	**197**
Changes in policyholder participation/shadow accounting		
Gains (losses) recognised in other comprehensive income for the period	–2,138	778
Tax income (expense)	104	–49
	–2,034	**729**
Changes from cash flow hedges		
Gains (losses) recognised in other comprehensive income for the period	27	4
Reclassified to profit or loss	–26	–154
Tax income (expense)	–3	4
	–1	**–146**
Changes from equity method measurement		
Gains (losses) recognised in other comprehensive income for the period	6	–3
Reclassified to profit or loss	—	—
Tax income (expense)	—	—
	6	**–3**
Total items that may be reclassified subsequently to profit or loss, net of tax	**1,634**	**–561**
Other comprehensive income for the period, net of tax	**1,519**	**–585**
Total comprehensive income for the period	**3,190**	**774**
of which attributable to non-controlling interests	1,345	517
of which attributable to shareholders of Talanx AG	1,845	257

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

Consolidated statement of changes in equity

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EUR million	Subscribed capital	Capital reserves	Retained earnings
2019			
Balance at 31.12.2018	**316**	**1,373**	**7,281**
IAS 8 adjustments [1]	—	—	1
Balance at 1.1.2019	**316**	**1,373**	**7,282**
Changes in ownership interest without a change in control	—	—	9
Other changes in basis of consolidation	—	—	—
Net income	—	—	923
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	**—**	**—**	**923**
Capital increases	—	—	—
Dividends to shareholders	—	—	−367
Other changes outside profit or loss [3]	—	—	−53
Balance at 31.12.2019	**316**	**1,373**	**7,795**
2018			
Adjusted balance at 1.1.2018	**316**	**1,373**	**6,934**
Changes in ownership interest without a change in control	—	—	—
Other changes in basis of consolidation	—	—	—
Net income	—	—	703
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	**—**	**—**	**703**
Dividends to shareholders	—	—	−354
Other changes outside profit or loss	—	—	−2
Balance at 31.12.2018	**316**	**1,373**	**7,281**

[1] Initial application of IFRS 16; see the “Basis of preparation and application of IFRSs” section, subsection “Application of new and revised standards/interpretations” of these Notes
[2] “Other changes” consist of policyholder participation/shadow accounting and miscellaneous other changes.
3 The decrease in the revenue reserve includes a reduction of EUR 28 million resulting from subsequent acquisition costs in connection with the acquisition of minority interests in a company, which was fully completed in 2007, that qualifies as an equity transaction under IFRS 10.23.

			Other reserves			
Unrealised gains/losses on investments	Currency translation gains/losses	Other changes in equity	Measurement gains/losses on cash flow hedges	Equity attributable to shareholders of Talanx AG	Non-controlling interests	Total equity
1,811	**−204**	**−2,118**	**254**	**8,713**	**5,548**	**14,261**
—	—	—	—	1	1	2
1,811	**−204**	**−2,118**	**254**	**8,714**	**5,549**	**14,263**
—	—	—	—	9	−25	−16
—	—	—	—	—	1	1
—	—	—	—	923	748	1,671
2,825	**112**	**−2,013**	**−3**	**922**	**597**	**1,519**
—	**—**	**−108**	**—**	**−108**	**−8**	**−115**
—	—	−116	—	−116	−9	−126
—	—	9	—	9	1	10
2,825	**112**	**−1,905**	**−3**	**1,030**	**605**	**1,634**
2,825	—	—	—	2,825	635	3,460
—	112	—	—	112	92	204
—	—	—	−3	−3	1	−1
—	—	6	—	6	—	6
—	—	−1,911	—	−1,911	−123	−2,034
2,825	**112**	**−2,013**	**−3**	**1,845**	**1,345**	**3,190**
—	—	—	—	—	2	2
—	—	—	—	−367	−402	−769
—	—	—	—	−53	−8	−61
4,636	**−93**	**−4,130**	**252**	**10,149**	**6,461**	**16,610**
2,842	**−270**	**−2,772**	**390**	**8,813**	**5,411**	**14,224**
−1	—	—	—	−1	−2	−3
—	—	—	—	—	1	1
—	—	—	—	703	656	1,359
−1,030	**66**	**654**	**−136**	**−446**	**−139**	**−585**
—	**—**	**−22**	**—**	**−22**	**−2**	**−24**
—	—	−23	—	−23	−2	−25
—	—	1	—	1	—	1
−1,030	**66**	**676**	**−136**	**−424**	**−137**	**−561**
−1,030	—	—	—	−1,030	−308	−1,338
—	66	—	—	66	131	197
—	—	—	−136	−136	−10	−146
—	—	—	—	—	−3	−3
—	—	676	—	676	53	729
−1,030	**66**	**654**	**−136**	**257**	**517**	**774**
—	—	—	—	−354	−380	−734
—	—	—	—	−2	1	−1
1,811	**−204**	**−2,118**	**254**	**8,713**	**5,548**	**14,261**

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

Consolidated cash flow statement

for the period from 1 January to 31 December 2019

EUR million	2019	2018
I. 1. Net income	1,671	1,359
I. 2. Changes in technical provisions	5,220	4,705
I. 3. Changes in deferred acquisition costs	–554	–15
I. 4. Changes in funds withheld and in acc...ounts receivable and payable	–774	–930
I. 5. Changes in other receivables and liabilities	309	241
I. 6. Changes in investments and liabilities under investment contracts	9	2
I. 7. Changes in financial instruments held for trading	8	125
I. 8. Gains/losses on disposal of investments and property, plant and equipment	–955	–621
I. 9. Changes in technical provisions for life insurance policies where the investment risk is borne by the policyholders	1,831	–1,144
I. 10. Other non-cash expenses and income (including income tax expense/income)	207	101
I. Cash flows from operating activities [1, 2]	**6,972**	**3,823**
II. 1. Cash inflow from the sale of consolidated companies	4	–1
II. 2. Cash outflow from the purchase of consolidated companies	–5	–32
II. 3. Cash inflow from the sale of real estate	239	122
II. 4. Cash outflow from the purchase of real estate	–433	–243
II. 5. Cash inflow from the sale and maturity of financial instruments	32,711	32,726
II. 6. Cash outflow from the purchase of financial instruments	–36,758	–37,476
II. 7. Changes in investments for the benefit of life insurance policyholders who bear the investment risk	–1,831	1,144
II. 8. Changes in other investments	–447	352
II. 9. Cash outflows from the acquisition of tangible and intangible assets	–164	–148
II. 10. Cash inflows from the sale of tangible and intangible assets	31	18
II. Cash flows from investing activities	**–6,654**	**–3,538**
III. 1. Cash inflow from capital increases	2	—
III. 2. Cash outflow from capital reductions	—	—
III. 3. Dividends paid	–769	–734
III. 4. Net changes attributable to other financing activities	564	642
III. Cash flows from financing activities [2]	**–203**	**–92**
Net change in cash and cash equivalents (I. + II. + III.)	**116**	**193**
Cash and cash equivalents at the beginning of the reporting period	**3,363**	**3,159**
Effect of exchange rate changes on cash and cash equivalents	**41**	**11**
Effect of changes in the basis of consolidation on cash and cash equivalents [3]	**–1**	**—**
Cash and cash equivalents at the end of the reporting period [4]	**3,519**	**3,363**

[1] EUR 347 (524) million of “Income taxes paid”, EUR 378 (393) million of “Dividends received” and EUR 3,399 (3,470) million of “Interest received” are allocated to “Cash flows from operating activities”. Dividends received also include quasi-dividend profit-sharing payments from investment funds and private equity firms.
[2] EUR 163 (164) million of the “Interest paid” item of EUR 529 (499) million is attributable to “Cash flows from financing activities” and EUR 366 (335) million to “Cash flows from operating activities”.
[3] This item relates primarily to changes in the basis of consolidation, excluding disposals and acquisitions.
[4] The “Cash and cash equivalents at the end of the reporting period” item includes changes in the portfolio of disclosed disposal groups in the amount of EUR 1 (1) million as at the reporting date.

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

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

			Non-cash items			
EUR million	1.1.	Cash flows from financing activities	Acquisition/ disposal of subsidiaries	Exchange rate changes	Other changes (mainly amortisation)	31.12.
2019						
Subordinated liabilities	2,738	740	—	—	1	3,479
Notes payable and loans	2,245	58	—	3	2	2,308
Lease liabilities	468	–59	—	2	31	442
Total debt from financing activities	**5,451**	**739**	**—**	**5**	**34**	**6,229**
Interest paid from financing activities		–175				
Total cash flows from other financing activities		**564**				
2018						
Subordinated liabilities	2,737	—	—	—	1	2,738
Notes payable and loans	1,431	806	1	6	1	2,245
Lease liabilities	—	—	—	—	—	—
Total debt from financing activities	**4,168**	**806**	**1**	**6**	**2**	**4,983**
Interest paid from financing activities		–164				
Total cash flows from other financing activities		**642**				

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

Notes

General information

The consolidated financial statements include the financial statements for Talanx AG and its subsidiaries (referred to collectively as the Talanx Group). The Group, which is active either directly or via partnerships in over 150 countries worldwide, offers services in the fields of property/casualty insurance, life insurance and reinsurance, plus asset management.

Talanx AG's registered office is at HDI-Platz 1, 30659 Hannover, Germany. The Company is entered in the commercial register of the Local Court in Hannover under the number HR Hannover B 52546. Talanx AG is the financial and management holding for the Group and since 2019 has also acted operationally as the Group's internal reinsurer, following the award of a reinsurance license from BaFin on 21 December 2018.

HDI Haftpflichtverband der Deutschen Industrie Versicherungsverein auf Gegenseitigkeit (HDI V. a. G.), the Hannover-based parent company, is the majority shareholder of Talanx AG, with 79.0%. HDI V. a. G. is required by section 341i HGB in conjunction with section 290 of the German Commercial Code (HGB) to prepare consolidated financial statements that include the financial statements of Talanx AG and its subsidiaries. HDI V. a. G.'s consolidated financial statements are published in the Bundesanzeiger (Federal Gazette).

Basis of preparation and application of IFRSs

The Talanx Group's consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and with the additional requirements of German commercial law in accordance with section 315e(1) of the HGB.

Pursuant to IFRS 4 "Insurance Contracts", insurance-specific transactions for which the IFRSs do not contain any separate guidance are accounted for in accordance with the United States Generally Accepted Accounting Principles (US GAAP) as at the date of initial application of IFRS 4 (1 January 2005).

IFRS 4 requires disclosures to be made about the nature and extent of risks associated with insurance contracts, while 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 how they manage underwriting and financial risks. The relevant information is to be found in the risk report. Please see in particular pages 104–111, "Technical risks", for the disclosures in accordance with IFRS 4 and pages 111–116, "Risks from investments", for the disclosures in accordance with IFRS 7. We have not presented identical disclosures in the Notes. Both the risk report and the disclosures in the Notes must be consulted to obtain a full overview of the risk position. To assist in comprehension, we have added cross references to the corresponding disclosures in both 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. Rounding differences may occur 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 IFRS regulations as at 1 January 2019:

IFRS 16 "Leases" includes new regulations for accounting by lessees. A lease liability is to be recognised for every lease. These liabilities are measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate. At the same time, the lessee capitalises a right-of-use asset for the underlying asset. Previous lease expenses are replaced by a depreciation charge for right-of-use assets and interest expense on lease liabilities. The lessor's accounting remains virtually unchanged in comparison to the previous approach, under which leases are classified either as finance or operating leases. The Group applies the standard retrospectively in a modified form and recognises the cumulative effects from the introduction of the standard in equity as at 1 January 2019. The previous year figures are therefore not restated. The Group made use of the simplification rule regarding the retention of the definition of a lease during the transition. This means that the Group applied IFRS 16 for all contracts concluded before 1 January 2019 that were identified as leases in accordance with IAS 17 and IFRIC 4. In addition, the Group used the simplification regulations for short-term leases and leases for which the underlying asset is of low value, as well as all practical expedients under IFRS 16.C10. The incremental borrowing rate applied was calculated taking into account the currency and local factors at the individual companies and, in the Group, ranged from 0.8% to 4.0% as at 1 January 2019. As at 1 January 2019, right-of-use assets – under the balance sheet items "Investment property" (EUR 34 million), "Other investments" (EUR 32 million) and "Other assets" (EUR 402 million) – of EUR 468 million in total measured in the amount of the lease liabilities (EUR 468 million; balance sheet item "Other liabilities") and adjusted by the amount of any prepaid or accrued lease payments. Including the reversal of deferrals and accruals and taking into account deferred income taxes, applying the standard increased equity by EUR 2 million. Overall, the initially higher interest expenses ("Financing costs" line item) had only a minor negative effect on Group net income.

The transition from the obligations from operating leases recognised as at 31 December 2018 to the lease liabilities recognised as at 1 January 2019 is as follows:

RECONCILIATION OF LEASE LIABILITIES AS AT FIRST-TIME ADOPTION

EUR million	
Future lease obligations as at 31.12.2018 (adjusted) [1]	**637**
Obligations from leases concluded with start of use after 31 December	−1
Short-term leases	−2
Leases of low value assets	−5
Other	−12
Gross lease obligations as at 1.1.2019	**617**
Discounting	149
Lease liabilities recognised as at 1.1.2019	**468**

[1] In comparison to the recognition of lease liabilities in the Talanx Group 2018 Annual Report, obligations from leasing agreements are adjusted by EUR 46 million for obligations not recognised.

The disclosures on leases introduced by IFRS 16 are given in the section "Other disclosures".

Furthermore, several other amendments of Standards and Interpretations were introduced that had no material impact on the consolidated financial statements:

- IAS 28 "Investments in Associates and Joint Ventures": non-current investments in associates and joint ventures
- IAS 19 "Employee Benefits": plan amendments, curtailments and settlements
- Amendments in the context of the "Annual Improvements (2015 to 2017 Cycle)": amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23
- IFRIC 23 "Uncertainty over Income Tax Treatments"

Standards, Interpretations and revisions to issued standards that were not yet effective in 2019 and that were not applied by the Group prior to their effective date

a) EU endorsment already granted

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 financial years beginning on or after 1 January 2018, but is not expected to be applied by the Talanx Group until financial years from 1 January 2022 – taking into account all adjustments made to the Standard by that date – on account of the amendments to IFRS 4 "Application of IFRS 9 and IFRS 4" – which allow certain insurance companies to postpone the obligatory application of IFRS 9. The option exists for companies that are active primarily in the insurance business to apply the temporary exemption from IFRS 9. The Talanx Group fulfils the relevant necessary prerequisites (the proportion of the Group's insurance activities was 96.7% as at 31 December 2015 and there has been no change in business since) and is therefore exercising the option to postpone, in part due to the interaction between the recognition of financial instruments and insurance contracts. The deferral approach disclosures in the Notes (fair values of financial instruments currently in the portfolio, broken down by cash flow criterion, and disclosures regarding the credit risk of securities that passed the SPPI test), which are intended to provide a certain degree of comparability with companies already applying IFRS 9, are presented in the Notes in the section "other disclosures". The new classification regulations of IFRS 9 mean that more financial instruments are recognised at fair value through profit or loss. In addition, the Group expects the new impairment model to have an impact on debt instruments. As part of the Group-wide implementation project, the applicable accounting policies were developed and communicated throughout the Group in preparation for the analysis of the impact of the introduction of IFRS 9 planned for 2020.

Apart from IFRS 9, which will 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:

APPLICATION OF NEW INTERPRETATIONS AND STANDARD AMENDMENTS

Standard	Title of the standard/interpretation/amendment	First application[1]
IFRS conceptual framework	Conceptual framework for financial reporting	1.1.2020
IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"	Change to definition of materiality	1.1.2020
IFRS 9, IAS 39 and IFRS 7	Reform of the benchmark rates	1.1.2020

[1] Effective for financial years beginning on or after the date stated.

b) EU endorsment is still pending

IFRS 17 "Insurance Contracts" was published by the IASB on 18 May 2017 and will in future supersede IFRS 4 and, for the first time, will stipulate uniform requirements for the recognition, measurement and presentation of notes on insurance contracts, reinsurance contracts and investment contracts with discretionary surplus participation. 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. A modified form of the general assessment model is used for large parts of the life insurance business – the variable fee approach. IFRS 17 is to be initially applied retrospectively in principle. In the Exposure Draft Amendments to IFRS 17 published in June 2019, the IASB proposes postponing the effective date of the Standard until 1 January 2022 in addition to several further amendments to IFRS 17. The exemption from applying IFRS 9 allowed for insurance companies is also to be postponed until 1 January 2022, with the result that the two Standards will still become effective at the same time. As the new requirements affect the Group's core business activities, significant impacts on the consolidated financial statements are inevitable. 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, including the interaction with IFRS 9, and to take the necessary steps towards implementation. At present, the technical accounting principles are being developed and the extensive requirements are being implemented into the Group's processes and systems. The impact on the consolidated financial statements cannot yet be quantified at the current time.

Moreover, further standard amendments 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 STANDARD AMENDMENTS

Standard	Title of the standard/interpretation/amendment	First application[1]
IFRS 3 "Business Combinations"	Definition of business operations	1.1.2020
IAS 1	Adjustment of the assessment criteria for classifying liabilities as current or non-current	1.1.2022

[1] Effective for financial years beginning on or after the date stated.

Accounting policies

The material accounting policies applied during the preparation of the consolidated financial statements are presented below. Where no indication to the contrary is given, the policies used are the same as in the previous year. Accounting standards requiring to be applied for the first time in financial year 2019 are described in the "Basis of preparation and application of IFRSs" section, while the consolidation principles are described in the "Consolidation" section 136 ff. and 160 ff. respectively.

In the fourth quarter of 2019, a deviation from the requirements of IAS 12 "Income Taxes" regarding the offsetting of deferred tax assets and deferred tax liabilities was identified and the offsetting was adjusted in line with the requirements of IAS 12. As a result of the retrospective correction of the error, deferred tax assets in respect of loss carryforwards are now also included in the offsetting of deferred tax assets and deferred tax liabilities when the conditions of IAS 12.74 and IAS 12.75 are met, and the offsetting of deferred taxes within the consolidation group at Group level is ensured. The correction affects the Industrial Lines, Property/Casualty Reinsurance and Life/Health Reinsurance segments in addition to the Consolidation segment.

The effects of the retrospective application of the abovementioned change to the opening balance sheet as at 1 January 2018 and the consolidated balance sheet as at 31 December 2018 are shown in the following tables:

EFFECTS ON THE CONSOLIDATED BALANCE SHEET AS AT 1 JANUARY 2018

EUR million	1.1.2018 as reported	Changes from IAS 8 adjustments	1.1.2018
Assets			
H. Deferred tax assets	603	–373	230
Equity and liabilities			
G. Deferred tax liabilities	2,109	–373	1,736

EFFECTS ON THE CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2018

EUR million	31.12.2018 as reported	Changes from IAS 8 adjustments	31.12.2018
Assets			
H. Deferred tax assets	1,156	–691	465
Equity and liabilities			
G. Deferred tax liabilities	2,380	–691	1,689

Furthermore, in the third quarter, income and expenses from exchange differences on translating foreign operations were corrected retrospectively in accordance with IAS 8 without affecting Group net income. Income and expenses resulting from the same currency are offset in full. The correction affects the Property/Casualty Reinsurance and Life/Health Reinsurance segments.

The effects of the retrospective application of the abovementioned change to the consolidated statement of income of the comparative period are shown in the following tables:

IMPACT ON THE 2018 CONSOLIDATED STATEMENT OF INCOME

EUR million	1.1.– 31.12.2018 as reported	Changes from IAS 8 adjustments	1.1.– 31.12.2018
10. a. Other income	1,633	–561	1,072
10. b. Other expenses	–1,721	561	–1,160

Significant management judgement and estimates

Preparation of the consolidated financial statements requires management to make judgements, assumptions and estimates. These relate to the accounting policies applied, the carrying amounts of recognised assets and liabilities, income and expenses and the disclosures on contingent liabilities. Actual results may differ from these estimates.

Estimates and the assumptions underlying them are reassessed continuously; they are based on past experience and on expectations of future events that currently appear reasonable. Revisions of estimates are recognised prospectively.

Judgements, assumptions and estimates are particularly relevant in the case of the following items:

- **Goodwill** (see the "Impairment testing" section of Note 1)
- **Fair value and impairments of financial instruments** (see Note 12 – allocation of financial instruments to the various levels of the fair value hierarchy – and the disclosures on fair value measurement and on determining the need to recognise impairment losses in the "Accounting policies" section)
- **Deferred acquisition costs** (see Note 15 and the information on reviewing accounting assumptions in the "Accounting policies" section)
- **Deferred tax assets** (see Notes 28 and 35 and the information on the availability of future taxable profit against which tax loss carryforwards can be utilised in the "Accounting policies" section)
- **Leases** (see the "Basis of preparation and application of IFRSs" and "Other disclosures" sections of these Notes to the consolidated financial statements)
- **Technical provisions:** Loss and loss adjustment expense reserves (see Note 21) are generally calculated by applying actuarial loss reserving methods to defined subportfolios (analysis segments). The amount recognised is the realistically estimated future settlement amount. Run-off triangles are used to extrapolate trends until the expected end of the run-off period concerned. The actual amounts payable may prove to be higher or lower. Any resulting run-off profits or losses are recognised as income or expenses. Equally, the determination of reserves and assets in life primary insurance and in life/health reinsurance largely depends on actuarial projections for the business. Key input parameters for this are either specified up front in the insurance plan (e.g. the costs included in the calculation, the amount of the premium and the actuarial interest rate) or are estimated (e.g. mortality, morbidity and lapse rates). These assumptions depend heavily on country-specific parameters, the sales channel involved, the quality of the underwriting and the type of reinsurance involved, and are reviewed as at each reporting date by specialised life insurance actuaries. Any resulting potential corrections are included e.g. in true-up adjustments to the following line items: "Other intangible assets", "Insurance-related intangible assets" (PVFP), "Deferred acquisition costs", "Provision for premium refunds" (provision for deferred premium refunds) and, where applicable, the "Benefit reserve" (used to fund terminal bonuses). Further information on underwriting risks, including information on sensitivities, 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** (see the key actuarial assumptions set out in Note 23)
- **Miscellaneous other provisions and contingent liabilities** (see Note 25 and the descriptions in the "Accounting policies" and "Other disclosures" sections of these Notes to the consolidated financial statements)
- **Basis of consolidation** (see the "Consolidation principles" subsection – and in particular the inclusion of investment funds managed by the Group or third parties)

Summary of significant accounting policies

Insurance and investment contracts

Insurance/reinsurance contracts and investment contracts with a discretionary surplus participation are accounted for in accordance with US GAAP as at the date of initial application of IFRS 4 (1 January 2005), unless IFRS 4 specifies anything the contrary. We use the designation valid at that time (Statement of Financial Accounting Standards [SFAS]) when citing individual US GAAP provisions. Investment contracts that do not contain provide for discretionary surplus participation 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 if there are indications that impairment could be present, and is measured at initial cost less accumulated impairment losses. (Please see Note 1 for details of the impairment tests and sensitivity analyses performed.)

Intangible insurance assets: The present value of future profits (PVFP) for acquired insurance portfolios is the present value of expected future net cash flows from existing insurance/reinsurance contracts and investment contracts as at the date of acquisition. It consists of a shareholders' portion, for 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, taking the remaining duration of the acquired contracts into account. Potential impairment losses and the measurement parameters used are reviewed at least once a year, and the amortisation patterns are adjusted and impairment losses recognised where necessary (see Note 2 for details of the durations and additional information). We report the amortisation of the PVFP associated with investment contracts in "Net income from investment contracts" under "Net investment income". The amortisation and impairment of the shareholders' portion is reported in "Other technical expenses".

Purchased intangible assets with finite useful lives are recognised at cost less accumulated amortisation and impairment losses. They are amortised over their estimated useful life, generally on a straight-line basis. The estimated useful life is generally 3 to 10 years for **software** and 4 to 16 years for **acquired sales networks and customer relationships.** Intangible assets with indefinite useful lives (e.g. acquired **brand names**) are tested for impairment annually plus whenever there is evidence of impairment. Amortisation, reversals of impairment losses and impairment losses that are required to be recognised in profit or loss are allocated to the insurance functions if possible and reported in "Other income/expenses" if not.

Investments

Investment property is recognised at cost. Straight-line depreciation is charged over the expected useful life, up to 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 recognised in a calendar year. The directly held portfolio is valued by internal Group experts using the German discounted cash flow method; an external appraisal is produced every five years. An external market value appraisal is obtained for special real estate 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, depreciation, and any impairment losses or their reversal are recognised in profit or loss under "Net investment income".

Shares in associates and joint ventures consist solely of those consolidated material associates and joint ventures that were measured using the equity method. Following initial recognition, the consolidated financial statements contain the Group's share of the overall profit or loss of these investments. Further information can be found in the "Consolidation principles" subsection of the "Consolidation" section.

In accordance with IAS 39, **financial instruments** are recognised/derecognised at the settlement date on acquisition or disposal. Financial assets are classified on initial recognition into one of four categories, depending on their purpose: "loans and receivables", "held-to-maturity financial instruments", "available-for-sale financial instruments" and "financial instruments at fair value through profit or loss". Financial liabilities are classified either as "financial instruments at fair value through profit or loss" or as "financial instruments at amortised cost". Depending on the designation chosen, transaction costs directly connected with the acquisition of the financial instrument may also be added or deducted.

Subsequent measurement of financial instruments is either at amortised cost or at fair value. 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, shares 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, and other participating interests. Investments in listed companies are reported at fair value. Other investments are measured at cost, less any impairment losses.

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 using the effective interest rate method. Impairment losses and reversals of impairment losses 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.

Held-to-maturity financial instruments are financial instruments that the Group has the positive intention and ability to hold to maturity. Measurement and impairment testing of these financial instruments applies the same methods as are used for loans and receivables.

Available-for-sale financial instruments 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 adjustment for accrued -interest, deferred taxes and amounts payable by life insurers to policyholders on realisation (provision for deferred premium refunds).

Financial instruments at fair value through profit or loss comprise the trading portfolio and those financial instruments that were classified as at fair value through profit or loss on initial acquisition. Trading portfolios primarily comprise all derivative financial instruments with positive fair values, including derivatives embedded in hybrid financial instruments that are required to be separated and insurance derivatives, unless these 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" are structured products that are recognised using the fair value option. All securities 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 of the financial instruments concerned are determined using recognised valuation techniques. All unrealised measurement gains and losses are recognised in profit or loss under "Net investment income" in the same way as for realised gains and losses.

The individual balance sheet items for the investments are reconciled to the IFRS 7 **classes of financial instruments** in the relevant notes.

Derivatives 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 on subsequent measurement depends on the type of risk that was hedged. The Group designates certain derivatives as hedges of the fair value of certain assets (fair value hedges) and others as hedges of exposures to variability in cash flows attributable to a particular risk associated with a recognised liability or asset, or a highly probable forecasted transaction (cash flow hedges). Further information is provided in Note 13.

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 values of financial instruments are generally determined on the basis of current, publicly available, unadjusted market prices. Where prices are quoted on markets for financial instruments, the bid price/traded 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, they are measured using established financial models on the basis of current and observable market data. 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 (Level 3 financial instruments) are mainly measured with the assistance of independent professional experts using plausibility checks (e.g. audited net asset values). Please see the disclosures in Note 12 for further details.

MEASUREMENT MODELS FOR DETERMINING FAIR VALUE

Financial instrument	Pricing method	Inputs	Pricing model
Fixed-income securities			
Unlisted plain vanilla bonds	Theoretical price	Yield curve	Present value method
Unlisted structured bonds	Theoretical price	Yield curve, volatility surfaces, correlations	Hull-White and other interest rate models
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 equities funds, real estate funds and bond funds	Theoretical price	Audited net asset value (NAV)[1]	NAV method[1]
Other investments			
Private equity funds/ private equity real estate funds	Theoretical price	Audited net asset value (NAV)[1]	NAV method[1]
Derivative financial instruments			
Listed equity options	Quoted price	—	—
Equity and index futures	Quoted price	—	—
Interest rate and bond futures	Quoted price	—	—
Plain vanilla interest rate swaps	Theoretical price	Yield curve	Present value method
Total return swaps	Theoretical price	Price of underlying, 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
Currency forwards	Theoretical price	Yield curve, spot and forward rates	Present value method
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 German discounted cash flow method
Infrastructure debt financing	Theoretical price	Yield curve	Present value method

[1] NAV: net asset value

Impairment: We test financial assets not recognised at fair value through profit or loss for objective evidence of impairment as at every reporting date. This includes those financial assets that are accounted for using the equity method.

In the case of the equity instruments held, a significant or relatively long-lasting decline in the fair value below the acquisition cost is taken to be objective evidence of an impairment. We consider 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 private equity funds. In this case, we write down investments to their net asset value, which is deemed to be an approximation of their fair value. In order to account for the specific character of these funds (in this case, negative yield and liquidity curves during the initial investment period), we only make write-downs during a two-year grace period if there is evidence of significant or prolonged impairment that is not attributable to the J-curve effect.

Key indicators for determining whether fixed-income securities, loans and receivables are impaired are financial difficulties on the part of the issuer/debtor, the non-receipt or non-payment of interest or investment income, the probability that the issuer/debtor will initiate bankruptcy proceedings and the current market situation. Measurements are performed individually and focus primarily on the security rating, the issuer/borrower rating and an individual market assessment.

Impairment losses are recognised in profit or loss, with the securities being written down to their fair value (the quoted price). Impairment losses on investments are deducted directly from the relevant asset items rather than using an allowance account. Reversals of impairment losses on equity instruments are recognised in equity in other comprehensive income.

Financial assets and liabilities are only **offset** and reported net if there is a legally enforceable right to do this and we intend either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Securities loaned out under **securities lending transactions** continue to be recognised on the balance sheet, since the material opportunities and risks resulting from them remain within the Group. Cash securities are reported under "Other liabilities", whereas securities received as collateral are not recognised, since the associated risks and opportunities have not been transferred.

The Group enters into genuine **securities repurchase transactions** (repo transactions) in which it sells securities while simultaneously entering into an obligation to repurchase them at a later date at an agreed price. It continues to recognise these investments on the balance sheet since the material risks and opportunities associated with them remain within the Group. The repurchase obligation associated with the payment received is recognised on the balance sheet under "Other liabilities". Any difference received between the amount received for the transfer and the agreed retransfer amount is allocated over the term of the repurchase transaction using the effective interest rate method and reported in profit or loss under "Net investment income".

Other investments are primarily recognised at fair value. If these financial instruments are not quoted on public markets (e.g. investments in private equity firms), they are recognised at the most recently available net asset value, which is deemed to be an approximation of their fair value. Non-current assets resulting from infrastructure investments (primarily from consolidated wind farm project companies) are accounted for at cost. They are depreciated on a straight-line basis over a useful life of 20 years. Any provisions for restoration obligations are reported in "Miscellaneous other provisions". In addition, we test these assets for impairment as at the reporting date. Impairment losses, reversals of impairment losses, depreciation and revenue relating to these assets are recognised in "Net investment income".

Investments under investment contracts

Investment contracts that do not contain provide for discretionary surplus participation are recognised as financial instruments in accordance with IAS 39. Payments under these contracts are not disclosed as premiums, but rather as deposit liabilities in the amount of the financial instruments. Financial assets arising from investment contracts are reported in as investments in the "Investments under investment contracts" line item, while financial liabilities (i.e. obligations under investment contracts) are reported as "Other liabilities" on the under equity and liabilities side of the balance sheet. The information provided on the recognition of financial instruments applies, with the necessary modifications. The effects on earnings resulting from investment contracts (e.g. fluctuations in the value of financial assets or liabilities) and the fees collected from investment management activities, net of the relevant administrative expenses, are presented as a separate item, "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 our reinsurance business with customers. Funds withheld under reinsurance treaties represent cash deposits furnished by our retrocessionaires. Funds withheld by ceding companies and funds withheld under reinsurance treaties are recognised at cost (nominal amount) after adjustment for credit risks.

Insurance contracts that comply with IFRS 4 but fail to meet the risk transfer test required by US GAAP are recognised using the deposit accounting method and eliminated from the technical account. The compensation paid to assume the risk under these contracts is recognised in profit or loss under "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 values 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 the profits generated and are likewise liable for any losses that are incurred.

Reinsurance recoverables on technical provisions in this item are calculated on the basis of the gross technical provisions, in line with the terms and conditions of the contracts. Appropriate allowance is made for credit risks.

Receivables

Accounts receivable on insurance business and other receivables are recognised at amortised cost. Where necessary, impairment losses are recognised on an individual basis or for groups of similar receivables. Impairment losses on accounts receivable on insurance business are recognised in allowance accounts. In all other cases, the underlying assets are written down directly. If the reasons for an impairment loss no longer apply, the latter 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 signing or renewal 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. Premiums for short-duration contracts are amortised as they are collected, and in line with the reversal of the unearned premiums over the duration of the contract. In life primary insurance and life/health reinsurance, deferred acquisition costs are calculated on the basis of the duration of the contract, anticipated surrenders, lapse expectations and anticipated interest income. 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 policies classified as universal life-type contracts, deferred acquisition costs are amortised on the basis of the anticipated profit margins for the reinsurance contracts, taking the duration of the insurance contracts into account. Deferred acquisition costs are tested regularly for impairment in accordance with IFRS 4. The actuarial bases are also subject to ongoing review and adjusted if necessary.

Deferred taxes

Deferred tax assets and liabilities from temporary differences between carrying amounts in the tax base and in the financial accounts are calculated. Deferred tax assets are also recognised for tax credits and tax loss carryforwards. Valuation allowances are recognised for impaired deferred tax assets.

The deferred tax assets are measured 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 are also used for managing the companies concerned. In line with uniform Group principles, a particularly high level of evidence is required if the Group company concerned has reported a loss in the current or a prior period. The recognition and recoverability of material deferred tax assets are reviewed by the Group Tax department.

Deferred taxes are calculated using the country-specific tax rates for the year in question. In the event that the tax rates used to calculate the deferred taxes change, an adjustment is made in the year in which the change in the tax rate is adopted. Items are recognised at Group level using the Group tax rate of 32.2% unless they can be allocated to specific companies.

Other assets are reported at amortised cost, with the exception of hedging instruments. Items of property, plant and equipment are 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 statements made in connection with the presentation of investment property also apply to the measurement and impairment testing of real estate held and used. Depreciation and impairments are allocated across the technical functions or recognised in "Other income/expenses".

Cash at banks, cheques and cash-in-hand 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 of the carrying amount and fair value less costs of disposal. In the case of financial instruments, the measurement remains unchanged. Depreciation and amortisation charges are recognised as "held for sale" until the date of classification. Impairment losses are recognised in profit or loss, with any subsequent increase in value leads to the recognition of a gain up to the amount of the cumulative impairment loss.

Leases

As explained in the section "Basis of preparation and application of IFRSs", the Group changed its accounting method for accounting for leases in which the Group is the lessee. The accounting method and its impact are presented in the same section; relevant disclosures are given in the "Other disclosures" section of these Notes to the consolidated financial statements.

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, the **retained earnings** item consists of reinvested profits that Group companies have generated since becoming members of the Group. Moreover, where accounting policies are changed retrospectively, the adjustment amount for previous periods is recognised in the opening balance for the retained earnings.

Other reserves: Unrealised gains and losses resulting from changes in the fair value of available-for-sale financial instruments are recognised in "Unrealised gains/losses on investments". Currency translation differences for the financial statements of foreign subsidiaries and unrealised gains and losses from equity-method accounting are also recognised in "Other reserves". The same also applies to reversals of impairment losses on available-for-sale variable-yield securities and to the effective part of the gain or loss attributable to hedging instruments under cash flow hedges.

The share of net income attributable to **non-controlling interests** is presented below "Net income" in the consolidated statement of income. This is presented in equity as the "Non-controlling interests" item. It consists of interests held by non-Group third parties in the equity of subsidiaries.

Subordinated liabilities comprise financial obligations that, in the event that the Company goes into liquidation or becomes insolvent, will only be settled after claims by other creditors have been met. 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, such as in the fields of property/casualty insurance and property/casualty reinsurance, the portions of premiums already collected that are attributable to future years are deferred pro rata and recognised in the **unearned premium reserves.** These unearned premiums will be earned in future periods as the insurance cover is granted. In the case of insurance contracts, this premium income is deferred to a specific date (predominantly in primary insurance).In the reinsurance business, assumptions are made if the data needed for pro rata calculation are unavailable.

The **benefit reserve** in the life insurance business is calculated using actuarial methods and covers commitments for guaranteed claims by policyholders under life primary insurance policies and by cedants in life/health reinsurance. It is calculated as the difference between the present value of future expected payments to policyholders and cedants and the present value of expected future net premiums still to be collected from policyholders and cedants. The calculation includes assumptions on mortality and morbidity, lapse rates, the return on investment and costs. The actuarial bases used in this context are estimated when the contract is entered into and include an adequate safety margin to cover the risk of change, errors and random fluctuations.

