Talanx Group Annual Report 2020

talanx.

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

41.1

OPERATING PROFIT (EBIT)

EUR billion

1.7

GROUP NET INCOME

EUR million

673

PROPOSED DIVIDEND PER SHARE

EUR

1.50

NET RETURN ON INVESTMENT

%

3.2

RETURN ON EQUITY

%

6.6

GROUP KEY FIGURES

	Unit	2020	2019	2018	2017	2016
Gross written premiums	EUR million	**41,105**	**39,494**	**34,885**	**33,060**	**31,106**
by region						
Germany	%	21	22	25	26	28
United Kingdom	%	9	8	8	8	9
Central and Eastern Europe (CEE), including Turkey	%	7	8	8	9	8
Rest of Europe	%	16	16	16	15	15
USA	%	20	20	18	18	15
Rest of North America	%	3	3	2	2	3
Latin America	%	7	8	8	8	8
Asia and Australia	%	16	14	13	12	12
Africa	%	1	2	2	2	2
Gross written premiums by type and class of insurance						
Property/casualty primary insurance	EUR million	12,108	11,837	10,006	9,625	8,949
Life primary insurance	EUR million	6,039	6,573	6,206	6,275	6,431
Property/casualty reinsurance	EUR million	15,071	13,411	11,622	10,229	8,726
Life/health reinsurance	EUR million	7,887	7,673	7,051	6,931	7,000
Net premiums earned	EUR million	**34,185**	**33,054**	**29,574**	**27,418**	**25,736**
Underwriting result	EUR million	**–2,798**	**–1,833**	**–1,647**	**–2,546**	**–1,519**
Net investment income	EUR million	**4,243**	**4,323**	**3,767**	**4,478**	**4,023**
Net return on investment [1]	%	**3.2**	**3.5**	**3.3**	**4.0**	**3.6**
Operating profit/loss (EBIT)	EUR million	**1,671**	**2,430**	**2,032**	**1,805**	**2,307**
Net income (after financing costs and taxes)	EUR million	**1,196**	**1,671**	**1,359**	**1,269**	**1,564**
of which attributable to shareholders of Talanx AG	EUR million	673	923	703	671	903
Return on equity [2, 4]	%	**6.6**	**9.8**	**8.0**	**7.5**	**10.4**
Earnings per share						
Basic earnings per share	EUR	2.66	3.65	2.78	2.65	3.57
Diluted earnings per share	EUR	2.66	3.65	2.78	2.65	3.57
Combined ratio in property/casualty primary insurance and property/casualty reinsurance [3]	%	**100.9**	**98.3**	**98.2**	**100.4**	**95.7**
Combined ratio of property/casualty primary insurers [4]	%	98.9	98.3	100.6	101.2	98.1
Combined ratio of property/casualty reinsurance	%	101.6	98.2	96.6	99.8	93.7
EBIT margin primary insurance and reinsurance						
EBIT margin primary insurance [4]	%	4.1	5.1	3.7	4.1	5.4
EBIT margin property/casualty reinsurance	%	6.0	9.8	12.6	12.5	17.2
EBIT margin life/health reinsurance	%	5.3	8.1	4.0	3.5	5.2
Policyholders' surplus	EUR million	**20,598**	**20,089**	**16,999**	**16,961**	**16,631**
Equity attributable to shareholders of Talanx AG	EUR million	10,392	10,149	8,713	8,813	9,038
Non-controlling interests	EUR million	6,732	6,461	5,548	5,411	5,610
Hybrid capital	EUR million	3,473	3,479	2,738	2,737	1,983
Assets under own management	EUR million	**128,521**	**122,638**	**111,868**	**107,881**	**107,174**
Total investments	EUR million	**138,925**	**134,104**	**122,831**	**118,673**	**118,855**
Total assets	EUR million	**181,037**	**177,594**	**162,188**	**158,397**	**156,626**
Carrying amount per share at end of period	EUR	**41.11**	**40.15**	**34.47**	**34.86**	**35.75**
Share price at end of period	EUR	**31.76**	**44.18**	**29.80**	**34.07**	**31.77**
Current dividend proposal and prior years' dividends (per share)	EUR	**1.50**	**1.50**	**1.45**	**1.40**	**1.35**
Market capitalisation of Talanx AG at end of period	EUR million	**8,029**	**11,169**	**7,533**	**8,613**	**8,031**
Employees	as at the reporting date	**23,527**	**23,324**	**22,642**	**22,059**	**21,649**

[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.

»The dedication shown by our employees allowed us to be there for our clients when it counted. The Talanx Group has paid out EUR 1.5 billion as a result of the coronavirus crisis – mainly in relation to event cancellations, business shutdowns, credit defaults and deaths. By doing so, we are helping to ease people's suffering during the crisis and acting in line with our Talanx Purpose: Together we take care of the unexpected and foster entrepreneurship.«

Torsten Leue
(Chairman of the Board
of Management)

Contents

The XHTML file of this annual report to be submitted to the Federal Gazette has been optimised for screen display.

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 our shareholders

Dear Shareholders,

ladies and gentlemen,

Talanx proved extremely robust and resilient in 2020, despite the deep historical crisis caused by the global coronavirus pandemic. In this challenging and volatile market environment, we achieved highly satisfying premium growth in excess of 4% to EUR 41 billion and Group net income of EUR 673 million. In view of this, the Board of Management and Supervisory Board are proposing a dividend of EUR 1.50, the same as last year, to the General Meeting.

This success is due to our more than 23,000 dedicated employees. Seamlessly ensuring operational stability and efficiency for our clients in these challenging times did not come automatically. Many staff are engaged in a highly demanding balancing act between their private responsibilities and working from home.

The dedication shown by our employees allowed us to be there for our clients when it counted. The Talanx Group has paid out EUR 1.5 billion as a result of the coronavirus crisis – mainly in relation to event cancellations, business shutdowns, credit defaults and deaths. By doing so, we are helping to ease people's suffering during the crisis and acting in line with our Talanx Purpose: "Together we take care of the unexpected and foster entrepreneurship". I would like to extend my heartfelt thanks and those of the entire Board of Management to our staff for their outstanding achievements. We look forward with pleasure to continuing our successful work together.

The coronavirus is impacting the business world in many different ways. The crisis is accelerating the adoption of digital business models as client behaviour changes and a hybrid working world emerges. Our ambitious strategy during this general transformation towards a "new normal" is bearing fruit. All divisions contributed to this in the past year.

The Industrial Lines Division continued its measures to increase its profitability in the area of fire insurance in particular, and its combined ratio of 98.7% after adjustment for coronavirus effects puts it well on the way to achieving its long-term target of 95%. At EUR 48 million, its operating profit is encouraging despite the high level of coronavirus claims expenses, which totalled EUR 174 million. HDI Global Specialty SE made the most of its opportunities worldwide as part of our growth initiative, profitably lifting its premium income by 41% to approximately EUR 2 billion. This puts its strategic goal of doubling premium income to EUR 2.1 billion by 2022 within reach considerably earlier than expected.

»We are continuing to systemically leverage the opportunities offered by digital transformation.«

The Retail Germany Division remains well on track to achieve its target of generating at least EUR 240 million under the "KuRS" strategic optimisation programme in 2021. Its combined ratio improved substantially to 95.4% (previous year: 99%), resulting in operating profit of EUR 203 million. This is all the more encouraging given the substantial one-off effects we were faced with, particularly in the area of commercial shutdown insurance. One of our key growth initiatives is our business with small and medium-sized enterprises. We outperformed the market again here last year, with growth of 5%. Another welcome development was that, as one of Germany's leading bancassurance partners, we expanded our long-term cooperation with Deutsche Bank Group.

Torsten Leue, Chairman of the Board of Management

The Retail International Division kept its premium income of EUR 5.5 billion almost stable after adjustments for currency effects, despite the spreading pandemic. It continued systematically pursuing its strategic objective of becoming one of the top five suppliers in its core markets of Brazil, Mexico, Chile, Poland and Turkey. In particular, HDI is now in sixth place on the Turkish market following the acquisition of two companies. The combined ratio for the segment as a whole was a gratifying 95.2%, on a par with the previous year.

The Reinsurance Division saw a double-digit expansion of its premium volume by approximately 12% to almost EUR 25 billion, further consolidating its position as a leading global reinsurer. Although operating profit is down year-on-year at EUR 1.2 billion, it is still extremely robust given the significant level of coronavirus claims.

We are continuing to systemically leverage the opportunities offered by digital transformation, with all divisions accelerating their digitalisation initiatives even further.

Our focus here is on introducing even simpler, more customer-centric and intuitive data analytics processes, on the use of artificial intelligence, and on connecting with selected partners.