In the case of life insurance contracts that do not provide for surplus participation, the reserve is calculated on a best-estimate basis using assumptions based on customer and industry data, and allows for a risk margin. In the case of life insurance contracts that provide for surplus participation, contractually guaranteed assumptions or the assumptions that are used to determine the surrender values are applied. The biometric actuarial assumptions are based on current mortality tables or, if these are not available, on industry mortality tables.

Measurement of the benefit reserve depends on the product category concerned.

- In the case of life primary insurance contracts in which profit participation occurs "naturally" (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 the present value of future insurance benefits (including earned bonuses, but excluding loss adjustment expenses) less the present value of the future reserve. It is calculated by deducting the portion of the premium set aside to cover loss adjustment expenses from the net premium. The reserve for terminal bonuses is generally created from a fixed portion of the gross profit generated from the insurance portfolio in the financial year.
- In the case of life primary insurance contracts that do not provide for profit 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 life primary 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 (less costs and plus interest) are credited. In the area of life insurance, we recognise benefit reserves separately in item D of the equity and liabilities side of the balance sheet in those cases in which 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 calculated on the basis of recognised actuarial methods. These are used to estimate future claims expenditures, including expenses associated with loss adjustment, where no individual case-based estimates need to be taken into account. In accordance with long-established practice, the realistically estimated future settlement amount is recognised; in the case of reinsurance, this is calculated on the basis of the information provided by the cedants. Receivables arising from subrogation, salvage and claim-sharing agreements are taken into account. The ultimate liability for all property/casualty reinsurance lines and for primary property insurance is measured by calculating the anticipated ultimate loss ratios using actuarial techniques such as chain ladder methods. These use run-off triangles to project trends for all claims per occurrence year or underwriting year until the anticipated end of the run-off period. In addition, past experience, currently known facts and circumstances, and other assumptions regarding future trends are taken into account. The uncertainty in actuarial projections is greater for more recent underwriting years and occurrence years, and is reduced using a wide range of additional information. In the reinsurance business in particular, 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. Provisions for assumed insurance business are recognised on the basis of the data provided by the prior insurers (in the case of Group business) or actuarial analyses (in the case of non-Group business).

Where insufficient statistical data are available to permit the case-by-case settlement of large losses, appropriate reserves are created after analysing the portfolio exposed to these risks and, where appropriate, following individual scrutiny. These reserves represent the Group's realistic estimates. In addition, an appropriate individually determined reserve is created for a portion of the known insurance claims. The size of the reserve is estimated in line with general principles of insurance practice. It is regularly reviewed for appropriateness and adjustments are made where necessary.

With the exception of a few partial reserves, such as pension benefit reserves, the loss and loss adjustment expense reserve is not generally discounted.

The **provision for premium refunds** is recognised in life insurance for obligations relating 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. In the case of unrealised gains and losses on available-for-sale financial instruments, we recognise a provision for deferred premium refunds in other comprehensive income ("shadow provision for premium refunds"); other changes in this provision are recognised through profit or loss.

We test all technical provisions for **adequacy in accordance with IFRS 4** at least once a year. If the test indicates that future income at the level of the individual calculation clusters will probably not cover the anticipated expenses, the associated deferred acquisition costs and PVFP are reversed and a provision for expected losses is recognised. In the case of the unearned premium reserve and the loss reserve, the calculation is based on the current realistically estimated future settlement amount and is aligned with the business model for the line concerned. It takes into account future modifications of terms and conditions, reinsurance cover and, where appropriate, measures taken to manage the profitability of individual contractual relationships. Investment income is not included in this calculation. The adequacy of the benefit reserve is tested on the basis of current assumptions about the actuarial bases, including pro rata net investment income and (where relevant) future surplus participations.

Shadow accounting: Under IFRS 4, unrealised gains and losses from changes in the fair value of available-for-sale financial instruments can be included in the measurement of technical items. This is done to ensure that unrealised gains and losses are treated in the same way as realised gains and losses. The items potentially affected are deferred acquisition costs, PVFP, provisions for terminal bonuses for policyholders and the provision for premium refunds. Adjustments are recognised in other comprehensive income as contra items for the items concerned ("shadow adjustments"), in line with 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 for which policyholders bear the investment risk themselves (e.g. unit-linked life insurance contracts), the benefit reserve and other technical provisions reflect the fair values of the corresponding investments. See the disclosures on the "Investments for the benefit of life insurance policyholders who bear the investment risk" asset item.

Other provisions

Provisions for pensions and other post-employment benefits: Liabilities under defined benefit pension plans are calculated separately for each plan using actuarial principles. They are valued using the projected unit credit method. Measurement reflects both known benefit entitlements and current pension payments at the reporting date and their future trends. The discount rate for pension liabilities is based on the rates for high-quality corporate bonds. The rate used is a payment-weighted average interest rate reflecting the maturities, the amount and the currency of the payments due.

Where pension liabilities are partially matched by assets of a legally independent entity (e.g. a fund or by benefit commitments funded by external assets) that may only be used to settle the pension obligations entered into and are exempt from attachment by creditors, they 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 any effects arising from the application of the asset ceiling. The cost components 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 and 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 firstly of actuarial gains or losses on gross pension liabilities and secondly of the difference between the actual return on plan assets and the actuarial interest income on plan assets. Moreover, where plans are in surplus, the remeasurement component includes the difference between the interest rate on the effect of the asset ceiling and the total changes in net assets due to the effect of the asset ceiling. Further information and sensitivity analyses are provided in Note 23.

Miscellaneous other provisions, and tax and restructuring provisions are recognised in their likely settlement amount, 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 as to the number of employees affected by redundancy, severance payment amounts and contract termination costs. Expenses for future business activities (e.g. relocation costs) are not included when determining the provisions.

Liabilities

Financial liabilities, including **notes payable and loans,** are recognised at amortised cost where they do not relate to liabilities from derivatives or financial liabilities under investment contracts at fair value through profit or loss. **Liabilities from derivatives** are measured at fair value. In the case of written put options on non-controlling interests, the Group recognises a liability in the amount of the present value of the redemption amount. This is charged to non-controlling interests in equity. Effects from subsequent measurement are recognised as income or expenses in the “Other income/expenses“ item. Unwinding of the discount on these financial liabilities is reported in "Financing costs“. The fair values of **investment contracts** are calculated using the surrender values for policyholders and account balances. In addition, the Group uses the fair value option in order to eliminate or significantly reduce an accounting mismatch in relation to the assets from investment contracts used to cover the liabilities. **Lease liabilities** are reported under “Other liabilities”.

Share-based payments in the Group are settled exclusively in cash. Liabilities for cash-settled 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.

Profit and loss recognition

Written premiums are the amount that the insurer has declared to be due, either once or on a continual basis, during the financial year in exchange for providing insurance coverage. Premiums include instalment payment surcharges, ancillary payments and cash payments for assumed portions of technical provisions (portfolio accessions). Payments received for premium receivables that were written off or lapsed in prior years and income 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 the written premiums.

Premiums for insurance contracts are recognised as earned – and hence in income – over the duration of the contracts in proportion to the amount of insurance cover provided or as they fall due. **Earned premiums** do not contain the savings components of life insurance contracts. (Please also see the disclosures on the “Unearned premium reserve” on page 198 ff.).

Claims and claims expenses comprise claims paid for losses for the financial year and prior years (including terminal bonuses in life insurance), plus changes in the loss and loss adjustment expense reserve and changes in the benefit reserve. Premium refund expenses are also recognised in this item. These consist of direct credits from the allocation to the provision for premium refunds and changes to the provision for deferred premium refunds that are recognised in profit or loss, including amortisation of the PVFP in favour of policyholders.

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 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 medical examination costs, are also recognised here. **Administrative expenses** primarily consist of contract management expenses, such as the cost of collecting premiums when due. Other costs include the personnel costs, depreciation, amortisation and impairment losses, and rental payments attributable to this function.

Premiums, claims and claims expenses, acquisition costs and administrative expenses are recognised both gross and **net**, after taking reinsurance items into account.

A breakdown of the net investment income and **other income/expenses** items is given in the relevant disclosures in the Notes to the consolidated financial statements.

In addition to its core business activities (which fall within the scope of IFRS 4), the Group provides various services relating to the insurance business, and in particular asset management services and other insurance-related services falling within the scope of IFRS 15 “Revenue from Contracts with Customers”. **Revenue from contracts with customers** is recognised when control of the promised goods or services is transferred to the customer. The amount of revenue recognised corresponds to the consideration to which the Group expects to be entitled for transferring goods or services to the customer. In the case of contracts falling within the scope of IFRS 15, the Group acts as the principal as it generally has control over the goods or services before they are transferred to the customer. Contracts with customers do not usually contain significant financing components. A breakdown of this revenue is given in the “Other disclosures” section.

Income taxes: Tax expenditures consist of the current taxes levied on the results of Group companies to which local tax rates are applied, plus changes in deferred tax assets and deferred tax liabilities. Expenses for and income from interest and penalties payable to the tax authorities are reported under “Other income/expenses”.

Exchange differences on translating foreign operations

The Group’s reporting currency is the euro.

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 the “Other income/expenses” item. Exchange rate gains and losses from non-monetary items (e.g. 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 settled or written down.

Foreign currency items at foreign subsidiaries – including goodwill – in countries that do not use the euro as their national currency are translated into euros at the middle rates at the reporting date. Foreign currency items in the statement of income are translated at their average exchange rates. All resulting currency translation differences that are not attributable to non-controlling interests are recognised in other comprehensive income and presented in equity in the currency translation reserve.

EXCHANGE RATES FOR OUR KEY FOREIGN CURRENCIES

		Balance sheet (reporting date)		Statement of income (average)	
EUR 1 corresponds to		2019	2018	2019	2018
AUD	Australia	1.6000	1.6208	1.6095	1.5799
BRL	Brazil	4.5128	4.4552	4.4212	4.2988
CAD	Canada	1.4620	1.5591	1.4872	1.5313
CNY	China	7.8181	7.8768	7.7355	7.8174
GBP	United Kingdom	0.8520	0.9028	0.8781	0.8870
JPY	Japan	122.1900	126.3700	122.3546	130.4562
MXN	Mexico	21.0814	22.5895	21.6720	22.7140
PLN	Poland	4.2576	4.3031	4.2998	4.2603
USD	USA	1.1190	1.1451	1.1208	1.1814
ZAR	South Africa	15.7385	16.4522	16.1594	15.5416

Segment reporting

Identification of reportable segments

In accordance with IFRS 8 "Operating Segments", reportable segments are identified in line with the Group internal reporting and management structure, which is used by the Group Board of Management to regularly review the performance of the segments and to make decisions about the resources to be allocated to them.

The Group classifies its business activities into Insurance and Corporate Operations. Insurance activities (excluding in-house reinsurance of Talanx AG and HDI Reinsurance (Ireland) SE) are further subdivided into six reportable segments, with a preliminary classification into primary insurance and reinsurance being made in view of the different product types, risks and capital allocations involved.

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" – based on the way they are managed by customer group, geographical region (Germany or the rest of the world) and, in the case of Retail Germany, by line of business (property insurance and life insurance). This segmentation also corresponds to the responsibilities of the individual members of the Board of Management.

Reinsurance business is handled solely by the Hannover Re Group and is divided into two segments – Property/Casualty Reinsurance and Life/Health Reinsurance – in line with the Hannover Re Group's internal reporting system.

In a departure from the segmentation used in Hannover Rück SE's consolidated financial statements, we also allocate this group's holding company functions to its Property/Casualty Reinsurance segment. Intersegment loans within the Hannover Re Group are allocated to the two reinsurance segments in the Talanx Group's consolidated financial statements (they are reported in the "Consolidation" column in Hannover Rück SE's consolidated financial statements). This means that differences between the segment results for the reinsurance business as presented in Talanx AG's consolidated financial statements and in Hannover Rück SE's financial statements are unavoidable.

The key products and services from which these reportable segments generate income are described in the following.

Industrial Lines: This segment reports our global industrial business. Its business operations encompass a wide selection of insurance products such as liability, motor, casualty, fire, property, legal protection, marine, financial lines, agency and specialty (including in lines such as errors & omissions liability insurance, directors' and officers' (D&O) liability insurance, sports and entertainment, aviation, offshore energy and livestock insurance) and engineering insurance for large and medium-sized enterprises in Germany and abroad. In addition, reinsurance is provided for various insurance classes.

Retail Germany – Property/Casualty: This segment manages all our property and casualty insurance services for German retail and commercial customers. The product portfolio ranges from insurance products for price- and service-conscious customers through tailor-made products for customers seeking a consulting-based approach, down to affinity business. It focuses on small and medium-sized enterprises, who we would also like to offer optimal insurance cover. Sales are made by the Group's own field organisation, independent brokers and multiple agents, and via partnerships and online and direct channels.

Retail Germany – Life: This segment manages our life insurance activities including our nationwide bancassurance business (i.e. insurance products sold over the counter at partner banks). It also provides insurance services in Austria. The product portfolio ranges from unit-linked life insurance through annuity and risk insurance to long-term and occupational disability insurance. Most sales are made via our tied agents, independent brokers and multiple agents, and banks.

Retail International: This segment covers our foreign insurance business with retail and commercial customers in various lines of insurance, including our bancassurance activities. Our offering includes motor insurance, property and casualty insurance, and marine and fire insurance, as well as a considerable number of life insurance products. 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 in this segment are our property and casualty business with retail, commercial and industrial customers (first and foremost on the US and German markets), marine and aviation business, credit/surety business, structured reinsurance, and our facultative and nat cat business. The Group also offers Sharia-compliant retakaful reinsurance.

Life/Health Reinsurance: This segment comprises the Hannover Re Group's global activities in all lines of life, health, annuity and personal accident insurance, to the extent that these are underwritten by life/health insurers. The Group also offers Sharia-compliant retakaful reinsurance.

Corporate Operations: In contrast to the six operating segments, this segment is responsible for Group management and other activities supporting the Group's business. The latter include asset management, the run-off and placement of portions of reinsurance cessions for the primary insurance sector including intragroup reinsurance (Talanx AG and HDI Reinsurance (Ireland) SE, Dublin) and Group financing. Asset management activities performed by Ampega Investment GmbH, Cologne, for non-Group private and institutional investors is also reported here. This segment also includes central service companies that provide specific billable services – such as IT, collection, human resources and accounting services – mainly to the Group's primary insurers in Germany. In-house business written by HDI Reinsurance (Ireland) SE is partly reallocated to the ceding segments as part of segment allocation. Commission earnings from placing reinsurance cessions and the operating profit of Talanx Reinsurance Broker GmbH are allocated to the ceding segment Industrial Lines.

Performance measurement for the reportable segments

All transactions between reportable segments are measured on the basis of standard market transfer prices. Intersegment transactions within the Group are eliminated in the “Consolidation” column; income from dividend payments and profit/loss transfer agreements attributable to the Group holding company is eliminated in the segment concerned. For reasons of consistency and comparability, we have structured the statements of income for the individual divisions/reportable segments in line with the consolidated statement of income. The same applies to the consolidated balance sheet.

No taxes on income or financing costs are determined and reported to the main decision makers for the “Retail Germany – Property/Casualty” and “Retail Germany – Life” segments; as a result, these statements of income end with EBIT and no segment balance sheet can be drawn up for them. 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 is produced by adding together the segment balance sheets for its reportable segments, Property/Casualty Reinsurance and Life/Health Reinsurance.

A number of different management metrics and performance indicators are used to assess the financial performance of the reportable segments within the Group, depending on the nature and time frame of the business activities involved. Operating profit (EBIT) – which is determined on the basis of IFRS earnings contributions – is used as the consistent measurement base. Net income for the period before income taxes is the main indicator used to capture actual operating profitability and to enhance comparability. In addition, the figure is adjusted for interest on borrowings and from the unwinding of discounts for lease liabilities (financing costs).

CONSOLIDATED BALANCE SHEET BY DIVISION AS AT 31 DECEMBER 2019

EUR Million

Assets	Industrial Lines		Retail Germany	
	31.12.2019	31.12.2018[1,3]	31.12.2019	31.12.2018
A. Intangible assets				
a. Goodwill	153	154	248	248
b. Other intangible assets	10	8	438	458
	163	**162**	**687**	**706**
B. Investments				
a. Investment property	170	173	1,263	1,116
b. Shares in affiliated companies and participating interests	12	12	83	41
c. Shares in associates and joint ventures	192	154	35	—
d. Loans and receivables	996	1,067	23,966	25,109
e. Other financial instruments				
i. Held-to-maturity financial assets	69	73	168	169
ii. Available-for-sale financial assets	6,846	5,864	27,043	23,191
iii. Financial assets at fair value through profit or loss	135	180	361	349
f. Other investments	856	777	1,743	1,641
Assets under own management	**9,278**	**8,300**	**54,662**	**51,616**
g. Investments under investment contracts	—	—	—	—
h. Funds withheld by ceding companies	14	15	3	4
Investments	**9,292**	**8,315**	**54,665**	**51,620**
C. Investments for the benefit of life insurance policyholders who bear the investment risk	—	—	11,353	9,506
D. Reinsurance recoverables on technical provisions	7,409	5,202	1,811	1,861
E. Accounts receivable on insurance business	2,060	1,413	287	312
F. Deferred acquisition costs	75	63	2,021	2,158
G. Cash at banks, cheques and cash-in-hand	857	676	832	686
H. Deferred tax assets	44	67	89	111
I. Other assets	663	695	771	822
J. Non-current assets and assets of disposal groups classified as held for sale[2]	—	—	—	—
Total assets	**20,564**	**16,592**	**72,517**	**67,782**

[1] Adjusted in accordance with IAS 8, see the "Accounting policies" section of these Notes.
[2] For further information see the "Non-current assets and disposal groups held for sale " of these Notes .
[3] HDI Global Specialty SE would have been included in the segment with total equity and liabilities of EUR 2,820 million (before effects of consolidation).
[4] HDI Global Specialty SE was included in the segment with total equity and liabilities of EUR 2,820 million (before effects of consolidation).

Retail International		Reinsurance		Corporate Operations		Consolidation		Total	
31.12.2019	31.12.2018	**31.12.2019**	31.12.2018[1,4]	**31.12.2019**	31.12.2018	**31.12.2019**	31.12.2018[1]	**31.12.2019**	31.12.2018[1]
668	622	36	34	—	—	—	—	1,105	1,058
170	151	168	174	106	109	—	−5	893	895
838	**773**	**204**	**208**	**106**	**109**	**—**	**−5**	**1,998**	**1,953**
10	10	1,750	1,686	—	—	—	—	3,193	2,985
—	—	278	135	24	18	—	—	398	206
—	—	109	111	—	—	—	—	337	265
484	531	2,194	2,421	1	16	—	—	27,641	29,144
168	210	223	250	—	—	−292	−293	336	409
10,910	8,841	38,632	33,930	119	138	—	—	83,550	71,964
408	561	814	750	—	—	—	—	1,718	1,840
485	418	3,072	2,967	751	768	−1,442	−1,516	5,465	5,055
12,465	**10,571**	**47,073**	**42,250**	**894**	**940**	**−1,734**	**−1,809**	**122,638**	**111,868**
1,170	1,042	—	—	—	—	—	—	1,170	1,042
—	—	11,274	10,865	1	1	−997	−964	10,296	9,921
13,636	**11,613**	**58,346**	**53,115**	**896**	**941**	**−2,731**	**−2,773**	**134,104**	**122,831**
471	484	—	—	—	—	—	—	11,824	9,990
921	705	3,028	3,209	18	6	−4,704	−2,477	8,483	8,506
1,339	1,220	5,270	4,420	11	5	−443	−119	8,525	7,251
671	614	2,932	2,283	2	1	238	239	5,940	5,358
387	592	1,089	1,152	353	256	—	—	3,518	3,362
92	101	45	93	276	273	−221	−179	326	465
561	432	1,797	1,695	1,183	653	−2,158	−1,840	2,819	2,457
21	16	36	—	—	—	—	−1	57	15
18,936	**16,550**	**72,748**	**66,174**	**2,845**	**2,244**	**−10,017**	**−7,155**	**177,594**	**162,188**

CONSOLIDATED BALANCE SHEET BY DIVISION AS AT 31 DECEMBER 2019

EUR million

Equity and liabilities	Industrial Lines		Retail Germany	
	31.12.2019	31.12.2018[2,4]	31.12.2019	31.12.2018
B. Subordinated liabilities	283	200	162	162
C. Technical provisions				
a. Unearned premium reserve	2,026	1,152	1,460	1,381
b. Benefit reserve	—	—	41,365	41,214
c. Loss and loss adjustment expense reserve	12,466	10,327	3,482	3,399
d. Provision for premium refunds	15	34	7,857	5,473
e. Other technical provisions	55	47	6	7
	14,561	**11,560**	**54,169**	**51,474**
D. Technical provisions for life insurance policies where the investment risk is borne by the policyholders	—	—	11,353	9,506
E. Other provisions				
a. Provisions for pensions and other post-employment benefits	623	587	158	140
b. Provisions for taxes	91	124	102	113
c. Miscellaneous other provisions	89	73	361	350
	803	**784**	**622**	**603**
F. Liabilities				
a. Notes payable and loans	12	14	82	88
b. Funds withheld under reinsurance treaties	67	53	1,479	1,494
c. Other liabilities	2,251	1,408	1,824	1,815
	2,330	**1,475**	**3,386**	**3,397**
G. Deferred tax liabilities	209	209	253	197
H. Liabilities included in disposal groups classified as held for sale[1]	—	—	—	—
Total liabilities/provisions	**18,186**	**14,228**	**69,945**	**65,339**

Retail International		Reinsurance		Corporate Operations		Consolidation		Total	
31.12.2019	31.12.2018	31.12.2019	31.12.2018[2, 5]	31.12.2019	31.12.2018	31.12.2019	31.12.2018[2]	31.12.2019	31.12.2018[2]
42	42	2,628	1,878	1,280	1,280	−916	−824	3,479	2,738
2,684	2,431	4,392	3,731	10	6	−735	−111	9,837	8,590
6,603	5,987	9,028	9,184	—	—	−137	−151	56,859	56,234
3,530	2,996	32,996	30,401	98	64	−2,920	−1,300	49,651	45,887
639	196	—	—	—	—	—	—	8,511	5,703
21	10	673	578	—	—	—	−14	755	628
13,478	**11,620**	**47,089**	**43,894**	**108**	**70**	**−3,792**	**−1,576**	**125,614**	**117,042**
471	484	—	—	—	—	—	—	11,824	9,990
68	50	202	184	1,234	1,183	—	—	2,284	2,144
125	121	192	246	50	46	—	—	561	650
122	103	198	183	201	178	—	—	971	887
315	**274**	**592**	**613**	**1,485**	**1,407**	**—**	**—**	**3,816**	**3,681**
76	77	1,398	1,539	1,524	1,482	−786	−955	2,308	2,245
50	49	4,739	4,581	—	—	−1,785	−1,736	4,550	4,441
2,056	1,747	3,344	2,840	337	233	−2,588	−1,948	7,224	6,095
2,182	**1,873**	**9,481**	**8,960**	**1,861**	**1,715**	**−5,158**	**−4,639**	**14,081**	**12,781**
104	102	1,792	1,338	—	—	−198	−158	2,160	1,689
9	6	—	—	—	—	—	—	9	6
16,601	**14,401**	**61,582**	**56,683**	**4,734**	**4,472**	**−10,064**	**−7,197**	**160,983**	**147,927**

Equity[3]	**16,610**	**14,261**
Total liabilities	**177,594**	**162,188**

[1] For further information see the "Non-current assets and disposal groups held for sale " of thsese Notes.
[2] Adjusted in accordance with IAS 8, see the "Accounting policies" section of these Notes.
[3] Equity attributable to Group shareholders and non-controlling interests.
[4] HDI Global Specialty SE would have been included in the segment with total equity and liabilities of EUR 2,820 million (before effects of consolidation).
[5] HDI Global Specialty SE was included in the segment with total equity and liabilities of EUR 2,820 million (before effects of consolidation).

CONSOLIDATED STATEMENT OF INCOME BY DIVISION/REPORTABLE SEGMENT FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2019[1]

	Industrial Lines		Retail Germany	
EUR million	2019	2018[3]	2019	2018
1. Gross written premiums including premiums from unit-linked life and annuity insurance	6,214	4,686	6,201	6,080
of which attributable to other divisions/segments	57	47	58	59
of which attributable to third parties	6,157	4,639	6,143	6,021
2. Savings elements of premiums from unit-linked life and annuity insurance	—	—	830	853
3. Ceded written premiums	3,094	1,941	310	321
4. Change in gross unearned premiums	–278	–66	–78	–75
5. Change in ceded unearned premiums	–126	44	3	–1
Net premiums earned	**2,968**	**2,635**	**4,979**	**4,832**
6. Claims and claims expenses (gross)	4,369	3,813	5,328	5,128
Reinsurers' share	2,007	1,535	84	125
Claims and claims expenses (net)	**2,362**	**2,278**	**5,243**	**5,003**
7. Acquisition costs and administrative expenses (gross)	1,276	919	1,488	1,373
Reinsurers' share	641	344	169	144
Acquisition costs and administrative expenses (net)	**635**	**575**	**1,318**	**1,229**
8. Other technical income	4	3	17	26
Other technical expenses	15	25	20	36
Other technical result	**–11**	**–22**	**–4**	**–10**
Net technical result	**–40**	**–240**	**–1,586**	**–1,410**
9. a. Investment income	424	396	2,227	2,012
b. Investment expenses	138	154	310	322
Net income from assets under own management	**286**	**242**	**1,917**	**1,690**
Net income from investment contracts	—	—	—	—
Net interest income from funds withheld and contract deposits	–1	—	–12	–14
Net investment income	**285**	**242**	**1,905**	**1,676**
of which share of profit or loss of equity-accounted associates and joint ventures	11	2	—	—
10. a. Other income	137	136	237	239
b. Other expenses	223	127	326	325
Other income/expenses	**–86**	**9**	**–89**	**–86**
Profit before goodwill impairments	**159**	**11**	**230**	**180**
11. Goodwill impairments	—	—	—	—
Operating profit/loss (EBIT)	**159**	**11**	**230**	**180**
12. Financing costs	12	9	9	9
13. Taxes on income	44	18	80	63
Net income	**104**	**–16**	**140**	**108**
of which attributable to non-controlling interests	1	—	7	6
of which attributable to shareholders of Talanx AG	103	–16	133	102

[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 the "Accounting policies" section of these Notes.
[3] HDI Global Specialty SE would have been included in the division's gross premium with EUR 947 million (before effects of consolidation) and would have contributed EUR –1,5 million to EBIT (before effects of consolidation).
[4] HDI Global Specialty SE was included in the division's gross premium with EUR 947 million (before effects of consolidation) and contributed EUR –1,5 million to EBIT (before effects of consolidation).

Retail International		Reinsurance		Corporate Operations		Consolidation		Total	
2019	2018	2019	2018 [2,4]	2019	2018	2019	2018	2019	2018 [2]
6,111	5,552	22,598	19,176	64	53	–1,693	–662	39,494	34,885
1	—	1,513	503	64	53	–1,693	–662	—	—
6,110	5,552	21,084	18,673	—	—	—	—	39,494	34,885
113	153	—	—	—	—	—	—	943	1,006
485	425	2,252	1,779	20	16	–1,689	–634	4,473	3,848
–203	–167	–637	–128	–4	–6	135	–37	–1,065	–479
–33	–9	–21	–20	–1	–3	136	–33	–42	–22
5,343	**4,816**	**19,730**	**17,289**	**40**	**34**	**–6**	**–32**	**33,054**	**29,574**
4,415	3,894	16,221	14,376	55	35	–1,178	–500	29,210	26,746
353	297	1,561	1,756	13	3	–1,174	–487	2,845	3,229
4,063	**3,597**	**14,660**	**12,620**	**42**	**32**	**–4**	**–13**	**26,366**	**23,517**
1,293	1,180	5,555	4,927	15	8	–486	–190	9,141	8,217
95	89	266	211	2	1	–475	–179	698	610
1,198	**1,091**	**5,289**	**4,716**	**13**	**7**	**–11**	**–11**	**8,442**	**7,607**
35	40	3	1	—	—	1	–4	60	66
84	77	9	37	—	—	11	–12	139	163
–49	**–37**	**–5**	**–36**	**—**	**—**	**–10**	**8**	**–79**	**–97**
33	**91**	**–224**	**–83**	**–15**	**–5**	**—**	**—**	**–1,833**	**–1,647**
427	385	1,873	1,711	19	13	–62	–62	4,909	4,455
45	61	304	363	103	93	–121	–114	779	879
382	**324**	**1,569**	**1,348**	**–84**	**–80**	**59**	**52**	**4,130**	**3,576**
3	–1	—	—	—	—	—	—	3	–1
–4	–2	206	208	—	—	—	—	190	192
381	**321**	**1,776**	**1,556**	**–84**	**–80**	**59**	**52**	**4,323**	**3,767**
—	—	24	5	—	—	—	—	35	7
76	105	630	538	824	800	–790	–746	1,114	1,072
207	249	363	385	733	715	–679	–641	1,173	1,160
–131	**–144**	**267**	**153**	**91**	**85**	**–111**	**–105**	**–60**	**–88**
283	**268**	**1,818**	**1,626**	**–8**	**—**	**–52**	**–53**	**2,430**	**2,032**
—	—	—	—	—	—	—	—	—	—
283	**268**	**1,818**	**1,626**	**–8**	**—**	**–52**	**–53**	**2,430**	**2,032**
12	4	106	94	105	102	–53	–48	191	170
65	71	394	374	–17	–22	—	–1	568	503
205	**193**	**1,318**	**1,158**	**–97**	**–80**	**1**	**–4**	**1,671**	**1,359**
41	32	699	618	—	—	—	—	748	656
164	161	619	540	–97	–80	1	–4	923	703

CONDENSED CONSOLIDATED STATEMENT OF INCOME FOR THE RETAIL GERMANY (PROPERTY/CASUALTY AND LIFE), PROPERTY/CASUALTY REINSURANCE AND LIFE/HEALTH REINSURANCE REPORTABLE SEGMENTS FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2019

	Retail Germany – Property/Casualty		Retail Germany – Life		Property/Casualty Reinsurance		Life/Health Reinsurance	
EUR million	**2019**	2018	**2019**	2018	**2019**	2018[1,2]	**2019**	2018[1]
1. Gross written premiums including premiums from unit-linked life and annuity insurance	1,588	1,564	4,612	4,516	14,781	11,976	7,816	7,200
of which attributable to other segments	—	—	58	59	1,370	354	144	149
of which attributable to third parties	1,588	1,564	4,554	4,457	13,411	11,622	7,673	7,051
2. Savings elements of premiums from unit-linked life and annuity insurance	—	—	830	853	—	—	—	—
3. Ceded written premiums	80	86	230	235	1,434	1,108	818	671
4. Change in gross unearned premiumse	–22	–28	–56	–47	–569	–83	–68	–45
5. Change in ceded unearned premiums	—	–3	3	2	–20	–20	–1	—
Net premiums earned	**1,486**	**1,453**	**3,493**	**3,379**	**12,798**	**10,805**	**6,932**	**6,484**
6. Claims and claims expenses (gross)	922	951	4,406	4,177	9,680	8,328	6,542	6,048
Reinsurers' share	20	39	64	86	848	1,100	713	656
Claims and claims expenses (net)	**902**	**912**	**4,342**	**4,091**	**8,832**	**7,228**	**5,828**	**5,392**
7. Acquisition costs and administrative expenses (gross)	590	545	898	828	3,987	3,402	1,567	1,525
Reinsurers' share	25	24	144	120	209	166	57	45
Acquisition costs and administrative expenses (net)	**565**	**521**	**754**	**708**	**3,778**	**3,236**	**1,511**	**1,480**
8. Other technical income	2	2	15	24	—	1	3	—
Other technical expenses	7	11	14	25	2	9	7	28
Other technical result	**–5**	**–9**	**1**	**–1**	**–2**	**–8**	**–4**	**–28**
Net technical result	**15**	**11**	**–1,602**	**–1,421**	**186**	**333**	**–411**	**–416**
9. a. Investment income	137	113	2,091	1,899	1,292	1,297	580	414
b. Investment expenses	17	23	293	299	247	268	57	95
Net income from assets under own management	**119**	**90**	**1,798**	**1,600**	**1,046**	**1,029**	**523**	**319**
Gains or losses from investment contracts	—	—	—	—	—	—	—	—
Net interest income from funds withheld and contract deposits	–1	–1	–11	–13	48	36	159	172
Net investment income	**119**	**89**	**1,786**	**1,587**	**1,093**	**1,065**	**682**	**491**
of which share of profit or loss of equity-accounted associates and joint ventures	—	—	—	—	1	2	23	3
10. a. Other income	53	60	184	179	255	268	375	270
b. Other expensesn	89	91	237	234	279	302	85	83
Other income/expenses	**–36**	**–31**	**–53**	**–55**	**–24**	**–34**	**290**	**187**
Profit before goodwill impairments	**98**	**69**	**131**	**111**	**1,256**	**1,364**	**562**	**262**
11. Goodwill impairments	—	—	—	—	—	—	—	—
Operating profit/loss (EBIT)	**98**	**69**	**131**	**111**	**1,256**	**1,364**	**562**	**262**

1 Adjusted in accordance with IAS 8, see the "Accounting policies" section of these Notes.
2 HDI Global Specialty SE was included in the division's gross premium with EUR 947 million (before effects of consolidation) and contributed EUR –1,5 million to EBIT (before effects of consolidation).

Gross written premiums, assets under own management and non-current assets by geographical origin

ASSETS UNDER OWN MANAGEMENT BY GEOGRAPHICAL ORIGIN[1]

EUR million	2019	2018
Germany	28,830	28,816
United Kingdom	7,531	7,264
Central and Eastern Europe (CEE), including Turkey	4,839	4,505
Rest of Europe	43,762	38,643
USA	19,750	17,876
Rest of North America	3,514	2,725
Latin America	4,098	3,360
Asia and Australia	9,967	8,365
Africa	348	314
Total	**122,638**	**111,868**

[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[1]

EUR million	2019	2018
Germany	4,186	4,054
United Kingdom	107	99
Rest of Europe	366	269
USA	779	625
Rest of North America	336	244
Latin America	243	180
Asia and Australia	27	3
Africa	10	6
Total	**6,054**	**5,480**

[1] Non-current assets largely consist of intangible assets (including goodwill) and real estate held and used/investment property including right-of-use assets from leasing contracts.

GROSS WRITTEN PREMIUMS BY GEOGRAPHICAL ORIGIN (BY CUSTOMER DOMICILE)[1]

	Primary insurance		Reinsurance		Total	
EUR million	2019	2018	2019	2018	2019	2018
Germany	7,780	7,651	922	918	8,701	8,569
United Kingdom	547	233	2,622	2,560	3,169	2,793
Central and Eastern Europe (CEE), including Turkey	2,698	2,391	522	488	3,221	2,879
Rest of Europe	3,455	2,960	2,853	2,613	6,308	5,573
USA	1,071	579	6,761	5,681	7,832	6,260
Rest of North America	180	60	846	795	1,026	855
Latin America	2,015	1,893	1,045	877	3,059	2,770
Asia and Australia	611	400	4,942	4,217	5,553	4,617
Africa	54	45	571	524	624	569
Total	**18,410**	**16,212**	**21,084**	**18,673**	**39,494**	**34,885**

[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

There were no transactions with any single external client during the reporting period amounting to 10% or more of total gross premiums.

GROSS WRITTEN PREMIUMS BY TYPE AND CLASS OF INSURANCE[1]

EUR million	2019	2018
Property/casualty primary insurance	11,837	10,006
Primary life insurance	6,573	6,206
Property/Casualty Reinsurance	13,411	11,622
Life/Health Reinsurance	7,673	7,051
Total	**39,494**	**34,885**

[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 uniform 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 for the purposes of the consolidated financial statements. Intragroup balances and transactions are eliminated.

Subsidiaries are all entities that are controlled by the Group. The Group controls a Group company if it directly or indirectly has decision-making powers over the latter 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 where these are substantive.

A separate review of the principal-agent relationship is performed for investment funds – both where investment funds are managed by the Group and for funds managed by third parties in which the Group holds an interest. This analyses the decision-making processes to establish whether control of the material business activities lies with the fund management or the investors. Apart from the variability of the fund management fee, the focus is on substantive rights to dismiss the management or to trigger the liquidation of the fund, and on the role of the investors on the investment fund's governing and other bodies.

The Group accounts for **business combinations** using the purchase method. Subsidiaries must be consolidated as from the date on which control passes to the Group and are deconsolidated as soon as control ends. Acquisition costs correspond to the fair value of the assets acquired and liabilities arising or assumed as at the transaction date. Assets, liabilities and contingent liabilities that can be identified in a business combination are measured during 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 under the "Intangible assets" item. Non-controlling interests in acquired companies are generally reported based on the proportionate interest in the net assets of the acquired companies.

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 are initially recognised at cost (including transaction costs). An individual analysis of the Group's actual ability to influence associates is performed for all material participating interests. This is 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.