We also strategically underscored our commitment to the Paris Agreement even further. After achieving carbon neutrality in Germany in 2019, we are now aiming to do this globally for our entire operations by 2030. In addition to our clearly defined exit from coal by 2038, we will withdraw from oil and tar sand industries over the same period. We will further reduce carbon emissions in our investment portfolio and, at EUR 3.7 billion, have made good progress towards our goal of investing EUR 5 billion in renewable energies and infrastructure.

Dear shareholders and readers, last year was a challenge for our employees, our clients and our shareholders alike. After soaring nearly 50% in 2019, our share price suffered a clear setback last year due to the coronavirus pandemic. However, my Board of Management colleagues and I are convinced that we have managed the business in your interests and that we shall achieve our clearly defined strategic goals thanks to the decline in Covid-19-related factors and our decentralised business structure. Thank you very much for your trust in us and I hope very much to continue our journey together with you.

Yours sincerely,

Board of Manage-ment

From left: Dr Wilm Langenbach, Dr Edgar Puls, Dr Jan Wicke, Dr Christopher Lohmann, Torsten Leue (Chairman), Jean-Jacques Henchoz

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
- Human Resources
- Investor Relations
- Legal
- Sustainability/ESG

Sven Fokkema
(until 31 December 2020)
Wedemark
Chairman of the Board of Management
HDI International AG, Hannover
(until 30 November 2020)

Responsible on the Talanx Board of Management for (until 30 November 2020):
- Retail International Division
- Reinsurance Captive

Jean-Jacques Henchoz
Hannover
Chairman of the Board of Management
Hannover Rück SE, Hannover

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

Dr Wilm Langenbach
(since 1 December 2020)
Hannover
Chairman of the Board of Management
HDI International AG, Hannover
(since 1 December 2020)

Responsible on the Talanx Board of Management for:
- Retail International Division (since 1 December 2020)

Dr Christopher Lohmann
(since 1 August 2020)
Köln
Chairman of the Board of Management
HDI Deutschland AG, Hannover
(since 1 September 2020)

Responsible on the Talanx Board of Management for (since 1 September 2020):
- Retail Germany Division
- Business Organisation
- Data Protection
- Information Technology

Dr Edgar Puls
Isernhagen
Member of the Board of Management
HDI Haftpflichtverband der
Deutschen Industrie V. a. G., Hannover
Chairman of the Board of Management
HDI Global SE, Hannover

Responsible on the Talanx Board of Management for:
- Industrial Lines Division
- Procurement (Non-IT)
- Facility Management
- Reinsurance Captive Talanx AG (since 1 December 2020)

Dr Immo Querner
Celle
(until 31 August 2020)
Member of the Board of Management
HDI Haftpflichtverband der
Deutschen Industrie V. a. G., Hannover
(until 31 August 2020)

Responsible on the Talanx Board of Management for (until 31 August 2020):
- Accounting
- Collections
- Controlling
- Finance/Participating Interests/ Real Estate
- Investments
- Reinsurance Procurement
- Risk Management
- Taxes

Dr Jan Wicke
Hannover
Member of the Board of Management
HDI Haftpflichtverband der
Deutschen Industrie V. a. G., Hannover
(since 1 September 2020)
Chairman of the Board of Management
HDI Deutschland AG, Hannover
(until 31 August 2020)

Responsible on the Talanx Board of Management for (until 31 August 2020):
- Retail Germany Division
- Business Organisation
- Data Protection
- Information Technology
- Procurement (Non-IT)

Responsible on the Talanx Board of Management for (since 1 September 2020):
- Accounting
- Collections
- Controlling
- Finance/Participating Interests/ Real Estate
- Investments
- Reinsurance Procurement
- Risk Management
- Taxes

Supervisory Board

Herbert K. Haas
(since 8 May 2018)
Chairman
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
Albstadt
Chairman of the Board of Directors,
Groz-Beckert KG

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

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

Prof. Dr Jens Schubert*
(since 8 May 2014)
Potsdam
Chairman of the Board of Management
AWO Bundesverband e. V.
Apl. Professor,
Leuphana Universität Lüneburg

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 annual report published by Talanx AG.

Supervisory Board Committees

Composition as at 31 December 2020

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 2020, 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 the most important foreign 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. One major focus of reporting to the Supervisory Board this year was the impact of the coronavirus pandemic on our Group.

Overview

We held four ordinary and one extraordinary meeting of the Supervisory Board in the year under review. Representatives of the Federal Financial Supervisory Authority (BaFin) took part in two Supervisory Board meetings in line with routine practice. The Supervisory Board's Finance and Audit Committee held five meetings and the Personnel Committee held four 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 2020. 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 work of 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. At our meetings, we considered at length the reports provided by the Board of Management, made suggestions and proposed improvements. The Supervisory Board met regularly, also without the Board of Management. Topics discussed included personnel matters of the Board of Management and internal matters of the Supervisory Board.

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 the Company and its individual divisions in the current financial year, especially in light of the challenges currently posed by the pandemic, other potential acquisition projects abroad and the planning for 2021. 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 its meeting on 13 March 2020, the Supervisory Board also discussed in detail 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 2019. The auditor stated that an unqualified audit opinion had been issued for both the single-entity and the consolidated financial statements. The Supervisory Board discussed a number of projects, initiatives and reportable events, passed resolutions regarding participation in a tender process for a bancassurance cooperation in connection with this, received the report on the result of the Organisational Health Check employee survey, which was conducted at Group level for the first time, and took a close look at the Group's sustainability strategy. The Supervisory Board approved the agenda and the proposed resolutions for Talanx AG's 2020 Annual General Meeting and discussed 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 2019.

In the Supervisory Board meeting on 8 May 2020, the Board of Management reported on the first quarter results and gave an outlook for the financial year, which closely analysed the impact of the coronavirus pandemic on business performance. It then focused on strategic areas. The Supervisory Board devoted considerable time to divisional strategies for Reinsurance and Industrial Lines, and also heard reports on the current status of implementation of the Group personnel strategy. Furthermore, a capital strengthening measure was also resolved for one of our domestic life insurance companies. Potential training programmes for the full Supervisory Board on the basis of its self-assessment were discussed. As recommended by the Personnel Committee and following extensive consultation, resolutions were also passed on a change to the Board of Management of Talanx AG and an amendment to the allocation of Board of Management responsibilities.

At the meeting on 11 August 2020, the Board of Management initially reported on the half-year results and expectations regarding the 2020 financial statements for both Talanx AG and the Group. The Supervisory Board also received the annual report on expense ratios compared with competitors and was briefed on current projects, initiatives and reportable events, including an acquisition project in Italy. Furthermore, the Supervisory Board received an update on cyber insurance and discussed current developments in this area in detail. In connection with implementing the requirements of the Act Implementing the Second Shareholders' Rights Directive (ARUG II), the Supervisory Board discussed the adoption of an internal process to monitor and approve related party transactions. In light of the new versions of the German Corporate Governance Code and ARUG II, after appropriate preparations were made by the Personnel Committee the Supervisory Board also resolved to revise and restructure the remuneration system for the Talanx AG Board of Management and to amend Board of Management contracts accordingly with effect from 1 January 2021. The intention is to submit the revised Board of Management remuneration system to the Annual General Meeting on 6 May 2021 for approval.

At an extraordinary meeting on 21 September 2020, the Supervisory Board discussed an acquisition project in Italy and passed a resolution on this. It also considered current business performance, with a particular focus on losses for the Group attributable to the coronavirus pandemic.

At the Supervisory Board meeting on 11 November 2020, the Board of Management reported on the third-quarter results and gave an outlook for the 2020 annual financial statements for Talanx AG and the Group. The Supervisory Board discussed planning for the 2021 financial year at length and approved this. It was briefed on a range of projects and reportable events and received the regular risk management report (ORSA report) on pending litigation and the structure of remuneration systems at Group companies. It also addressed merger transactions and capital increases in the Reinsurance Division and agreed to conclude an intercompany agreement. Furthermore, the Supervisory Board advised on and resolved the declaration of compliance regarding the German Corporate Governance Code and addressed a proposal to amend the system for Supervisory Board member remuneration. This is also to be submitted to the Talanx AG Annual General Meeting on 6 May 2021 for approval. In line with a recommendation by the Personnel Committee, the Supervisory Board also passed a resolution regarding an additional change on the Company's Board of Management.

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 the 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. The Committee also heard a detailed report on how profitability in the Reinsurance Division is secured in Life/Health Reinsurance. Furthermore, 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" 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.