A joint venture is an arrangement over which the Group has joint control, giving it rights to the net assets of the arrangement rather than rights in relation to its assets and obligations in relation to its liabilities. These entities are 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 in such a way that voting or similar rights are not the dominant factor in deciding who controls the entity. This is the case, for example, where any voting rights relate to administrative tasks only and the relevant activities are governed by contractual arrangements.

Within the Group, the requirement to consolidate structured entities is examined by analysing 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. Decisions whether or not to consolidate entities are reviewed as needed, and at least once a year.

Basis of consolidation

Subsidiaries, associates and joint ventures that are insignificant both individually and in the aggregate for the Group's net assets, financial position and results of operations are exempted from consolidation or from application of the equity method. Insignificance is determined by comparing the company's total assets and net income with the corresponding average figures for the Group as a whole for the last three years.

For this reason, 32 (26) subsidiaries whose primary business purpose is to provide services for the Group's insurance companies were not consolidated in the reporting period. A further 13 (11) associates and 5 (5) 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 average total Group assets in the last three years. Additionally, the companies' net income amounts altogether to less than 2% of the Group's average net income for the last three years. In subsequent periods, the entities not included in the basis of consolidation for reasons of insignificance are examined at each reporting date to establish whether they should be consolidated or accounted for using the equity method because the assessment of their materiality has changed.

For information on the composition of the Group, including a complete list of all shareholdings, please refer to the "List of Shareholdings" section on pages 234ff. Information on associates and joint ventures can be found in Note 5.

BASIS OF CONSOLIDATION

	2019	2018
Number of consolidated subsidiaries		
Domestic [1]	84	88
Foreign [2]	141	140
Subtotal	**225**	**228**
Number of consolidated investment funds (subsidiaries) [3]		
Domestic	19	19
Foreign	3	4
Subtotal	**22**	**23**
Number of consolidated structured entities		
Domestic	—	—
Foreign	3	3
Subtotal	**3**	**3**
Total number of consolidated entities		
Domestic	103	107
Foreign	147	147
Subtotal	**250**	**254**
Number of equity-accounted associates and joint ventures		
Domestic	3	3
Foreign [4, 5]	6	5
Total	**9**	**8**

[1] This figure comprises 82 (86) individual entities and 2 (2) entities consolidated in 1 (1) subgroup.
[2] This figure comprises 64 (64) individual entities and 77 (76) entities consolidated in 4 (4) subgroups.
[3] These investment funds do not constitute structured entities since control is exercised through voting rights or similar rights.
[4] This figure comprises 4 (3) individual entities and 2 (2) equity-accounted investment(s) included in a subgroup.
[5] Includes 1 (1) foreign joint venture.

Disclosures on the nature and extent of significant restrictions

Statutory, contractual or regulatory restrictions, and protective rights of non-controlling interests can restrict the Group's ability to access or use the assets, to transfer them freely to or from other entities within the Group, and to settle the Group's liabilities. The following significant restrictions applied to the following subsidiaries with non-controlling interests as at the reporting date because of protective rights in favour of the shareholders concerned.

SIGNIFICANT RESTRICTIONS AT MATERIAL SUBSIDIARIES

Company	Nature and extent of significant restrictions
Towarzystwo Ubezpieczeń i Reasekuracji WARTA S. A. and Towarzystwo Ubezpieczeń na Życie WARTA S. A., both Warsaw, Poland	Under the 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 and transfer of shares of E+S Rückversicherung AG are subject to endorsement and must be approved by the company's supervisory board. The supervisory board has the right to issue or refuse approval and is not obliged to give any reasons in the event of a refusal.

Other restrictions on transferring assets between Group companies may exist in certain countries as a result of local minimum capital and solvency requirements and, to a lesser extent, of currency restrictions. The Group has established US trust accounts and furnished other collateral for US cedants totalling EUR 7,464 (6,592) million in order to secure our technical liabilities. The securities held in the trust accounts are reported as available-for-sale investments. The amount includes the equivalent of EUR 2,717 (2,043) million provided by investors as security for possible technical liabilities arising from ILS transactions. Other blocked custody accounts and other trust accounts in favour of reinsurers and cedants, generally outside the USA, were also established in the amount of EUR 3,522 (3,337) million. In certain countries, collateral for liabilities to credit institutions of EUR 701 (647) million was provided in connection with property companies and real estate transactions. For further information, please refer to our disclosures in the "Risks from investments" subsection of the “Credit risks” section of the risk report in the Group management report.

Disclosures on subsidiaries with significant non-controlling interests

Non-controlling interests in the equity of subsidiaries are reported separately in equity. They amounted to EUR 6,461 (5,548) million as at the reporting date.

SUBSIDIARIES WITH SIGNIFICANT NON-CONTROLLING INTERESTS [1]

EUR million	Hannover Rück SE subgroup [2] 2019	Hannover Rück SE subgroup [2] 2018	Towarzystwo Ubezpieczeń i Reasekuracji WARTA S.A. 2019	Towarzystwo Ubezpieczeń i Reasekuracji WARTA S.A. 2018
Domicile/country of formation	Hannover, Germany	Hannover, Germany	Warsaw, Poland	Warsaw, Poland
Non-controlling interests	49.78%	49.78%	24.26%	24.26%
Investments	58,903	53,062	2,482	2,236
Reinsurance recoverables on technical provisions	3,028	3,095	240	210
Accounts receivable on insurance business	5,270	3,976	261	251
Total assets	**71,356**	**64,508**	**3,330**	**2,962**
Subordinated liabilities	2,234	1,493	—	—
Technical provisions	47,089	41,686	2,317	2,078
Other provisions	592	606	22	20
Equity	**11,354**	**9,542**	**724**	**635**
of which non-controlling interests [3]	6,125	5,256	176	154
Total debt	**60,002**	**54,966**	**2,607**	**2,327**
Gross written premiums	22,598	19,176	1,392	1,295
Net premiums earned	19,730	17,289	1,246	1,209
Underwriting result	–216	–51	116	81
Net investment income	1,757	1,530	70	59
Operating profit/loss (EBIT)	1,853	1,597	172	127
Net income	**1,373**	**1,146**	**146**	**105**
of which non-controlling interests [3]	699	618	35	25
Other comprehensive income	**1,142**	**–230**	**25**	**–12**
Total comprehensive income	**2,516**	**916**	**171**	**93**
of which non-controlling interests [3]	1,279	491	41	23
Cash flows from operating activities	2,509	2,225	301	338
Cash flows from investing activities	–2,709	–2,075	–199	–288
Cash flows from financing activities	108	150	–82	–77
Cash and cash equivalents at the end of the reporting period	**1,091**	**1,073**	**27**	**12**
Dividends paid to non-controlling interests during the year [4]	**315**	**300**	**20**	**19**

[1] All amounts relate to financial information before consolidation.
[2] Information provided by the Hannover Rück SE subgroup.
[3] 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.
[4] Contained in cash flows from financing activities.

Significant additions and disposals of consolidated subsidiaries and other changes under company law

Additions and disposals

With economic effect from 1 January 2019, Hannover Rück SE (Property/Casualty Reinsurance segment) sold 50.22% of the shares of HDI Global Specialty SE (HGS; previously International Insurance Company of Hannover SE, Hannover) to HDI Global SE (Industrial Lines segment) in an intragroup transaction. The remaining shares in HGS are still held by Hannover Rück SE. Indirect non-controlling interests in HGS fell from 49.78% to 24.78% as a result of the transaction, causing equity attributable to non-controlling interests to decline by EUR 21 million and its own share of equity to rise by EUR 21 million. HGS is a specialty insurer that offers medium-sized and large companies insurance solutions in areas such as offshore energy, aviation, directors & officers (D&O), crisis management and sports & entertainment.

In March 2019, all shares in the real estate company Mustela s.r.o., Prague, Czech Republic, were sold for a purchase price of EUR 77 million via HR GLL Europe Holding S.à.r.l. Luxembourg, Luxembourg.

Shares were restructured as part of the acquisition of Generali Lebensversicherung AG by the Viridium Group. In this context, Hannover Re sold its indirect interests in Viridium, generating income of EUR 100 million which was recognised in net investment income (Life/Health Reinsurance segment). In turn, Hannover Re simultaneously acquired an indirect interest in the Viridium Group, including Generali Lebensversicherung AG, and so it still has a shareholding of around 17%.

With economic effect from 1 July 2019, HGS acquired 53% of shares in Svedea AB, Stockholm, Sweden (a managing agent which sells non-life specialty insurance products on the Swedish market), from Funis GmbH & Co. KG, Hannover, a wholly-owned subsidiary of Hannover Rück SE (Property/Casualty Reinsurance segment) in an intragroup transaction. 23.5% of shares from minority shareholders were also acquired at a purchase price of EUR 18 million. This transaction reduced the carrying amount of the non-controlling interests recognised by EUR 5 million and the equity attributable to the owner of the parent (retained earnings) by EUR 13 million. A forward purchase for the acquisition of the remaining 23.5% of shares was also concluded as at 30 June 2022. A liability of EUR 31 million was recognised against retained earnings as a result of this forward contract.

By way of purchase agreement dated 2 May 2019, HDI Sigorta A.Ş., Turkey, a wholly owned subsidiary of HDI International AG, Hannover, Germany (Retail International segment), acquired 100% of the shares in the property insurer Ergo Sigorta A.Ş., Istanbul, Turkey. Based on the agreements entered into, the Group recognised the acquisition with effect from 29 August 2019 (date of initial consolidation). The purchase price (EUR 5 million) was settled entirely in cash. Ergo Sigorta A.Ş. was merged with HDI Sigorta A.Ş as at 2 December 2019.

Goodwill of EUR 48 million arose from the transaction. This reflects firstly high hidden reserves, which are a result of the heterogeneous discounting of technical provisions and the associated financial instruments. It also reflects the synergies expected in connection with the organisational changes the company plans to make to the structures of our existing unit. This transaction does not create any tax-deductible goodwill (share deal) in the tax base.

Acquisition-related transaction costs (< EUR 0.5 million) were reported in "Other income/expenses".

FAIR VALUES OF ACQUIRED ASSETS AND ASSUMED LIABILITIES OF ERGO SIGORTA A.Ş. AS AT 29. AUGUST 2019

EUR million	Ergo Sigorta A.Ş.
Intangible assets	5
Investments	117
Reinsurance recoverables on technical provisions	103
Accounts receivable on insurance business [1]	34
Cash at banks, cheques and cash-in-hand	1
Other assets	12
Total assets	**271**
Technical provisions	296
Other provisions	7
Other liabilities	11
of which tax liabilities	—
of which insurance-related	8
Total liabilities	**315**
Acquired net assets (before consolidation)	**–43**

[1] The gross amount of the accounts receivable is EUR 34 million.

Accounts receivable are recognised at their fair value. No further credit losses are expected. The acquired intangible assets primarily comprise the present value of future profits from recognising insurance contracts. Contingent liabilities of EUR 6 million were identified in connection with the health insurance portfolio assumed, which are to be recognised in accordance with IFRS 3.23. No contingent consideration, indemnification assets or separate transactions within the meaning of IFRS 3 were recognised.

Gross premiums and net income have not been reported separately. Due in particular to the merger in the fourth quarter of 2019, continuing to calculate the profit or loss separately would have been excessive for the company.

Disclosures on consolidated structured entities

Kaith Re Ltd., LI RE and Kubera Insurance (SAC) Ltd. (all Hamilton, Bermuda) were consolidated as at the reporting date.

Kaith Re Ltd. is a "segregated accounts company" (SAC) whose sole purpose is to transform reinsurance risks into securitised investment products. This transfers the entire risk to the investor concerned in all cases. SACs have segregated accounts in addition to their general account that are legally entirely separate from each other and from the general account in terms of liability, and that are used to execute the above-mentioned securitisation transactions for the investors.

Kubera Insurance (SAC) Ltd. is also a SAC whose purpose is to establish segregated accounts which are then made available to non-Group companies for structured financial transactions.

In accordance with IFRS 10, we classify the general account and segregated accounts as separate entities and apply the principles of "silo accounting" to them. In line with this concept, Hannover Rück SE is required to consolidate general account of Kaith Re Ltd. and Kubera Insurance (SAC) Ltd. and is contractually obliged to pay the costs of external service providers, which must be met from the funds in the general account. Each segregated account must be examined separately by the parties involved (investors) to establish whether a consolidation requirement exists, and must be consolidated on the basis of the individual contractual arrangements.

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 where it is not contractually obliged to do so.

Disclosures on unconsolidated structured entities

The unconsolidated structured entities comprise the following types of transactions:

BREAKDOWN OF UNCONSOLIDATED STRUCTURED ENTITIES BY THE NATURE OF THE ENTITY, INCLUDING A PRESENTATION OF THE LOSS EXPOSURE

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. 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 15.1 (12.4) billion and the generated commissions total EUR 97 (105) 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. The volume of these transactions results from the carrying amount of the relevant investments and amounted to the equivalent of EUR 79 (86) 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 a unit for which the policyholder makes the investment decision; there is therefore no requirement to consolidate them.
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 6,559 (6,131) 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 from the uncollateralised reinsurance layer as at the reporting date was EUR 3,126 (3,063) million. 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 37 (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 410 (389) 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 3,716 (2,992) 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.

BUSINESS RELATIONSHIPS AND CARRYING AMOUNTS OF THE ASSETS AND LIABILITIES OF UNCONSOLIDATED STRUCTURED ENTITIES

EUR million	31.12.2019				31.12.2018			
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	2	—	—	—	4	—	—	—
Other financial instruments – available-for-sale financial instruments	4,486	—	—	—	4,375	—	—	—
Other financial instruments – financial instruments at fair value through profit or loss	214	—	78	—	290	—	86	—
Investment contracts	534	—	—	—	426	—	—	—
Other investments	3,746	—	—	—	2,607	—	—	—
Funds withheld by ceding companies	—	—	—	2	—	—	—	—
Investments for the benefit of life insurance policyholders who bear the investment risk	—	11,824	—	—	—	9,990	—	—
Reinsurance recoverables on technical provisions	—	—	—	1,064	—	—	—	1,179
Accounts receivable on insurance business	—	—	—	163	—	—	—	23
Total asset items	**8,983**	**11,824**	**78**	**1,228**	**7,702**	**9,990**	**86**	**1,202**
Equity and liabilities								
Technical provisions for life insurance policies where the investment risk is borne by the policyholders	—	11,824	—	—	—	9,990	—	—
Other liabilities – reinsurance payables	—	—		503	—	—	—	320
Total equity and liabilities items	**—**	**11,824**	**—**	**503**	**—**	**9,990**	**—**	**320**

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.

In December 2018, Kubera Insurance (SAC) Ltd. set up its first segregated account that was not owned by a Group company. With effect from 31 December 2018, the segregated account entered into an agreement with a non-Group life insurance company to acquire a reinsurance portfolio which is partially retroceded. In the context of this retrocession, the Group also entered into a reinsurance contract with the segregated account via its wholly owned subsidiary, Hannover Life Reassurance Company of America (Bermuda) Ltd., to hedge against peak risks.

As at the reporting date, Group companies had not provided any financial or other support for these unconsolidated structured entities. Equally, there are currently no intentions to provide financial or other support without a contractual obligation to do so. Commitments that we do not classify as support – such as outstanding capital commitments under existing investment exposures – are presented in the “Contingent liabilities and other financial commitments” subsection of the "Other disclosures" section.

Non-current assets held for sale and disposal groups

HDI Seguros de Vida S. A., Santiago, Chile (Retail International segment)

The Group is planning to sell the 100% interest in HDI Seguros de Vida S.A., Santiago, Chile, held by HDI International AG, Hannover. The disposal group contains assets of EUR 15 million and liabilities of EUR 9 million. The main carrying amounts for the disposal group relate to “capital investments” (EUR 10 million), “deferred tax assets” (EUR 2 million) “cash at banks, cheques and cash-in-hand” and “accounts receivable on insurance business” (EUR 1 million respectively), “technical provisions” (EUR 6 million) and “liabilities” totalling EUR 3 million. The transaction is expected to be completed in 2020. The Group plans to use the sale to optimise its portfolio in South America.

HDI Seguros S. A., San Isidro, Peru (Retail International segment)

As at 31 December 2018, the Group had reported its subsidiary HDI Seguros S.A., San Isidro, Peru, held by HDI International AG, Hannover, as a disposal group with assets of EUR 9 million and liabilities of EUR 6 million. With effect from 27 March 2019, the Group transferred its 100% interest to the buyer for a price at the lower end of the single-digit million euro range.

ITAS Vita S. p. A., Trient, Italy (Property/Casualty Reinsurance segment)

On 3 September 2019, Hannover Re sold all shares in ITAS Vita S.p.A., Trient, Italy, equal to 27.1%, to ITAS Mutua, Trient, Italy, for a purchase price of EUR 48 million. Deconsolidating the company, which had previously been accounted for using the equity method, generated income of EUR 1 million which was recognised in profit/loss from shares in associates. This includes cumulative equity interests of EUR –0.1 million that are not recognised in income, which have been realised.

Real estate

We report these property holdings as held for sale in the amount of EUR 42 (6) million as at the reporting date. These are attributable to the Property/Casualty Reinsurance (EUR 36 million) and Retail International (EUR 6 million) segments (2018: EUR 6 million in Retail International segment). The total holdings are offset by fair values (corresponding to expected sales prices) of EUR 58 million. Fair values are largely measured internally within the Group using the German discounted cash flow method plus external expert opinions in individual cases. The purchase price is used where a sale has been agreed as binding. The intentions to sell were based on individual property market and property conditions, taking into account current and future opportunity/risk profiles.

Notes to the consolidated balance sheet – assets

(1) Goodwill

GOODWILL BY SEGMENT

EUR million	Industrial Lines	Retail Germany – Property/ Casualty	Retail Germany – Life	Retail International[1]	Retail Property/ Casualty Reinsurance International	Corporate Operations	2019	2018[1]
Gross carrying amount as at 31.12. of the previous year	**159**	**325**	**202**	**639**	**34**	**3**	**1,362**	**1,362**
Currency translation as at 1.1. of the financial year	—	—	—	—	1	—	2	–26
Gross carrying amount after currency translation as at 1.1. of the financial year	159	325	202	639	36	3	1,363	1,336
Additions due to business combinations	—	—	—	48	—	—	48	30
Disposals	—	—	—	1	—	—	1	—
Exchange rate changes	—	—	—	–1	—	—	–1	–4
Gross carrying amount as at 31.12. of the financial year	**159**	**325**	**202**	**686**	**36**	**3**	**1,409**	**1,362**
Accumulated impairment losses as at 31.12. of the previous year	**5**	**77**	**202**	**16**	**—**	**3**	**303**	**304**
Currency translation as at 1.1. of the financial year	—	—	—	1	—	—	1	–1
Accumulated impairment losses after currency translation as at 1 January of the financial year	5	77	202	17	—	3	304	303
Impairments	—	—	—	—	—	—	—	—
Accumulated impairment losses as at 31.12. of the financial year	**5**	**77**	**202**	**17**	**—**	**3**	**304**	**303**
Carrying amount as at 31.12. of the previous year	154	248	—	622	34	—	1,058	1,058
Carrying amount as at 31.12. of the financial year	**154**	**248**	**—**	**668**	**36**	**—**	**1,105**	**1,058**

[1] Adjusted prior-year figures, as in the reporting period the exchange differences on translating foreign operations were divided between the gross carrying amount and the accumulated depreciation and in the prior year this was accumulated in the gross figure.

Impairment testing

Goodwill is allocated to cash-generating units (CGUs) or groups of CGUs in accordance with IFRS 3 in conjunction with IAS 36. The allocation is made 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. The CGUs to which goodwill is allocated represent 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; however, the lowest goodwill monitoring level corresponds to the geographical regions, which represent groups of CGUs.

CGUS TO WHICH GOODWILL IS ALLOCATED

EUR million (measured at the closing rate)	31.12.2019	31.12.2018
Industrial Lines segment	154	154
Retail Germany – Property/Casualty segment	248	248
Retail International segment		
Latin America	203	208
Europe	465	414
Property/Casualty Reinsurance segment	36	34

The Group regularly tests goodwill for impairment in the fourth quarter of each year, based on data as at 30 September of that year. Since there was no evidence of impairment for any of the CGUs or groups of CGUs as at the reporting date, it was not necessary to perform an unscheduled impairment test.

Potential indications of impairment are identified by comparing the carrying amount of the CGU or the group of CGUs, including the allocated goodwill, with its recoverable amount. If the carrying amounts exceed the recoverable amount, a goodwill impairment is recognised in the statement of income. Recoverable amount is the higher of fair value less costs of disposal and value in use. With the exception of the reinsurance segments, it is measured for all CGUs or groups of CGUs on the basis of value in use. The latter is calculated using a recognised valuation technique, normally 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 in the Reinsurance segment is measured on the basis of fair value less costs of disposal (Level 1 of the fair value hierarchy).

Key assumptions used in determining recoverable amount (value in use)

When the property/casualty insurers and the life insurers are measured using the German 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 standalone basis, based on the going concern assumption and on the premise that the entity will continue to operate a generally unchanged concept. As a rule, they project after-tax net income for the next five years and then extrapolate to perpetuity starting in the sixth year. The constant growth rates shown below – which are based on conservative assumptions – are used to extrapolate the cash flows beyond the detailed planning period.

The bancassurance property insurers are measured at the present value of their future cash flows; only future earnings up to the end of the relevant cooperation period are factored into the calculation. After this, a linear decrease in earnings over three years and notional liquidation proceeds after that are assumed.

Macroeconomic assumptions as to economic growth, inflation, interest rate trends and the market environment were made when forecasting future company-specific cash flows for individual CGUs or groups of CGUs. These assumptions correspond to the economic forecasts for the countries in which the units to be measured are located and are in line with market expectations and sector forecasts.

The combined ratio is an indicator of business performance in the area of property/casualty insurance, and is derived from the projections for premium trends and expenses. When forecasting premiums and expenses, key estimates include the growth opportunities in the market environment concerned and claims and cost trends in the context of measures planned at company level. Investment income is projected on the basis of the individual asset portfolios, including their relevant term structure and currency distribution, with the projection being based on the assumptions regarding interest rate trends. The net return on investment therefore varies widely by CGU or group of CGUs, depending on the level of interest rates in the currency area in question. The main planning assumption made in life insurance relates to interest rate trends.

The key assumptions shown above are produced by aggregating the business plans for the individual companies in a CGU or a group of CGUs. The values assigned to the key parameters are arrived at from past experience and future expectations. The values for the assumptions regarding interest rate trends in individual countries are defined uniformly throughout the 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 German discounted cash flow method is normally used to measure the life insurance companies (this is relevant only for the "Europe" and "Latin America" groups of CGUs). For the Italian life insurance company in the "Europe" group of GBUs, valuation is made on the basis of market consistent embedded value (MCEV).

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 using past experience and future expectations. The long-term average growth rates for the markets in which the companies operate are exceeded only in individual cases in countries in which very high nominal inflation rates are observed so as to avoid an inappropriate, real contraction scenario.

CAPITALISATION RATES AND LONG-TERM GROWTH RATES

%	Capitalisation rate 2019[1]	Capitalisation rate 2018[1]	Long-term growth rate 2019[1]	Long-term growth rate 2018[1]
Industrial Lines				
Eurozone	5.41–7.03	6.00–7.00	1.00	1.00
Other countries	7.88–17.13	8.00–16.00	1.00–5.00	1.00–4.00
Retail Germany – Property/Casualty	5.38–5.48	5.20–6.00	0.00–1.00	0.00–1.00
Retail International				
Europe				
Poland	7.63	8.25	2.00	2.00
Italy	6.63	7.24	1.00	1.00
Other countries	5.77–20.13	6.00–23.50	1.00–8.00	0.00–8.00
Latin America				
Brazil	13.13	14.50	5.00	5.00
Chile	8.13	10.00	2.00	2.00
Mexico	13.38	13.00	4.00	4.00
Other countries	12.38–29.38	12.00–26.00	4.00–8.00	4.00–7.40

[1] The figures relate to the reference date for the regular impairment test (30 September of each financial year).

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 on the key parameters when calculating the recoverable amounts for all CGUs or groups of CGUs to which goodwill is allocated.

A number of conceivable scenarios plus the relevant changes in inputs were defined and studied in detail in order to ensure that key risks were covered when calculating value in use. These risks include underwriting risk (combined ratio), interest rate inputs (interest rate risk), currency inputs (foreign exchange risk) and equity inputs (equity risk). In each scenario, one input was modified when calculating value in use, whereas the other assumptions were left unchanged in the medium-term planning and in the extrapolation, and the resulting change in fair value was then calculated. The calculations are based on the value in use determined during impairment testing.

Unless stated otherwise below, the calculations of conceivable input changes have not led 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 172 million. Depending on the country, the detailed planning used a combined ratio of approximately 90%–100% for the material companies of the group of CGUs. A change of the combined ratio by +0.88 percentage points for the “Latin American” group of CGUs in the detailed planning would have resulted in the recoverable amount of the group of CGUs approaching its carrying amount.

(2) Other intangible assets

CHANGES IN OTHER INTANGIBLE ASSETS

EUR million	Insurance-related intangible assets	Software purchased	Software developed	Acquired distribution networks and customer relationships	Finite useful life Other	Indefinite useful life Acquired brand names	2019	2018
Gross carrying amount as at 31.12. of the previous year	**2,343**	**575**	**41**	**159**	**143**	**38**	**3,299**	**3,235**
Change in basis of consolidation (additions)								
Business combinations	4	—	1	—	5	—	10	11
Additions	—	56	7	—	58	—	120	81
Disposals	—	11	4	—	19	—	34	14
Reclassifications	—	20	–1	—	–19	—	—	—
Exchange rate changes	4	1	1	2	4	—	12	–14
Gross carrying amount as at 31.12. of the financial year	**2,351**	**640**	**46**	**160**	**171**	**38**	**3,407**	**3,299**
Accumulated amortisation and impairment losses as at 31.12. of the previous year	**1,828**	**395**	**35**	**122**	**22**	**2**	**2,404**	**2,298**
Change in basis of consolidation (additions)								
Business combinations	—	—	1	—	4	—	4	4
Disposals	—	9	—	—	1	—	10	4
Amortisation/impairment losses								
Amortisation	45	53	2	5	4	1	110	116
Reclassifications	—	—	–1	—	1	—	—	—
Exchange rate changes	3	1	1	1	—	—	5	–10
Accumulated amortisation and impairment losses as at 31.12. of the financial year	**1,876**	**440**	**37**	**128**	**30**	**3**	**2,514**	**2,404**
Carrying amount as at 31.12. of the previous year	515	180	6	37	121	36	895	937
Carrying amount as at 31.12. of the financial year	**475**	**200**	**8**	**33**	**141**	**35**	**893**	**895**

Insurance-related intangible assets (i.e. PVFP) consist of a shareholders' portion and a policyholders' portion. Only amortisation of the shareholders' portion reduces future earnings. Life insurance companies that are required to enable their policyholders to participate in all results recognise the policyholders' portion of the PVFP by establishing a provision for deferred premium refunds.

PVFP FOR PRIMARY LIFE INSURANCE COMPANIES

EUR million	31.12.2019	31.12.2018
Shareholders' portion	186	188
Policyholders' portion	253	284
Carrying amount	**439**	**472**

Amortisation of the PVFP totalled EUR 45 (57) million. EUR 14 (45) million of this amount is attributable to the shareholders' portion and EUR 31 (12) million to the policyholders' portion. These relate to Retail Germany – Life (EUR 33 [23] million), Life/Health Reinsurance (EUR 7 [26] million) and Retail International (EUR 6 [8] million).

PVFP BY TERM

EUR million	Up to 10 years	Up to 20 years	Up to 30 years	Over 30 years	Total
				Term	
Shareholders' portion	8	112	53	49	**222**
of which investment contracts	8	—	—	—	8
Policyholders' portion	24	77	79	72	**253**
Carrying amount as at 31.12.2019	**32**	**189**	**132**	**121**	**475**

The acquired brand names worth EUR 35 (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	2019	2018
Gross carrying amount as at 31.12. of the previous year	**3,357**	**3,120**
IAS 8 adjustments [1]	34	—
Change in basis of consolidation (additions)		
Business combinations	1	—
Additions	418	234
Disposals	175	28
Disposal groups in accordance with IFRS 5	–40	—
Reclassification	1	–6
Exchange rate changes	20	37
Gross carrying amount as at 31.12. of the financial year	**3,616**	**3,357**
Accumulated depreciation and impairment losses as at 31.12. of the previous year	**372**	**321**
Disposals	17	6
Reversal of impairment	1	6
Depreciation and impairment losses		
Depreciation	61	57
Impairment losses	9	4
Reclassification	—	–2
Disposal groups in accordance with IFRS 5	4	—
Exchange rate changes	2	4
Accumulated depreciation and impairment losses as at 31.12. of the financial year	**422**	**372**
Carrying amount as at 31.12. of the previous year	2,985	2,799
Carrying amount as at 31.12. of the financial year	**3,193**	**2,985**

[1] Initial application of IFRS 16, see the "Other disclosures", section, "rents and leases" subsection of these Notes.

Additions in the reporting period were mainly attributable to the Property/Casualty Reinsurance (EUR 251 million) and Retail Germany – Life (EUR 159 million) segments.

The fair value of investment property amounted to EUR 4,056 (3,662) million as at the reporting date. EUR 16 (10) million of this amount is attributable to Level 2 of the fair value hierarchy and EUR 4,040 (3,652) million to Level 3. Fair values are largely measured internally within the Group using the German discounted cash flow method plus external expert opinions in individual cases. Directly attributable operating expenses for properties rented out (including repairs and maintenance) totalled EUR 179 (75) million. Operating expenses of EUR 5(5) million were incurred for properties with which no rental income is generated.

Restrictions on disposal and guarantee assets relating to investment property amounted to EUR 1,017 (853) million as at 31 December 2019. Contractual obligations to purchase, construct or develop investment property and for repairs, maintenance and enhancements amounted to EUR 486 (472) million as at the reporting date.

(4) Shares in affiliated companies and participating interests

SHARES IN AFFILIATED COMPANIES AND PARTICIPATING INTERESTS

EUR million	2019	2018
Affiliated companies	58	48
Participating interests	340	158
Carrying amount as at 31.12. of the financial year	**398**	**206**

(5) Shares in associates and joint ventures

This balance sheet item comprises the equity-accounted shares in associates and joint ventures that are measured on the basis of the share of the 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.

SHARES IN ASSOCIATES AND JOINT VENTURES

EUR million	2019	2018
Carrying amount as at 31.12. of the previous year	**265**	**242**
Change in basis of consolidation	—	–1
Additions	89	41
Disposals	–47	—
Disposal groups in accordance with IFRS 5	—	—
Impairment losses	—	—
Result from investments in associated companies and joint ventures	35	7
Dividend payments	–11	–21
Adjustment recognised outside profit or loss	—	–7
Exchange rate changes	6	4
Carrying amount as at 31.12. of the financial year	**337**	**265**

The goodwill of all equity-accounted companies amounted to EUR 110 (70) million at the year-end. As in the prior year, no shares of losses incurred by associates were recognised in the financial year.

For further information on the Group's share in the capital of associates and joint ventures, and on the equity and net income of these entities, please refer to the “List of shareholdings” section on pages 233 ff.

There were no obligations resulting from contingent liabilities of associates and joint ventures as at the reporting date.

AGGREGATED FINANCIAL INFORMATION ON SHARES IN ASSOCIATES AND JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD

EUR million	2019	2018
Profit from continuing operations	140	23
Profit after tax from discontinued operations	—	—
Other comprehensive income	–9	–18
Total comprehensive income	**131**	**5**

(6) Loans and receivables

LOANS AND RECEIVABLES

EUR million	Amortised cost		Unrealised gains/losses		Fair value	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Mortgage loans	298	331	46	44	343	375
Loans and prepayments on insurance policies	115	129	—	—	115	129
Loans and receivables due from government or quasi-governmental entities [1]	10,428	10,830	1,654	1,154	12,082	11,984
Corporate bonds	4,260	4,385	496	366	4,756	4,751
Covered bonds/asset-backed securities	12,540	13,469	2,881	2,245	15,421	15,714
Total	**27,641**	**29,144**	**5,077**	**3,809**	**32,718**	**32,953**

[1] Loans and receivables due from government or quasi-governmental entities include securities of EUR 2,952 (3,161) million that are guaranteed by the Federal Republic of Germany, other EU member states or German federal states.

The "Covered bonds/asset-backed securities" item includes German covered bonds (Pfandbriefe) with a carrying amount of EUR 12,538 (13,465) million; this corresponds to 99% (99%) of the total amount.

CONTRACTUAL MATURITIES

EUR million	Amortised cost		Fair value	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Due within 1 year	1,232	1,628	1,284	1,689
More than 1 year and up to 2 years	836	1,362	871	1,430
More than 2 years and up to 3 years	830	1,050	894	1,124
More than 3 years and up to 4 years	786	932	868	1,027
More than 4 years and up to 5 years	1,114	927	1,269	1,039
More than 5 years and up to 10 years	7,256	7,723	8,728	9,016
More than 10 years	15,588	15,522	18,804	17,628
Total	**27,641**	**29,144**	**32,718**	**32,953**

RATING STRUCTURE FOR LOANS AND RECEIVABLES

EUR million	Amortised cost	
	31.12.2019	31.12.2018
AAA	16,680	17,223
AA	5,762	5,599
A	2,243	3,220
BBB or lower	2,248	2,333
Not rated	707	769
Total	**27,641**	**29,144**

The rating categories are based on the classifications used by the leading international rating agencies. Unrated loans and receivables primarily consist of mortgage loans and policy loans.

(7) Held-to-maturity financial instruments

HELD-TO-MATURITY FINANCIAL INSTRUMENTS

	Amortised cost		Unrealised gains/losses		Fair value	
EUR million	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Government debt securities issued by EU member states	123	131	14	13	137	144
Other foreign government debt securities	34	69	3	1	37	70
Debt securities issued by quasi-governmental entities	24	24	1	2	25	26
Corporate bonds	2	24	4	1	5	25
Covered bonds/asset-backed securities	153	161	8	13	161	174
Total	**336**	**409**	**29**	**30**	**365**	**439**

The “Covered bonds/asset-backed securities” item includes German covered bonds (Pfandbriefe) with a carrying amount of EUR 153 (160) million; this corresponds to 100% (100%) of the total amount.

CONTRACTUAL MATURITIES

	Amortised cost		Fair value	
EUR million	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Due within 1 year	51	91	52	92
More than 1 year and up to 2 years	139	42	147	45
More than 2 years and up to 3 years	53	138	58	151
More than 3 years and up to 4 years	53	52	62	58
More than 4 years and up to 5 years	15	52	17	55
More than 5 years and up to 10 years	17	20	21	21
More than 10 years	8	14	9	17
Total	**336**	**409**	**365**	**439**

RATING STRUCTURE FOR HELD-TO-MATURITY FINANCIAL INSTRUMENTS

	Amortised cost	
EUR million	31.12.2019	31.12.2018
AAA	140	169
AA	37	38
A	124	132
BBB or lower	35	70
Not rated	—	—
Total	**336**	**409**

The rating categories are based on the classifications used by the leading international rating agencies.

(8) Available-for-sale financial instruments

AVAILABLE-FOR-SALE FINANCIAL INSTRUMENTS

EUR million	Amortised cost 31.12.2019	Amortised cost 31.12.2018	Unrealised gains/losses 31.12.2019	Unrealised gains/losses 31.12.2018	Fair value 31.12.2019	Fair value 31.12.2018
Fixed-income securities						
Government debt securities issued by EU member states	12,409	11,673	1,423	749	13,831	12,422
US treasury notes	7,820	7,747	182	–104	8,002	7,643
Other foreign government debt securities	3,752	2,717	109	–13	3,861	2,704
Debt securities issued by quasi-governmental entities[1]	12,626	10,960	1,410	599	14,036	11,559
Corporate bonds	26,098	23,131	1,419	190	27,517	23,321
Investment funds	1,845	1,626	141	48	1,986	1,674
Covered bonds/asset-backed securities	11,348	10,598	872	210	12,220	10,808
Profit participation certificates	30	36	–1	–2	30	34
Total fixed-income securities	**75,929**	**68,488**	**5,554**	**1,677**	**81,483**	**70,165**
Variable-yield securities						
Equities	362	331	105	40	467	371
Investment funds	1,350	1,212	167	136	1,517	1,348
Profit participation certificates	77	77	7	3	83	80
Total variable-yield securities	**1,789**	**1,620**	**279**	**179**	**2,067**	**1,799**
Total securities	**77,718**	**70,108**	**5,832**	**1,856**	**83,550**	**71,964**

[1] Debt securities issued by quasi-governmental entities include securities of EUR 3,607 (3,499) million that are guaranteed by the Federal Republic of Germany, other EU member states or German federal states.

The "Covered bonds/asset-backed securities" item includes German covered bonds (Pfandbriefe) with a carrying amount of EUR 10,131 (9,168) million; this corresponds to 83% (85%) of the total amount.

CONTRACTUAL MATURITIES OF FIXED-INCOME SECURITIES

EUR million	Fair value 31.12.2019	Fair value 31.12.2018	Amortised cost 31.12.2019	Amortised cost 31.12.2018
Due within 1 year	5,336	5,811	5,310	5,805
More than 1 year and up to 2 years	4,200	4,660	4,144	4,615
More than 2 years and up to 3 years	5,612	4,755	5,470	4,732
More than 3 years and up to 4 years	5,702	4,966	5,487	4,893
More than 4 years and up to 5 years	5,322	5,890	5,104	5,792
More than 5 years and up to 10 years	26,337	21,281	24,871	20,964
More than 10 years	28,973	22,802	25,544	21,687
Total	**81,483**	**70,165**	**75,929**	**68,488**

RATING STRUCTURE FOR FIXED-INCOME SECURITIES

EUR million	Fair value 31.12.2019	31.12.2018
AAA	27,867	25,617
AA	17,061	15,178
A	13,024	10,980
BBB or lower	21,559	17,225
Not rated	1,972	1,165
Total	**81,483**	**70,165**

The rating categories are based on the classifications used by the leading international rating agencies.

(9) Financial instruments at fair value through profit or loss

FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

EUR million	Fair value. 31.12.2019	31.12.2018
Fixed-income securities		
Government debt securities issued by EU member states	18	146
Other foreign government debt securities	381	368
Debt securities issued by quasi-governmental entities	17	1
Corporate bonds	456	484
Investment funds	215	259
Covered bonds/asset-backed securities	4	4
Profit participation certificates	37	82
Total fixed-income securities	**1,128**	**1,344**
Investment funds (variable-yield securities)	36	37
Other variable-yield securities	111	89
Total financial instruments classified at fair value through profit or loss	**1,275**	**1,470**
Investment funds (variable-yield securities)	122	131
Derivatives	321	239
Total financial instruments held for trading	**443**	**370**
Total	**1,718**	**1,840**

The “Covered bonds/asset-backed securities” item includes German covered bonds (Pfandbriefe) with a carrying amount of EUR 4 (4) million; this corresponds to 100% (100%) of the total amount.

CONTRACTUAL MATURITIES OF FIXED-INCOME SECURITIES

EUR million	Fair value 31.12.2019	31.12.2018
Due within 1 year	602	498
More than 1 year and up to 2 years	43	185
More than 2 years and up to 3 years	28	44
More than 3 years and up to 4 years	35	107
More than 4 years and up to 5 years	4	40
More than 5 years and up to 10 years	188	192
More than 10 years	226	278
Total	**1,128**	**1,344**

RATING STRUCTURE FOR FIXED-INCOME SECURITIES

EUR million	Fair value 31.12.2019	31.12.2018
AAA	54	58
AA	289	273
A	188	292
BBB or lower	70	120
Not rated	526	601
Total	**1,128**	**1,344**

The rating categories are based on the classifications used by the leading international rating agencies.

Financial instruments classified at fair value through profit or loss (not held for trading) include structured products for which the fair value option under IAS 39 was exercised. The carrying amount of these financial instruments 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 amounted to EUR 1 (1) million in the reporting period and EUR 0 (2) million on an accumulated basis. There are no credit derivatives or similar hedging instruments for these securities.

(10) Other investments

CLASSIFICATION OF OTHER INVESTMENTS

EUR million	Carrying amount 31.12.2019	31.12.2018
Loans and receivables	191	183
Available-for-sale financial instruments	4,730	4,310
Financial instruments at fair value through profit or loss	26	44
Non-current assets from infrastructure investments	517	518
Total	**5,465**	**5,055**

The fair value of loans and receivables corresponds largely to their carrying amount.

AVAILABLE-FOR-SALE FINANCIAL INSTRUMENTS

	Amortised cost		Unrealised gains/losses		Fair value	
EUR million	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Investments in partnerships	2,359	2,016	605	528	2,964	2,544
Other participating interests	220	235	32	20	252	255
Other short-term investments	1,514	1,511	—	—	1,514	1,511
Total	**4,093**	**3,762**	**637**	**548**	**4,730**	**4,310**

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 FOR OTHER SHORT-TERM INVESTMENTS

EUR million	Fair value 31.12.2019	31.12.2018
AAA	—	—
AA	106	148
A	666	618
BBB or lower	616	553
Not rated	126	192
Total	**1,514**	**1,511**

Financial instruments at fair value through profit or loss primarily relate to purchased life insurance policies.

Non-current assets from infrastructure investments relate to investments in wind farms. There are no restrictions on the disposal of the assets, and they have not been pledged as collateral.

INFRASTRUCTURE INVESTMENTS

EUR million	2019	2018
Gross carrying amount as at 31.12. of the previous year	**626**	**626**
IAS 8 adjustments[1]	32	—
Additions	—	—
Disposals	—	—
Exchange rate changes	—	—
Gross carrying amount as at 31.12. of the financial year	**659**	**626**
Accumulated depreciation and impairment losses as at 31.12. of the previous year	**108**	**76**
Depreciation and impairment losses		
Depreciation	34	32
Impairment losses	—	—
Exchange rate changes	—	—
Accumulated depreciation and impairment losses as at 31.12. of the financial year	**142**	**108**
Carrying amount as at 31.12. of the previous year	518	550
Carrying amount as at 31.12. of the financial year	**517**	**518**

[1] Initial application of IFRS 16, see the “Other disclosures” section, “rents and leases” subsection of these Notes.

Non-current assets from infrastructure investments do not include any assets under construction..

(11) Investments under investment contracts

CLASSIFICATION OF INVESTMENTS UNDER INVESTMENT CONTRACTS

	Carrying amount	
EUR million	31.12.2019	31.12.2018
Loans and receivables	43	44
Financial instruments classified at fair value through profit or loss	1,127	996
Derivatives	—	2
Total	**1,170**	**1,042**

Loans and receivables

CLASSIFICATION OF INVESTMENTS UNDER INVESTMENT CONTRACTS

	Amortised cost		Fair value	
EUR million	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Due within 1 year	3	6	3	6
More than 1 year and up to 2 years	39	—	39	—
More than 2 years and up to 3 years	—	38	—	38
More than 3 years and up to 4 years	—	—	—	—
More than 4 years and up to 5 years	—	—	—	—
More than 5 years and up to 10 years	—	—	—	—
Total	**43**	**44**	**43**	**44**

RATING STRUCTURE

	Amortised cost	
EUR million	31.12.2019	31.12.2018
AAA	—	—
AA	—	—
A	3	—
BBB or lower	40	44
Not rated	—	—
Total	**43**	**44**

Financial instruments classified at fair value through profit or loss and derivatives

CONTRACTUAL MATURITIES

EUR million	Fair value 31.12.2019	31.12.2018
Due within 1 year	33	43
More than 1 year and up to 2 years	36	26
More than 2 years and up to 3 years	27	29
More than 3 years and up to 4 years	47	27
More than 4 years and up to 5 years	58	31
More than 5 years and up to 10 years	270	264
More than 10 years	655	578
Total	**1,127**	**998**

RATING STRUCTURE

EUR million	Fair value 31.12.2019	31.12.2018
AAA	5	6
AA	37	12
A	119	141
BBB or lower	782	612
Not rated	185	227
Total	**1,127**	**998**

The carrying amount of financial instruments 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 the 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 report (financial instruments not measured at fair value) must be assigned to a three-level fair value hierarchy.

The fair value hierarchy reflects the 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 input level 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 had allocated around 4% (4%) of the financial instruments measured at fair value to Level 1 of the fair value hierarchy, 90% (90%) to Level 2 and 6% (6%) to Level 3.

No financial instruments were transferred between Level 1 and Level 2 in the financial year (2018: EUR 28 million reclassified from Level 1 to Level 2).

There were no liabilities issued with an inseparable third-party credit enhancement within the meaning of IFRS 13.98 as at the reporting date (2018: EUR 0 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 amounts of financial instruments measured at fair value by class	Level 1	Level 2	Level 3[1]	Carrying amount
31.12.2019				
Financial assets measured at fair value				
Available-for-sale financial instruments				
Fixed-income securities	67	81,413	3	81,483
Variable-yield securities	751	89	1,227	2,067
Financial instruments at fair value through profit or loss				
Financial instruments classified at fair value through profit or loss	135	1,055	84	1,275
Derivatives held for trading	15	146	160	321
Other financial instruments held for trading	122	—	—	122
Other investments	1,514	1	3,242	4,756
Other assets, derivative financial instruments (hedging instruments)	—	47	—	47
Investment contracts				
Financial instruments classified at fair value through profit or loss	925	—	201	1,127
Derivatives	—	—	—	—
Total financial assets measured at fair value	**3,528**	**82,752**	**4,918**	**91,198**
Financial liabilities measured at fair value				
Other liabilities (negative fair values from derivative financial instruments)				
Negative fair values from derivatives	—	56	123	179
Negative fair values from hedging instruments	—	7	—	7
Other liabilities (investment contracts)				
Financial instruments classified at fair value through profit or loss	313	614	201	1,128
Derivatives	—	—	—	—
Total financial liabilities measured at fair value	**313**	**676**	**325**	**1,314**
31.12.2018				
Financial assets measured at fair value				
Available-for-sale financial instruments				
Fixed-income securities	68	70,092	5	70,165
Variable-yield securities	622	83	1,094	1,799
Financial instruments at fair value through profit or loss				
Financial instruments classified at fair value through profit or loss	127	1,256	87	1,470
Derivatives held for trading	—	107	132	239
Other financial instruments held for trading	131	—	—	131
Other investments	1,498	13	2,843	4,354
Other assets, derivative financial instruments	—	52	—	52
Investment contracts				
Financial instruments classified at fair value through profit or loss	794	2	200	996
Derivatives	—	—	2	2
Total financial assets measured at fair value	**3,240**	**71,605**	**4,363**	**79,208**
Financial liabilities measured at fair value				
Other liabilities (negative fair values from derivative financial instruments)				
Negative fair values from derivatives	—	88	82	170
Negative fair values from hedging instruments	—	—	—	—
Other liabilities (investment contracts)				
Financial instruments classified at fair value through profit or loss	266	530	200	996
Derivatives	—	—	2	2
Total financial liabilities measured at fair value	**266**	**618**	**284**	**1,168**

[1] Classification as Level 3 is not an 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)

RECONCILIATION OF FINANCIAL INSTRUMENTS[1] (FINANCIAL ASSETS) CLASSIFIED AS LEVEL 3 AT THE BEGINNING OF THE REPORTING PERIOD TO CARRYING AMOUNTS AS AT 31 DECEMBER 2019

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	Derivatives 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
2019								
Opening balance at 1.1.2019	**5**	**1,094**	**87**	**132**	**2,843**	**200**	**2**	**4,363**
Income and expenses								
recognised in the statement of income	—	–8	–8	38	–44	10	–2	–12
recognised in other comprehensive income	—	–3	—	—	72	—	—	69
Transfer into Level 3[2]	—	—	1	—	—	—	—	1
Transfers out of Level 3	—	—	—	—	—	—	—	—
Additions								
Purchases	—	221	44	79	662	13	1	1,020
Disposals								
Sales	1	133	1	96	326	24	1	582
Repayments/redemptions	—	—	38	—	—	—	—	38
Exchange rate changes	—	55	—	7	35	2	—	98
Closing balance at 31.12.2019	**3**	**1,227**	**84**	**160**	**3,242**	**201**	**—**	**4,918**
2018								
Opening balance at 1.1.2018	**4**	**963**	**72**	**49**	**2,615**	**206**	**4**	**3,913**
Income and expenses								
recognised in the statement of income	—	–15	8	29	–44	7	–2	–17
recognised in other comprehensive income	—	10	—	—	–7	—	—	3
Transfers into Level 3	—	—	—	—	—	—	—	—
Transfers out of Level 3	—	—	—	—	—	—	—	—
Additions								
Purchases	1	222	22	103	679	13	1	1,041
Disposals								
Sales	—	117	1	49	463	21	1	652
Repayments/redemptions	—	—	14	—	5	—	—	19
Exchange rate changes	—	31	—	—	68	–5	—	94
Closing balance at 31.12.2018	**5**	**1,094**	**87**	**132**	**2,843**	**200**	**2**	**4,363**

[1] The term “financial instruments” is abbreviated to “FI” in the following.
[2] Trading in an active market was discontinued.

RECONCILIATION OF FINANCIAL INSTRUMENTS 1 (FINANCIAL LIABILITIES) CLASSIFIED AS LEVEL 3 AT THE BEGINNING OF THE REPORTING PERIOD TO CARRYING AMOUNTS AS AT 31 DECEMBER 2019

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
2019				
Opening balance at 1.1.2019	**82**	**200**	**2**	**284**
Income and expenses				
recognised in the statement of income	1	–10	2	–7
recognised in other comprehensive income	—	—	—	—
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	—	—	—
Additions				
Purchases	41	13	1	55
Disposals				
Sales	—	24	1	25
Repayments/redemptions	—	—	—	—
Exchange rate changes	2	2	—	4
Closing balance at 31.12.2019	**123**	**201**	**—**	**325**
2018				
Opening balance at 1.1.2018	**244**	**206**	**4**	**454**
Income and expenses				
recognised in the statement of income	5	–7	2	—
recognised in other comprehensive income	—	—	—	—
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	—	—	—
Additions				
Purchases	31	13	1	45
Disposals				
Sales	188	21	1	210
Repayments/redemptions	—	—	—	—
Exchange rate changes	—	–5	—	–5
Closing balance at 31.12.2018	**82**	**200**	**2**	**284**

[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	Derivatives 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
2019							
Gains and losses in financial year 2019							
Investment income	—	1	38	—	25	1	65
Investment expenses	–8	–8	—	–44	–15	–2	–77
of which attributable to financial instruments included in the portfolio as at 31.12.2019							
Investment income[2]	—	1	38	—	25	1	65
Investment expenses[3]	–8	–3	—	–42	–15	–2	–70
2018							
Gains and losses in financial year 2018							
Investment income	—	8	29	1	25	1	64
Investment expenses	–15	—	—	–45	–18	–3	–81
of which attributable to financial instruments included in the portfolio as at 31.12.2018							
Investment income[2]	—	5	29	1	25	1	61
Investment expenses[3]	–15	—	—	–45	–18	–3	–81

[1] The term “financial instruments” is abbreviated to “FI” in the following.
[2] Of which EUR 65 (61) million attributable to unrealised gains.
3 Of which EUR 22 (25) 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
2019				
Gains and losses in financial year 2019				
Investment income	7	15	2	24
Investment expenses	–2	–25	–1	–28
Financing costs	–4	—	—	–4
of which attributable to financial instruments included in the portfolio as at 31.12.2019				
Investment income[2]	7	15	2	24
Investment expenses[3]	–2	–25	–1	–28
Financing costs[4]	–4	—	—	–4
2018				
Gains and losses in financial year 2018				
Investment income	6	18	3	27
Investment expenses	—	–25	–1	–26
Financing costs	–1	—	—	–1
of which attributable to financial instruments included in the portfolio as at 31.12.2018				
Investment income[2]	6	18	3	27
Investment expenses[3]	—	–25	–1	–26
Financing costs[4]	–1	—	—	–1

1 The term “financial instruments” is abbreviated to “FI” in the following.
2 Of which EUR 24 (27) million attributable to unrealised gains.
3 Of which EUR 28 (26) million attributable to unrealised losses.
4 Of which EUR 4 (1) million attributable to unrealised losses.

ADDITIONAL INFORMATION ABOUT THE MEASUREMENT OF LEVEL 3 FINANCIAL INSTRUMENTS

EUR million	Fair value 31.12.2019	Fair value 31.12.2018	Measurement technique	Unobservable inputs	Fluctuation (weighted average)
CDOs/CLOs[1]	30	62	Present value method	Prepayment speed, risk premiums, default rates, recovery rates, Redemptions	n. a.[4]
Unlisted equities funds, real estate funds and bond funds[2]	1,680	1,630	NAV method[3]	n. a.	n. a.
Private equity funds/private equity real estate funds[2]	2,653	2,116	NAV method[3]	n. a.	n. a.
Written put options and forward contracts for minority interests[2]	93	57	Discounted NAV[3]	Risk free interest rate	0% – 1,99%
Unlisted bond funds[2]	34	46	NAV method[3]	n. a.	n. a.
Insurance related contracts[1]	306	284	Present value method	Fair values of CAT bonds, credit spread	n. a.[4]
Investment contracts	402	404	—	—	—
Unlisted bonds	21	16	Present value method	Remeasurement rate, credit spread	2,3 % (2,9 %) n. a.
Interest rate swaps	24	32	Present value method	Credit spread	n. a.

1 These financial instruments are classified as Level 3, since unobservable inputs are used to measure them.
2 These financial instruments are classified as Level 3, since they are neither based on market prices nor measured by the Group on the basis of observable inputs. They are measured using the NAV method.
3 NAV: net asset value – alternative inputs within the meaning of IFRS 13 cannot be reasonably established.
4 Fluctuations cannot be reasonably established without disproportionate effort due to the distinct character of the individual inputs.

If Level 3 financial instruments are measured using models in which the use of reasonable alternative inputs leads to a material change in fair value, IFRS 7 requires disclosure of the effects of these alternative assumptions. Level 3 financial instruments had fair values totalling EUR 5.2 (4.6) billion as at the reporting date. Of this figure, the Group generally measures EUR 4.5 (3.8) billion using the net asset value method, under which alternative inputs within the meaning of the standard cannot reasonably be established. In addition, assets under investment contracts totalling EUR 201 (202) million are offset by liabilities from investment contracts in the same amount. We have not provided a scenario analysis since the assets and liabilities completely offset each other and their values perform similarly. Insurance-related contracts in the amount of EUR 306 (284) million are recognised in Level 3. The changes in value of these contracts depend on the changes in the risk characteristics of an underlying group of primary insurance contracts with statutory reserve requirements. The use of alternative inputs and assumptions has no material effect on the consolidated financial statements. The effects of alternative inputs and assumptions on the remaining Level 3 financial instruments, which have a volume of EUR 75 (110) million, are immaterial.

Measurement process

The measurement process aims to use either publicly available prices in active markets or measurements with economically established models that are based on observable inputs to ascertain the fair value of financial investments (Level 1 and Level 2 assets). In the case of 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 valuations prepared by independent professional experts (e.g. audited net asset values) that have previously been subjected to systematic plausibility checks. The organisational unit entrusted with measuring investments is independent of the organisational units that take on the exposure to the investment risk, thus ensuring the separation of functions and responsibilities. The measurement processes and methods are documented in full. Decisions on measurement issues are taken by the Talanx Valuation Committee, which meets every month.

We do not make use of the portfolio measurement option permitted by IFRS 13.48.

Financial instruments not measured at fair value whose fair values are disclosed in the Notes

FAIR VALUE HIERARCHY – FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

EUR Million

Fair values of financial instruments not recognised at fair value, by balance sheet item	Level 1	Level 2	Level 3[1]	Fair value
31.12.2019				
Financial assets not measured at fair value				
Loans and receivables	24	31,108	1,586	32,718
Held-to-maturity financial instruments	—	365	—	365
Other investments	30	17	144	191
Investment contracts — loans and receivables	1	42	—	43
Total financial assets not measured at fair value	**55**	**31,533**	**1,729**	**33,318**
Financial liabilities not measured at fair value				
Subordinated liabilities	794	2,988	1	3,782
Notes payable	3	2,400	93	2,496
Other commitments under investment contracts	—	54	—	54
Total financial liabilities not measured at fair value	**796**	**5,442**	**93**	**6,332**
31.12.2018				
Financial assets not measured at fair value				
Loans and receivables	35	31,585	1,333	32,953
Held-to-maturity financial instruments	—	439	—	439
Other investments	21	8	154	183
Investment contracts — loans and receivables	1	43	—	44
Total financial assets not measured at fair value	**57**	**32,075**	**1,487**	**33,618**
Financial liabilities not measured at fair value				
Subordinated liabilities	683	2,212	1	2,896
Notes payable	14	2,250	88	2,352
Other commitments under investment contracts	—	56	—	56
Total financial liabilities not measured at fair value	**697**	**4,518**	**89**	**5,304**

[1] Classification as Level 3 is not an 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. The relevant regulatory requirements and the rules 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 underlying 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 measurement techniques used, see the "Fair value measurement" subsection of the "Accounting policies" sections on pages 153 ff.

The method adopted for recognising gains and losses depends on whether the derivative financial instrument was used as a hedging instrument under IAS 39 and, if it was, on the nature of the hedged item/risk. In the case of derivatives that do not qualify as hedging instruments, changes in value are recognised in profit or loss under "Net investment income". This approach also applies to separated embedded derivatives associated with structured financial instruments and insurance contracts. In the case of hedging instruments, the Group classifies the derivatives as fair value hedges or cash flow hedges, depending on their purpose.

DERIVATIVE FINANCIAL INSTRUMENTS, BY BALANCE SHEET ITEM

EUR million	Hedging instrument under IAS 39	31.12.2019	31.12.2018
Balance sheet item (positive fair values)			
Financial instruments at fair value through profit or loss, financial instruments held for trading (derivatives)	No	321	239
Investment contracts, financial instruments held for trading (derivatives)	No	—	2
Other assets, derivative financial instruments (hedging instruments)	Yes	47	52
Balance sheet item (negative fair values)			
Other liabilities:			
Liabilities from derivatives	No	–179	–170
Liabilities from derivatives (hedging instruments)	Yes	–7	—
Investment contracts, derivatives	No	—	–2
Total		**183**	**121**

Derivative financial instruments – not including hedging instruments – generated an unrealised gain of EUR 99 (22) million in the financial year. The gain realised on positions closed out in 2019 amounted to EUR –10 (81) 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 183 (121) million at the reporting date, corresponding to 0.1% (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 performed at the level of 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	31.12.2019						31.12.2018
	Due within 1 year	More than 1 year and up to 5 years	More than 5 years and up to 10 years	More than 10 years	Other	Total	
Interest rate hedges							
Fair value	40	–10	–5	—	—	25	63
Notional amount	181	630	167	85	—	1,064	840
Currency hedges							
Fair value	–8	—	—	—	—	–8	6
Notional amount	1,954	218	16	—	—	2,188	1,165
Equity and index hedges							
Fair value	27	13	–58	—	—	–17	–46
Notional amount	394	58	–68	—	—	384	316
Derivatives associated with insurance contracts[1]							
Fair value	31	49	15	31	64	190	95
Credit risk							
Fair value	9	12	3	—	—	24	3
Notional amount	17	335	24	—	—	376	573
Other risks							
Fair value	—	–31	—	—	—	–31	—
Notional amount	—	–22	—	—	—	–22	—
Total hedges							
Fair value	**99**	**33**	**–45**	**31**	**64**	**183**	**121**
Notional amount	**2,546**	**1,219**	**140**	**85**	**—**	**3,989**	**2,894**

[1] Financial instruments relate to embedded derivatives in the reinsurance business in particular. These 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 not been provided. 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
31.12.2019					
Derivatives (positive fair values)	114	10	67	—	37
Derivatives (negative fair values)	45	22	14	9	1
31.12.2018					
Derivatives (positive fair values)	111	12	92	3	4
Derivatives (negative fair values)	35	13	9	8	5

Fair value hedges

The Group has designated forward sales as hedging derivatives in order to partially hedge changes in the fair value resulting from interest rate risk and spread risk in fixed-income securities. Due to the comparable risks involved in the designated underlying transactions and the hedging derivatives, the latter qualify for recognition as fair value hedges in the balance sheet. Any changes in the fair value of the hedging derivatives are recognised in profit or loss under “Net investment income" together 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 of EUR 1 (losses: 7) million from the hedge derivatives were recognised in the reporting period, along with losses of EUR 2 (gains: 7) million from the underlying transactions. The opposite changes in fair value for these hedges ranged between 80% and 125% in line with the requirements under IAS 39.

Cash flow hedges

The Group has hedged **interest rate risk exposures** in highly probable future transactions. This is done by recognising hedges comprising forward securities transactions (forward purchases) and planned securities purchases. These forward purchases are used to hedge the risk that scheduled reinvestments may generate low returns in future 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, hedges of forecast transactions are accounted for as cash flow hedges.

Hannover Rück SE has been purchasing hedging instruments in the form of equity swaps (cash flow hedges) since 2014 in order to **hedge against price risks** associated with the stock appreciation rights granted under its share award plan.

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 those cases in which 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 the changes in the reserve for cash flow hedges (before taxes and policyholder participation):

CHANGES IN THE RESERVE FOR CASH FLOW HEDGES

EUR million	2,019	2,018
Carrying amount as at 31.12. of the previous year (before taxes)	279	429
Additions (hedges of forecast transactions)	24	—
Additions (hedges of price risks)	8	1
Additions (hedges of currency risks relating to long-term investments)	–4	3
Reversals to the statement of income (hedges of forecast transactions)	–26	–104
Reversals to the statement of income (hedges of price risks)	—	—
Reversals to the statement of income (exercise of forward sales)	—	–50
Carrying amount as at 31.12. of the financial year (before taxes)	**281**	**279**

The reserve for cash flow hedges changed by EUR 2 (–150) million before taxes and by EUR –1 (–146) million net of taxes in the reporting period. A total of EUR 26 (31) million was amortised in the statement of income in 2019 in connection with forward purchases falling due, EUR 0 (73) million was amortised in connection with forward purchases terminated early and EUR 0 (50) million was amortised in connection with the exercise of forward sales, resulting in gains being realised in "Net investment income".

No material ineffectiveness of cash flow hedges (2018: EUR 1 million) was recognised in income in the year under review (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	31.12.2019	31.12.2018
Cash flows of hedged items	**189**	**–123**
Due within 1 year	55	–60
More than 1 year and up to 5 years	134	–63
More than 5 years and up to 10 years	—	—

There were no forecast transactions in 2019 that had previously been included in hedging relationships that are 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 (currency forwards) in the area of reinsurance that were entered into as hedges of currency risks relating to long-term investments in foreign businesses.

No material ineffectiveness resulted from hedges of currency risks relating to long-term investments in either the reporting period or the previous year.

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	31.12.2019	31.12.2018
Fair value hedges		
Forward sales	1	—
Cash flow hedges		
Forward securities transactions	34	47
Equity swaps	6	1
	39	**48**
Hedges of currency risks relating to long-term investments		
Currency forwards	—	4
Total	**40**	**52**

Net gains or losses on hedging derivatives recognised in the statement of income in the reporting period amounted to EUR 27 (148) million. They related to the amortisation of equity amounts (EUR 26 (154) million), changes in fair value recognised in income as a result of ineffectiveness (EUR 0 [1] million) and changes in fair value from fair value hedges (EUR 1 [–7] million).

Derivatives associated with insurance contracts

A number of contracts in the Life/Health Reinsurance segment have characteristics that require the IFRS 4 requirements for embedded derivatives to be applied. 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 in following periods must be recognised in income.

In connection with the accounting treatment of reinsurance contracts involving modified coinsurance and coinsurance – funds – withheld (“modco”), in which securities accounts are held by cedants and payments are made on the basis of the income from certain securities held by them, the interest rate risk components are clearly and closely related to the underlying reinsurance contracts. Consequently, the only embedded derivatives are due to the credit risk for the underlying securities portfolio. Hannover Re uses market information available at the measurement date to measure the fair values of derivatives embedded in modco contracts. It does this on the basis of a credit spread method, under which the derivative has a value of zero on the date of the contract and then fluctuates over time, depending on the changes in the credit spreads for the securities concerned. As at the reporting date, the derivative had a positive fair value of EUR 23 (14) million and is reported in other financial instruments at fair value in income. An external cession resulted in the recognition of other liabilities of EUR 1 (0) million. Over the course of the year, the changes in the derivative’s fair value resulted in total income of EUR 8 million before taxes (expense of EUR 12 million).

In previous years, a derivative financial instrument was also unbundled from another, similarly structured transaction. This resulted in the recognition of other financial instruments at fair value in income in the amount of EUR 26 (5) million. The changes in the value of this derivative in the financial year lifted earnings by EUR 20 (reduced earnings by: 3) million.

A number of transactions underwritten in previous years for the Life/Health Reinsurance segment involved Hannover Re companies offering their contract partners cover 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. Under IAS 39, the contracts must be classified and recognised as free-standing credit derivatives. These derivative financial instruments were initially recognised outside profit or loss because receivables were required to be recognised in the same amount. The fair value of these instruments at the reporting date amounted to EUR 44 (53) million and was reported in other financial instruments at fair value in income. Changes in fair value in subsequent periods depend on risk trends and lifted earnings by EUR 38 (33) million in the financial year.

A retrocession agreement in the Life/Health Reinsurance segment provides for the premiums to be deposited with Hannover Re and invested in a structured bond. The retrocessionaire guaranteed the fair value. Under IFRS 4, this guarantee had to be decoupled from the retrocession agreement and is recognised at fair value as a derivative financial instrument. As at the reporting date, the derivative was reported at a positive fair value of EUR 14 (23) million in other financial instruments at fair value in income. Over the course of the year, the change in the fair value of the derivative generated expenses of EUR 9 (income of EUR 20) million. Conversely, the performance of the structured bond, which is also measured at fair value, led to income (expense) in the same amount.

The Life/Health Reinsurance segment also previously entered into a reinsurance contract including a financing component under which the amount and timing of returns are dependent on cancellation rates in an underlying primary insurance portfolio. This contract and a corresponding retrocession agreement, which were required to be classified as financial instruments under IAS 39, resulted in the recognition of other liabilities of EUR 30 (25) million and of other financial instruments at fair value through profit or loss of EUR 117 (79) million. Overall, these contracts lifted earnings by EUR 6 (2) million in the financial year.

Index-based coverage of longevity risks was taken out at the end of the financial year 2017. The resulting derivative was recognised in other financial instruments at fair value in income at a fair value of EUR 5 as at the reporting date (EUR 46 million other liabilities). Over the course of the year, the change in the fair value of the derivative lifted earnings by EUR 6 (7) million.

Overall, application of the accounting requirements for insurance derivatives led to the recognition as at the reporting date of assets totalling EUR 229 (174) million and of liabilities associated with insurance derivatives of EUR 39 (76) million. Increases in earnings of EUR 78 (62) million and decreases in earnings of EUR 12 (15) 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 bear extreme mortality risks above a contractually defined retention ratio that have been securitised by the cedants and transfer them via a fixed/variable-rate swap to a company belonging to the Hannover Rück SE Group. The total contractually agreed transaction capacity is the equivalent of EUR 3,345 (3,269) million; the equivalent of EUR 2,742 (2,623) million had been underwritten at the reporting date. The variable payments to the special purpose entities guaranteed by Hannover Rück SE companies cover the formers' payment obligations. For some transactions, payments resulting from the swaps in the event of claims are reimbursed by the cedants' parent companies under compensation agreements. In this case, the reimbursement claims under the compensation agreements must be capitalised separately from, and up to the amount of, the provision.

Under IAS 39, these transactions must be recognised at fair value as financial guarantee contracts. Hannover Rück SE uses the net method for this, under which the present value of the agreed fixed swap premiums is netted against 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 required to be reported as a provision in accordance with IAS 37 is recognised 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	2019	2018
Accounts receivable on direct insurance business	3,029	2,773
of which		
from policyholders	1,780	1,737
from insurance intermediaries	1,250	1,036
Accounts receivable from reinsurance business	5,496	4,478
Carrying amount as at 31.12. of the financial year	**8,525**	**7,251**

ACCOUNTS RECEIVABLE ON INSURANCE BUSINESS THAT WERE PAST DUE BUT NOT IMPAIRED AT THE REPORTING DATE

EUR million	> 3 months < 1 year	> 1 year
31.12.2019		
Accounts receivable from policyholders	153	153
Accounts receivable from insurance intermediaries	97	69
Accounts receivable from reinsurance business	371	276
Total	**622**	**498**
31.12.2018		
Accounts receivable from policyholders	437	205
Accounts receivable from insurance intermediaries	88	72
Accounts receivable from reinsurance business	350	337
Total	**875**	**614**

Past due accounts receivable on insurance business are receivables that had not been paid by their due date and that were still outstanding as at the reporting date.

In the case of the primary insurance companies, accounts receivable on insurance business from policyholders and insurance intermediaries that were more than 90 days past due totalled EUR 472 (802) million on the reporting date; of this figure, EUR 222 (277) million was more than one year past due. Consequently, accounts receivable that were more than one year past due accounted for 7.4% (10%) of total accounts receivable. The combined average default rate in the past three years was 0.8% (0.8%). The default rate in 2019 was 0.8% (0.5%).

Accounts receivable from the reinsurance business that were more than 90 days past due totalled EUR 647 (687) million, of which EUR 276 (337) million was more than one year past due. The latter category therefore accounted for 5.0% (7.5%) of total accounts receivable. The average default rate on reinsurance business in the past three years was 0.3% (0.2%).

Impaired accounts receivable relate to the following items:

INDIVIDUALLY IMPAIRED ASSETS RESULTING FROM INSURANCE CONTRACTS

EUR million	Risk provision	of which attributable to 2019/2018	Carrying amount after risk provision
31.12.2019			
Accounts receivable from policyholders	75	3	1,780
Accounts receivable from insurance intermediaries	23	—	1,250
Accounts receivable from reinsurance business	46	5	5,496
Total	**143**	**9**	**8,525**
31.12.2018			
Accounts receivable from policyholders	72	5	1,737
Accounts receivable from insurance intermediaries	23	—	1,036
Accounts receivable from reinsurance business	40	12	4,478
Total	**135**	**17**	**7,251**

The following changes in impairment losses on accounts receivable on insurance business that are recognised in separate allowance accounts were recorded in the reporting period:

IMPAIRMENTS OF ACCOUNTS RECEIVABLE ON INSURANCE BUSINESS

EUR million	2019	2018
Accumulated impairments as at 31.12. of the previous year	135	118
Changes in basis of consolidation	6	1
Impairments in financial year	48	51
Reversals of impairment losses	46	33
Exchange rate changes	—	–3
Other changes	—	1
Accumulated impairments as at 31.12. of the financial year	**143**	**135**

The credit risk associated with accounts receivable on insurance business was measured as a general principle on the basis of individual analyses. Impairments were not recognised to the extent that the credit risk exposure of the assets concerned was reduced by collateral (e.g. letters of credit, cash deposits, securities accounts). Impaired accounts receivable accounted for 1.7% (1.8%) of total accounts receivable.

Accounts receivable from passive reinsurance business in the three primary insurance segments amounted to EUR 546 (487) million (after deduction of impairments). 74% (75%) of these accounts receivable had a category A rating or better as at the reporting date. Expressed in relation to our total accounts receivable of EUR 5.5 (4.5) billion, 49% (46%) had a category A rating or better.

IMPAIRMENT RATES

%	31.12.2019	31.12.2018
Accounts receivable from policyholders	4.1	4.0
Accounts receivable from insurance intermediaries	1.8	2.1
Accounts receivable from reinsurance business	0.8	0.9

ANNUAL DEFAULT RATES

%	31.12.2019	31.12.2018
Accounts receivable from policyholders	0.8	1.0
Accounts receivable from insurance intermediaries	0.8	0.1
Accounts receivable from reinsurance business	0.2	0.1

(15) Deferred acquisition costs

DEFERRED ACQUISITION COSTS

	2019			2018		
EUR million	Gross business	Reinsurers' share	Net business	Gross business	Reinsurers' share	Net business
Carrying amount as at 31.12. of the previous year	**5,525**	**167**	**5,358**	**5,505**	**173**	**5,332**
Change in basis of consolidation	–1	—	–1	—	—	—
Portfolio entries/withdrawals	—	—	—	–64	—	–64
Additions	2,261	274	1,987	1,217	76	1,141
Amortised acquisition costs	1,548	74	1,474	1,116	79	1,037
Currency adjustments	74	3	71	–17	–3	–14
Disposal groups in accordance with IFRS 5	–1	—	–1	—	—	—
Other changes	—	—	—	—	—	—
Carrying amount as at 31.12. of the financial year	**6,310**	**370**	**5,940**	**5,525**	**167**	**5,358**

(16) Other assets

OTHER ASSETS

EUR million	2019	2018
Real estate held and used	897	541
Tax assets	511	513
Operating and office equipment	147	154
Interest and rent due	19	15
Derivative financial instruments – hedging instruments, hedge accounting	47	52
Miscellaneous assets	1,198	1,182
Carrying amount as at 31.12. of the financial year	**2,819**	**2,457**

The fair value of real estate held and used amounted to EUR 1,047 (662) million as at the reporting date. EUR 193 (134) million of this amount is attributable to Level 2 of the fair value hierarchy and EUR 854 (528) million to Level 3. The fair values were generally calculated using the discounted cash flow method

Restrictions on disposal and guarantee assets relating to real estate held and used amounted to EUR 265 (254) million as at 31 December 2019. Capitalised expenditures for property, plant and equipment under construction totalled EUR 4 (2) million as at the reporting date.