As well as preparing the discussions and resolutions by the full Supervisory Board, the Personnel Committee also closely addressed succession planning for the Company's Board of Management in 2020. It discussed the Board of Management remuneration system at multiple meetings and, following in-depth consultation, recommended a fundamental restructuring of the remuneration system to the Supervisory Board that takes account of the current requirements of a listed company in full. In connection with this, the committee also closely addressed the issue of how suitable the amount of remuneration paid to members of the Board of Management is and – on the basis of a horizontal and vertical remuneration comparison prepared by an independent consultant as part of the new remuneration system – recommended to the Supervisory Board that suitable remuneration amounts are set for individual members of the Board of Management. The committee also thoroughly prepared the Board of Management personnel changes made in the reporting period beforehand and discussed and consulted on these in detail. Corresponding recommendations were made to the full Supervisory Board in connection with appointing and terminating Board of Management positions and determining Board of Management bonuses.

The following table provides an overview of individual meeting attendance by members of the Supervisory Board and the committees in 2020.

Individualised disclosure of meeting attendance

Full Supervisory Board attendance

		Attendance rate
	Number of meetings	in %
Herbert K. Haas	5/5	100
Dr Thomas Lindner	5/5	100
Ralf Rieger	4/5	80
Antonia Aschendorf	5/5	100
Benita Bierstedt	4/5	80
Rainer-Karl Bock-Wehr	5/5	100
Sebastian L. Gascard	5/5	100
Jutta Hammer	5/5	100
Dr Hermann Jung	5/5	100
Dirk Lohmann	5/5	100
Christoph Meister	5/5	100
Jutta Mück	5/5	100
Dr Erhard Schipporeit	5/5	100
Prof Dr Jens Schubert	5/5	100
Norbert Steiner	5/5	100
Angela Titzrath	4/5	80
Finance and Audit Committee attendance		
Herbert K. Haas	5/5	100
Dr Thomas Lindner	5/5	100
Ralf Rieger	5/5	100
Jutta Hammer	5/5	100
Dr Hermann Jung	5/5	100
Dr Erhard Schipporeit	5/5	100
Personnel Committee attendance		
Herbert K. Haas	5/5	100
Dr Thomas Lindner	5/5	100
Jutta Mück	5/5	100
Norbert Steiner	5/5	100

Corporate governance and declaration of compliance

The Government Commission on the German Corporate Governance Code resolved an extensive amendment to the German Corporate Governance Code (the Code). This came into effect when it was published in the Federal Gazette on 20 March 2020 and forms the basis for the publication of the Company's last declaration of compliance.

Corporate governance also remained a key priority for us. We examined the Board of Management's report on the consolidated non-financial statement (see page 62ff. 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 submitted annual self-assessments of their knowledge in a range of key areas in accordance with insurance supervision requirements. A training session on IFRS 17/IFRS 9 planned for the Supervisory Board August meeting had to be postponed until the May 2021 meeting for scheduling reasons. 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 11 November 2020 not to comply with the following recommendations issued in the Code in the version valid at the time: the recommendations in sections C.10 sentence 1 and D.4 sentence 2 on the chairmanship of the Audit Committee and the recommendations in sections G.1, G.10 and G.11 on Board of Management remuneration. The departures from the recommendations on Board of Management remuneration ceased to apply when the new Board of Management remuneration system for the Company, which complies with the recommendations of the Code in full, came into effect on 1 January 2021. The reasons for the departures from the recommendations of the Code are stated in the Company's declaration of compliance in accordance with section 161 of the AktG, 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, the audit of the financial statements should give special attention to the Group's preparation for the introduction of the new IFRS 17 accounting standard. The enforcement priorities set out by the German Financial Reporting Enforcement Panel (FREP) and the recoverability of assets 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 11 March 2021 and at the Supervisory Board meeting on 12 March 2021. 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

There were no changes to the composition of the Supervisory Board or its committees during the year under review.

Dr Christopher Lohmann was appointed as a new member of the Talanx AG Board of Management effective 1 August 2020 and he assumed Board responsibility for the Retail Germany Division and for Group IT from Dr Jan Wicke. Since 1 September 2020, he has been responsible on the Talanx AG Board of Management for the financial department, following Dr Immo Querner's resignation as member of the Board of Management effective 31 August 2020 by mutual agreement with the Company. The Supervisory Board thanked Dr Querner for his many years of excellent and successful work on the Board of Management and expressed its gratitude. Dr Wilm Langenbach was also appointed as a new member of the Talanx AG Board of Management effective 1 December 2020. He assumed responsibility for the Retail International Division from Mr Sven Fokkema. Mr Fokkema left the Company's Board of Management by mutual agreement effective 31 December 2020 to pursue new professional challenges. The Supervisory Board also thanked Mr Fokkema for his valuable and successful work for the Company.

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 solid net income for the Company and the Group, despite the coronavirus pandemic.

Hannover, 12 March 2021

On behalf of the Supervisory Board

Herbert Haas
(Chairman)

Talanx shares

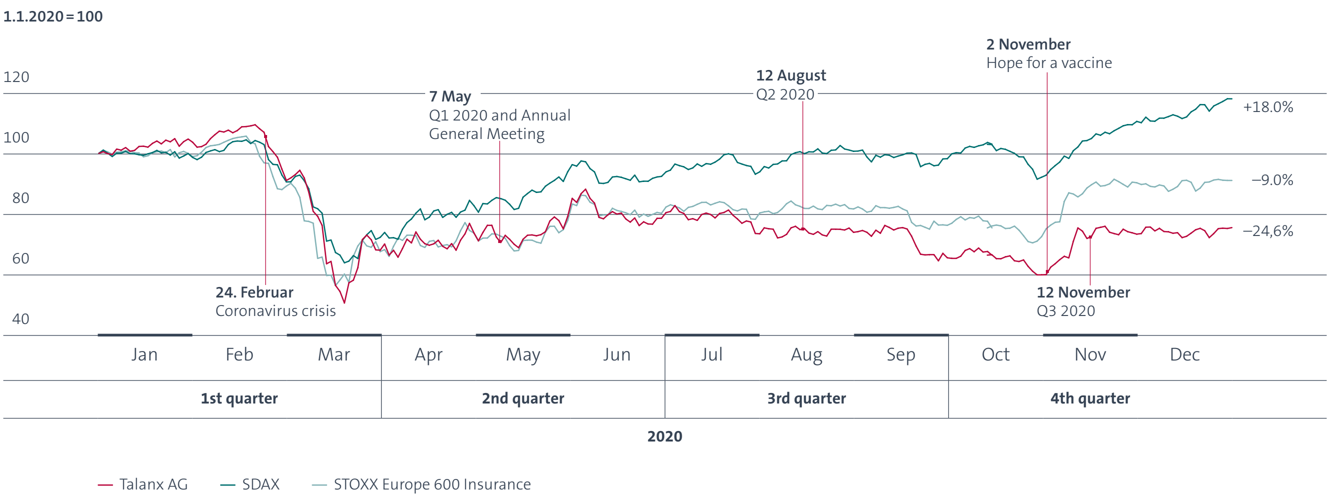
Share price downturn

After climbing considerably in 2019, the Talanx share suffered a serious decline in 2020, a year marked by the coronavirus pandemic. The share price declined by 28.1% over the course of the year from EUR 44.18 to EUR 31.76 (XETRA daily closing price). If the dividend of EUR 1.50 paid in May 2020 had been reinvested on the day the dividend was paid, the negative rate of return for the year as a whole would have been 24.6%. This was a greater decline than the most important European sector index for insurance – the STOXX Europe 600 Insurance, which contracted by only 9.0% in 2020 with reinvested dividends.

Like most business models focussed on institutional customers, the share price, which had climbed to a record high of EUR 48.34 as at 19 February 2020, came under considerable pressure in connection with the coronavirus crisis. The Talanx share was unable to escape the rapid price drops on global stock exchanges, and in just three weeks fell from a record high to an annual low of EUR 22.36 on 18 March 2020. It then went on to pick up again to over EUR 30 within a week, where the share hovered, fluctuating slightly, until the end of the year.

What explains this development? Firstly, the Talanx share is heavily dependent on the share price performance of listed subsidiary Hannover Re, in which Talanx AG holds a 50.2% stake. Its share price declined significantly in 2020 (24.4%; 21.3% with reinvested dividends). Secondly, the Talanx share suffers from more limited tradeability for large institutional investors compared to its major competitors, especially in volatile stock market phases such as 2020.

TALANX SHARE PERFORMANCE INDEX COMPARISONS



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

Index membership and shareholder structure

Withdrawal from Warsaw Stock Exchange

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 fifth place for market capitalisation (of the free float) as at 31 December 2020 and 10th place in terms of trading volume.

The Talanx AG Board of Management intends to delist the Talanx share from the Warsaw Stock Exchange in order to concentrate share trading on the central XETRA/Frankfurt trading platform while also reducing the costs of the listing. Haftpflichtverband der Deutschen Industrie Versicherungsverein auf Gegenseitigkeit (HDI V.a.G.) submitted a public offer to acquire the shares of Talanx AG shareholders who hold shares via the Central Securities Depository of Poland (approx. 77,000 shares). The offer period began on 4 January and ended on 2 February 2021. HDI V.a.G intends to sell the 199 shares acquired under the offer.