CHANGES IN REAL ESTATE HELD AND USED

EUR million	2019	2018
Gross carrying amount as at 31.12. of the previous year	**735**	**829**
IAS 8 adjustments [1]	393	—
Change in basis of consolidation (additions)		
Business combinations	—	7
Additions	15	9
Disposals	9	114
Reclassifications	–1	6
Other changes	29	—
Exchange rate changes	2	–2
Gross carrying amount as at 31.12. of the financial year	**1,164**	**735**
Accumulated depreciation and impairment losses as at 31.12. of the previous year	**194**	**229**
Disposals	2	55
Depreciation and impairment losses		
Depreciation	77	15
Impairment losses	1	4
Reversal of impairment	2	2
Reclassifications	—	3
Accumulated depreciation and impairment losses as at 31.12. of the financial year	**267**	**194**
Carrying amount as at 31.12. of the previous year	541	600
Carrying amount as at 31.12. of the financial year	**897**	**541**

[1] Initial application of IFRS 16, see the "Other disclosures" section, "rents and leases" subsection of these Notes.

CHANGES IN OPERATING AND OFFICE EQUIPMENT

EUR million	2019	2018
Gross carrying amount as at 31.12. of the previous year	**497**	**463**
IAS 8 adjustments [1]	4	—
Change in basis of consolidation (additions)		
Business combinations	2	5
Additions	39	65
Disposals	58	32
Reclassifications	—	–1
Exchange rate changes	1	–3
Gross carrying amount as at 31.12. of the financial year	**485**	**497**
Accumulated depreciation and impairment losses as at 31.12. of the previous year	**343**	**333**
Change in basis of consolidation (additions)		
Business combinations	2	3
Disposals	54	28
Depreciation and impairment losses		
Depreciation	46	37
Exchange rate changes	1	–2
Accumulated depreciation and impairment losses as at 31.12. of the financial year	**338**	**343**
Carrying amount as at 31.12. of the previous year	154	130
Carrying amount as at 31.12. of the financial year	**147**	**154**

[1] Initial application of IFRS 16, see the "Other disclosures" section, "rents and leases" subsection of these Notes.

MISCELLANEOUS ASSETS

EUR million	2019	2018
Trade accounts receivable	132	103
Receivables relating to investments	73	94
Receivables from non-Group-led business	389	356
Other tangible assets	17	12
Claims under pension liability insurance/ surrender values	117	113
Prepaid insurance benefits	105	100
Deferred income	95	102
Other miscellaneous assets	268	302
Total	**1,198**	**1,182**

Notes to the consolidated balance sheet – equity and liabilities

(17) Equity

Changes in equity and non-controlling interests

COMPOSITION OF EQUITY

EUR million	31.12.2019	31.12.2018
Subscribed capital	316	316
Capital reserves	1,373	1,373
Retained earnings	6,872	6,578
Other reserves	665	–257
Group net income	923	703
Non-controlling interests in equity	6,461	5,548
Total	**16,610**	**14,261**

Retained earnings include equalisation reserves of EUR 1,824 (1,740) million (after deferred taxes).

Other reserves include gains and losses from currency translation of EUR –93 (–204) million.

UNREALISED GAINS AND LOSSES INCLUDED IN OTHER RESERVES

EUR million	31.12.2019	31.12.2018
From available-for-sale investments	5,200	1,956
From cash flow hedges	261	262
From the measurement of associates using the equity method	8	2
Other changes	–1,097	–933
less/plus		
Policyholder participation/shadow accounting [1]	–3,460	–1,454
Deferred taxes recognised directly in equity	–154	114
Non-controlling interests in equity	868	272
Total	**1,626**	**219**

[1] Includes provisions for deferred premium refunds that were recognised directly in equity.

Non-controlling interests in equity primarily consist of the interests in the equity of the Hannover Re subgroup held by non-Group companies.

RECONCILIATION ITEMS FOR NON-CONTROLLING INTERESTS IN EQUITY

EUR million	31.12.2019	31.12.2018
Unrealised gains and losses on investments	991	356
Share of net income	748	656
Other equity	4,723	4,536
Total	**6,461**	**5,548**

Subscribed capital

The share capital was unchanged at EUR 316 million and is composed of 252,797,634 no-par value registered shares; it is fully paid up. The nominal value per share is EUR 1.25.

For details of equity, please 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 serves to grant no-par value shares to holders of registered bonds to be issued against cash contributions in the period up to 10 May 2022 by Talanx AG or a subordinate Group company within the meaning of section 18 of the German Stock Corporation Act (AktG) on the basis of the authorisation granted to the Board of Management under the Annual General Meeting's resolution on the same date.The shares will be used to satisfy the contingent conversion obligation.

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 serves 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 to be issued by Talanx AG or its subordinate Group companies within the meaning of section 18 of the AktG in the period 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 their 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) authorising the Board of Management, subject to the approval of the Supervisory Board, to increase the share capital on one or more occasions in the period up to 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. Shareholders' pre-emptive rights may be disapplied in the case of cash capital increases for certain specified purposes, subject to the approval of the Supervisory Board. They may be disapplied in the case of non-cash capital increases, also subject to the approval of the Supervisory Board, where this is in the Company's overriding interest. The total shares issuable on the basis of this authorisation while excluding pre-emptive rights 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

The primary objective of the Talanx Group's capital management activities is to safeguard the Group's financial strength and enhance its capital efficiency. For detailed information on the capital management we refer to the disclosures to asset liability management in "Financial position" subsection in the "Net assets and financial position" section in the management report.

Treasury shares

An employee share programme was launched in September for the second time since 2013, under which employees at German companies (excluding Hannover Rück SE) were each offered a maximum of 36 shares for subscription. The shares were acquired by via a buyback of treasury shares in October and November. The shares were issued to employees in November. The exercise price was based on the lowest daily rate on the Frankfurt and Hannover stock exchanges on 30 September 2019, less a discount of EUR 10 per share, and came to EUR 29.24. 108,676 shares were acquired in total. The transaction resulted in personnel expenses of EUR 1.1 million. The shares issued are subject to a lock-up period, which expires on 25 November 2021. The employee share programme has no impact on equity.

(18) Subordinated liabilities

A number of Group companies have issued long-term subordinated debt instruments in the past, some of which are listed, in order to optimise the Group's capital structure and to ensure compliance with regulatory liquidity (solvency) requirements.

Hannover Rück SE placed a subordinated bond of EUR 750 million on the European capital market on 9 October 2019. The bond has a maturity of 20 years. The bond cannot be called under normal conditions before 9 July 2029. The bond has a fixed coupon of 1.125% p. a. for the first ten years of the term and then has a variable interest rate of 2.38% over the three-month Euribor.

LONG-TERM SUBORDINATED DEBT

EUR million	Nominal amount	Coupon	Maturity	Rating [2]	Issue	31.12.2019	31.12.2018
Talanx AG	750	Fixed (2.25%)	2017/2047	(—; A–)	These guaranteed subordinated bonds were issued in 2017 on the European capital market. They can be called under normal conditions for the first time in 2027.	750	750
Hannover Rück SE	750	Fixed (1.125%), then floating rate	2019/2039	(—; A)	These guaranteed subordinated bonds were issued on the European capital market in 2019. They can be called for the first time under normal conditions in 2029.	740	—
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 under normal conditions for the first time after ten years.	500	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 on the European capital market in 2012. They can be called for the first time under normal conditions after ten years.	499	498
Hannover Rück SE [1]	450	Fixed (3.375%), then floating rate	2014/ohne Endfälligkeit	(a+; A)	These guaranteed subordinated bonds were issued on the European capital market in 2014. They can be called for the first time under normal conditions in 2025.	446	446
Talanx Finanz (Luxemburg) S. A.	500	Fixed (8.37%), then floating rate	2012/2042	(a; A–)	These guaranteed subordinated bonds in the amount of EUR 500 million were issued in 2012 on the European capital market. They can be called for the first time under normal conditions after ten years.	500	500
HDI Assicurazioni S. p. A.	27	Fixed (5.5%)	2016/2026	(—; —)	Subordinated loan	27	27
HDI Assicurazioni S. p. A. (formerly CBA Vita S. p. A.)	14	Fixed (4.15%)	2010/2020	(—; —)	These subordinated bonds in the amount of EUR 15 million were issued on the European capital market in 2010. Securities with a nominal value of EUR 1.5 million have already been repurchased.	14	14
HDI Global SE	3	Fixed (4.25%), then floating rate	No final maturity	(—; —)	Subordinated loan. The loan can be terminated annually, starting on 12 August 2021.	3	3
Magyar Posta Életbiztosító Zrt.	1	Fixed (7.57%)	2015/2045	(—; —)	Subordinated loan, callable for the first time after ten years.	1	1
Total						**3,479**	**2,738**

[1] In addition, Group companies (included in the consolidated financial statements) held bonds with a nominal amount of EUR 50 million as at the reporting date.
[2] A. M. Best debt rating; S&P debt rating.

FAIR VALUES OF SUBORDINATED LIABILITIES MEASURED AT AMORTISED COST

EUR million	31.12.2019	31.12.2018
Amortised cost	3,479	2,738
Unrealised gains/losses	303	158
Fair value	3,782	2,896

The fair values of the issued liabilities are generally based on quoted prices in active markets. Where such price information was not available, fair value was measured on the basis of the recognised effective interest rate method or was estimated, e.g. using other financial instruments with similar ratings, durations or 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 –133 (–131) million from subordinated liabilities in the reporting period consisted of interest expenses in the amount of EUR 132 (130) million and amortisation expenses (EUR 1 [1] million).

SUBORDINATED LIABILITIES: MATURITIES

EUR million	31.12.2019	31.12.2018
Due within 1 year	14	—
More than 1 year and up to 5 years	—	14
More than 5 years and up to 10 years	27	27
More than 10 years and up to 20 years	740	—
More than 20 years	2,249	2,248
No fixed maturity	449	449
Total	**3,479**	**2,738**

(19) Unearned premium reserve

UNEARNED PREMIUM RESERVE

	2019			2018		
EUR million	Gross	Re	Net	Gross	Re	Net
Balance at 31.12. of the previous year	**8,590**	**684**	**7,906**	**8,116**	**664**	**7,452**
Change in basis of consolidation	38	9	29	46	8	38
Portfolio entries/withdrawals	5	—	5	6	—	6
Additions	4,519	544	3,975	2,745	448	2,297
Reversals	3,454	503	2,952	2,267	427	1,840
Reclassifications	—	—	—	—	—	—
Disposal groups in accordance with IFRS 5	–3	—	–3	–2	—	–2
Exchange rate changes	142	5	137	–54	–9	–45
Balance at 31.12. of the financial year	**9,837**	**740**	**9,097**	**8,590**	**684**	**7,906**

We do not provide information about maturities since the unearned premium reserve essentially does not involve future cash flows that affect liquidity.

(20) Benefit reserve

BENEFIT RESERVE

	2019			2018		
EUR million	Gross	Re	Net	Gross	Re	Net
Balance at 31.12. of the previous year	**56,234**	**1,209**	**55,025**	**54,596**	**1,291**	**53,305**
Portfolio entries/withdrawals	–528	53	–581	494	–2	496
Additions	4,648	–130	4,778	4,422	–71	4,493
Reversals	3,846	35	3,811	3,317	37	3,280
Exchange rate changes	352	24	328	39	28	11
Balance at 31.12. of the financial year	**56,859**	**1,121**	**55,738**	**56,234**	**1,209**	**55,025**

In the following maturity analysis, we directly deducted the deposits furnished to hedge the benefit reserve, since the cash inflows and outflows from these deposits are directly attributable to the cedants.

BENEFIT RESERVE

	2019			2018		
EUR million	Gross	Re	Net	Gross	Re	Net
Due within 1 year	3,730	636	3,095	3,131	62	3,069
More than 1 year and up to 5 years	10,670	109	10,561	10,442	628	9,814
More than 5 years and up to 10 years	14,145	103	14,042	13,942	226	13,716
More than 10 years and up to 20 years	13,066	132	12,934	13,861	202	13,659
More than 20 years	11,177	140	11,036	10,776	89	10,687
Deposits	4,070	2	4,069	4,082	2	4,080
Total	**56,859**	**1,121**	**55,738**	**56,234**	**1,209**	**55,025**

(21) Loss and loss adjustment expense reserve

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVE

	2019			2018		
EUR million	Gross	Re	Net	Gross	Re	Net
Balance at 31.12. of the previous year	**45,887**	**6,284**	**39,603**	**42,578**	**5,384**	**37,194**
Change in basis of consolidation	237	88	149	57	17	40
Portfolio entries/withdrawals	−3	1	−5	−8	−3	−5
plus						
Claims and claims expenses incurred (net); financial year	20,903	2,218	18,685	17,904	3,337	14,567
Claims and claims expenses incurred (net); previous year	3,354	725	2,628	4,273	−72	4,345
Total claims and claims expenses incurred	24,257	2,943	21,313	22,177	3,265	18,912
minus						
Claims and claims expenses incurred (net); financial year	7,737	448	7,289	7,059	399	6,660
Claims and claims expenses incurred (net); previous year	13,695	2,626	11,069	12,193	2,007	10,186
Total claims and claims expenses incurred	21,432	3,074	18,358	19,252	2,406	16,846
Other changes	−4	−5	1	−2	−9	7
Exchange rate changes	710	73	636	337	36	301
Balance at 31.12. of the financial year	**49,651**	**6,311**	**43,340**	**45,887**	**6,284**	**39,603**

Run-off of the net loss reserve

Loss reserves are inevitably based to some degree on estimates that involve residual uncertainty. The difference between last year's and the current estimate for 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 are 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 supplied by the reporting units were presented net of currency effects resulting from translation of the transaction currency concerned into the local reporting currency. The foreign currency run-off triangles supplied by the reporting units are translated into euros at the closing rate for the reporting period in order 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 original currency, we also ensure that the run-off result recognised after the figure is translated into the Group reporting currency (the euro) is not purely currency-related.

The following tables present the net loss reserves for insurance claims that have not yet been run off for the years 2009 to 2019, broken down by our main property/casualty insurance companies in the primary insurance segments (including Corporate Operations), and the Group's Property/Casualty Reinsurance segment ("loss run-off triangles"). The charts show the run-off of the net loss reserves as at each reporting date, comprising the reserves for the current year in question and the preceding occurrence years. The run-off of the reserve that is recognised annually as at the reporting date in the balance sheet is presented, rather than the run-off of the reserve for individual occurrence years.

The net loss reserve and its run-off are presented separately for the primary insurance segments (including Corporate Operations) and the Property/Casualty Reinsurance segment, after adjustment in each case for consolidation effects but before elimination of intra-group relationships between primary insurance segments (including Corporate Operations) and reinsurance. The figures reported for the 2009 financial year also include the figures 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 2019.

Total net loss reserves for the Group amount to EUR 43.3 (39.6) billion. EUR 14.1 (11.6) billion of this figure is attributable to our property/casualty insurance companies in the primary insurance area (including Corporate Operations) and EUR 23.7 (23.0) billion to the Property/Casualty Reinsurance segment. The remaining EUR 5.5 (5.0) billion is attributable to the Life/Health Reinsurance segment (EUR 4.4 [4.0] billion) and the life primary insurance business (EUR 1.1 [1.0] billion).

Net loss reserve and its run-off in the primary insurance segments, including Corporate Operations

NET LOSS RESERVE[1] AND ITS RUN-OFF IN THE PRIMARY INSURANCE SEGMENTS, INCLUDING CORPORATE OPERATIONS

EUR million	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Loss and loss adjustment expense reserve	**6,413**	**6,934**	**7,043**	**7,223**	**8,001**	**8,607**	**8,928**	**9,227**	**9,709**	**10,682**	**11,374**
Cumulative payments for the year in question and previous years											
One year later	1,158	1,322	1,514	1,141	1,692	1,792	1,932	1,969	2,099	2,425	
Two years later	1,766	2,128	1,851	1,927	2,437	2,655	2,887	2,871	3,180		
Three years later	2,382	2,241	2,390	2,426	2,996	3,273	3,476	3,513			
Four years later	2,403	2,631	2,773	2,865	3,441	3,690	3,950				
Five years later	2,745	2,950	3,136	3,203	3,774	4,059					
Six years later	3,006	3,249	3,409	3,474	4,073						
Seven years later	3,259	3,471	3,629	3,715							
Eight years later	3,453	3,656	3,829								
Nine years later	3,611	3,824									
Ten years later	3,762										
Loss and loss adjustment expense reserve (net) for the year in question and previous years, plus payments to date into the original reserve											
At the end of the year	6,413	6,934	7,043	7,223	8,001	8,607	8,928	9,227	9,709	10,682	11,374
One year later	6,251	6,583	6,675	6,890	7,725	8,134	8,614	8,927	9,619	10,593	
Two years later	5,960	6,342	6,499	6,793	7,300	7,867	8,345	8,856	9,363		
Three years later	5,765	6,267	6,450	6,531	7,207	7,631	8,358	8,668			
Four years later	5,787	6,152	6,232	6,458	6,992	7,671	8,205				
Five years later	5,698	5,948	6,219	6,211	7,071	7,541					
Six years later	5,517	5,954	5,979	6,316	6,949						
Seven years later	5,569	5,745	6,086	6,218							
Eight years later	5,372	5,843	6,010								
Nine years later	5,472	5,771									
Ten years later	5,421										
Change year-on-year											
in the final loss reserve[2] = run-off result	**52**	**21**	**3**	**23**	**24**	**9**	**22**	**35**	**69**	**–168**	
%	**1**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1**	**–2**	

1 The figures are presented net since this provides more meaningful information as to the final impact on Group net income.
2 Example: The difference for 2009 (EUR 5,472 million minus EUR 5,421 million = EUR 52 million) is calculated. This figure is recorded and then updated in each subsequent period, e.g. in 2010 by the change e.g. from 2009 to 2010. Therefore, in 2010 the first step involves calculating the difference between the two amounts for 2010 and then subtracting the result from the value for 2009 (calculation for 2010: EUR 5,843 million less EUR 5,771 million = EUR 73 million; subtracting EUR 52 million from EUR 73 million results in a figure of EUR 21 million for 2010). This process must then be repeated for each subsequent year.

The Group reported a positive run-off result of EUR 89 (90) million in its primary insurance segments (including Corporate Operations) in the reporting period; this figure represents the aggregate run-off results for the individual financial years.

Net loss reserve and its run-off in the Property/Casualty Reinsurance segment

NET LOSS RESERVE[1] AND ITS RUN-OFF IN THE PROPERTY/CASUALTY REINSURANCE SEGMENT

EUR million	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Loss and loss adjustment expense reserve	**14,008**	**15,271**	**16,620**	**17,248**	**17,821**	**19,728**	**21,757**	**22,690**	**22,830**	**24,263**	**26,496**
Cumulative payments for the year in question and previous years											
One year later	2,777	2,464	3,149	2,923	3,213	3,537	3,292	3,762	4,805	4,878	
Two years later	4,011	4,112	4,889	4,553	5,026	5,289	5,208	6,004	6,865		
Three years later	4,835	5,104	5,827	5,757	6,148	6,559	6,671	7,256			
Four years later	5,484	5,756	6,767	6,610	7,144	7,633	7,657				
Five years later	5,992	6,520	7,489	7,403	8,046	8,469					
Six years later	6,495	7,066	8,085	8,089	8,632						
Seven years later	6,845	7,504	8,592	8,561							
Eight years later	7,174	7,904	8,895								
Nine years later	7,468	8,142									
Ten years later	7,679										
Loss and loss adjustment expense reserve (net) for the year in question and previous years, plus payments to date into the original reserve											
At the end of the year	14,008	15,271	16,620	17,248	17,821	19,728	21,757	22,690	22,830	24,263	26,496
One year later	13,486	14,613	16,327	16,765	17,636	19,223	20,858	21,512	22,101	23,429	
Two years later	12,716	14,005	15,930	16,411	16,996	18,104	19,421	20,520	20,795		
Three years later	12,136	13,562	15,484	15,891	15,957	17,131	18,428	19,442			
Four years later	11,707	13,106	14,859	15,193	15,082	16,251	17,443				
Five years later	11,247	12,538	14,200	14,477	14,323	15,408					
Six years later	10,717	12,010	13,550	13,792	13,519						
Seven years later	10,351	11,409	12,867	13,183							
Eight years later	9,855	11,009	12,331								
Nine years later	9,555	10,573									
Ten years later	9,208										
Change year-on-year											
in the final loss reserve[2] = run-off result	**347**	**90**	**100**	**73**	**195**	**39**	**142**	**93**	**227**	**–472**	
%	**3**	**1**	**1**	**—**	**1**	**—**	**1**	**—**	**1**	**–2**	

[1] The figures are presented net since this provides more meaningful information regarding the final impact on Group net income.
[2] Example: The difference for 2009 (EUR 9,555 million minus EUR 9,208 million = EUR 347 million) is calculated. This figure is recorded and then updated in each subsequent period, e.g. in 2010 by the change e.g. from 2009 to 2010. Therefore, in 2010 the first step involves calculating the difference between the two amounts for 2010 and then subtracting the result from the value for 2009 (calculation for 2010: EUR 11,009 million less EUR 10,573 million = EUR 436 million; subtracting EUR 347 million from EUR 436 million results in a figure of EUR 90 million for 2010). This process must then be repeated for each subsequent year.

Property/Casualty Reinsurance recorded a positive run-off result of EUR 834 (997) million in financial year 2019; this figure represents the aggregate run-off results for the individual financial years.

The carrying amount of the reinsurers' share of the loss reserves (EUR 6.3 [6.3] billion) includes cumulative specific valuation allowances of EUR 61 (55) 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. When analysing the maturities, we directly deducted the deposits furnished to hedge the reserve, since the cash inflows and outflows from these deposits are directly attributable to the cedants.

RESERVE DURATIONS

EUR million	31.12.2019 Gross	Re	Net	31.12.2018 Gross	Re	Net
Due within 1 year	14,720	1,883	12,837	13,475	1,989	11,486
More than 1 year and up to 5 years	18,652	2,704	15,948	17,072	2,526	14,546
More than 5 years and up to 10 years	7,393	887	6,506	6,889	881	6,008
More than 10 years and up to 20 years	4,569	521	4,048	4,312	545	3,767
More than 20 years	2,216	264	1,952	2,138	288	1,850
Deposits	2,101	54	2,048	2,001	55	1,946
Total	**49,651**	**6,311**	**43,340**	**45,887**	**6,284**	**39,603**

(22) Provision for premium refunds

PROVISION FOR PREMIUM REFUNDS

EUR million	2018 Gross	Re	Net	2017 Gross	Re	Net
Balance at 31.12. of the previous year	**5,703**	**6**	**5,697**	**6,199**	**2**	**6,197**
Change in basis of consolidation	—	—	—	–2	—	–2
Additions/reversals (—)	1,295	—	1,295	317	4	313
Changes attributable to other comprehensive income from investments	1,761	—	1,761	–600	—	–600
Disposals						
Life insurance policies	229	—	229	206	—	206
Liability/casualty policies with premium refunds	18	4	14	5	—	5
Other changes	—	—	—	2	—	2
Exchange rate changes	–1	—	–1	–2	—	–2
Balance at 31.12. of the financial year	**8,511**	**1**	**8,510**	**5,703**	**6**	**5,697**

We have not provided information about maturities since it is not generally possible to allocate amounts clearly to individual insurance contracts and remaining maturities.

EUR 1,738 (1,419) million of the gross provision for premium refunds is attributable to obligations associated with surplus participations and EUR 6,772 (4,284) 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 defined contribution or defined benefit pension commitments to their employees. The type of pension commitment depends on the pension plan concerned. The majority of pension commitments, measured in terms of the amount involved, 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, normally without a lump-sum option. Qualifying events (e.g. retirement age, disability, death) are closely aligned with the eligibility requirements for statutory pension insurance. The benefit amount is based on a percentage of the final salary, with the calculation taking into account firstly the number of service years completed at the time the qualifying event occurs and secondly the salary at that time (where appropriate averaged over several years). In some cases, relevant income components below the contribution assessment ceiling for statutory pension insurance are weighted differently to those above the ceiling.

These pension plans are closed to new employees. Some existing commitments have been frozen at the levels already reached plus salary trends. A large majority of the plans are not funded by plan assets.

Plans based on annual pension units are fully employer-funded retirement, disability and survivor benefit commitments that take the form of a monthly pension without a lump-sum option. Qualifying events (e.g. retirement age, disability, death) are closely aligned with the eligibility requirements for statutory pension insurance. The benefit amount is based on the sum of annual pension units, which are derived from a transformation table. The number of hours worked by the employee, the size of their salary and, in some cases, the performance of the employer company making the commitment are taken into account. The key income components below the contribution assessment ceiling for statutory pension insurance are weighted differently to those above the ceiling.

The most significant pension plan of this type, measured in terms of the amount involved, is closed to new employees and is not funded by plan assets. However, pension liability insurance has been taken out for a large sub-portfolio.

Contribution-based plans with guarantees comprise deferred compensation commitments or fully employer-funded retirement, disability and survivor benefit commitments taking the form of a monthly pension from an "Unterstützungskasse" (provident fund). Instead of a retirement pension, employees can opt for a lump-sum capital payment. These are defined contribution benefit commitments within the meaning of German labour law that are classified economically as defined benefit plans.

The pension amount paid by the employer to the provident fund is used by the latter to taking out pension liability insurance that mirrors the range of benefits for which a commitment has been made (matching pension liability insurance). The benefit commitments are as given in the schedule of benefits for the pension liability insurance policy. The provident fund's associated assets are reported as plan assets.

In addition, there are pension commitments resulting from one-time deferrals of compensation by employees that provide a lump-sum benefit in the event of their death or survival to retirement age. In this case, the amount deferred is used as a one-time premium for a pension liability insurance policy whose benefits match the commitments given. There is no annuity option. No plan assets have been allocated to these commitments.

Employees can also opt to take part in insurance-style deferred compensation schemes. In economic terms, these are defined contribution plans for which no pension provisions are 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 can be discerned.

FUNDED STATUS OF PENSION PLANS

EUR million

Type of Plan	2019	2018
Final salary plans that depend on length of service		
Plan assets	–72	–61
Present value of defined benefit obligation	2,154	2,020
Effect of the asset ceiling	—	—
Surplus (net asset)	—	—
Shortfall (net liability)	2,082	1,959
Plan based on pension modules		
Plan assets	—	—
Present value of defined benefit obligation	118	110
Effect of the asset ceiling	—	—
Surplus (net asset)	—	—
Shortfall (net liability)	118	110
Contribution-based plans with guarantees		
Plan assets	–204	–175
Present value of defined benefit obligation	285	249
Effect of the asset ceiling	3	1
Surplus (net asset)	—	—
Shortfall (net liability)	84	75
Balance at 31.12. of the financial year (net asset)	**—**	**—**
Balance at 31.12. of the financial year (net liability)	**2,284**	**2,144**

The change in the net pension obligation and net pension assets 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; this resulted in a reduction in the carrying amount for the net asset both as at 31 December 2019 and as at 31 December 2018.

CHANGE IN NET PENSION OBLIGATIONS AND NET PENSION ASSETS FOR THE VARIOUS DEFINED BENEFIT PENSION PLANS

EUR million	Defined benefit obligation 2019	Defined benefit obligation 2018	Fair value of plan assets 2019	Fair value of plan assets 2018	Asset adjustment 2019	Asset adjustment 2018
Balance at 1.1. of the financial year	**2,379**	**2,312**	**–236**	**–199**	**1**	**2**
Changes recognised in net income						
Current service cost	28	26	—	—	—	—
Past service cost and plan curtailments	1	—	—	—	—	—
Net interest component	42	41	–5	–5	—	—
Gain or loss from settlements	—	—	—	—	—	—
	70	**67**	**–5**	**–5**	**—**	**—**
Other comprehensive income						
Remeasurements						
Actuarial gains (–)/losses (+) from changes in biometric assumptions	18	17	—	—	—	—
Actuarial gains (–)/losses (+) from changes in financial assumptions	176	45	—	—	—	—
Experience adjustments	–6	–13	—	—	—	—
Return on plan assets (excluding interest income)	—	—	–15	–12	—	—
Change from asset adjustment	—	—	—	—	2	–1
Exchange rate changes	1	–1	—	—	—	—
	190	**48**	**–15**	**–12**	**2**	**–1**
Other changes						
Employer contributions	—	—	–18	–25	—	—
Employee contributions and deferred compensation	—	9	–2	—	—	—
Benefits paid during the year	–85	–79	6	4	—	—
Business combinations and disposals	2	30	–2	—	—	—
Effect of plan settlements	—	–1	—	—	—	—
Exchange rate changes	—	–7	–3	1	—	—
	–83	**–48**	**–18**	**–20**	**—**	**—**
Balance at 31.12. of the financial year	**2,557**	**2,379**	**–276**	**–236**	**3**	**1**

The structure of the investment portfolio underlying the plan assets was as follows:

PLAN ASSET PORTFOLIO STRUCTURE

%	2019	2018
Cash and cash equivalents	—	—
Equity instruments	3	3
Fixed-income securities	8	9
Real estate	2	2
Securities funds	14	14
Qualifying insurance contracts	72	72
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 in the reporting period was EUR 20 million. Income of EUR 17 million was recognised in the previous year.

Defined benefit obligations were measured on the basis of the following weighted assumptions:

DEFINED BENEFIT OBLIGATION ASSUMPTIONS

Weighted inputs/assumptions, %	2019	2018
Discount rate	1.2	1.8
Expected rate of salary increase [1]	2.5	2.5
Pension trend [1]	1.7	1.7

[1] Where the portfolio in Germany accounts for more than 90% of the total, the amount disclosed is determined in accordance with the inputs specified for valuing domestic portfolios.

For the first time as at 31 December 2019 a trend in the spread of corporate bonds when extrapolating the euro yield curve for determining the valuation rate in accordance with IAS 19.83 is taken into account. This trend is applied from the last point of the corporate curve up to maturity 35 and helps to improve the accuracy of estimates. This is a change in an accounting estimate that had to be made prospectively in the reporting period without adjusting for prior periods and resulted in a EUR 56 million decrease in the DBO (other comprehensive income before policyholder profit participation and before taxes thus increased by EUR 50 million). It is not possible to assess the impact of this change on future reporting periods because the underlying data on spread development cannot be determined.

The 2018 G HEUBECK MORTALITY TABLES were used as the biometric basis for calculating the German pension commitments, and were reinforced to reflect the risk trends observed in the portfolio.

The defined benefit obligation has duration of 16 (16) years.

Sensitivity analyses

Increases or decreases in key actuarial assumptions would have the following effects on the present value of the defined benefit obligation as at 31 December 2019:

EFFECT OF CHANGES IN ACTUARIAL ASSUMPTIONS

	Effect on defined benefit obligation			
	Parameter increase		Parameter decrease	
EUR million	2019	2018	2019	2018
Discount rate (+/– 0.5%)	–189	–172	214	195
Salary increase rate (+/– 0.25%)	7	8	–7	–8
Pension adjustment rate (+/– 0.25%)	70	63	–75	–62

A change in the underlying mortality rates and longevities is also possible. Longevity risk was calculated by lowering the mortalities in the underlying mortality tables by 10%. This extension in longevities would have resulted in the pension obligation being EUR 93 (83) million higher as at the end of the financial year.

Sensitivities are calculated as the difference between the pension obligations under changed actuarial assumptions and those under unchanged actuarial assumptions. The calculations for the key inputs were performed separately.

For financial year 2020, the Group anticipates employer contributions of EUR 19 (18) million, which will be paid into the defined benefit plans shown here.

Defined contribution commitments 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. An expense of EUR 68 (63) million was recognised for these commitments in the financial year, of which EUR 0 (0) million was attributable to commitments to employees in key positions. The defined contribution commitments mainly relate to state pension schemes.

(24) Provisions for taxes

PROVISIONS FOR TAXES

EUR million	31.12.2019	31.12.2018
Provisions for income tax	313	452
Other tax provisions	248	198
Total	**561**	**650**

(25) Miscellaneous other provisions

MISCELLANEOUS OTHER PROVISIONS (LIKELY SETTLEMENT AMOUNT)

EUR million	Restructuring	Assumption of third-party pension obligations against payment	Bonuses and incentives	Anniversary bonuses	Early retirement/partial retirement	Other personnel expenses	Outstanding invoices	Other	Total
Carrying amount as at 31.12.2018	**85**	**49**	**168**	**18**	**41**	**85**	**140**	**301**	**887**
2019									
Change in basis of consolidation	1	—	—	—	—	—	—	3	**5**
Additions	31	1	128	1	12	79	718	2,380	**3,349**
Unwinding of discounts	—	—	—	—	—	—	—	7	**7**
Utilisation	9	—	95	2	12	70	702	2,322	**3,211**
Reversals	7	—	7	—	—	4	12	35	**64**
Change in fair value of plan assets	—	—	—	—	–3	—	—	—	**–3**
Other changes	–3	—	—	—	3	—	—	—	**—**
Exchange rate changes	—	—	1	—	—	—	—	–1	**—**
Carrying amount as at 31.12.2019	**98**	**50**	**196**	**18**	**41**	**90**	**144**	**333**	**971**

The provisions for restructuring disclosed in the financial statements relate primarily to restructuring measures for realigning the Retail Germany Division. This provision amounted to EUR 94 (82) million at the reporting date. The main occurrences in the reporting period were additions of EUR 29 million, utilisations of EUR 8 million and reversals of EUR 5 million. Additions to provisions for restructuring resulted from the measures of the "KuRS" programme and related projects. No significant unwinding of discounts took place in the reporting period.

Other provisions (EUR 333 [301] million) cover a large number of widely differing items that cannot be assigned to the categories above. In particular, they relate to provisions for interest on tax back payments (EUR 72 (78) million) and provisions for commissions (EUR 63 [57] million). In addition, this item includes provisions for administrative expenses, land recultivation, litigation expenses (see the "Litigation" section), for outstanding contributions to the "Unterstützungskasse" (provident fund) and the "Schwerbehindertenabgabe" (disabled persons levy).

DURATIONS OF MISCELLANEOUS OTHER PROVISIONS

EUR million	Due within 1 year	Due between 1 and 5 years	Due after more than 5 years	Total
31.12.2019				
Restructuring	39	60	—	**98**
Assumption of third-party pension obligations in return for payment[1]	—	—	50	**50**
Bonuses and incentives	134	62	—	**196**
Anniversary bonuses[1]	—	18	—	**18**
Early retirement/partial retirement[1]	—	41	—	**41**
Other personnel expenses	73	17	—	**90**
Outstanding invoices	144	—	—	**144**
Other	217	106	10	**333**
Total	**606**	**304**	**60**	**971**
Total, previous year	**563**	**266**	**58**	**887**

[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	31.12.2019	31.12.2018
Talanx AG notes payable	1,065	1,065
Hannover Rück SE	743	743
Loans from infrastructure investments	93	102
Hannover Re Real Estate Holdings, Inc. mortgage loans	129	97
HR GLL Central Europe GmbH & Co. KG mortgage loans	145	169
Real Estate Asia Select Fund Limited mortgage loans	121	57
Other	11	12
Total	**2,308**	**2,245**

As at 31 December 2019, the Group had two syndicated variable-rate credit lines with a total nominal value of EUR 500 million. They had not been drawn down as at the reporting date.

Net expenses on notes payable and loans totalled EUR 54 (50) million and consisted essentially of interest expenses on bonds issued by Talanx AG (EUR 30 [30] million) and Hannover Rück SE (EUR 8 [6] million), net expenses from mortgage loans (EUR 8 [8] million), loans on infrastructure investments (EUR 3 [4] million) and amortisation (EUR 3 [2] million).

NOTES PAYABLE

EUR million	Nominal amount	Coupon	Maturity	Rating [1]	Issue	31.12.2019	31.12.2018
Talanx AG [2]	565	Fixed (3.125%)	2013/2023	(—; A+)	These senior unsecured bonds have a fixed term and can only be called for extraordinary reasons.	565	565
Talanx AG	500	Fixed (2.5%)	2014/2026	(—; A+)	These senior unsecured bonds have a fixed term and can only be called for extraordinary reasons.	500	500
Hannover Rück SE	750	Fixed (1.125%)	2018/2028	(—; AA–)	These unsubordinated unsecured bonds have a fixed term.	743	743
Total						**1,809**	**1,808**

[1] A. M. Best debt rating; S&P debt rating
[2] Group companies also held bonds with a nominal amount of EUR 185 million as at the reporting date.