Higher level of shareholders in Germany

The share of the free float in Talanx AG as defined by the German Stock Exchange was 21% at the end of the year, unchanged on the previous year given that the HDI V.a.G. share remained at 79% and all other shareholders hold less than 5%. There was a regional shift within the free float. The Asian share of the free float declined from 24% to 17%, after the Japanese insurance Group Meiji Yasuda decreased its holding in July 2020 by placing 3.8 million shares. At the same time, the share of the free float held in Germany rose during 2020 from 38% to 48%, with the share in the rest of Europe declining from 20% to 16% and the North American share remaining unchanged at 17%. Private shareholders increased their share of the free float from 23% to 27%.

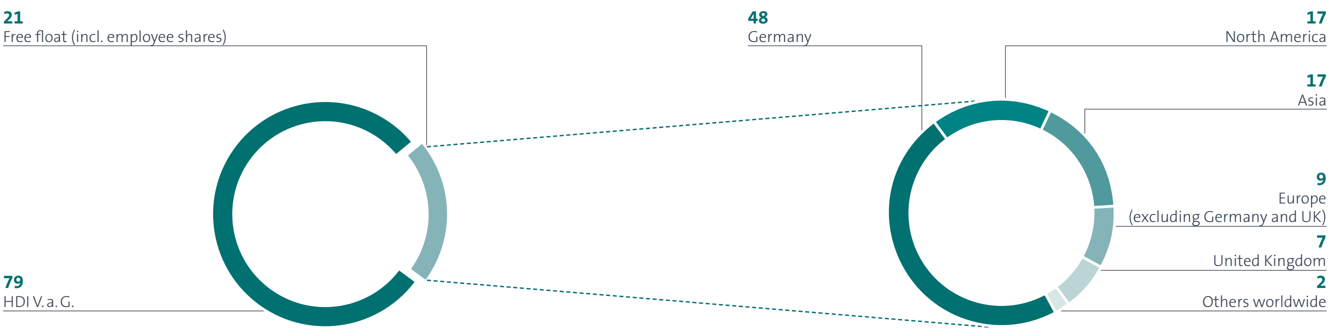
Employee share programme and new remuneration structure for Board of Management

As in the prior year, employees at the German Primary Insurance Group of the Talanx Group were able to purchase up to 36 shares per person at a reduced price in 2020. Almost 3,400 people (36.5% of entitled employees, prior year: 34.2%) took advantage of this offer this autumn to acquire or increase their investment in their company. The approximately 118,000 subscribed shares were acquired by a bank on the market, protecting the price, and must be held by employees for at least two years.

The new structure for Board of Management remuneration to be presented to the Annual General Meeting for resolution on 6 May 2021 will even more closely align the interests of the Board of Management with those of shareholders by more tightly linking variable remuneration to Talanx AG's share price performance, as well as other changes. For more information, see the remuneration report on page 90 of this annual report.

SHAREHOLDER STRUCTURE AS AT 31.12.2020

In %



Capital market communication

Company maintains close dialogue with investors despite pandemic

On account of the global pandemic, all communication with our investors was done virtually from March 2020 onwards, i.e. by phone or video call. The Board of Management and the Investor Relations team met with a total of around 100 institutional investors. Although that is fewer than the approximately 180 investor meetings in the prior year, we do not believe this reflects lower investor interest, but rather the fact that fewer people take part in virtual meetings for reasons of efficiency. A list of almost 15 banks and brokers that prepare research reports on the Talanx share can be found on the Talanx website in the Investor Relations section.

Annual General Meeting entirely virtual for the first time

Following German legislators' decision to allow virtual annual general meetings on account of the pandemic in March 2020, Talanx AG was one of the first German companies to hold its Annual General Meeting entirely online. This meant that shareholders were able to meet on the date planned, 7 May 2020, and pass a resolution to immediately pay the dividend for the financial year 2019. A further advantage of holding the Annual General Meeting virtually was that shareholders could attend from wherever they were located. The number of votes cast rose to 93.2% (2019: 92.3%) of eligible share capital as a result.

The 2021 Annual General Meeting will be held on Thursday 6 May 2021.

The Capital Markets Day did not go ahead in 2020 due to the pandemic but this is planned again for 17 November 2021.

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 prior 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 2020 is 1.3, up on around 0.8 in 2019. After reaching 1.5 to 2 times the figure, the Talanx AG Board of Management will assess changing the dividend policy.

In May 2020, Talanx paid a dividend of EUR 1.50 per share for the financial year 2019 (five cents higher than in the 2018 financial year: EUR 1.45), which represented a payout ratio of 41% based on consolidated earnings per share in accordance with IFRS (2018 financial year: 52%).

Dividend proposal for 2020: Keep dividend constant

For the financial year 2020, the Board of Management and Supervisory Board are proposing an unchanged dividend of EUR 1.50 per share to the Talanx AG Annual General Meeting. Based on the annual average price of EUR 33.56 (XETRA closing price), this results in a dividend yield of 4.5% (2019: 4.0%). The payout ratio, based on IFRS earnings, is 56%. This is higher than the current target range of 35% to 45% in order to ensure that dividends remain at least stable in line with our reliable distribution policy. Despite the 27% decline in consolidated earnings caused by the pandemic, the Talanx AG Board of Management believes it is appropriate to maintain the principle of dividend continuity. This is also an expression of the management's confidence that Group earnings will pick up again after the pandemic and its economic consequences have been resolved.

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 31.76 (30.12.2020)
Annual high	EUR 48.34 (21.2.2020)
Annual low	EUR 22.36 (18.3.2020)
Stock exchanges	XETRA, Frankfurt, Hannover, Warsaw (until presumably summer 2021)
Trading segment	Prime Standard of the Frankfurt Stock Exchange

Share prices based on XETRA daily closing prices.

Combined management report

	PAGE

Fundamental information about the Group

	PAGE

Report on economic position

	PAGE

Other reports and declarations

Fundamental information about the Group

Our company does business on the basis of a distinctive entrepreneurial corporate culture with clear local responsibilities around the world.

The Talanx Group

Business model

The Talanx Group is a multi-brand provider in the insurance and financial services sector. It employed roughly 23.500 people worldwide as at the 2020 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%) is HDI V. a. G., a mutual insurance undertaking formed over 110 years ago. The free float including employee shares amounted to 21%, 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 2020.

The Group implemented the substantial requirements of the Insurance Distribution Directive (IDD), which was translated into German law on 23 February 2018. The IDD aims to protect consumer interests during the development and sale of insurance products, and sets out insurance product oversight and governance requirements. These issues are monitored by the Group and adjusted to take account of new requirements where necessary.

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 amended Money Laundering Act that came into force in Germany as at 10 January 2020 now also imposes anti-money laundering obligations on financial companies that hold participating interests in financial institutions or the insurance sector. As the parent company, HDI V. a. G. must also fulfil Group-wide obligations for the obliged companies. To implement the requirements, the Compliance department created a Group-wide function that creates standardised preventative measures and guidelines to ensure that the Group companies in Germany, the European Union and third states are not abused for money laundering or terrorist financing purposes. To this end, for example, a Group anti-money laundering officer was appointed for HDI V. a. G. and an anti-money laundering officer for Talanx AG, each with two deputies, and a new Group money laundering directive was resolved. Implementation of the corresponding requirements 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 same applies regarding the circular dated 11/2019 on supervisory requirements for IT in asset management (KAIT). These circulars are subject to ongoing modifications and additions. The Authority also published guidance on outsourcing to cloud providers. Furthermore, this year also saw regulatory initiatives introduced at EU level and in Germany for the development and use of artificial intelligence. These also affect the insurance industry and the development of these initiatives and the specific impact they have on the Talanx Group are being monitored.

The Talanx Group processes substantial volumes of personal data, for example 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 2019, before being reported in the Corporate Operations segment. Intragroup business written by HDI Reinsurance (Ireland) SE is partly reallocated to the ceding segments as part of segment allocation. 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

- HDI Global SE
- HDI Global Specialty SE
- HDI Versicherung AG (Austria)
- HDI Global Seguros S. A. (Brazil)
- HDI Global Seguros S. A. (Mexico)
- HDI Global Insurance Limited Liability Company (Russia)
- HDI Global SA Ltd. (South Africa)
- HDI Global Insurance Company (USA)
- HDI Global Network AG
- HDI Reinsurance (Ireland) SE

GESCHÄFTSBEREICH PRIVAT- UND FIRMENVERSICHERUNG DEUTSCHLAND
RETAIL GERMANY DIVISION

SCHADEN/UNFALLVERSICHERUNG
PROPERTY/CASUALTY INSURANCE

- HDI Deutschland AG
- HDI Versicherung AG
- Lifestyle Protection AG
- neue leben Unfallversicherung AG
- PB Versicherung AG
- TARGO Versicherung AG

LEBENSVERSICHERUNG
LIFE INSURANCE

- HDI Lebensversicherung AG
- HDI Pensionskasse AG
- Lifestyle Protection Lebensversicherung AG
- neue leben Lebensversicherung AG
- PB Lebensversicherung AG
- PB Pensionsfonds AG
- HDI Pensionsmanagement AG
- TARGO Lebensversicherung AG

GESCHÄFTSBEREICH PRIVAT- UND FIRMENVERSICHERUNG INTERNATIONAL
RETAIL INTERNATIONAL DIVISION

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

GESCHÄFTSBEREICH RÜCKVERSICHERUNG
REINSURANCE DIVISION

SCHADEN-RÜCKVERSICHERUNG
PROPERTY/CASUALTY REINSURANCE

PERSONEN-RÜCKVERSICHERUNG
LIFE/HEALTH REINSURANCE

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

KONZERNFUNKTIONEN
CORPORATE OPERATIONS

- Ampega Asset Management GmbH
- Ampega Investment GmbH
- Ampega Real Estate GmbH
- HDI Service AG
- HDI Systeme AG
- Talanx Reinsurance Broker GmbH

Nur die wesentlichen Beteiligungen
Main participations only

Stand / As at: 31.12.2020

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 solid 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 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. One focus of the digital transformation 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"). These focal topics are directly supported by the holding company due to their Group-wide relevance.

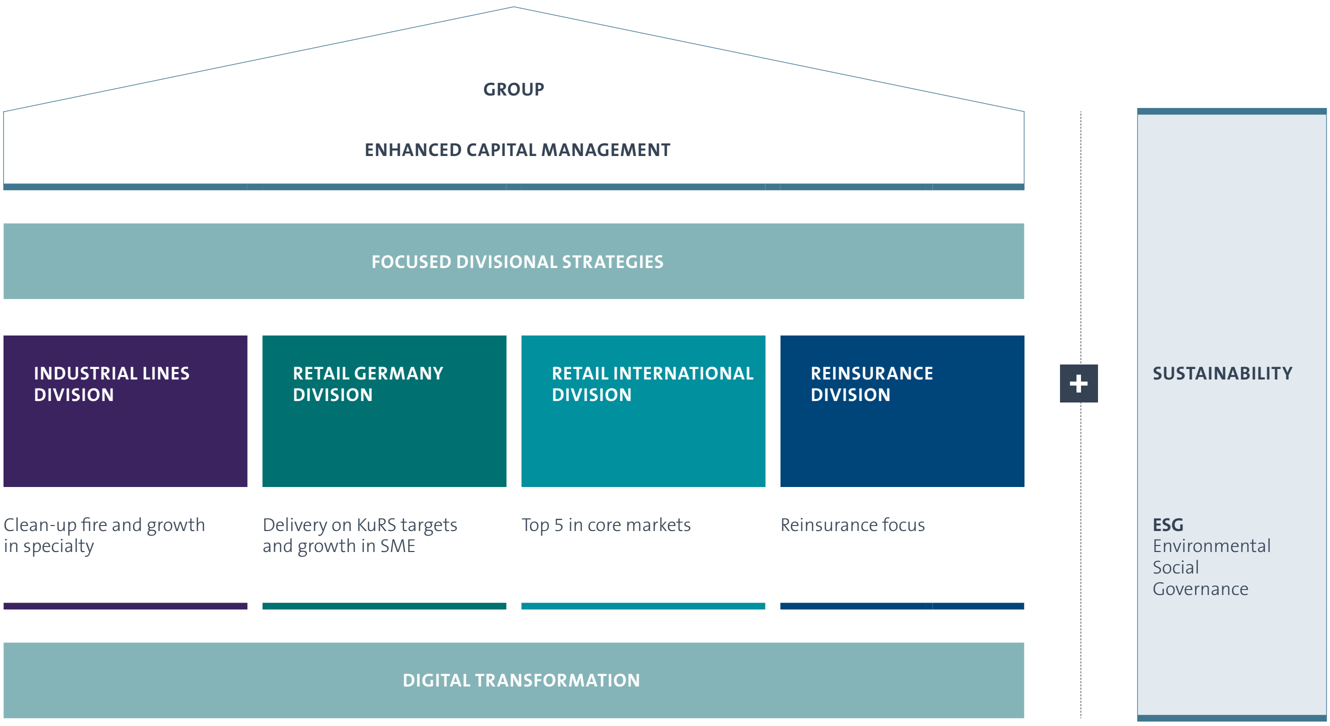
The strategies of the individual divisions were refined and focussed. The Industrial Lines Division is focussing on the systematic restructuring of fire insurance business, international growth and the field of specialty insurance. We see particular growth potential for industrial business in international 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.

The Group’s strategy is underpinned by our focussed sustainability approach. This is based on systematically implementing ESG-specific aspects into investment, underwriting, our operations and our social commitments.

Our human resources strategy is described in the “consolidated non-financial statement” section on pages 62ff. and our risk management approach is described in the risk report on pages 108ff., and so these aspects are not gone into in more detail here.

THE TALANX GROUP’S 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:

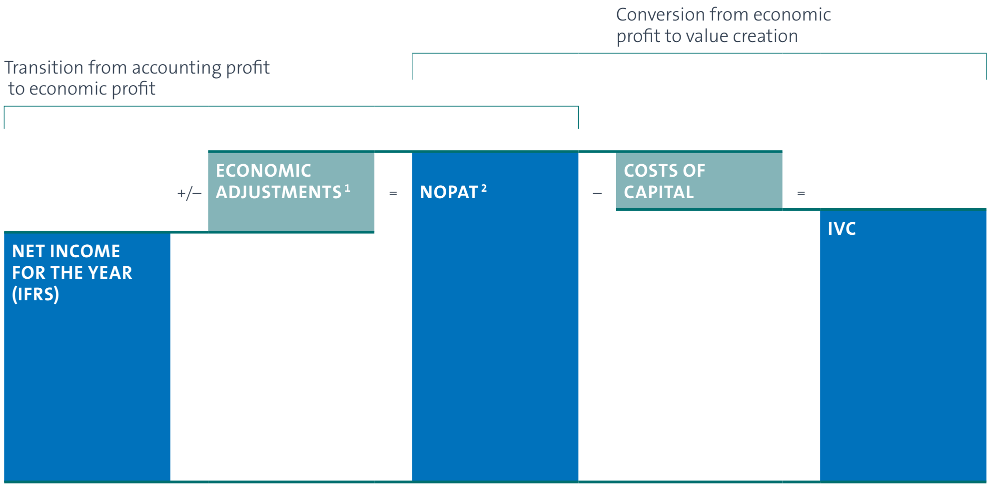
- Capital management
- Performance management
- Risk management
- Mergers & acquisitions

This interplay between Talanx AG and the 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 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 graphic 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 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



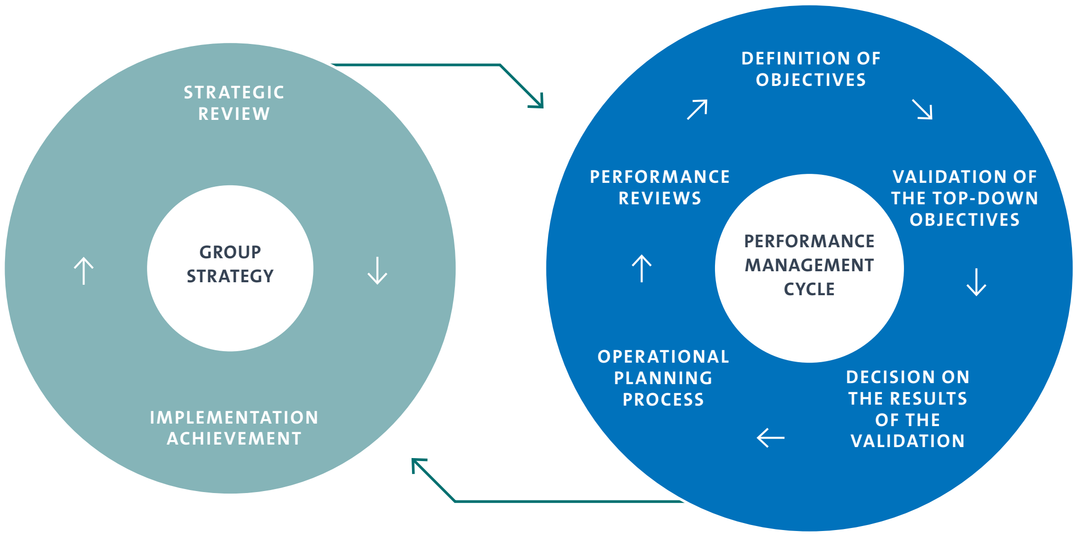
[1] Economic adjustments, e.g. change in the loss reserve discount.
[2] NOPAT: Net Operating Profit after Adjustment and Tax (economic profit).