FAIR VALUE OF NOTES PAYABLE AND LOANS

EUR million	31.12.2019	31.12.2018
Amortised cost	2,308	2,245
Unrealised gains/losses	188	107
Fair value	**2,496**	**2,352**

NOTES PAYABLE AND LOANS: MATURITIES

EUR million	31.12.2019	31.12.2018
Due within 1 year	46	86
More than 1 year and up to 5 years	914	819
More than 5 years and up to 10 years	1,339	1,326
More than 10 years and up to 20 years	8	14
More than 20 years	—	—
Total	**2,308**	**2,245**

(27) Other liabilities

OTHER LIABILITIES

EUR million	2019	2018
Liabilities under direct insurance business	1,860	1,843
of which to policyholders	1,151	1,201
of which to insurance intermediaries	709	642
Reinsurance payables	2,320	1,855
Lease liabilities	442	—
Trade accounts payable	202	166
Liabilities relating to investments	195	83
Liabilities relating to non-Group lead business	314	384
Liabilities from derivatives	186	170
of which negative fair values from derivative hedging instruments	7	—
Deferred income	57	41
Interest	88	86
Liabilities to social insurance institutions	19	17
Miscellaneous other liabilities	359	396
Total other liabilities (not including liabilities relating to investment contracts)	**6,042**	**5,041**
Other liabilities relating to investment contracts		
Other obligations measured at amortised cost	54	56
Financial instruments classified at fair value through profit or loss	1,128	996
Derivatives	—	2
Total other liabilities relating to investment contracts	**1,182**	**1,054**
Carrying amount as at 31.12. of the financial year	**7,224**	**6,095**

Other liabilities (not including liabilities relating to investment contracts)

Liabilities relating to investments include interim distributions of EUR 19 (31) million relating to units in private equity funds that could not yet be recognised in income as at the reporting date.

Liabilities from derivatives (EUR 186 (170) million) mainly consist of instruments used to hedge interest rate, currency and equity risk, along with embedded derivatives separated from the underlying 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 remaining maturities of the other liabilities.The figures do not include liabilities under the direct insurance business or reinsurance payables, since these two liability types are directly linked to the insurance contracts concerned and therefore cannot be considered separately.

OTHER LIABILITIES (NOT INCLUDING LIABILITIES RELATING TO INVESTMENT CONTRACTS)[1]: MATURITIES

EUR million	31.12.2019	31.12.2018
Due within 1 year	1,358	1,052
More than 1 year and up to 5 years	304	165
More than 5 years and up to 10 years	132	80
More than 10 years and up to 20 years	28	46
More than 20 years	39	—
No fixed maturity	—	—
Total	**1,862**	**1,343**

[1] Undiscounted cash flows for liabilities from derivatives are not presented for reasons of materiality. Instead, the fair values (negative fair values) of the derivative financial instruments are used (maturity of up to 1 year: EUR 30 [21] million; 1–5 years: EUR 69 [29] million; 5–10 years: EUR 76 [74] million; 10–20 years: EUR 7 [46] million; more than 20 years: EUR 4 [0] million).

Liabilities relating to investment contracts

Other liabilities relating to investment contracts are recognised on addition at amortised cost or at the policyholder's account balance, less acquisition costs resulting directly from the contract transaction. They are measured in subsequent periods at amortised cost.

OTHER LIABILITIES MEASURED AT AMORTISED COST: MATURITIES

EUR million	Amortised cost 31.12.2019	31.12.2018	Fair value 31.12.2019	31.12.2018
Due within 1 year	15	18	15	18
More than 1 year and up to 5 years	40	38	40	38
More than 5 years and up to 10 years	—	—	—	—
More than 10 years and up to 20 years	—	—	—	—
Without fixed maturity	—	—	—	—
Total	**54**	**56**	**54**	**56**

The fair value of investment contracts is mainly calculated using the policyholders' surrender values and account balances. See our remarks in the "Accounting policies" section.

FINANCIAL INSTRUMENTS CLASSIFIED AT FAIR VALUE THROUGH PROFIT OR LOSS AND DERIVATIVES [1]: MATURITIES

EUR million	31.12.2019	31.12.2018
Due within 1 year	7	6
More than 1 year, up to 5 years	79	48
More than 5 years, up to 10 years	217	231
More than 10 years, up to 20 years	86	74
More than 20 years	121	102
No fixed maturity	618	537
Total	**1,128**	**998**

[1] Undiscounted cash flows are not presented for the derivatives concerned for reasons of materiality. Instead, the fair values (negative fair values) of the derivative financial instruments are used (maturity of up to 1 year: EUR 0 [0] million; 1–5 years: EUR 0 [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 liabilities classified at fair value through profit or loss was insignificant.

(28) Deferred taxes

CHANGE IN RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES DURING THE YEAR

	31.12.2019			31.12.2018 [1]		
EUR million	Deferred tax assets	Deferred tax liabilities	Net balance	Deferred tax assets	Deferred tax liabilities	Net balance
Deferred tax assets and liabilities						
Other intangible assets (PVFP)	—	–56	–56	—	–57	–57
Investments	326	–838	–512	402	–400	2
Funds withheld by ceding companies/funds withheld under reinsurance treaties	625	–121	504	558	–178	380
Accounts receivable on insurance business	60	–161	–101	88	–124	–36
Deferred acquisition costs [2]	46	–424	–378	45	–398	–353
Equalisation reserves	—	–1,472	–1,472	—	–1,389	–1,389
Loss reserves	604	–72	532	501	–85	416
Other technical provisions	270	–1,329	–1,059	334	–1,372	–1,038
Other provisions	453	–10	443	408	–11	397
Consolidation of intercompany balances	—	–19	–19	—	–28	–28
Other	318	–447	–129	420	–606	–186
Loss carryforwards	681	—	681	907	—	907
Impairments	–268	—	–268	–239	—	–239
Tax assets (liabilities) before offsetting	**3,115**	**–4,949**	**–1,834**	**3,424**	**–4,648**	**–1,224**
Recognised amounts offset	**–2,789**	**2,789**	**—**	**–2,959**	**2,959**	**—**
Tax assets (liabilities) after offsetting	**326**	**–2,160**	**–1,834**	**465**	**–1,689**	**–1,224**

[1] Adjusted in accordance with IAS 8, see the "Accounting policies" section of these Notes.
[2] The deferred taxes on deferred acquisition costs relate to the net amount, i.e. after adjustment for the reinsurers' shares.

The (net) change amounted to EUR –610 (282) million. EUR –447 (298) million was recognised in other comprehensive income, thereby increasing equity, while EUR –156 (–10) million was expensed in the statement of income. The other changes resulted from changes in the basis of consolidation and 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 Property/Casualty	Retail Germany Life	Retail International	Property/Casualty Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
2019[1]								
Gross written premiums, including premiums from unit-linked life and annuity insurance	6,157	1,588	4,554	6,110	13,411	7,673	—	**39,494**
Savings elements of premiums from unit-linked life and annuity insurance	—	—	830	113	—	—	—	**943**
Ceded written premiums	1,781	33	116	339	1,426	760	19	**4,473**
Change in gross unearned premiums	–274	–22	–56	–203	–443	–67	—	**–1,065**
Change in ceded unearned premiums	–4	1	3	–21	–19	–1	–1	**–42**
Net premiums earned	**4,106**	**1,533**	**3,549**	**5,476**	**11,561**	**6,847**	**–18**	**33,054**
2018[1]								
Gross written premiums, including premiums from unit-linked life and annuity insurance	4,639	1,563	4,457	5,552	11,623	7,051	—	**34,885**
Savings elements of premiums from unit-linked life and annuity insurance	—	—	853	153	—	—	—	**1,006**
Ceded written premiums	1,666	40	116	294	1,105	612	15	**3,848**
Change in gross unearned premiums	–70	–28	–46	–167	–123	–45	—	**–479**
Change in ceded unearned premiums	7	–3	2	–1	–24	—	–3	**–22**
Net premiums earned	**2,896**	**1,498**	**3,440**	**4,939**	**10,419**	**6,394**	**–12**	**29,574**

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

(30) Net investment income

NET INVESTMENT INCOME IN THE REPORTING PERIOD

EUR million	Industrial Lines	Retail Germany Property/ Casualty	Retail Germany Life	Retail International	Property/ Casualty Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
2019 [1]								
Income from real estate	37	6	100	2	186	—	1	**332**
Dividends [2]	22	9	11	2	5	24	1	**75**
Current interest income	156	77	1,151	330	705	295	—	**2,713**
Other income	73	21	103	5	170	10	1	**383**
Ordinary investment income	**288**	**113**	**1,365**	**339**	**1,066**	**329**	**3**	**3,503**
Income from reversal of impairment losses	—	—	1	1	—	—	—	**2**
Realised gains on disposal of investments	101	15	646	65	195	159	6	**1,187**
Unrealised gains on investments	32	4	64	23	1	93	—	**217**
Investment income	**421**	**132**	**2,077**	**427**	**1,263**	**580**	**9**	**4,909**
Realised losses on disposal of investments	83	2	74	10	67	13	—	**249**
Unrealised losses on investments	11	2	43	9	3	18	—	**86**
Total	**94**	**4**	**118**	**19**	**69**	**31**	**—**	**335**
Depreciation of/impairment losses on investment property								
Depreciation	4	—	20	—	37	—	—	**61**
Impairment losses	—	—	—	—	8	—	—	**9**
Impairment losses on equity securities	2	—	6	3	—	—	1	**11**
Impairment losses on fixed-income securities	—	—	—	2	—	—	—	**2**
Amortisation of/impairment losses on other investments								
Amortisation	6	4	23	—	—	—	—	**34**
Impairment losses	11	—	8	—	28	7	1	**55**
Investment management expenses	6	1	17	8	25	5	99	**162**
Other expenses	8	3	46	2	44	4	2	**110**
Other investment expenses/impairment losses	**37**	**10**	**120**	**16**	**143**	**17**	**103**	**444**
Investment expenses	**130**	**13**	**238**	**35**	**212**	**47**	**103**	**779**
Net income from assets under own management	**291**	**119**	**1,839**	**392**	**1,050**	**533**	**−94**	**4,130**
Net income from investment contracts	**—**	**—**	**—**	**3**	**—**	**—**	**—**	**3**
Interest income from funds withheld and contract deposits	—	—	—	—	50	242	—	**292**
Interest expense from funds withheld and contract deposits	—	—	8	4	4	87	—	**103**
Net interest income from funds withheld and contract deposits	**—**	**—**	**−8**	**−4**	**46**	**155**	**—**	**190**
Net investment income	**291**	**119**	**1,831**	**392**	**1,097**	**687**	**−94**	**4,323**

[1] After elimination of intragroup cross-segment transactions.
[2] Income from shares in associates and joint ventures amounted to EUR 35 million and is reported under “Dividends”.

NET INVESTMENT INCOME IN THE PREVIOUS PERIOD

EUR million	Industrial Lines	Retail Germany Property/Casualty	Retail Germany Life	Retail International	Property/Casualty Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
2018 [1]								
Income from real estate	23	2	89	1	172	—	—	**287**
Dividends [2]	15	10	13	2	5	3	2	**50**
Current interest income	146	73	1,229	298	677	287	1	**2,711**
Other income	91	18	106	3	173	6	—	**397**
Ordinary investment income	**275**	**103**	**1,437**	**304**	**1,027**	**296**	**3**	**3,445**
Income from reversal of impairment losses	1	—	2	—	3	—	—	**6**
Realised gains on disposal of investments	112	4	423	68	235	51	—	**893**
Unrealised gains on investments	5	1	23	14	2	66	—	**111**
Investment income	**393**	**108**	**1,885**	**386**	**1,267**	**413**	**3**	**4,455**
Realised losses on disposal of investments	68	3	57	23	117	41	—	**309**
Unrealised losses on investments	21	3	48	14	1	36	—	**123**
Total	**89**	**6**	**105**	**37**	**118**	**77**	**—**	**432**
Depreciation of/impairment losses on investment property								
Depreciation	4	—	19	—	34	—	—	**57**
Impairment losses	—	—	4	—	—	—	—	**4**
Impairment losses on equity securities	11	—	9	4	—	—	—	**24**
Impairment losses on fixed-income securities	7	—	—	3	1	—	1	**12**
Impairment losses on participating interests	—	—	1	—	—	—	—	**1**
Amortisation of/impairment losses on other investments								
Amortisation	6	4	22	—	—	—	—	**32**
Impairment losses	15	2	21	—	18	—	—	**56**
Investment management expenses	6	1	16	4	23	5	90	**145**
Other expenses	9	5	51	4	40	4	3	**116**
Other investment expenses/impairment losses	**58**	**12**	**143**	**15**	**116**	**9**	**94**	**447**
Investment expenses	**147**	**18**	**248**	**52**	**234**	**86**	**94**	**879**
Net income from assets under own management	**246**	**90**	**1,637**	**334**	**1,033**	**327**	**–91**	**3,576**
Net income from investment contracts	**—**	**—**	**—**	**–1**	**—**	**—**	**—**	**–1**
Interest income from funds withheld and contract deposits	—	—	—	—	38	290	—	**328**
Interest expense from funds withheld and contract deposits	—	—	10	1	3	122	—	**136**
Net interest income from funds withheld and contract deposits	**—**	**—**	**–10**	**–1**	**35**	**168**	**—**	**192**
Net investment income	**246**	**90**	**1,627**	**332**	**1,068**	**495**	**–91**	**3,767**

[1] After elimination of intragroup intersegment transactions
[2] Income from shares in associates and joint ventures amounted to EUR 7 million and is reported under “Dividends”.

EUR 2 (12) million of the total impairment losses of EUR 77 (97) million was attributable to fixed-income securities, EUR 11 (24) million to equities, EUR 16 (20) million to real estate and real estate funds, and EUR 39 (41) million to private equity. Reversals of impairment losses on investments written down in previous periods amounted to EUR 2 (6) million. EUR 1 (6) million of this amount was largely attributable to investment property.

Net income from the disposal of securities amounted to EUR 938 (584) million.This is principally attributable to the disposal of fixed income securities (EUR 769 [337] million).

Since past due securities are written down immediately, the portfolio did not contain any other securities past due but not impaired at the reporting date.

INTEREST INCOME FROM INVESTMENTS

EUR million	2019	2018
Loans and receivables	869	921
Held-to-maturity financial instruments	16	22
Available-for-sale financial instruments	1,718	1,651
Financial assets at fair value through profit or loss		
Financial instruments classified at fair value through profit or loss	31	43
Other	79	74
Financial instruments classified at fair value through profit or loss – investment contracts	4	5
Total	**2,717**	**2,716**

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.

Including investment management expenses (EUR 162 [145] million) and other expenses for assets under own management (EUR 110 [116] million), total net investment income as at the reporting date amounted to EUR 4,323 (3,767) million.

NET GAINS AND LOSSES FROM INVESTMENTS – REPORTING PERIOD

EUR million	Ordinary investment income	Amortisation	Gains on disposal	Losses on disposal	Writedowns	Reversals of impairment losses	Unrealised gains	Unrealised losses	Total[3]
2019[1]									
Shares in affiliated companies and participating interests	14	—	100	1	1	1	—	—	**113**
Loans and receivables	856	13	429	8	2	—	—	—	**1,287**
Held-to-maturity financial instruments	15	1	—	—	—	—	—	—	**16**
Available-for-sale financial instruments									
Fixed-income securities	1,727	–9	418	79	—	—	—	—	**2,057**
Variable-yield securities	104	—	31	5	18	—	—	—	**112**
Financial instruments at fair value through profit or loss									
Financial instruments classified at fair value through profit or loss									
Fixed-income securities	31	—	12	7	—	—	20	6	**50**
Variable-yield securities	4	—	4	1	—	—	23	—	**29**
Financial instruments held for trading									
Variable-yield securities	—	—	8	5	—	—	—	1	**2**
Derivatives	15	—	59	73	—	—	136	30	**106**
Other investments (financial instruments)	442	2	25	44	80	—	1	5	**341**
Other[2]	289	—	101	27	71	1	38	43	**290**
Assets under own management	**3,497**	**6**	**1,187**	**249**	**172**	**2**	**217**	**86**	**4,402**
Financial instruments classified at fair value through profit or loss (assets)	4	—	21	4	—	—	98	21	**96**
Financial instruments (assets) held for trading – (derivatives)	—	—	—	—	—	—	1	2	**–1**
Other obligations measured at amortised cost (liabilities)	—	—	—	—	—	—	—	—	**—**
Financial instruments classified at fair value through profit or loss (liabilities)	—	—	—	—	—	—	15	105	**–90**
Liabilities held for trading – (derivatives)	—	—	—	—	—	—	2	1	**2**
Other[4]	–1	–3	—	—	—	—	—	—	**–4**
Net income from investment contracts	**4**	**–3**	**21**	**4**	**—**	**—**	**116**	**129**	**3**
Funds withheld by ceding companies/funds withheld under reinsurance treaties	190	—	—	—	—	—	—	—	**190**
Total	**3,691**	**3**	**1,208**	**253**	**172**	**2**	**333**	**215**	**4,595**

[1] After elimination of intragroup cross-segment transactions.
[2] The “Other” item is used for reconciliation to the consolidated statement of income and combines gains on investment property, and income from infrastructure investments, associates and derivative financial instruments with negative fair values. Derivatives held for hedging purposes included in hedge accounting (see Note 13) are not included in the table if they do not relate to hedges of investments.
[3] Excluding investment management expenses and other expenses.
[4] The “Other” item contains income (EUR 14 million) and expenses (EUR 15 million) from the management of investment contracts. Amortisation of PVFP totalled EUR 3 million.

NET GAINS AND LOSSES FROM INVESTMENTS – PREVIOUS YEAR

EUR million	Ordinary investment income	Amortisation	Gains on disposal	Losses on disposal	Writedowns	Reversals of impairment losses	Unrealised gains	Unrealised losses	Total[3]
2018[1]									
Shares in affiliated companies and participating interests	15	—	8	—	1	—	—	—	**22**
Loans and receivables	902	19	100	11	1	—	—	—	**1,009**
Held-to-maturity financial instruments	18	4	—	—	—	—	—	—	**22**
Available-for-sale financial instruments									
Fixed-income securities	1,605	46	479	179	11	—	—	—	**1,940**
Variable-yield securities	83	—	50	19	39	—	—	—	**75**
Financial instruments at fair value through profit or loss									
Financial instruments classified at fair value through profit or loss									
Fixed-income securities	43	—	10	3	—	—	15	33	**32**
Variable-yield securities	3	—	1	3	—	—	2	16	**–13**
Financial instruments held for trading									
Variable-yield securities	—	—	6	6	—	—	—	1	**–1**
Derivatives	11	—	140	73	—	—	67	44	**101**
Other investments (financial instruments)	454	1	61	1	73	—	2	4	**440**
Other[2]	241	—	38	14	61	6	25	25	**210**
Assets under own management	**3,375**	**70**	**893**	**309**	**186**	**6**	**111**	**123**	**3,837**
Financial instruments classified at fair value through profit or loss (assets)	7	—	7	10	—	—	32	57	**–21**
Financial instruments (assets) held for trading – (derivatives)	—	—	1	—	—	—	2	3	**—**
Other obligations measured at amortised cost (liabilities)	–2	—	—	—	—	—	—	—	**–2**
Financial instruments classified at fair value through profit or loss (liabilities)	—	—	—	—	—	—	30	10	**20**
Liabilities held for trading – (derivatives)	—	—	—	—	—	—	3	2	**1**
Other[4]	5	–4	—	—	—	—	—	—	**1**
Net income from investment contracts	**10**	**–4**	**8**	**10**	**—**	**—**	**67**	**72**	**–1**
Funds withheld by ceding companies/funds withheld under reinsurance treaties	192	—	—	—	—	—	—	—	**192**
Total	**3,577**	**66**	**901**	**319**	**186**	**6**	**178**	**195**	**4,028**

[1] After elimination of intragroup cross-segment transactions.
[2] The "Other" item is used for reconciliation to the consolidated statement of income and combines gains on investment property, and income from infrastructure investments, associates and derivative financial instruments with negative fair values. Derivatives held for hedging purposes included in hedge accounting (see Note 13) are not included in the table if they do not relate to hedges of investments.
[3] Excluding investment management expenses and other expenses.
[4] The "Other" item contains income (EUR 13 million) and expenses (EUR 8 million) from the management of investment contracts. Amortisation of PVFP totalled EUR 4 million.

(31) Claims and claims expenses

CLAIMS AND CLAIMS EXPENSES – REPORTING PERIOD

EUR million	Industrial Lines	Retail Germany Property/Casualty	Retail Germany Life	Retail International	Property/Casualty Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
2019 [1]								
Gross								
Claims and claims expenses paid	4,000	856	3,147	3,391	6,928	6,266	—	**24,587**
Change in loss and loss adjustment expense reserve	338	63	19	327	1,723	338	17	**2,825**
Change in benefit reserve	—	–1	278	611	—	–109	—	**778**
Expenses for premium refunds	8	4	922	87	—	—	—	**1,020**
Total	**4,345**	**922**	**4,366**	**4,415**	**8,651**	**6,494**	**17**	**29,210**
Reinsurers' share								
Claims and claims expenses paid	1,153	10	72	171	920	812	1	**3,139**
Change in loss and loss adjustment expense reserve	–144	–2	–8	91	–72	–6	11	**–130**
Change in benefit reserve	—	—	–32	—	—	–133	—	**–165**
Expenses for premium refunds	1	—	—	—	—	—	—	**1**
Total	**1,010**	**8**	**32**	**261**	**848**	**673**	**12**	**2,845**
Net								
Claims and claims expenses paid	2,847	846	3,075	3,220	6,008	5,454	–1	**21,449**
Change in loss and loss adjustment expense reserve	482	65	27	236	1,795	344	6	**2,954**
Change in benefit reserve	—	–1	309	611	—	24	—	**944**
Expenses for premium refunds	7	4	922	87	—	—	—	**1,019**
Total	**3,336**	**914**	**4,333**	**4,154**	**7,803**	**5,821**	**5**	**26,366**

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

CLAIMS AND CLAIMS EXPENSES – PREVIOUS YEAR

EUR million	Industrial Lines	Retail Germany Property/ Casualty	Retail Germany Life	Retail International	Property/ Casualty Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
2018 [1]								
Gross								
Claims and claims expenses paid	2,917	862	2,958	3,103	6,375	6,017	—	**22,232**
Change in loss and loss adjustment expense reserve	840	89	52	327	1,610	–2	5	**2,921**
Change in benefit reserve	—	–1	712	431	—	–20	—	**1,122**
Expenses for premium refunds	23	1	414	33	—	—	—	**471**
Total	**3,780**	**951**	**4,136**	**3,894**	**7,985**	**5,995**	**5**	**26,746**
Reinsurers' share								
Claims and claims expenses paid	932	13	73	164	576	719	—	**2,477**
Change in loss and loss adjustment expense reserve	306	11	–3	46	519	–25	3	**857**
Change in benefit reserve	—	—	–29	–2	—	–78	—	**–109**
Expenses for premium refunds	4	—	—	—	—	—	—	**4**
Total	**1,242**	**24**	**41**	**208**	**1,095**	**616**	**3**	**3,229**
Net								
Claims and claims expenses paid	1,985	849	2,885	2,939	5,799	5,298	—	**19,755**
Change in loss and loss adjustment expense reserve	534	78	55	281	1,091	23	2	**2,064**
Change in benefit reserve	—	–1	741	433	—	58	—	**1,231**
Expenses for premium refunds	19	1	414	33	—	—	—	**467**
Total	**2,538**	**927**	**4,095**	**3,686**	**6,890**	**5,379**	**2**	**23,517**

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

(32) Acquisition costs and administrative expenses

ACQUISITION COSTS AND ADMINISTRATIVE EXPENSES

EUR million	Industrial Lines	Retail Germany Property/Casualty	Retail Germany Life	Retail International	Property/Casualty Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
2019[1]								
Gross								
Acquisition costs and reinsurance commissions	1,004	348	661	1,140	3,459	1,908	1	**8,521**
Changes in deferred acquisition costs and in provisions for commissions	−73	−1	133	−57	−85	−670	—	**−753**
Total acquisition costs	**931**	**347**	**793**	**1,082**	**3,374**	**1,238**	**1**	**7,768**
Administrative expenses	339	243	97	211	224	256	5	**1,373**
Total acquisition costs and administrative expenses	**1,270**	**590**	**890**	**1,293**	**3,598**	**1,494**	**6**	**9,141**
Reinsurers' share								
Acquisition costs and reinsurance commissions	292	8	64	75	213	244	2	**898**
Changes in deferred acquisition costs and in provisions for commissions	−4	—	9	−5	−5	−195	—	**−200**
Total acquisition costs	**288**	**8**	**73**	**71**	**208**	**49**	**2**	**698**
Net								
Acquisition costs and reinsurance commissions	712	340	596	1,064	3,247	1,664	−1	**7,623**
Changes in deferred acquisition costs and in provisions for commissions	−68	−1	124	−53	−81	−476	—	**−553**
Total acquisition costs	**644**	**339**	**720**	**1,012**	**3,166**	**1,189**	**—**	**7,070**
Administrative expenses	339	243	97	211	224	256	5	**1,373**
Total acquisition costs and administrative expenses	**982**	**582**	**817**	**1,222**	**3,390**	**1,445**	**5**	**8,442**
2018[1]								
Gross								
Acquisition costs and reinsurance commissions	575	322	615	1,018	3,144	1,328	—	**7,002**
Changes in deferred acquisition costs and in provisions for commissions	−5	−4	121	−50	−46	−91	—	**−75**
Total acquisition costs	**570**	**318**	**736**	**968**	**3,098**	**1,237**	**—**	**6,927**
Administrative expenses	344	227	82	212	206	217	2	**1,290**
Total acquisition costs and administrative expenses	**914**	**545**	**818**	**1,180**	**3,304**	**1,454**	**2**	**8,217**
Reinsurers' share								
Acquisition costs and reinsurance commissions	268	9	56	69	169	34	2	**607**
Changes in deferred acquisition costs and in provisions for commissions	−3	—	12	−3	−4	2	−1	**3**
Total acquisition costs	**265**	**9**	**68**	**66**	**165**	**36**	**1**	**610**
Net								
Acquisition costs and reinsurance commissions	307	313	559	949	2,975	1,294	−2	**6,395**
Changes in deferred acquisition costs and in provisions for commissions	−2	−4	109	−47	−42	−93	1	**−78**
Total acquisition costs	**305**	**309**	**668**	**902**	**2,933**	**1,201**	**−1**	**6,317**
Administrative expenses	344	227	82	212	206	217	2	**1,290**
Total acquisition costs and administrative expenses	**649**	**536**	**750**	**1,114**	**3,139**	**1,418**	**1**	**7,607**

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

(33) Other income/expenses

OTHER INCOME/EXPENSES

EUR million	2019	2018[1]
Other income		
Foreign exchange gains	193	297
Income from services, rents and commissions	343	346
Recoveries on receivables previously written off	29	20
Income from contracts recognised in accordance with the deposit accounting method	300	211
Income from the sale of property, plant and equipment	1	38
Income from the reversal of other non-technical provisions	70	28
Interest income[2]	57	51
Miscellaneous other income	123	82
Total	**1,114**	**1,072**
Other expenses		
Foreign exchange losses	190	266
Other interest expenses[3]	68	65
Depreciation, amortisation and impairment losses[4]	61	99
Expenses for the company as a whole	363	331
Personnel expenses	30	77
Expenses for services and commissions	175	147
Expenses from contracts recognised in accordance with the deposit accounting method	4	6
Other taxes	83	68
Miscellaneous other expenses	197	101
Total	**1,173**	**1,160**
Other income/expenses	**–60**	**–88**

1 Adjusted in accordance with IAS 8, see the "Accounting policies" section of these Notes.
2 Interest income is attributable to the segments as follows: Industrial Lines: EUR 8 (7) million; Retail Germany – Property/Casualty: EUR 1 (0) million; Retail Germany – Life: EUR 5 (6) million; Retail International: EUR 6 (5) million; Property/Casualty Reinsurance: EUR 12 (9) million; Life/Health Reinsurance: EUR 29 (30) million; Corporate Operations: EUR 0 (4) million. EUR 4 (10) million of interest income is consolidated.
3 Other interest expenses are attributable to the segments as follows: Industrial Lines: EUR 13 (14) million; Retail Germany – Property/Casualty: EUR 1 (1) million; Retail Germany – Life: EUR 9 (10) million; Retail International: EUR 7 (4) million; Property/Casualty Reinsurance: EUR 12 (12) million; Life/Health Reinsurance: EUR 9 (22) million; Corporate Operations: EUR 27 (25) million. EUR 11 (23) million of interest expenses is consolidated.
4 This figure includes depreciation and amortisation of EUR 16 (50) million. These amounts are primarily attributable to the Retail International (EUR 8 [19] million), Property/Casualty Reinsurance (EUR 5 [21] million) and Life/Health Reinsurance (EUR 1 [10] million) segments.

The "Other income/expenses" item does not generally include personnel expenses incurred by our insurance companies that are attributed to the functions during cost object accounting and allocated to investment expenses, claims and claims expenses, and acquisition costs and administrative expenses. The same principle 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 191 (170) million consist of interest expenses on borrowings that are not directly related to the operational insurance business. A large proportion (EUR 133 [131] million) of these interest expenses is attributable to our issued subordinated liabilities, while EUR 30 (30) million relates to bonds issued by Talanx AG and EUR 8 (6) million to bonds issued by Hannover Rück SE. The item also includes EUR 12 (–) million in interest expenses from leasing.

(35) Taxes on income

This item includes both domestic income taxes and comparable taxes on income generated by foreign subsidiaries. Measuring taxes on income also involves calculating deferred taxes. Deferred taxes are recognised in respect of retained earnings at significant affiliated companies in those cases in which a distribution is specifically planned.

TAXES ON INCOME – CURRENT AND DEFERRED

EUR million	2019	2018
Current taxes for the reporting period	485	532
Current taxes for prior periods	–73	–39
Deferred taxes in respect of temporary differences	–94	491
Deferred taxes in respect of loss carryforwards	250	–480
Change in deferred taxes arising from changes in tax rates	—	–1
Reported tax expense	**568**	**503**

The high deferred tax income from loss carryforwards and high deferred tax expense from temporary differences in the prior year were due primarily to the transfer of extensive portfolios of reinsurance contracts to US Group companies that was made during the restructuring of the US mortality business. In the previous year, a capitalised loss of USD 333 million was recognised for Hannover Life Reassurance Company of America (Bermuda) Ltd, which at the time was based on an estimate of tax effects. When drawing up the tax return at a later date, the management realised that the amount of provisions for tax purposes in 2018 needed to be corrected. Consequently, the loss carryforwards recognised were also USD 112 million too high. The capitalised loss carryforward after the correction is USD 220 million. This had no impact on income reported or on balance sheet reporting.

Current and deferred taxes totalling EUR –458 (295) million were recognised in other comprehensive income and directly in equity in the financial year as a result of items charged or credited to other comprehensive income.

The following table presents a reconciliation of the expected income tax expense that would be incurred by applying the German income tax rate, based on pre-tax profit, to the actual tax expense:

RECONCILIATION OF EXPECTED TO REPORTED TAX EXPENSE

EUR million	2019	2018
Profit before income taxes	2,239	1,862
Expected tax rate	32.20%	32.20%
Expected tax expense	721	600
Change in deferred tax rates	—	–1
Difference due to foreign tax rates	–182	–97
Non-deductible expenses	351	249
Tax-exempt income	–199	–155
Valuation allowances on deferred tax assets	4	–13
Prior-period tax expense	–36	–23
Other	–91	–57
Reported tax expense	**568**	**503**

The expected tax expense is calculated on the basis of 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 25.37% (27.01)% in the reporting period. The tax rate is the average income tax levied on all Group companies. As in the previous year, the "Other" item comprises tax effects of modifications related to trade tax, ineligible withholding taxes and other effects.

No deferred tax liabilities were recognised in respect of taxable temporary differences of EUR 151 (153) million 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 totalled EUR 433 (677) million; EUR 28 (38) million of this is expected to be realised within one year and EUR 405 (639) million after one year or longer.

Current income taxes declined by EUR 0 (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 3 (4) million in the reporting period. Conversely, the reversal of previous impairment losses resulted in deferred tax income of EUR 15 (8) million.

Where losses were incurred in the reporting period or in the previous year, a surplus of deferred tax assets over deferred tax liabilities was only recognised where 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 41 (183) million.

Period in which unrecognised loss carryforwards may be utilised

An impairment loss was recognised on deferred tax assets in respect of gross loss carryforwards of EUR 1,342 (1,289) million and gross deductible temporary differences of EUR 75 (25) million because their realisation is not sufficiently certain. Total deferred tax assets for these items after recognition of the impairment loss amounted to EUR 268 (239) million.

AVAILABILITY OF IMPAIRED LOSS CARRYFORWARDS AND TEMPORARY DIFFERENCES

	2019					2018				
EUR million	Between 1 and 5 years	Between 6 and 10 years	More than 10 years	Indefinitely	Total	Between 1 and 5 years	Between 6 and 10 years	More than 10 years	Indefinitely	Total
Loss carryforwards	—	3	9	1,330	1,342	—	5	—	1,284	1,289
Temporary differences	—	—	—	75	75	—	—	—	25	25
Total	**—**	**3**	**9**	**1,405**	**1,417**	**—**	**5**	**—**	**1,309**	**1,314**

Other disclosures

Number of employees and personnel expenses

Number of employees

AVERAGE ANNUAL NUMBER OF EMPLOYEES

	2019	2018
Industrial Lines	3,481	3,268
Retail Germany	4,203	4,392
Retail International	8,407	8,010
Reinsurance companies	3,151	3,272
Corporate Operations	2,786	2,731
Total excluding vocational trainees	**22,028**	**21,673**
Vocational trainees	509	549
Total	**22,537**	**22,222**

The Group's total workforce at the reporting date numbered 23,324 (22,642).

Personnel expenses

The personnel expenses set out in the following mainly comprise expenses for insurance operations, claims management (loss adjustment) and investment management.

PERSONNEL EXPENSES

EUR million	2019	2018
Wages and salaries	**1,379**	**1,250**
Social security contributions and other employee benefit costs		
Social security contributions	191	183
Post-employment benefit costs	65	67
Other employee benefit costs	25	23
	281	**273**
Total	**1,659**	**1,523**

Related party disclosures

IAS 24 "Related Party Disclosures" defines related parties as including 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, and associates and joint ventures. Pension funds ("Versorgungskassen") that pay benefits in favour of employees of Talanx AG or one of its related parties after their employment has ended also fall within this category.

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 boards of management and supervisory boards of Talanx AG and of HDI V.a.G.

Transactions between Talanx AG and its subsidiaries (including structured entities) are eliminated in the course of consolidation and are therefore 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., the insurance business is split uniformly in the ratio of 0.1% (HDI V. a. G.) to 99.9% (HG/HV).

On 21 October 2016, Talanx AG signed a master agreement with HDI 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 a rights issue. When the bonds are converted, HDI V.a.G. will waive the rights accruing to it under the capital increase leading to the conversion to subscribe for the number of new Talanx AG shares corresponding to the number of Talanx shares that HDI V.a.G. will receive in the course of the obligatory conversion of the bond. In other words, the waiver only applies if and to the extent that 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.

There are also service contracts with one company in which a member of the Supervisory Board has an interest. The revenue generated from these contracts with Group companies amounted to less than EUR 0.1 million in the reporting period.

For details of the remuneration paid to members of the Board of Management and Supervisory Board of Talanx AG, please see the remuneration report on page 78 ff., of the "Corporate Governance" section of this report, and the "Remuneration of the governing bodies of the parent company" subsection in the Notes to the consolidated financial statements.

Share-based payments

The following share-based payment plans existed in the Group in financial year 2019:

- A stock appreciation rights (SARs) plan at Hannover Rück SE (in operation since 2000, terminated successively from 2011 onwards and in the process of being wound up)
- Share award plan (share-based payment in the form of virtual shares, in operation since 2011)

These plans and their effects on net income and on the Group's net assets, financial position and results of operations are described in the following.

Stock appreciation rights plan at Hannover Rück SE

With the approval of the Supervisory Board, the Board of Management of Hannover Rück SE introduced a virtual stock option plan with effect from 1 January 2000 that grants stock appreciation rights (SARs) to certain executives. The content of the stock option plan is based solely on the terms and conditions governing the grant of stock appreciation rights. All members of the Group's senior management are eligible to receive 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 governing the grant of stock appreciation rights have been terminated 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 plan 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 were 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 same 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 publication date for Hannover Rück SE's reporting for each quarter.

The amount paid out to executives exercising stock appreciation rights is the difference between the strike price and the current quoted market price of Hannover Rück SE shares as at the exercise date. The strike price corresponds to the arithmetic mean of the closing prices of Hannover Rück SE shares on all trading days for the first full calendar month of the allocation year in question. The current quoted market price of Hannover Rück SE shares as at the stock appreciation rights' exercise date 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 concerned.

The payment is capped at an amount 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 exercise period immediately following its termination or end. Any stock appreciation rights that are not exercised within this period or that are as yet unvested will lapse. The retirement, long-term disability or death of the executive does not constitute termination of employment for the purpose of exercising stock appreciation rights.

The allocations for the years 2009 to 2011 gave rise to the commitments in financial year 2019 shown in the table below. There are no commitments for years prior to 2009.

STOCK APPRECIATION RIGHTS AT HANNOVER RÜCK SE

	Allocation year		
	2011	2010	2009
Award date	15.3.2012	8.3.2011	15.3.2010
Term	10 years	10 years	10 years
Lock-up period	4 years	4 years	2 years
Strike price (EUR)	40.87	33.05	22.70
Participants in year of issue	143	129	137
Number of rights granted	263,515	1,681,205	1,569,855
Fair value as at 31.12.2019 (EUR)	32.21	8.92	8.76
Maximum value (EUR)	32.21	8.92	8.76
Weighted exercise price (EUR)	32.21	8.92	8.76
Number of rights as at 31.12.2019	6,807	23,601	—
Provision as at 31.12.2019 (EUR million)	0.22	0.21	—
Amounts paid out in FY 2019 (EUR million)	0.22	0.42	0.04
Expense in FY 2019 (EUR million)	—	—	—

Financial year 2019 saw the expiry of the vesting period for 100% of the stock appreciation rights granted for the years 2009, 2010 and 2011. A total of 5,050 stock appreciation rights from the 2009 allocation year, 46,665 stock appreciation rights from the 2010 allocation year and 6,754 stock appreciation rights from the 2011 allocation year were exercised. The total amount paid out was EUR 0.68 million.

On this basis, the aggregate provisions, which are recognised in other non-technical provisions, amounted to EUR 0.4 (1.1) million for financial year 2019. No expense was recognised in the financial year (prior year: EUR 0 million).

Share award plan

Effective as from financial year 2011, a share award plan was introduced for Talanx AG and significant Group companies, including Hannover Rück SE. This was initially for the members of the boards of management and subsequently also for certain executives, and grants stock appreciation rights in the form of virtual shares, known as "share awards". The share award plan comes in two versions, which vary in certain areas:

- Talanx share awards (for members of the boards of management of Talanx and of significant Group companies and, with effect from the 2012 and 2015 financial years, for certain executives, not including Hannover Rück SE)
- Hannover Re share awards (for members of the Board of Management of Hannover Rück SE and, with effect from financial year 2012, also for certain executives of Hannover Rück SE. This share award plan replaces Hannover Rück's terminated stock appreciation rights plan.

The share awards do not entitle participants to demand delivery of actual shares, but only to be paid a cash amount subject to the conditions set out below.

The share award plan is open to all persons contractually entitled to share awards and to board of management members whose contract of service is still in force when the share awards are allocated and will not end due to termination by either party or by mutual agreement that takes effect before the lock-up period expires.

Share awards have been issued separately as from financial year 2011 for board of management members and as from financial years 2012 or 2015 also for certain executives, and thereafter for each subsequent financial year (allocation year). The first payment of share awards issued to eligible board of management members in financial year 2011 took place in financial year 2016. The first payment to certain eligible executives was made in the 2017 financial year.

The total number of share awards granted depends on the value per share. This is calculated as the unweighted arithmetic mean of the XETRA closing prices. The terms and conditions for beneficiaries stipulate a calculation period ranging from five trading days before to five trading days after the Supervisory Board meeting that approves the consolidated financial statements for the previous financial year. The Talanx share awards are based on the value per Talanx AG share, while the Hannover Re share awards are based on the value per Hannover Rück SE share. A different period is stipulated for Hannover Rück SE executives: this ranges from 20 trading days before until 10 trading days after the Supervisory Board meeting that approves the consolidated financial statements for the previous financial year. The prices calculated in this way also determine the payout value of the share awards as they fall due. The total number of share awards allocated is arrived at by dividing the amount available for allocating share awards to each beneficiary by the value per share, rounded up to the next full share. In the case of Talanx Group executives (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, significant Group companies and 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 the share determined on the payout date using the definitions above 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 until further notice in July, following the expiry of the lock-up period.

If dividends were distributed to shareholders, an amount equalling the dividends is also paid when the value of the share awards is transferred. The dividend amount to be paid is the sum of all dividends distributed per share during the term of the share awards, multiplied by the number of share awards paid out to each beneficiary at the payout date. If the share awards are paid out ahead of time, only the value of the dividends for the period up to the occurrence of the trigger event will be paid. Undistributed dividends will not be taken into account pro rata. In the case of executives, payments are made in line with the provisions of their contracts or pro rata if they leave the company in the course of a year.

If a board of management member's term of office or contract of service ends, the beneficiary remains entitled to payment of the value of any share awards already granted once the relevant lock-up period has expired, unless such termination is due to the beneficiary's resignation or termination/dismissal for cause. In the event that a beneficiary dies, any entitlement to share awards already allocated or still to be allocated passes to his or her heirs. In the case of the executives (excluding Hannover Rück SE), claims that have already vested are non-forfeitable.

In principle, no share awards may be allocated to members of the boards of management after the beneficiary has left the company. An exception to this is made in cases in which the beneficiary has left the company due to non-reappointment, retirement or death in respect of entitlements to variable remuneration earned by the beneficiary in the last year – or part-year – of his or her work.

The share award plan is accounted for in the Group as a cash-settled share-based payment transaction as defined by IFRS 2. Since different calculation bases are used for the Talanx share awards and the Hannover Re share awards, the two versions of the share aware plan are presented separately in more detail in the following:

Talanx share awards

TALANX SHARE AWARDS

	2019	2018	
	Anticipated allocation in 2020 for 2019	Final allocation in 2019 for 2018	Anticipated allocation in 2019 for 2018
Measurement date	30.12.2019	15.03.2019	28.12.2018
Value per share award (EUR)	44.18	34.14	29.80
Number allocated in year	151,879	186,463	209,435
of which: Talanx AG Board of Management	23,618	28,160	31,889
of which: Other boards of management	43,387	45,200	51,303
of which: Executives [1]	84,874	113,103	126,243

[1] Executives also include a further group of persons (risk takers) who have been receiving share awards since the 2013 financial year. Slightly modified allocation plans exist for these risk takers, which have not been explained in detail for reasons of materiality.

CHANGES IN PROVISIONS FOR TALANX SHARE AWARDS

	Allocation year							
EUR thousand	2019	2018	2017	2016	2015	2014	2013	Total
Addition in 2013	—	—	—	—	—	—	851	851
Addition in 2014	—	—	—	—	—	893	838	1,731
Addition in 2015	—	—	—	—	3,979	624	744	5,347
Addition in 2016	—	—	—	3,706	1,224	555	703	6,188
Addition in 2017	—	—	5,266	1,016	1,060	611	746	8,699
Addition in 2018	—	4,546	1	52	–58	126	216	4,883
Utilisation in 2018	—	—	138	—	—	—	4,098	4,236
Provision as at 31.12.2018	**—**	**4,546**	**5,129**	**4,774**	**6,205**	**2,809**	**—**	**23,463**
Addition in 2019	4,663	3,182	2,583	3,794	3,445	413	—	18,080
Utilisation/reversal in 2019	—	559	25	—	—	3,222	—	3,806
Provision as at 31.12.2019	**4,663**	**7,169**	**7,687**	**8,568**	**9,650**	**—**	**—**	**37,737**

The personnel expenses for share awards to Board of Management members are distributed over the relevant term of the share awards or the term of the service contracts, if shorter, while those for share awards to executives are distributed over the term of the share award.

The addition made during the financial year and recognised in personnel expenses amounted to EUR 18.1 (4.9) million. It comprised expenses for the share awards for 2019 financial year, plus the dividend claim and the additional vested portion of share awards granted in previous financial years. Additionally, the value of share awards is affected by changes in the share price. Dividends included in personnel expenses for previous financial years totalled EUR 1.1 (0.9) million. This item covers distributed dividends, but not expected dividend claims. Dividends are recognised at their discounted amount.

The 81,925 definitively allocated share awards dating from 2014, each of which was worth EUR 34.14 plus the dividend entitlement of EUR 5.30 per share, were paid out to the eligible Board of Management members and executives in the reporting period.

The addition to the provision for the 2014 share awards is calculated on the basis of the difference between the share price as of the last reporting date (EUR 29.80) and the March 2019 share price used for the payment of the share awards (EUR 34.14).

Hannover Re share awards

HANNOVER RE SHARE AWARDS

	2019		2018
	Anticipated allocation in 2020 for 2019	Final allocation in 2019 for 2018	Anticipated allocation in 2019 for 2018
Measurement date for Board of Management	30.12.2019	14.03.2019	28.12.2018
Value per share award (EUR)	172.30	129.60	117.70
Measurement date for Executives	30.12.2019	21.03.2019	28.11.2018
Value per share award (EUR)	172.30	129.38	117.70
Number allocated in year	52,381	66,353	76,431
of which: Board of Management	7,278	7,882	9,010
of which: Executives	45,103	58,471	67,421
of which: other adjustments [1]	—	—	—

[1] This figure reflects share awards that were originally granted but subsequently lapsed.

CHANGES IN PROVISIONS FOR HANNOVER RE SHARE AWARDS

	Allocation year							
EUR thousand	2019	2018	2017	2016	2015	2014	2013	Total
Addition in 2013	—	—	—	—	—	—	1,426	1,426
Addition in 2014	—	—	—	—	—	1,534	2,364	3,898
Addition in 2015	—	—	—	—	1,658	3,102	4,288	9,048
Addition in 2016	—	—	—	1,918	2,429	1,920	2,177	8,444
Addition in 2017	—	—	1,559	2,127	2,284	2,409	2,861	11,240
Addition in 2018	—	2,018	2,002	2,739	2,920	3,263	1,212	14,154
Utilisation in 2018	—	—	—	—	—	—	14,328	14,328
Provision as at 31.12.2018	**—**	**2,018**	**3,561**	**6,784**	**9,291**	**12,228**	**—**	**33,882**
Addition in 2019	1,895	2,963	3,832	5,628	6,664	1,097	—	22,079
Utilisation/reversal in 2019	—	—	195	225	264	13,325	—	14,009
Provision as at 31.12.2019	**1,895**	**4,981**	**7,198**	**12,187**	**15,691**	**—**	**—**	**41,952**

The personnel expenses for share awards to Board of Management members are distributed over the relevant term of the share awards or the term of the service contracts, if shorter, while those for share awards to executives are distributed over the term of the share award.

The addition made during the financial year and recognised in personnel expenses amounted to EUR 22.1 (14.2) million. It comprised expenses for the share awards for 2019 financial year, plus the dividend claim and the additional vested portion of share awards granted in previous financial years. Additionally, the value of share awards is affected by changes in the share price. Dividends included in personnel expenses for previous financial years totalled EUR 1.6 (1.6) million. This item covers distributed dividends, but not expected dividend claims. Dividends are recognised at their discounted amount.

The 10,299 definitively allocated share awards for the Board of Management from 2014, each of which was worth EUR 129.60 plus the dividend entitlement of EUR 19.00 each, were paid out to the eligible members of the Board of Management in the reporting period. 79,104 share awards made to executives for the 2014 financial year were paid out in 2019; the value was EUR 129.38 each plus a dividend entitlement of EUR 19.00 per share. The addition to the provisions for the 2014 share awards is calculated on the basis of the difference between the share price on the last reporting date (EUR 117.70) and the March 2019 share price used for the payment of share awards (EUR 129.60 and EUR 129.38).

Other disclosures on financial instruments

As at the end of the reporting period, in the context of a securities lending transaction, the Group recognised securities that were lent to third parties in exchange for collateral in the form of securities. The loaned securities are still reported on the balance sheet as their significant risks and opportunities remain with the Group, while the securities received as collateral have not been recognised. The carrying amount as at the reporting date of financial assets belonging to the "available-for-sale financial instruments" category loaned under securities lending transactions was EUR 295 (288) million. The fair value is equivalent to the carrying amount. The components of these transactions that were recognised as income were reported under the "Net investment income" item.

As at the end of the reporting period, the Group also recognised securities in the "available-for-sale financial instruments" category that were sold to third parties with a repurchase commitment at a fixed price (genuine repurchase transactions), as the principal risks and opportunities associated with the financial assets remained within the Group. As at the reporting date, the carrying amount of transferred financial assets from repo transactions was EUR 66 (3) million, with the associated liabilities also at EUR 66 (3) million. The difference between the amount received for the transfer and the amount agreed for the return is allocated for the term of the repurchase transaction and recognised in net investment income.

Information on temporary exemption from IFRS 9

The table below shows the financial instruments (assets) that must be recognised in future in accordance with IFRS 9, broken down into a group that meets the cash flow characteristics test and other financial instruments. The latter include, in addition to financial instruments and investment contracts currently measured at fair value in profit or loss, equity instruments held and units in investment funds that, due to their nature, do not meet the cash flow characteristics test set out in IFRS 9. The cash flow characteristics test is met if the contractual terms for the financial instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI test).

FAIR VALUES OF FINANCIAL INSTRUMENTS WITHIN THE SCOPE OF IFRS 9

EUR million	Fair value 31.12.2019	Fair value 31.12.2018	Change in fair value during the reporting period
Financial instruments that meet the SPPI test[1]			
Loans and receivables	32,276	32,488	1,932
Held-to-maturity financial instruments	365	439	–2
Available-for-sale financial instruments			
Fixed income securities	78,052	67,164	3,943
Variable-yield securities	—	—	—
Financial instruments classified at fair value through profit or loss	21	27	–3
Other investments	299	294	6
Other assets	765	715	1
Non-current assets and assets of disposal groups classified as held for sale	1	1	—
Total	**111,779**	**101,128**	**5,877**
All other financial instruments			
Loans and receivables	329	340	25
Held-to-maturity financial instruments	—	—	—
Available-for-sale financial instruments			
Fixed income securities	3,431	3,001	169
Variable-yield securities	2,067	1,799	143
Financial instruments at fair value through profit or loss			
Financial instruments classified at fair value through profit or loss	1,255	1,443	36
Derivatives held for trading	321	239	63
Other financial instruments held for trading	122	131	13
Other investments	4,648	4,243	37
Other assets			
Derivative financial instruments (hedge accounting)	47	52	1
Remaining other assets	46	94	—
Investment contracts			
Loans and receivables	43	45	—
Financial instruments at fair value through profit or loss	1,127	996	73
Derivatives	—	2	–2
Investments for the benefit of life insurance policyholders who bear the investment risk[2]	11,824	9,990	1,244
Cash at banks and cash-in-hand	3,518	3,362	—
Total	**28,778**	**25,737**	**1,802**

[1] Not including trading portfolios and not including financial instruments managed at fair value.
[2] The changes in fair value are offset in full by the changes in the “Technical provisions for life insurance policies where the investment risk is borne by the policyholders” item.

DISCLOSURES ON DEFAULT RISKS FOR FINANCIAL INSTRUMENTS WITHIN THE SCOPE OF IFRS 9

EUR million	Carrying amount before impairment 31.12.2019	Carrying amount before impairment 31.12.2018
Financial instruments that meet the cash flow test [1]		
AAA	44,652	42,979
AA	21,745	19,560
A	14,867	13,743
BBB	19,748	16,839
BB or lower (greater than low default risk)	3,116	1,860
Unrated		
Low default risk	1,942	1,505
Greater than low default risk	605	833
Total	**106,675**	**97,319**

[1] Not including trading portfolios and not including financial instruments managed at fair value

The total fair value of financial instruments that meet the cash flow test and have a greater than low default risk is EUR 3,720 (2,700) million.

Litigation

Group companies may become involved in court, regulatory and arbitration proceedings as part of their normal business activities. 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 liability is disclosed (in the Notes). The matters generally at issue are technical provisions within the scope of IFRS 4 or, in exceptional cases, miscellaneous other provisions. Litigation costs (such as lawyers' fees, court costs and other ancillary costs) are only recognised as liabilities once an action is known to be well-founded. A contingent liability is recognised for litigation where utilisation is unlikely.

The Group uses a number of assessment criteria to estimate the amount and probability of any outflow of resources. These include the type of dispute concerned, the status of the proceedings, assessments by legal advisors, decisions by the courts or by arbitrators, expert opinions, the Group's experiences of similar cases and lessons learned from other companies, to the extent that these are known.

Although we were exposed to proceedings in the course of our standard insurance and reinsurance business, there was no litigation materially impacting the Group's net assets, financial position and results of operations in the reporting period and at the reporting date. This statement also applies to the cases 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 aimed at having the appropriateness of the settlement reviewed. The Cologne Regional Court set the cash settlement at EUR 11.26 in a decision made on 10 January 2020. Appeals were lodged against this decision at the Düsseldorf Higher Regional Court. The material risk is limited by the number of shares entitled to a settlement (approximately 10 million) plus interest and the difference between the settlement already paid and the enterprise value of Gerling-Konzern Allgemeine Versicherungs-AG that can be determined as at the measurement date.

In our view, the provisions recognised for litigation risk in individual cases and the contingent liabilities disclosed for litigation are sufficient to cover the expected expenses.

Earnings per share

Earnings per share are calculated by dividing the Group net income attributable to the shareholders of Talanx AG by the average number of shares outstanding. There were no dilutive effects requiring 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 share or rights issues from contingent or authorised capital.

EARNINGS PER SHARE

	2019	2018
Net income attributable to shareholders of Talanx AG used to calculate earnings per share (EUR million)	923	703
Weighted average number of ordinary shares outstanding	252,797,634	252,797,634
Basic earnings per share (EUR)	3.65	2.78
Diluted earnings per share (EUR)	3.65	2.78

Dividend per share and appropriation of distributable profits

A dividend for financial year 2018 amounting to EUR 1.45 per share was paid in the reporting period, resulting in a total distribution of EUR 367 million. A proposal will be made to the General Meeting to be held on 7 May 2020 to distribute a dividend of EUR 1.50 per share for financial year 2020, resulting in a total distribution of EUR 379 million. The remainder of Talanx AG's distributable profit (EUR 321 million) will be transferred to retained profits brought forward.

Contingent liabilities and other financial commitments

Outstanding capital commitments for investments amounted to EUR 3,126 (2,363) million as at the reporting date. These primarily related to outstanding funding commitments resulting from agreements to invest in private equity funds and venture capital firms.

A number of Group companies are proportionately liable for any underfunding at the Gerling Versorgungskasse pension fund in their capacity as sponsors of Gerling Versorgungskasse V VaG.

Several Group companies are members of the pharmaceutical risk reinsurance pool, the German nuclear reactor insurance pool and the "Verkehrsopferhilfe e. V." traffic accident pool. In the event that one of the other pool members fails to meet its liabilities, the companies are obliged to assume that other member's share in proportion to their own share of the pool.

In addition, several Group companies belong to the Guarantee Fund for Life Insurance Undertakings in accordance with sections 221ff. of the Insurance Supervision Act (VAG); related funding commitments and contributions amount to EUR 630 (624) million.

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 at the time when the tax items are recognised. We adopted what we believe to be the most probable utilisation when calculating tax refund claims and tax liabilities. However, the tax authorities may come to different conclusions and this could give rise to additional tax liabilities in the future. The Group's contingent liabilities from taxes amount to EUR 103 (92) million.

Revenue

Revenue from contracts with customers covered by IFRS 15 is largely recognised over time and can be broken down as follows:

REVENUE CATEGORY

EUR million	2019	2018
Capital management services and commission [1]	228	227
Other insurance-related services [1]	113	111
Income from infrastructure investments [2]	64	58
Total revenue [3]	**405**	**396**

[1] Largely time-based revenue recognition.
[2] Time-based revenue recognition.
[3] Revenue is recognised in the statement of income under "10.a. Other income" EUR 327 (325) million, under "9.a. Investment income" EUR 64 (58) million and under "Net income from investment contracts" EUR 14 (13) million.

Revenue from **capital management services** provided (fund management) **including related commissions** of EUR 192 (200) million is recognised in the reporting period in which the services are provided. Transaction prices are measured using the underlying percentage rates plus the fair value of the managed funds at the end of the month in question and essentially do not include variable consideration. Revenue is recognised over time after the end of the period concerned in line with performance, since the customer simultaneously receives and consumes the benefit. Contracts with customers do not have significant financing components. Other commissions of EUR 37 (27) million include brokers' fees, performance fees and similar consideration, and are recognised predominantly at a point in time.

Other **insurance-related services** primarily relate to services performed over time (EUR 70 (73) million), and in particular to management services (EUR 35 (27) million). Transaction prices here are generally measured using the underlying framework agreement rates and a percentage of the gross premiums. Income from the management services described here is primarily earned over a period of three to four years, in line with the durations of the contracts, and is predominantly recognised on a pro rata basis. In addition, other administrative activities are carried out for non-Group entities and a number of additional services are provided, to an insignificant extent in all cases.

EUR 43 (38) million was generated in the financial year from other insurance-related services recognised at a point in time and, to a limited extent, from the sale of goods. The services primarily comprise commissions for acting as a lead manager in the amount of EUR 18 (17) million.

Income from infrastructure investments includes electricity revenue generated by wind parks. The transaction price for the volumes of electricity fed into the grid in the reporting period is determined using the contractual feed-in fees, including the relevant minimum fees under the German Renewable Energy Act. Revenue is recognised on the basis of the volume of energy fed in during the reporting period. Contracts with customers do not have significant financing components.

Rents and leases

Leases under which Group companies are the lessees

The Group leases office space, technical equipment and office equipment at many locations. There is also a long-term ground lease as part of investment property.

The following rights-of-use assets were recognised in the balance sheet as at 31 December 2019 in connection with leases.

CHANGES IN RIGHT-OF-USE ASSETS

EUR million	Real estate held and used	Infrastructure investments	Investment property	Operating and office equipment	Other right-of-use assets	Total
Carrying amount as at 1.1.2019	**393**	**32**	**34**	**4**	**5**	**468**
Impairments	63	2	—	1	3	70
Additions	33	—	—	—	2	35
Exchange rate changes	1	—	1	—	—	2
Carrying amount as at 31.12.2019	**363**	**31**	**35**	**3**	**4**	**436**

CHANGES IN LEASE LIABILITIES (OTHER LIABILITIES LINE ITEM)

EUR million	2019
Carrying amount as at 1.1.2019	**468**
Unwinding of discounts	12
Additions	31
Redemptions	71
Exchange rate changes	2
Carrying amount as at 31.12.2019	**442**

MATURITY OF THE LEASE LIABILITIES

EUR million	31.12.2019
less than 1 year	57
1 year and more	53
2 years and more	42
3 years and more	35
4 years and more	57
5 years and more	198
Total	**442**

ADDITIONAL LEASE EXPENSES

EUR million	2019
Expenses from short-term leases	2
Expenses for leases of low-value assets	26
Expenses from variable-lease payments	—

There was no material income from subleases or material gains or losses from sale and leaseback transactions in the financial year.

Total payments for leases came to EUR 71 million and essentially relate to payments for leasing real estate held and used in the amount of EUR 62 million. Future minimum lease payments, which cannot be terminated, in connection with leases that have been concluded but that have not yet begun amount to EUR 4 million.

Leases under which Group companies are the lessors

The total amount of income due under non-cancellable leases in subsequent years is EUR 1,242 (1,055) million.

FUTURE LEASING INCOME

EUR million	2019	2020	2021	2022	2023	Subsequent years
Income	201	189	251	154	131	317

Future leasing income primarily results from property companies in the Property/Casualty Reinsurance segment leasing out properties and from primary insurance companies (mainly in the Retail Germany – Life segment) leasing out properties in Germany. These are operating leases. Rental income in the financial year came to EUR 264 million. EUR 3 million of this relates to income from variable lease payments that do not depend on an index or interest rate.

Remuneration of the parent company's governing bodies

The Board of Management comprised 6 (6) active members as at the reporting date. The total remuneration paid to the Board of Management amounted to EUR 12,329 (9,820) thousand. In line with the share-based payment system introduced in 2011, the Board of Management has claims for the reporting period under the Talanx Share Award plan to virtual shares with a fair value of EUR 1,044 (950) thousand (corresponding to 23,618 (31,889) shares) and claims for the reporting period under the Hannover Re Share Award plan to virtual shares with a fair value of EUR 337 (229) thousand (corresponding to 1,892 (1,982) shares).

Former members of the Board of Management and their surviving dependants received total remuneration of EUR 2,222 (1,098) thousand. Provisions of EUR 33,881 (31,517) thousand were recognised for 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 2,514 (2,634) 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 relatives in the reporting period. No contingent liabilities existed in favour of this group of persons.

No remuneration for the parent company's governing bodies was outstanding as at the end of the year.

Further information on the remuneration of the Board of Management and the Supervisory Board and on the structure of the remuneration system is contained in the remuneration report (page 89 ff). The information provided there also includes the individualised disclosure of the remuneration of the Board of Management and the Supervisory Board and forms an integral part of the consolidated financial statements.

Auditor's fee

At its meeting on 15 March 2019, the Supervisory Board of Talanx AG appointed PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC GmbH) as the auditor of the Company's consolidated financial statements within the meaning of section 318 of the HGB. The fees paid to PwC GmbH and firms belonging to the global PwC network that were recognised as expenses in the reporting period can be broken down as follows:

PWC FEES

	PwC network worldwide		of which PwC GmbH	
EUR million	2019	2018	2019	2018
Financial statement audit services	18.0	15.9	7.6	7.3
Other assurance services	0.4	0.1	0.2	—
Tax advisory services	0.1	0.2	0.1	0.1
Other services	0.2	0.4	0.2	0.2
Total	**18.7**	**16.6**	**8.1**	**7.6**

PwC GmbH's fee for financial statement audit services primarily comprises the fees for auditing the consolidated financial statements (including statutory supplements to the engagement), the 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 statutory or contractually required audits. The fees for tax advisory services mainly include fees for tax return support services and tax advice on specific issues. The fees for other services cover IT consulting services, advisory services relating to training on new developments in accounting and quality assurance support.

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 in the version dated 21 June 2016 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 (https://www.talanx.com/corporate-governance), as described in the Board of Management's Declaration on Corporate Governance in the Group management report ("Corporate Governance" section).

On 5 November 2019, 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 for Hannover Rück SE are published on the latter's website (https://www.hannover-rueck.de/about/corporate/declaration/index.html).

Events after the end of the reporting period

With effect from 4 February, 2020, the Group subscribed EUR 321 million of a project loan totalling approximately EUR 511 million for investments of the Canada Pension Plan Investment Board. The Group is thus financing Germany's largest offshore windpark consisting of the two wind parks "Hohe See" and "Albatros". The parks are in operation and connected to the grid. Canada Pension Plan Investment Board is a Canadian state pension fund, which together with the leading Canadian energy company, Enbridge Inc., holds a 49.9% stake in the overall project. The majority shareholder of the park is EnBW Energie Baden-Württemberg AG with a 50.1% stake.

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).

1. AFFILIATED COMPANIES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS

	Equity interest[1] in %
Domestic	
Alstertor Erste Beteiligungs- und Investitionssteuerungs- GmbH & Co. KG, Hamburg	100.00
Alstertor Zweite Beteiligungs- und Investitionssteuerungs- GmbH & Co. KG, Hamburg	100.00
Ampega Asset Management GmbH, Cologne[3, 13]	100.00
Ampega Investment GmbH, Cologne[13]	100.00
Ampega-nl-Euro-DIM-Fonds, Cologne[16]	100.00
Ampega-nl-Global-Fonds, Cologne[16]	100.00
Ampega-nl-Rent-Fonds, Cologne[16]	100.00
Ampega Real Estate GmbH, Cologne[3, 13]	100.00
Ampega-Vienna-Bonds-Master-Fonds-Deutschland, Cologne[16]	100.00
E+S Rückversicherung AG, Hannover	64.79
EURO-Rent 3 Master, Cologne[16]	100.00
FUNIS GmbH & Co. KG, Hannover	100.00
Gerling Immo Spezial 1, Cologne[16]	100.00
GERLING Pensionsenthaftungs- und Rentenmanagement GmbH, Cologne	100.00
GKL SPEZIAL RENTEN, Cologne[16]	100.00
Hannover America Private Equity Partners II GmbH & Co. KG, Hannover	100.00
Hannover Beteiligungsgesellschaft mbH, Hannover	100.00
Hannover Re Euro PE Holdings GmbH & Co. KG, Hannover	100.00
Hannover Re Euro RE Holdings GmbH, Hannover	100.00
Hannover Re Global Alternatives GmbH & Co. KG, Hannover	100.00
Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover[13]	100.00
Hannover Rück SE, Hannover	50.22
HAPEP II Holding GmbH, Hannover	100.00
HAPEP II Komplementär GmbH, Hannover	100.00
HDI AI EUR Beteiligungs-GmbH & Co. KG, Cologne[4]	100.00
HDI AI USD Beteiligungs-GmbH & Co. KG, Cologne[4]	100.00
HDI Deutschland AG, Hannover[3, 13]	100.00
HDI Deutschland Bancassurance Communication Center GmbH, Hilden[3, 13]	100.00
HDI Deutschland Bancassurance GmbH, Hilden[3, 13]	100.00
HDI Deutschland Bancassurance Kundenmangement GmbH & Co. KG, Hilden[4]	100.00
HDI Deutschland Bancassurance Kundenservice GmbH, Hilden[3, 13]	100.00
HDI Direkt Service GmbH, Hannover[3, 13]	100.00
HDI-Gerling Sach Industrials Master, Cologne[16]	100.00
HDI Globale Equities, Cologne[16]	100.00
HDI Global Network AG, Hannover[13]	100.00
HDI Global SE Absolute Return, Cologne[16]	100.00
HDI Global SE, Hannover[13]	100.00
HDI Global Specialty Holding GmbH, Hannover[3, 13]	100.00
HDI Global Specialty SE, Hannover (formerly: International Insurance Company of Hannover SE, Hannover)	100.00
HDI International AG, Hannover[3, 13]	100.00
HDI Kundenservice AG, Cologne[3, 13]	100.00
HDI Lebensversicherung AG, Cologne	100.00
HDI next GmbH, Rostock[3, 13]	100.00
HDI Pensionskasse AG, Cologne	100.00
HDI Pensionsmanagement AG, Cologne[3, 13]	100.00
HDI Risk Consulting GmbH, Hannover[3, 13]	100.00
HDI Service AG, Hannover[3, 13]	100.00
HDI Systeme AG, Hannover[3, 13]	100.00
HDI Versicherung AG, Hannover[13]	100.00
HDI Vertriebs AG, Hannover[3, 13]	100.00
HGLV-Financial, Cologne[16]	100.00
HINT Europa Beteiligungs AG & Co. KG, Hannover[4]	100.00
HLV Municipal Fonds, Cologne[16]	100.00
HLV Real Assets GmbH & Co. KG, Cologne[4]	100.00
HNG Hannover National Grundstücksverwaltung GmbH & Co. KG, Hannover[4]	100.00
HPK Köln offene Investment GmbH & Co. KG, Cologne	100.00
HR GLL Central Europe GmbH & Co. KG, Munich[5]	99.99
HR GLL Central Europe Holding GmbH, Munich[9]	100.00
HV Aktien, Cologne[16]	100.00
Infrastruktur Ludwigsau GmbH & Co. KG, Cologne	100.00
IVEC Institutional Venture and Equity Capital GmbH, Cologne	100.00
Leben Köln offene Investment GmbH & Co. KG 1, Cologne	100.00
Leben Köln offene Investment GmbH & Co. KG 3, Cologne	100.00
Leben Köln offene Investment GmbH & Co. KG 5, Cologne	100.00
Lifestyle Protection AG, Hilden[13]	100.00
Lifestyle Protection Lebensversicherung AG, Hilden[13]	100.00
neue leben Holding AG, Hamburg	67.50
neue leben Lebensversicherung AG, Hamburg[13]	100.00
neue leben Unfallversicherung AG, Hamburg[13]	100.00
NL Leben offene Investment GmbH & Co. KG, Cologne	100.00
nl LV Municipal Fonds, Cologne[16]	100.00
NL Master, Cologne[16]	100.00
PB Leben offene Investment GmbH & Co. KG 2, Cologne	100.00
PB Leben offene Investment GmbH & Co. KG 3, Cologne	100.00
PB Lebensversicherung AG, Hilden[13]	100.00
PB Pensionsfonds AG, Hilden[13]	100.00
PB Versicherung AG, Hilden[13]	100.00
PBVL-Corporate, Cologne[16]	100.00
Riethorst Grundstückgesellschaft AG & Co. KG, Hannover[4]	100.00
TAL Aktien, Cologne[16]	100.00
Talanx AG, Hannover	100.00
Talanx Beteiligungs-GmbH & Co. KG, Hannover[4]	100.00

1. AFFILIATED COMPANIES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS

	Equity interest [1] in %
Talanx Deutschland Real Estate Value, Cologne [16]	100.00
Talanx Infrastructure France 1 GmbH, Cologne	100.00
Talanx Infrastructure France 2 GmbH, Cologne	100.00
Talanx Infrastructure Portugal 2 GmbH, Cologne	100.00
Talanx Reinsurance Broker GmbH, Hannover [3, 13]	100.00
TAL-Corp, Cologne [16]	100.00
TARGO Leben offene Investment GmbH & Co. KG, Cologne	100.00
TARGO Lebensversicherung AG, Hilden [13]	100.00
TARGO Versicherung AG, Hilden [13]	100.00
TD-BA Private Equity GmbH & Co. KG, Cologne [4]	100.00
TD-BA Private Equity Sub GmbH, Cologne	100.00
TD Real Assets GmbH & Co. KG, Cologne	100.00
TD-Sach Private Equity GmbH & Co. KG, Cologne [4]	100.00
Windfarm Bellheim GmbH & Co. KG, Cologne	100.00
Windpark Mittleres Mecklenburg GmbH & Co. KG, Cologne	100.00
Windpark Parchim GmbH & Co. KG, Cologne	100.00
Windpark Rehain GmbH & Co. KG, Cologne	100.00
Windpark Sandstruth GmbH & Co. KG, Cologne	100.00
Windpark Vier Fichten GmbH & Co. KG, Cologne	100.00
WP Berngerode GmbH & Co. KG, Cologne	100.00
WP Mörsdorf Nord GmbH & Co. KG, Cologne	100.00
Foreign	
101BOS LLC, Wilmington, USA [6]	100.00
111ORD, LLC, Wilmington, USA [6]	100.00
140EWR, LLC, Wilmington, USA [6]	100.00
590ATL LLC, Wilmington, USA (formerly: 1225 West Washington, LLC, Wilmington, USA) [6]	100.00
1600FLL LLC, Wilmington, USA [6]	100.00
2530AUS LLC, Wilmington, USA [6]	100.00
320AUS LLC, Wilminton, USA [6]	100.00
3290ATL LLC, Wilmington, USA [6]	100.00
3541 PRG s. r. o., Prague, Czech Republic [9]	100.00
402 Santa Monica Blvd, LLC, Wilmington, USA [6]	100.00
7550BWI LLC, Wilmington, USA [6]	100.00
7550IAD LLC, Wilmington, USA [6]	100.00
7659BWI LLC, Wilmington, USA [6]	100.00
92601 BTS s. r. o., Bratislava, Slovakia [6]	100.00
975 Carroll Square, LLC, Wilmington, USA [6]	100.00
Akvamarin Beta, s.r.o., Prague, Czech Republic [9]	100.00
APCL Corporate Director No.1 Limited, London, Great Britain [8]	100.00
APCL Corporate Director No.2 Limited, London, Great Britain [8]	100.00
Argenta Continuity Limited, London, Great Britain [8]	100.00
Argenta General Partner Limited, Edinburgh, Great Britain [8]	100.00
Argenta Holdings Limited, London, Great Britain [5]	100.00
Argenta LLP Services Limited, London, Great Britain [8]	100.00
Argenta No.13 Limited, London, Great Britain [8]	100.00
Argenta No.14 Limited, London, Great Britain [8]	100.00
Argenta No.15 Limited, London, Great Britain [8]	100.00
Argenta Private Capital Limited, London, Great Britain [8]	100.00
Argenta Secretariat Limited, London, Great Britain [8]	100.00
Argenta SLP Continuity Limited, Edinburgh, Great Britain [8]	100.00
Argenta Syndicate Management Limited, Great Britain [8]	100.00
Argenta Tax & Corporate Services Limited, London, Great Britain [8]	100.00
Argenta Underwriting Asia Pte. Ltd., Singapore, Singapore [8]	100.00
Argenta Underwriting Labuan Ltd, Labuan, Malaysia [8, 14]	100.00
Argenta Underwriting No.1 Limited, London, Great Britain [8]	100.00
Argenta Underwriting No.2 Limited, London, Great Britain [8]	100.00
Argenta Underwriting No.3 Limited, London, Great Britain [8]	100.00
Argenta Underwriting No.4 Limited, London, Great Britain [8]	100.00
Argenta Underwriting No.7 Limited, London, Great Britain [8]	100.00
Argenta Underwriting No.9 Limited, London, Great Britain [8]	100.00
Argenta Underwriting No.10 Limited, London, Great Britain [8]	100.00
Argenta Underwriting No.11 Limited, London, Great Britain [8]	100.00
Broadway 101, LLC, Wilmington, USA [6]	100.00
Commercial & Industrial Acceptances (Pty) Ltd., Johannesburg, South Africa [7]	90.00
Compass Insurance Company Ltd., Johannesburg, South Africa [7]	100.00
Ferme Eolienne des Mignaudieres SNC, Toulouse, France	100.00
Ferme Eolienne du Confolentais SNC, Toulouse, France	100.00
Film & Entertainment Underwriters SA (Pty) Ltd., Johannesburg, South Africa [7]	51.00
Firedart Engineering Underwriting Managers (Pty) Ltd., Johannesburg, South Africa [7]	70.00
Fountain Continuity Limited, Edinburgh, Great Britain [8]	100.00
FRACOM FCP, Paris, France [16]	100.00
Funderburk Lighthouse Limited, Grand Caymann, Cayman Islands	100.00
Garagesure Consultants and Acceptances (Pty) Ltd., Johannesburg, South Africa [7]	100.00
Gente Compañia de Soluciones Profesionales de México, S.A. de C.V., León, Mexico	100.00
Glencar Insurance Company, Orlando, USA	100.00
Glencar Underwriting Managers, Inc., Chicago, USA	100.00
GLL HRE CORE Properties, L.P., Wilmington, USA [6]	99.90
Hannover Finance, Inc., Wilmington, USA	100.00
Hannover Finance (Luxembourg) S. A., Luxembourg, Luxembourg	100.00
Hannover Finance (UK) Ltd., London, Great Britain	100.00
Hannover Life Reassurance Africa Ltd., Johannesburg, South Africa [7]	100.00
Hannover Life Reassurance Bermuda Ltd., Hamilton, Bermuda	100.00
Hannover Life Reassurance Company of America (Bermuda) Ltd., Hamilton, Bermuda	100.00
Hannover Life Reassurance Company of America, Orlando, USA	100.00
Hannover Life Re of Australasia Ltd., Sydney, Australia	100.00
Hannover Re (Bermuda) Ltd., Hamilton, Bermuda	100.00
Hannover Reinsurance Africa Ltd., Johannesburg, South Africa [7]	100.00
Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg, South Africa [5]	100.00
Hannover Re (Ireland) Designated Activity Company, Dublin, Ireland	100.00
Hannover Re Real Estate Holdings, Inc., Orlando, USA [5]	100.00
Hannover ReTakaful B. S. C. (c), Manama, Bahrain	100.00