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 division 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 division 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)[1]		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[2]	EBIT margin[2]	EBIT margin[2]	EBIT margin[2]	EBIT margin[2]	EBIT growth[2]	Payout ratio
Return on equity	Return on equity		Return on equity	Return on equity		Return on equity

[1] Effective 2021, the value of new business (life) will cease to be an operating management metric.
[2] Effective 2021, EBIT margin and EBIT growth, respectively, will cease to be operating management metrics.

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

Talanx 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

Despite the pandemic eating into profit in the year under review, the company remained on track in 2020.

Markets and business climate

Macroeconomic development

With global economic growth already having weakened in 2019, the outbreak of the coronavirus pandemic and the temporary shutdown of public life that this entailed caused a severe collapse in economic activity in the first half of 2020. Despite subsequently picking up, global economic output in 2020 declined on the prior year – only the second time this has happened in the last 40 years (along with 2009).

In Germany, this development was reflected in a sharp decrease in exports, with private consumption also tumbling during the government-ordered lockdown. Gross domestic product decreased by 4.9% year on year in 2020. The eurozone economy is expected to have shrunk by 6.8% (prior year: growth of 1.3%) as a result of the more severe impact of the pandemic in many countries compared to Germany. Nonetheless, continued expansionary monetary policy by the ECB in the form of new bond buying programmes, as well as large-scale political assistance such as short-time working schemes and financial support payments to companies and private households, has prevented an even steeper decline in economic output and a massive rise in unemployment in 2020 for the time being.

In the US, too, the Federal Reserve and government responded to the pandemic with a string of measures. Fiscal stimulus alone came to around USD 3.8 trillion and helped significantly boost private consumption, the main driver of US economic growth, thanks in particular to consumer checks and unemployment benefits. Despite this, the US also reported a decline in GDP of 3.5% in 2020 compared to the prior year (growth of 2.2%). This brings an end to more than ten years of continuous growth.

In light of this, political developments such as the US presidential election in November and the UK's exit from the EU at the end of the year had less of an economic impact.

The coronavirus pandemic also left its mark on emerging markets. Thanks to successful public health measures, however, many Asian countries weathered the pandemic and its economic repercussions relatively well. This applies first and foremost to China, where the economy was hit by the pandemic about one quarter before the rest of the world and had already begun to recover by the spring, making the country one of the few G20 nations to see GDP growth in 2020. At 2.3%, however, this was the lowest growth recorded since the 1970s.

REAL GDP

% change year-on-year	2020[1]	2019
Germany	−4.9	+0.6
Eurozone	−6.8	+1.3
USA	−3.5	+2.2
China	+2.3	+6.0

[1] Provisional figures as at 24 February 2021.

The slump in demand created by the coronavirus caused prices to fall sharply around the world in 2020. This was exacerbated by the drop in oil prices, with the price of WTI even temporarily sliding into negative territory due to oversupply, despite the countermeasures taken by OPEC. In the eurozone, average inflation for the year declined from 1.2% to 0.3%, with the figure for the US decreasing from 1.8% to 1.2%.

All major central banks eased their monetary policy to brace against the impact of the pandemic. The US Fed reduced its prime rate to between 0.00% and 0.25% and implemented various bond buying and liquidity programmes. The ECB increased its refinancing operations for banks at improved conditions and expanded its bond purchases under new and existing programmes.

Capital markets

Developments on international financial markets in 2020 were also dominated by the coronavirus pandemic. Following the spread of the virus around the world, stock markets plummeted by around 30% in February/March, the price of oil tumbled and risk premiums for corporate bonds widened substantially. In turn, demand was high for government bonds that are considered safe, such as German government bonds and US Treasuries, where yields fell to historic lows. This was followed by a countermovement at the end of March, driven in part by the comprehensive monetary and fiscal policy response to the crisis over the course of year and progress made in vaccine development in the autumn.

The most important US index, the S&P 500, turned positive for the year as a whole as a result of this, gaining 16.3%. The DAX performed similarly (up 3.6%), whereas the EURO STOXX fell just short of the break even point (down 1.6%). Yet these developments, impressive considering the crisis, pale against those of China (up 27.0%) and Asian emerging economies as a whole (up 26.0%). Yields on ten-year German government bonds rose from a record low of −0.86% to −0.57%, with yields on US Treasuries of the same maturity seeing a more substantial upturn from 0.51% to 0.91%. Nonetheless, central banks' bond purchases prevented even steeper increases in yields, while also ensuring a steep decline in risk premiums on corporate bonds and on southern European government bonds, which saw yields tumble to new record lows. By contrast, gold was sought after as a crisis currency in 2020. Backed by a weak US dollar – the EUR/USD exchange rate rose by almost 10% to USD 1.23/EUR over the year – the price of gold climbed over the USD 2,000 per ounce mark for the first time in the summer. It gained around 25% on the prior year.

German insurance industry

Property/Casualty Insurance

2020 saw weaker property/casualty insurance premium growth in the German insurance industry than in the prior year. In connection with the pandemic, lower premium income in motor insurance was offset by stable property insurance overall.

Claims expenses as a whole were lower than in the prior year. While the coronavirus lockdowns resulted in higher costs in some lines, for example for business shutdowns or cancelled events, other lines saw expenses decrease as a result of fewer traffic and leisure accidents, fewer burglaries and fewer insolvencies thanks to the decision to suspend the obligation to file for insolvency. German property insurers' losses from natural hazards were far lower than the long-term average in 2020. There were no serious natural disasters.

Life Insurance

Premium income in the German life insurance industry decreased slightly in 2020 in comparison to the previous year. A slight decline in regular premium business was offset by slight growth in single premium business. Despite low interest rates that became even more firmly entrenched during the coronavirus pandemic, the German insurance industry was again able to generate a total return in excess of guaranteed returns in 2020.

International insurance markets

The Talanx Group has defined the regions of Europe and Latin America as target regions for expanding its international retail business. Talanx is further expanding its global presence in industrial insurance. The following section focuses primarily on developments in these international target regions.

Property/Casualty Insurance

International property/casualty insurance proved resilient in the face of the coronavirus pandemic. Slight premium growth was reported in 2020 overall. This was higher in emerging markets than in developed insurance markets.

Losses caused by natural disasters were far higher in the year under review than in the prior year – both in terms of total and insured losses. The highest losses resulted from persistent, severe flooding in China from May to July, followed by cyclone "Amphan" in the Bay of Bengal. The North America region was the worst affected in terms of insured losses. 2020 was a record year for hurricanes, with hurricane "Laura" in August the most costly. The year also saw far higher heavy storm losses in the US than in the previous year and the largest ever forest fires in California and Colorado. Europe got off relatively lightly in terms of losses from natural disasters.

Among the developed insurance markets, **North America** generated the strongest growth – albeit at a low level – whereas premiums in **Europe** declined slightly. Emerging markets' good performance reflects substantial growth in China, with the remaining emerging markets seeing a fall in premium income. In **Latin America,** this stemmed chiefly from areas including motor insurance, which suffered from lower new vehicle sales caused by the economic downturn and the coronavirus pandemic. Positive momentum in all regions prompted rising premiums in commercial property insurance.

In international **property/casualty insurance,** the main factor influencing developments was the impact of the coronavirus pandemic. This pushed up large losses, especially in lines such as business interruption, event cancellation and trade credit insurance, and resulted in additional reserves. In light of increased uncertainty, the trend towards price increases – which had already set in at the start of 2020 – continued during treaty renewal rounds through the year.

Life Insurance

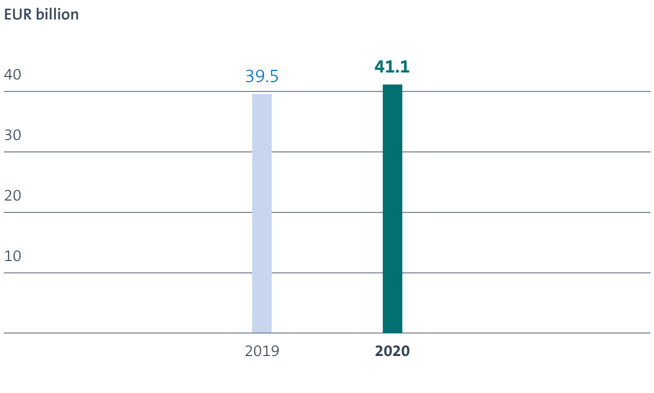
In light of the challenging business environment, which was shaped by extremely low interest rates and the impact of the coronavirus pandemic, premium income on international life insurance markets slumped in comparison to the prior year. Premium income declined on all developed insurance markets, with particularly severe losses in **Europe**. Overall emerging market performance stagnated at the prior year level. This is thanks exclusively to growth in China, as premium income declined in other emerging markets in **Asia, Latin America** and **central and eastern Europe.**

The international **life/health reinsurance** markets also suffered from the negative effects of the coronavirus pandemic, which resulted in higher claims and reserves on account of illness and fatalities. At the same time, the crisis created higher demand for suitable risk cover and so the situation was stable overall.

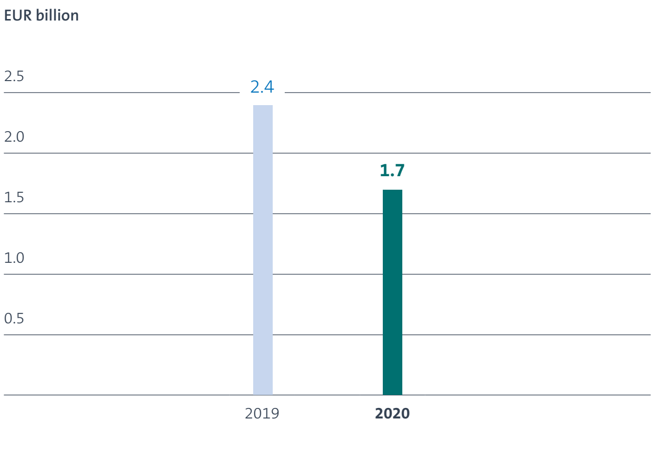
Business development

The Group continues to enhance profitability in primary insurance both in Germany and abroad. The Industrial Lines Division successfully finished overhauling its fire insurance business in the year under review and is focussing 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. Group net income (EUR 673 million) and operating profit (EUR 1,671 million) fell by 27.0% and 31.3% respectively, in part due to the pandemic, while gross written premiums rose by 4.1%.

GROSS WRITTEN PREMIUMS



OPERATING PROFIT/LOSS (EBIT)



Talanx Group strengthens presence in Italy in October 2020

HDI Assicurazioni S.p.A., a subsidiary of HDI International AG (Retail International Division of Talanx Group) is buying 100% of shares in Italian property insurer Amissima Assicurazioni S.p.A. The transaction is expected to improve the Talanx Group's earnings per share and return on equity from 2022 onwards.

Talanx expands fibre optic investments in France

For the second time in the reporting period, the Talanx Group invested in high-speed internet in France. It is contributing more than EUR 60 million to an international debt financing programme. This project aims to install approximately 2 million fibre-to-the-home (FTTH) connections in the next four years. Back in April, the Group supported the expansion of high-speed internet in France by investing EUR 200 million and contributed to a comprehensive EUR 2.1 billion international debt financing programme.

Talanx holds an indirect interest in the utility EWE

As a co-investor, the Talanx Group holds an indirect interest in the Oldenburg utility EWE. The Group holds a triple digit million participating interest in the European infrastructure investor Ardian. The Talanx Group is thus systematically expanding its infrastructure investments.

Group's course of business

- Gross written premiums picked up by 6.9% adjusted for currency effects
- Group net income declines to EUR 673 million on account of coronavirus pandemic
- Dividend proposal unchanged on prior year at EUR 1.50

GROUP KEY FIGURES

EUR million	2020	2019	+/–
Gross written premiums	41,105	39,494	+4.1 %
Net premiums earned	34,185	33,054	+3.4 %
Underwriting result	–2,798	–1,833	–52.6 %
Net investment income	4,243	4,323	–1.9 %
Operating profit/loss (EBIT)	1,671	2,430	–31.3 %
Combined ratio (net, property/casualty only) in %	100.9	98.3	+2.5 ppts

MANAGEMENT METRICS

%	2020	2019	+/–
Gross premium growth (adjusted for currency effects)	6.9	11.9	–5.0 ppts
Group net income in EUR million	673	923	–27.0 %
Net return on investment	3.2	3.5	–0.3 ppts
Payout ratio [1]	56.3	41.1	+15.2 ppts
Return on equity	6.6	9.8	–3.2 ppts

[1] Based on the appropriation of distributable profits, see the "Other disclosures" section of the Notes, page 232.

Premium volume

Gross written premiums increased by 4.1% (by 6.9% adjusted for currency effects) to EUR 41.1 (39.5) billion in the reporting period. Growth was generated chiefly by the Industrial Lines (specialty business) and Property/Casualty Reinsurance segments. By contrast, Retail Germany and Retail International experienced downturns, again partially a consequence of the coronavirus crisis. Net premiums earned increased by 3.4% to EUR 34.2 (33.1) billion; retention was down slightly at 88.0% (88.4%).

Underwriting result

The underwriting result largely suffered a sharp decline in response to the pandemic and totalled EUR –2.8 (–1.8) billion. Large losses caused by the coronavirus pandemic came to around EUR 1,198 million, especially in business interruption, event insurance, credit insurance and Life/Health Reinsurance. Overall, losses from the coronavirus pandemic came to EUR 1,459 million. The combined ratio rose by 2.5 percentage points year on year to 100.9% (98.3%).

Total large losses amounted to EUR 2,148 (1,319) million, with a large loss budget for the year as a whole of EUR 1,335 million. Adjusted for the impact of the pandemic, the combined ratio would have been 97.6%.

Net investment income

Net investment income fell slightly by 1.9% to EUR 4.2 (4.3) billion. In particular, impairment losses on equities of EUR 53 million and on alternative investments of EUR 80 million were attributable to the coronavirus pandemic. Improved extraordinary investment income from the Life segment of the Retail Germany Division – in part to finance the additional interest reserve – did not offset lower ordinary income, chiefly from fixed-income securities. Net return on investment amounted to 3.2% (3.5%).

Operating profit/loss and Group net income

Operating profit (EBIT) came to EUR 1.7 (2.4) billion. A significant share of this decline was driven by the pandemic (EUR 1,158 million), with the Industrial Lines, Property/Casualty Reinsurance and Life/Health Reinsurance segments hit particularly hard. The coronavirus pandemic caused a EUR 486 million decline in Group net income. Nonetheless, the Group generated robust income of EUR 673 million in the year under review. Without the pandemic, we believe that the Group would have significantly exceeded the earnings achieved in the prior year. The return on equity fell to 6.6% (9.8%).

Comparison of actual business development with the 2020 forecast

MANAGEMENT METRICS FOR THE GROUP

%	2020	Forecast for 2020 from the 2019 Annual Report
Gross premium growth [1] (adjusted for currency effects)	6.9	~ 4
Group net income [2] in EUR million	673	">900" to 950
Net return on investment [3]	3.2	~ 2.7
Payout ratio [4]	56.3	35 – 45
Return on equity [5]	6.6	">9.0" to 9.5

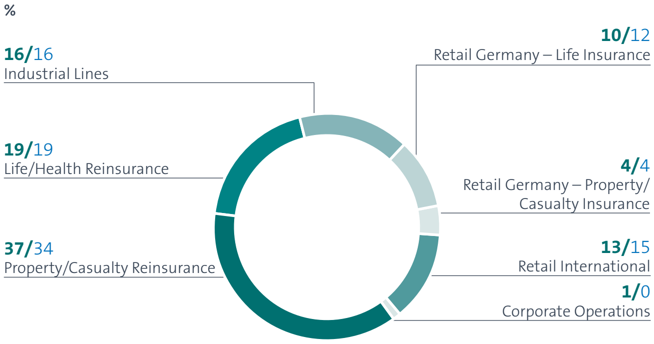
[1] The forecast for 2020 pertains to the printed forecast in the 2019 Group Annual Report. The forecast was adjusted to "~ 5%" during 2020.
[2] The forecast was adjusted to "clearly above EUR 600 million" during 2020.
[3] The forecast was adjusted to "~ 2.9%" during 2020.
[4] Based on the appropriation of distributable profits, see the "Other disclosures" section of the Notes, page 232.
[5] The forecast was adjusted to "approx. 6%" during 2020.