1. AFFILIATED COMPANIES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS

	Equity interest[1] in %
Hannover Services (UK) Ltd., London, Great Britain	100.00
HDI Assicurazioni S. p. A., Rome, Italy	100.00
HDI Global Seguros S.A., Mexico City, Mexico (formerly: HDI-Gerling de Mexico Seguros S. A., Mexico City, Mexico)	100.00
HDI-Gerling Verzekeringen N.V., Rotterdam, The Netherlands	100.00
HDI Global Insurance Company, Chicago, USA	100.00
HDI Global SA Ltd., Johannesburg, South Africa	100.00
HDI Global Seguros S. A., São Paulo, Brazil	100.00
HDI Immobiliare S. r. l., Rome, Italy	100.00
HDI Reinsurance (Ireland) SE, Dublin, Ireland	100.00
HDI Seguros de Garantía y Crédito S.A., Las Condes, Chile	99.85
HDI Seguros de Vida S. A., Bogotá, Colombia	99.87
HDI Seguros de Vida S. A., Las Condes, Chile	100.00
HDI Seguros S. A., Bogotá, Colombia	91.34
HDI Seguros S. A., Buenos Aires, Argentina	100.00
HDI Seguros S. A. de C. V., León, Mexico	99.76
HDI Seguros S. A., Las Condes, Chile	99.92
HDI Seguros S. A., Montevideo, Uruguay	100.00
HDI Seguros S. A., São Paulo, Brazil	100.00
HDI Sigorta A. S., Istanbul, Turkey	100.00
HDI Specialty Insurance Company, Illinois, USA	100.00
HDI Versicherung AG (Österreich), Vienna, Austria	100.00
Hospitality Industrial and Commercial Underwriting Managers (Pty) Ltd., Johannesburg, South Africa[7]	85.00
HR GLL CDG Plaza S. r. l., Bukarest, Romania[9]	100.00
HR GLL Europe Holding S. à r. l., Luxembourg, Luxembourg[9]	100.00
HR GLL Griffin House SPÓLKA Z OGRANICZONA ODPOWIEDZIALNÓSCIA, Warsaw, Poland[9]	100.00
HR GLL Liberty Corner SPÓLKA Z OGRANICZONA ODPOWIEDZIALNÓSCIA, Warsaw, Poland[9]	100.00
HR GLL Roosevelt Kft, Budapest, Hungary[9]	100.00
HR US Infra Debt LP, George Town, Cayman Islands	99.99
HR US Infra Equity LP, Wilmington, USA[6]	100.00
INCHIARO LIFE Designated Activity Company, Dublin, Ireland	100.00
InLinea S. p. A., Rome, Italy	100.00
Integra Insurance Solutions Limited, Bradford, Great Britain	100.00
Inter Hannover (No. 1) Limited, London, Great Britain	100.00
Inversiones HDI Limitada, Santiago, Chile	100.00
KBC ALFA Specjalistyczny Fundusz Inwestycyjny Otwarty, Warsaw, Poland[16]	100.00
Landmark Underwriting Agency (Pty) Ltd., Bloemfontein, South Africa[7]	65.50
Le Chemin de La Milaine S.N.C, Lille, France	100.00
Leine Investment General Partner S. à r. l., Luxembourg, Luxembourg	100.00
Leine Investment SICAV-SIF, Luxembourg, Luxembourg	100.00
Le Louveng S. A. S., Lille, France	100.00
Le Souffle des Pellicornes S. N. C, Lille, France	100.00
Les Vents de Malet S.N.C, Lille, France	100.00
Lireas Holdings (Pty) Ltd., Johannesburg, South Africa[7]	70.00
M8 Property Trust, Sydney, Australia[10]	100.00
Magyar Posta Biztosító Zrt, Budapest, Hungary (formerly: Magyar Posta Biztosító Részvénytársaság, Budapest, Hungary)	66.93
Magyar Posta Életbiztosító Zrt., Budapest, Hungary	66.93
Markham Real Estate Partners (KSW) Pty Limited, Sydney NSW, Australia[10]	100.00
Morea Limited Liability Company, Tokyo, Japan[10]	99.00
MUA Insurance Acceptances (Pty) Ltd., Cape Town, South Africa[10]	95.00
Names Taxation Service Limited, London, Great Britain[8]	100.00
Nashville West, LLC, Wilmington, USA[6]	100.00
OOO Strakhovaya Kompaniya CiV Life, Mosow, Russia	100.00
HDI Global Insurance Limited Liability Company, Moscow, Russia (formerly: OOO Strakhovaya Kompaniya HDI Strakhovanie, Moscow, Russia)	100.00
Orion No.1 Professional Investors Private Real Estate Investment LLC, Seoul, South Korea[10]	99.65
PAG Real Estate Asia Select Fund Limited, George Town, Cayman Islands[5]	100.00
Peace G. K., Tokyo, Japan[10]	99.00
Perola Negra FIP Multiestratégia IE, São Paulo, Brazil[16]	100.00
Pipera Business Park S. r. l., Bukarest, Romania[9]	100.00
Protecciones Esenciales S.[9]A., Buenos Aires, Argentina	100.00
Residual Services Corporate Director Limited, London, Great Britain[8]	100.00
Residual Services Limited, London, Great Britain[8]	100.00
River Terrace Parking, LLC, Wilmington, USA[6]	100.00
Saint Honoré Iberia S. L., Madrid, Spain	100.00
Sand Lake Re, Inc., Burlington, USA	100.00
Santander Auto S. A., Sao Paulo - Vila Olimpia, Brazil	50.00
SUM Holdings (Pty) Ltd., Johannesburg, South Africa[7]	100.00
Svedea AB, Stockholm, Sweden	76.50
Talanx Finanz (Luxemburg) S. A., Luxemburg, Luxemburg	100.00
Thatch Risk Acceptances (Pty) Ltd., Johannesburg, South Africa[7]	70.00
Towarzystwo Ubezpieczeń Europa S. A., Breslau, Poland	50.00
Towarzystwo Ubezpieczeń i Reasekuracji WARTA S. A., Warschau, Poland	75.74
Towarzystwo Ubezpieczeń na Życie Europa S. A., Breslau, Poland	100.00
Towarzystwo Ubezpieczeń na Życie "WARTA" S. A., Warsaw, Poland	100.00
Transit Underwriting Managers (Pty) Ltd., Durban, South Africa[7]	90.00
Westblaak Vastgoedfonds I BV, Rotterdam, The Netherlands	100.00

2. AFFILIATED COMPANIES NOT INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRSS DUE TO INSIGNIFICANCE

	Equity interest[1] in %
Domestic	
FVB Gesellschaft für Finanz- und Versorgungsberatung mbH, Osnabrück[13]	100.00
G-E Financial Analytics GmbH, Berlin	100.00
HDI Deutschland Bancassurance Kundenmanagement Komplementär GmbH, Hilden (fomely: HG-FW Komplementär GmbH, Cologne)	100.00
HDI Global Specialty Schadenregulierung GmbH, Hannover (formerly: HDI Schadenregulierung GmbH, Hannover)[13]	100.00
HDI Global Specialty Underwriting Agency GmbH, Cologne (formerly: HDI Global Underwriting Agency GmbH, Cologne)[13]	100.00
HEPEP IV Komplementär GmbH, Cologne	100.00
HILSP Komplementär GmbH, Hannover	100.00
HINT Beteiligungen GmbH, Hannover	100.00
Infrastruktur Windpark Vier Fichten GbR, Bremen	83.34
mantel + schölzel AG, Kassel	100.00
Talanx Direct Infrastructure 1 GmbH, Cologne	100.00
Talanx Infrastructure Portugal GmbH, Cologne	100.00
TAM AI Komplementär GmbH, Cologne	100.00
SSV Schadenschutzverband GmbH, Hannover[13]	100.00
Foreign	
Desarrollo de Consultores Profesionales en Seguros S.A. de C.V., León, Guanajuato, Mexico	100.00
ERV Sigorta Aracilik Hizmetleri Limited Sirketi, Istanbul, Turkey	100.00
Hannover Mining Engineering Services LLC, Itasca, USA	100.00
Hannover Re Consulting Services India Private Limited, Mumbai, India	100.00
Hannover Re Risk Management Services India Private Limited, New Delhi, India	100.00
Hannover Re Services Italy S.r.l., Milan, Italy	100.00
Hannover Re Services Japan, Tokyo, Japan	100.00
Hannover Re Services USA, Inc., Itasca, USA	100.00
Hannover Risk Consultants B.V., Rotterdam, The Netherlands	100.00
Hannover Rück SE Escritório de Representação no Brasil Ltda., Rio de Janeiro, Brazil	100.00
Hannover Services (México) S.A. de C.V., Mexiko City, Mexico	100.00
HDI Global Network AG Escritório de Representação no Brasil Ltda, São Paulo, Brazil	100.00
Heuberg S.L.U., Barcelona, Spain	100.00
H.J. Roelofs Assekuradeuren B.V. , Rotterdam, The Netherlands	100.00
HR Hannover Re, Correduría de Reaseguros, S.A., Madrid, Spain	100.00
International Mining Industry Underwriters Limited, London, Great Britain[14]	100.00
Svedea Skadeservice AB, Stockholm, Sweden	100.00
U FOR LIFE SDN. BHD., Petaling Jaya, Malaysia	100.00

3. STRUCTURED ENTITIES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS 10

	Equity interest[1] in %
Kaith Re Ltd., Hamilton, Bermuda	88.00
Kubera Insurance (SAC) Ltd, Hamilton, Bermuda	100.00
LI RE, Hamilton, Bermuda	100.00

4. ASSOCIATES VALUED USING THE EQUITY METHOD IN THE CONSOLIDATED FINANCIAL STATEMENTS

	Equity interest[1] in %
Domestic	
HANNOVER Finanz GmbH, Hannover	27.78
neue leben Pensionsverwaltung AG, Hamburg	49.00
WeHaCo Unternehmensbeteiligungs-GmbH, Hannover	40.00
Foreign	
Clarendon Transport Underwriting Managers (Pty) Ltd., Johannesburg, South Africa[7]	32.67
Iberia Termosolar 1, S.L.U, Bardajoz, Spain	71.05
Monument Insurance Group Limited, Hamilton, Bermuda	20.00
Petro Vietnam Insurance Holdings, Cau Giay, Vietnam	53.92
Pineapple Tech (Pty) Ltd, Johannesburg, South Africa[7]	25.00

5. ASSOCIATES NOT INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS USING THE EQUITY METHOD DUE TO INSIGNIFICANCE

	Equity interest[1] in %
Domestic	
AMANIKI GmbH, Frankfurt am Main	49.90
caplantic GmbH, Hannover	45.00
DDBR1, Cologne	50.00
Elinvar GmbH, Berlin	32.75
HMG Gasstraße 25 GmbH & Co. geschlossene Investment KG, Hamburg	40.24
VOV GmbH, Cologne	35.25
Foreign	
Escala Braga – Sociedade Gestora de Edifício, S.A., Braga, Portugal	49.00
Escala Vila Franca – Sociedade Gestora de Edifício, S.A., Linhó, Portugal	49.00
Escala Parque – Gestão de Estacionamento, S.A., Linhó, Portugal	49.00
PNH Parque – Do Novo Hospital, S.A., Linhó, Portugal	49.00
Reaseguradora del Ecuador S.A., Guayaquil, Ecuador	30.00
Sureify Labs, Inc., Wilmington, USA	20.69
Trinity Underwriting Managers Limited, Toronto, Canada	20.00

6. JOINT VENTURES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS USING THE EQUITY METHOD

	Equity interest[1] in %
Magma HDI General Insurance Company Ltd., Kolkata, India	22.26

7. JOINT VENTURES NOT INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS DUE TO INSIGNIFICANCE

	Equity interest[1] in %
Domestic	
Ampega C-QUADRAT Fondsmarketing GmbH, Frankfurt[15]	50.00
Finance-Gate Software GmbH, Berlin	40.00
Hannoversch-Kölnische Beteiligungsgesellschaft mbH, Hannover	50.00
Hannoversch-Kölnische Handels-Beteiligungsgesellschaft mbH & Co. KG, Hannover	50.00
Foreign	
C-QUADRAT Ampega Asset Management Armenia LLC, Yerevan, Armenia	25.10

8. PARTICIPATING INTERESTS

	Equity interest[1] in %		Equity[2] in thousand	Earnings before profit transfer[2] in thousand
Domestic				
IGEPA Gewerbepark GmbH & Co. Vermietungs KG, Fürstenfeldbruck	37.50	EUR	–5,466	8,938
Perseus Technologies GmbH, Berlin	12.82	EUR	—	–3,742
Foreign				
Credit Suisse (Lux) Gas TransitSwitzerland SCS, Luxembourg, Luxembourg	60.15	EUR	128,707	4,846
Investsure Technologies Proprietary Limited, Johannesburg, South Africa[12]	21.50	ZAR	1,324	–3,154
Kopano Ventures (Pty) Ltd, Johannesburg, South Africa[12]	15.00	ZAR	2,537	–4,377
Meribel Mottaret Limited, St. Helier, Jersey[11]	18.92	EUR	—	—
Qinematic AB, Lidingö, Sweden	11.94	SEK	–5,767	–1,823
Somerset Reinsurance Ltd., Hamilton, Bermuda	16.90	USD	415,008	5,263
SWISS INSUREVOLUTION PARTNERS Holding (CH) AG, Zurich, Switzerland (formerly: Life Invest Holding AG, Zurich, Switzerland)	15.00	CHF	43,631	15,583
SWISS INSUREVOLUTION PARTNERS Holding (FL) AG, Triesen, Liechtenstein (formerly: Inlife Holding (Liechtenstein) AG, Triesen, Liechtenstein)	15.00	CHF	3,773	–31

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,,058	2,818
MLP AG, Wiesloch	7.03	EUR	369,090	21,867
M 31 Beteiligungsgesellschaft mbH & Co. Energie KG, Düsseldorf	8.90	EUR	1.089,452	71,210
Foreign				
Acte Vie S.A. Schiltigheim, France	9.38	EUR	9,870	394

[1] The equity interests are calculated by adding together all directly and indirectly held interests in accordance with section 16(2) and section 16(4) of the German Stock Corporation Act (AktG).
[2] The figures correspond to the local GAAP or IFRS annual financial statements of the companies concerned; currencies other than the euro are indicated.
[3] The exemptions permitted under section 264(3) of the German Commercial Code (HGB) were applied.
[4] The exemption permitted under section 264b of the HGB was applied.
[5] The company prepares its own subgroup financial statements.
[6] Included in the subgroup financial statements for Hannover Re Real Estate Holdings, Inc.
[7] Included in the subgroup financial statements for Hannover Reinsurance Group Africa (Pty) Ltd.
[8] Included in the subgroup financial statements for Argenta Holdings Limited.
[9] Included in the subgroup financial statements for HR GLL Central Europe GmbH & Co.KG.
[10] Included in the subgroup financial statements for PAG Real Estate Asia Select Fund Limited.
[11] No annual report/annual financial statements are available yet because the company was formed in the reporting period.
[12] Provisional/unaudited figures as at the 2019 financial year-end.
[13] A profit/loss transfer agreement is in force.
[14] The company is inactive.
[15] The company is in liquidation.
[16] Investment funds

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, Great Britain	EUR	280,647
Hannover Rück SE India Branch, Mumbai, India	EUR	152,248
Hannover Rück SE Canadian Branch, Toronto, Canada	EUR	305,894
Hannover Rück SE Korea Branch, Seoul, South Korea	EUR	49,067
Hannover Rück SE Shanghai Branch, Shanghai, China	EUR	1,726,805
Hannover Rück SE Succursale Française, Paris, France	EUR	876,850
Hannover Rück SE Hong Kong Branch, Wanchai, Hong Kong	EUR	365,967
Hannover Rück SE Tyskland Filial, Stockholm, Sweden	EUR	349,856
Hannover Rueck SE Australian Branch, Sydney, Australia	EUR	426,221
Hannover Rueck SE Bahrain Branch, Manama, Bahrain	EUR	127,629
Hannover Rueck SE Malaysian Branch, Kuala Lumpur, Malaysia	EUR	447,232
HDI Global SE		
HDI Global SE – Branch for Belgium, Brussels, Belgium	EUR	228,543
HDI Global SE – Direction pour la France, Paris, France	EUR	411,618
HDI Global SE – the Netherlands, Amsterdam, The Netherlands	EUR	299,467
HDI Global SE – UK, London, Great Britain	EUR	318,564
HDI Lebensversicherung AG		
HDI Lebensversicherung AG – Austria Branch, Vienna, Austria[2]	EUR	75,179
HDI Versicherung AG (Austria)		
HDI Versicherung AG (Austria) – Czech Republic Branch	EUR	15,016
HDI Global Specialty SE		
HDI Global Specialty SE, Australian Branch, Sydney, Australia	EUR	138,282
HDI Global Specialty SE, Canadian Branch, Toronto, Canada	EUR	98,359
HDI Global Specialty SE, Scandinavian Branch, Stockholm, Sweden	EUR	311,816
HDI Global Specialty SE, UK Branch, London, United Kingdom	EUR	565,044

[1] Figures prior to consolidation.
[2] Provisional/unaudited figures as at the 2019 financial year-end.

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 27 February 2020 in Hannover.

Board of Management

Torsten Leue, Chairman	Sven Fokkema	Jean-Jacques Henchoz
Dr. Edgar Puls	Dr. Immo Querner	Dr. Jan Wicke

Independent auditor's report

To Talanx AG, Hannover

Report on the audit of the consolidated financial statements and Group management report

Audit opinion

We have assessed the consolidated financial statements of Talanx AG, Hannover, and its subsidiaries (the Group). These statements consist of the consolidated balance sheet as at 31 December 2019, 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 2019 and the accompanying Notes including a summary of significant accounting policies. We have also assessed Talanx AG's Group management report, which is combined with the company management report, for the financial year from 1 January to 31 December 2019. In accordance with German statutory requirements, we did not audit the parts of the Group management report listed in the "Other information" section of our auditor's 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 2019 and its results of operations for the financial year from 1 January to 31 December 2019 in accordance with those requirements
- the accompanying Group management report provides a true and fair view of the Group's position overall. In all material respects, this Group 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 Group management report does not include the contents of the sections of the Group management report listed in the "Other information" section.

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 Group management report.

Basis for the audit opinion

We carried out our audit of the consolidated financial statements and Group 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 Group 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 Group 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 2019. 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.

In our opinion, the following facts were of the highest importance for our audit:

1 Fair value measurement of certain financial instruments

2 Valuation of loss and loss adjustment expense reserves

3 Valuation of the benefit reserve

We have presented these key facts for the audit in the following structure:

1 Facts and problem

2 Audit approach and findings

3 Reference to further information

The key facts for the audit are described below:

1 Fair value measurement of certain financial instruments

1 Financial instruments of EUR 130,394 million (73.4% of total equity and liabilities) are recognised in the consolidated financial statements.

Of these financial instruments, financial assets of EUR 91,198 million are measured at fair value. The fair values of these financial instruments in the amount of EUR 87,670 million are in turn calculated using third party valuation models or on the basis of indications of value. Valuing financial instruments, the fair values of which must be measured using third party valuation models or indications of value, involves a degree of uncertainty, as the latest market data and comparative figures are not always available for the valuation and so estimates and inputs are also used that are not currently observable on the market. This particularly concerns over-the-counter securities, other loans and derivatives.

Financial instruments valued using models are subject to a higher valuation risk on account of a lower degree of objectivity and the underlying judgements, estimates and assumptions of legal representatives. This fact was particularly important when conducting our audit as the estimates and assumptions applied, in particular those relating to interest rates and cash flows, as well as the valuation techniques applied, can have a material effect on the valuation of these financial instruments and on the Group's financial position and as it necessitates extensive notes on valuation techniques and margins of discretion.

2 As part of our audit, we analysed financial instruments valued using models or on the basis of third-party indications of value, with a focus on valuation uncertainties. We assessed the adequacy and effectiveness of checks in place to value these financial instruments and to validate models. In connection with this, we also took into account the integrity of the underlying data and the process for determining assumptions and estimates used in the valuation.

Supported by our in-house financial mathematics specialists, we also assessed the adequacy of the impairment test methods employed by legal representatives and the inputs used for this test. We compared the methods and assumptions used to calculate adjustments in the financial year with recognised practices and industry standards and evaluated to what extent these are suitable for proper balance sheet recognition.

On the basis of the audit procedures, we ascertained that the methods and assumptions used by the legal representatives to value certain financial instruments (valued using models and on the basis of third-party indications of value) are, as a whole, suitable and that the information and data in the Notes are adequate.

3 Company disclosures on the valuation of financial instruments can be found in the "Accounting policies" section of the Notes under "Investments". In addition, further disclosures on the items are made in Notes 4 to 13. Statements on the risks arising from financial instruments are made in the risk report for the Group management report in the section "Risks from investments".

2 Valuation of loss and loss adjustment expense reserves

1 Technical provisions ("loss reserves") of EUR 49,651 million (28.0% of total equity and liabilities) are recognised in the Company's consolidated financial statements under the balance sheet item "loss and loss adjustment expense reserve".

The loss and loss adjustment expense reserve in property/casualty insurance represents the company's expectations for future known and unknown claims payments and associated expenses. The company applies actuarial and statistical methods to estimate this obligation. Valuing these reserves also requires the company's legal representatives to exercise a significant degree of discretion regarding assumptions made such as inflation, the pattern of claims processing and regulatory changes. In general, there is a particularly high degree of uncertainty when estimating product lines with low loss frequencies, high single losses or long claims processing periods.

On account of these reserves' significance in terms of volume for the Group's financial position, the considerable margins of discretion exercised by the legal representatives and the associated uncertainty with regard to estimates, it was particularly important in our audit to measure technical provisions in property/casualty insurance.

2 When auditing the loss and loss adjustment expense reserve, we reviewed and assessed the adequacy of the selection of actuarial methods at the company, the procedures including controls established to calculate assumptions and the use of estimates to measure certain technical provisions in property/casualty insurance.

With the support of our in-house valuation experts in the area of property/casualty insurance, we compared the actuarial methods and key assumptions used with general recognised actuarial practices and industry standards and evaluated to what extent these are suitable for the purposes of valuation. As part of our audit, we also assessed the plausibility and integrity of data and assumptions used for valuation and reproduced claims processes. In addition, we recalculated reserves for selected product lines, in particular product lines with large or increased estimation uncertainty in terms of volume. For these product lines, we then compared these recalculated reserves with the reserves determined by the company and evaluated any discrepancies. In addition, we examined whether any adjustments made to estimates in loss reserves at a Group level had been suitably documented and justified.

On the basis of our audit procedures, we ascertained that the estimates and assumptions made by the legal representatives when valuing technical provisions in property/casualty insurance are, as a whole, suitable.

3 Company disclosures on the valuation of the loss and loss adjustment expense reserve for property/casualty insurance can be found in the "Accounting policies" section of the Notes under "Technical provisions". Note 21 of the Notes also includes further details on the loss and loss adjustment expense reserve. Risk information is given in the Group management report's risk report in the section "Underwriting risks in property/casualty insurance".

3 **Valuation of the benefit reserve**

1 Technical provisions of EUR 56,859 million (32.0% of total equity and liabilities) are recognised in the Company's consolidated financial statements under the balance sheet item "benefit reserve".

The benefit reserve contains technical provisions for future commitments arising from guaranteed claims of policyholders in life insurance. The benefit reserve is measured using complex actuarial methods and models on the basis of a wider-ranging process aimed at calculating assumptions about future developments relating to the insurance portfolios to be valued. The methods applied and the actuarial assumptions calculated in connection with interest, investment income, biometric variables and cost assumptions, as well as future actions of policyholders, can have a material effect on the valuation of this technical provision.

On account of the significance in terms of volume for the Group's financial position and the complex nature of determining the underlying assumptions by the legal representatives, the valuation of this technical provision was particularly important in our audit.

2 As part of our audit, we reviewed and assessed the adequacy of selected actuarial methods, the procedures including controls in place for calculating assumptions and preparing estimates for measuring certain technical provisions.

With the support of our in-house valuation experts, we compared the actuarial methods and key assumptions used with general recognised actuarial practices and industry standards and evaluated to what extent these are suitable for the purposes of valuation. One focal point of our audit was assessing to what extent the liability adequacy test had been properly implemented. As part of our audit, we also assess the plausibility and integrity of data and assumptions used by the legal representatives for the valuation.

On the basis of our audit procedures, we ascertained that the methods and assumptions applied by the legal representatives when valuing the benefit reserve are, as a whole, suitable.

3 Company disclosures on the valuation of the benefit reserve can be found in the "Accounting policies" section of the Notes under "Technical provisions". The information in the Notes also includes further details on the benefit reserve under Note 20. Risk information is given in the combined management report's risk report in the section "Technical risks, life".

Other information

The legal representatives are responsible for other information. Other information comprises the following parts of the Group management report, which have not been audited for content:

- the Declaration on Corporate Governance in accordance with section 289f of the HGB and section 315d of the HGB which can be found in the "corporate governance" section of the Group management report
- the corporate governance report in accordance with no. 3.10 of the German Corporate Governance Code
- the consolidated non-financial statement in accordance with section 315b(1) of the HGB which can be found in the "consolidated non-financial statement" section of the Group management report

Other information also includes other parts of the Group Annual Report – without additional cross references to external information – excluding the audited consolidated financial statements, the audited Group management report and our auditors' report.

Our audit opinion on the consolidated financial statements and Group 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, Group management report or the knowledge we gain during our audit or
- appears to be materially misrepresented in any other way.

Legal representatives' and Supervisory Board's responsibility for the consolidated financial statements and Group 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 Group 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 Group management report in accordance with German statutory requirements and providing sufficient and reasonable evidence for the statements made in the Group management report.

The Supervisory Board is responsible for monitoring the Group's accounting process as it prepares the consolidated financial statements and the Group management report.

Auditors' responsibility for the audit of the consolidated financial statements and Group 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 Group 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 Group 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 Group management report.

We exercise reasonable discretion and maintain a critical approach during audits. In addition,

- we identify and assess the risks of material – deliberate or accidental – misrepresentations in the consolidated financial statements and Group 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 Group 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 Group 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 Group 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 Group 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 Group 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

WWe were elected as auditors of the consolidated financial statements at the Supervisory Board meeting of 15 March 2019. We were instructed by the Supervisory Board on 3 June 2019. We have been the auditor for the consolidated financial statements of Talanx AG, Hannover, every year since the 2018 financial year.

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, 12 March 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Florian Möller	ppa. Christoph Czupalla
Public auditor	Public auditor

Independent auditor's limited assurance engagement

On non-financial reporting

To Talanx AG, Hannover

We conducted a limited assurance engagement on the non-financial statement in accordance with section 341j(4) in conjunction with 315b(1) of the HGB for Talanx AG, Hannover (hereinafter the "Company"), included in the "non-financial Group statement" section of the combined management report, for the period from 1 January to 31 December 2019 (hereinafter the "non-financial statement").

Responsibility of the legal representatives

The Company's legal representatives are responsible for preparing the non-financial statement in accordance with sections 315c in conjunction with 289c to 289e of the HGB.

This responsibility of the Company's legal representatives includes selecting and applying suitable methods for non-financial reporting and making assumptions and estimates regarding non-financial information that are appropriate under the given circumstances. Furthermore, the legal representatives are responsible for the internal checks which they have deemed necessary in order to prepare a non-financial statement that contains no material – deliberate or accidental – misrepresentations.

Independence and quality assurance of the audit company

We observed the requirements relating to independence under German occupational law and other ethical requirements.

Our auditing company applies national statutory regulations and professional proclamations – in particular the Professional Code for German Public Auditors and German Chartered Auditors (Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer – BS WP/vBP) and the quality assurance standard 1 "requirements regarding quality assurance in audit firms" ("Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis") set out by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer – IDW) – and therefore has a comprehensive system of quality control including documented regulations and measures relating to compliance with ethical requirements, professional standards and key statutory and other legal requirements.

Auditor's responsibility

Our responsibility is to issue an audit opinion in a limited assurance engagement regarding the information in the non-financial statement on the basis of our audit.

Our responsibility does not extend to assessing external documentation or expert opinions referenced in the non-financial statement.

We conducted our audit with due regard to the International Standard on Assurance Engagements (ISAE) 3000 (revised): "Assurance Engagements other than Audits or Reviews of Historical Financial Information", issued by the IAASB. This Standard requires that we plan and conduct the audit in such a way that we can assess, with limited assurance, whether any facts have come to our attention that cause us to believe that the Company's non-financial statement for the period 1 January to 31 December 2019 was not prepared, in all material respects, in accordance with sections 315c in conjunction with 289c to 289e of the HGB. The audit procedures for a limited assurance engagement are more limited than those of a reasonable assurance engagement, and so significantly less assurance is obtained. The audit procedures are selected at the reasonable discretion of the auditor.

Our audit included the following audit procedures and other activities:

- gaining an insight into the structure of the sustainability organisation and materiality analysis performed
- consulting management personnel and relevant employees involved in preparing the non-financial statement about the preparation process, the internal control system for this process and the information in the non-financial statement
- identifying potential risks of material misrepresentations in the non-financial statement
- analytical assessment of information in the non-financial statement
- comparison of information against the corresponding data in Talanx AG's consolidated financial statements and Group management report
- assessing the presentation of the information

Audit opinion

Our audit procedures and the evidence gathered during the audit did not bring any facts to our attention that cause us to believe that the Company's non-financial statement for the period 1 January to 31 December 2019 was not prepared, in all material respects, in accordance with sections 315c in conjunction with 289c to 289e of the HGB.

Purpose of the assurance engagement

This assurance engagement is issued on the basis of an agreement concluded with the Company. The audit was conducted on behalf of the Company and the assurance engagement is intended only to inform the Company of the audit result.

The assurance report is not intended for third parties to use as a basis for making (assets) decisions. We are responsible only towards the Company. We do not assume any responsibility towards third parties.

Frankfurt, 12 March 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Nicolette Behncke ppa. Benedikt Tschinkl
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, 27 February 2019

Board of Management

Torsten Leue, Chairman	Sven Fokkema	Jean-Jacques Henchoz
Dr. Edgar Puls	Dr. Immo Querner	Dr. Jan Wicke

Further Information

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Glossary and definitions of key figures

Accumulation risk
The underwriting risk that a single trigger event (e.g. an earthquake or hurricane) can lead to a cluster 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 criteria.

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 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 that passes on (cedes) portions 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.

Direct insurer
> primary insurer

Duration
A ratio in mathematical finance 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 as such expresses the interest rate risk associated with a particular financial instrument. The "effective duration" depicts the sensitivity of the value of in-force business to small parallel shifts in the (credit risk-free) yield curve.

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 deducting 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
Internationally recognised accounting standards, previously 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).

Large loss (also: major loss)
A claim that is of exceptional size compared with the average claim for the risk group in question and that exceeds a defined loss amount. Since 2012, the Talanx Group has defined large losses as natural catastrophes and other large losses for which the portion held by the Talanx Group exceeds EUR 10 million (gross).

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.

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 expenditure on insurance claims
The total amount of claims paid and provisions for loss events that have occurred during the financial year, plus net income or expenses from adjusting provisions for loss events from previous years, in each case after deduction of own reinsurance amounts.

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-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.

Passive reinsurance
Existing reinsurance programmes of > primary insurers that protect them against underwriting risks.

Personal lines
> Life/health insurance

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 sub-segment.
b) A group of investments classified according to specific criteria.

Premium
The remuneration agreed for the risks accepted by the insurer.

Present value of future profits – PVFP
An intangible asset that primarily arises from the acquisition of life and health insurance companies or individual portfolios. The present value of expected future profits from the acquired portfolio is capitalised and is normally then amortised. Impairment losses are recognised on the basis of annual impairment tests.

Primary (also: direct) insurer
A company that accepts risks in exchange for an insurance premium and that has a direct contractual relationship with the policyholder (private individual, company, organisation).

Property/casualty insurance
All insurance classes with the exception of life insurance and health insurance: all lines in which the insured event does not trigger payment of an agreed fixed amount. Instead, the incurred loss is compensated.

Proportional reinsurance
Reinsurance treaties under which shares of a risk or portfolio are reinsured at the same terms as the original insurance. Premiums and losses are shared proportionately, i.e. on a pro rata basis. Contrast with: > non-proportional reinsurance.

Quota share reinsurance
A form of reinsurance under which the percentage share of the written risk and the premium are contractually agreed.

Rate
The percentage (normally applied to the subject premium) of a reinsured portfolio that is payable to the reinsurer under a > non-proportional reinsurance treaty as the reinsurance premium.

Reinsurer
A company that accepts risks or portfolio segments from a > primary insurer or another reinsurer in exchange for an agreed premium.

Renewal
In the case of contractual relationships with insurers that are maintained over long periods of time, the contract terms and conditions are normally modified annually in the course of renewal negotiations, following which the contracts are renewed.

Retail business
a) In general: business with private (retail) customers.
b) Ampega: business involving investment funds that are designed essentially for private, non-institutional investors, but are also open to investments by Group companies.

Retention
That portion of the accepted risks that an insurer/a reinsurer does not reinsure, i.e. that it carries > net. The ratio of net written premiums to gross written premiums (excluding savings elements of premiums under unit-linked life and annuity insurance policies).

Retrocession
Ceding by a reinsurer of its risks or portions of them to other reinsurers.

Silo
A part of the business that is separate from other assets and liabilities (e.g. an investment fund), and for which all rights and obligations accrue exclusively to the investors in this part of this business.

Soft market
A market phase referring to an oversupply of insurance, resulting in premiums that do not reflect the risk. Contrast with: > hard market.

Solvency
The amount of free uncommitted own funds needed to ensure that liabilities under insurance policies can be met at all times.

Solvency II
A European Union Directive for insurance companies that fundamentally reformed European insurance supervision law. The focus is on expanded publication obligations and more sophisticated solvency regulations governing the level of own funds to be maintained by insurance companies. The Directive has been in force since January 2016 and was incorporated into the German Insurance Supervision Act (VAG).

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.

Technical result
> Underwriting result

Underwriting
The process of examining and assessing (re) insurance risks in order to determine an appropriate premium for the risk in question. The purpose of underwriting is to diversify the underwriting risk in such a way that it is fair and equitable for the (re)insured and at the same time profitable for the (re)insurer.

Underwriting result (also: technical result)
The balance of income and expenses allocated to the insurance business: the balance of > net premiums earned and claims and claims expenses (net), acquisition costs and administrative expenses (net), and the net other technical result, including amortisation of the shareholders' portion of the > PVFP

Unearned premium reserve
Premiums written in a financial year that will be allocated to the following period in accordance with the matching principle.

Unit-linked life insurance
Life insurance under which the level of benefits depends on the performance of an investment fund allocated to the policy in question.

Value at risk
A risk measure for determining potential losses that will not be exceeded for a certain probability in a given period.

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

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Financial calendar 2020

7 May
Annual General Meeting

7 May
Quarterly Statement as at 31 March 2020

12 August
Interim Report as at 30 June 2020

12 November
Quarterly Statement as at 30 September 2020

17 November
Capital Markets Day

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