Gross premium growth (adjusted for currency effects) in the reporting period amounted to 6.9%, putting it above the guidance for 2020 of around 5%, which had been raised during the year. At EUR 673 million, Group net income was also higher than the forecast of well over EUR 600 million, which was revised during the year. Net return on investment of 3.2% and a return on equity of 6.6% also exceeded the forecast of around 2.9% and 6.0% respectively, which was also raised 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 56.3%; this figure is above 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



2020/2019

Industrial Lines

- Premium growth driven mainly by specialty business
- Profitability still on track; but underwriting severely strained by pandemic
- Net investment income down on prior year, as expected

KEY FIGURES FOR THE INDUSTRIAL LINES DIVISION

EUR million	2020	2019	+/–
Gross written premiums	6,658	6,214	+7.2 %
Net premiums earned	3,008	2,968	+1.3 %
Underwriting result	–139	–40	–251.2 %
Net investment income	254	285	–10.9 %
Operating profit/loss (EBIT)	48	159	–69.7 %

MANAGEMENT METRICS FOR THE INDUSTRIAL LINES DIVISION

%	2020	2019	+/–
Gross premium growth (adjusted for currency effects)	9.0	30.8	–21.7 ppts
Combined ratio (net)	104.6	101.4	+3.2 ppts
EBIT margin	1.6	5.4	–3.8 ppts
Return on equity	2.1	4.4	–2.3 ppts

Market developments
Industrial insurance business in the 2020 financial year was dominated by the consequences of the coronavirus pandemic, such as losses caused by business shutdowns. At the same time, prices and conditions in various markets and lines developed well on the market as prices rose. 2020 was again determined by continued low interest rates and a challenging capital market environment in connection with the pandemic.

The "HDI Global 4.0" programme was continued in the financial year and features a focussed, two-tier approach comprising a perform and a transform phase. The "20/20/20" initiative was successfully completed in the year under review as part of the perform phase. The "20/20/20" programme aimed to generate a risk-free additional premium of at least 20% for fire risks, which account for around 20% of our net portfolio in the Industrial Lines segment. The risk-free additional premium came to 35%, far exceeding the programme's objective.

As before, there is still 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 in the long run and reduce volatility overall.

Premium volume
Gross written premiums in the Industrial Lines Division amounted to EUR 6.7 (6.2) billion as at 31 December 2020, and were therefore higher than expected. They increased by EUR 0.4 billion, or 7.2% (adjusted for currency effects: 9.0%). Increases in premiums were essentially generated as a result of growth in speciality business and in casualty business. The negative impact on premiums expected in the current financial year in connection with the coronavirus crisis, including for revenue-based policies, was taken into account by way of corresponding provisions of EUR 82 million at the end of the year. 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
At EUR –139 (–40) million, the net underwriting result was down considerably on the previous year. While ongoing profitability measures continued to have a very positive impact on the loss ratio, the underwriting result deteriorated by a total of EUR 178 million due to exceeding the large loss budget for the period on account of the coronavirus and because of the provision for expected declines in premiums described above. The claims experience from large losses from natural disasters is in line with expectations. The loss ratio climbed to 84.4% (79.9%) as a result. The net cost ratio improved to 20.2% (21.4%) thanks to slight premium growth combined with high-cost discipline. The combined ratio for the Industrial Lines Division rose to 104.6% (101.4%). Adjusted for the coronavirus impact, it declined to 98.7%, in line with expectations. The successful restructuring of the fire line as part of the "20/20/20" initiative is apparent in this line's combined ratio, adjusted for the impact of the coronavirus, of 99.3% with a fully replenished large loss budget. In this context, the adjusted loss ratio for fire insurance fell by a sizeable 36.8 percentage points in comparison to the beginning of the initiative in (2018: 118.1%) to 81.3%. The "HDI Global 4.0" programme is the cornerstone of sustainable profitability for the Division. This means that – despite the repercussions of the pandemic in the current financial year – the combined ratio is expected to improve further.

Net investment income and other income/expenses
Total net investment income in the 2020 financial year came to EUR 254 (285) million. Current net investment income is down on the prior year in view of the decrease in income from equities, fixed-income securities and real estate funds. By contrast, income from participating interests and private equity funds saw a rise. Extraordinary investment income, which reported relatively low depreciation and amortisation in the previous year, is also lower than in the prior year. The coronavirus pandemic depressed net investment income by a total of EUR 21 million.

At EUR –66 (–86) million, other income/expenses was slightly higher than in the previous year and remains in line with expectations for the year under review. The year under review was boosted by a foreign exchange gain of EUR 35 (0) million, offset mainly by a decrease in other income resulting from the regular adjustment of the cost code.

Operating profit/loss and Group net income
At EUR 48 (159) million, EBIT fell short of our expectations in the year under review due to the effects described above, essentially a result of the impact of the pandemic. The Industrial Lines Division generated Group net income of EUR 47 (103) million, thereby making a positive contribution to Talanx's net income.

Comparison of actual business development with the 2020 forecast

MANAGEMENT METRICS FOR THE INDUSTRIAL LINES DIVISION

%	2020	Forecast for 2020 from the 2019 Annual Report
Gross premium growth (adjusted for currency effects)[1]	9.0	≥ 2
Combined ratio (net)[2]	104.6	< 100
EBIT margin[3]	1.6	~ 5
Return on equity[4]	2.1	~ 5

[1] The forecast for 2020 pertains to the printed forecast in the 2019 Group Annual Report. The forecast was adjusted to "~ >5%" during 2020.
[2] The forecast was adjusted to "~ 104" during 2020.
[3] The forecast was adjusted to "~ 1%" during 2020.
[4] The forecast was adjusted to "0 – 1" during 2020.

Gross premium growth was up 7.2% (adjusted for currency effects: 9.0%), significantly above our original expectations. This was driven by higher-than-average growth in speciality business and in the third-party liability portfolio.

The combined ratio in the Industrial Lines Division of 104.6% came under pressure chiefly as a result of impact of the coronavirus pandemic. Adjusting for these effects puts the combined ratio at 98.7%, exceeding the prior year outlook and reflecting the successful restructuring. Profitability initiatives will continue in the current financial year as part of the "HDI Global 4.0" programme.

The developments described above and lower net investment income meant that the EBIT margin (1.6%) and the return on equity (2.1%) fell short of expected figures of approximately 5% in each case.

Retail Germany

Property/Casualty Insurance

- Coronavirus pandemic weighs on premium income and net investment income
- Higher operating profit thanks to improved claims development

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

EUR million	2020	2019	+/–
Gross written premiums	1,502	1,588	–5.4 %
Net premiums earned	1,334	1,486	–10.3 %
Underwriting result	62	15	+305.2 %
Net investment income	88	119	–25.6 %
Operating profit/loss (EBIT)	134	98	+35.7 %

MANAGEMENT METRICS FOR THE PROPERTY/CASUALTY INSURANCE SEGMENT

%	2020	2019	+/–
Gross premium growth	–5.4	1.6	–7.1 ppts
Combined ratio (net)	95.4	99.0	–3.6 ppts
EBIT margin	10.0	6.6	+3.4 ppts

Premium volume

There was a 5.4% decline in written premium income to EUR 1,502 (1,588) million in the Property/Casualty Insurance segment in the 2020 financial year. This was driven by factors including the discontinuation of a major account, negative net year-end motor vehicle business and the slump in new business when measures were introduced to contain the coronavirus pandemic. Despite the unfavourable conditions, corporate customers/freelance professions business generated growth. All told, the negative effects of the coronavirus pandemic caused an approx. EUR 84 million drop in premium income, especially in motor insurance and the biometric core business of bancassurance.

Underwriting result

The underwriting result was EUR 62 (15) million in the year under review, up 305.2% on the previous year. Significant negative effects resulting from multiple large loss events were offset by profitable growth in the third-party liability, accident and property lines and improved basic losses in the motor line. In addition, the negative impact caused by the coronavirus pandemic was limited to a total of around EUR 13 million thanks to existing reinsurance cover. The improvement was also helped by the fact that no more costs were incurred for a key migration project that was completed last year. These effects resulted in a considerable 3.6 percentage point decrease in the combined ratio (net), from 99.0% to 95.4%.

Net investment income

Net investment income fell to EUR 88 (119) million. This was due mostly to lower interest income and lower income from infrastructure investments on account of market conditions. The negative impact of the coronavirus pandemic is estimated at EUR 5 million.

Operating profit/loss

EBIT was significantly higher than in the previous year at EUR 134 (98) million due to improved underwriting. With lower premium income, the EBIT margin therefore increased to 10.0% (6.6%).

Comparison of actual business development with the 2020 forecast

MANAGEMENT METRICS FOR THE PROPERTY/CASUALTY INSURANCE SEGMENT

%	2020	Forecast for 2020 from the 2019 Annual Report
Gross premium growth [1]	–5.4	stable
Combined ratio (net)	95.4	~96
EBIT margin [2]	10.0	8–9

[1] The forecast for 2020 pertains to the printed forecast in the 2019 Group Annual Report. The forecast was adjusted to "~–5%" during 2020.
[2] The forecast was adjusted to "7–8%" during 2020.

Premium income in the Property/Casualty segment was lower than the guidance for 2020 on account of the slump in new business stemming from the pandemic. The line-specific combined ratio was 95.4%, lower than the approx. 96% forecast thanks to improved basic losses. At 10.0%, the EBIT margin also exceeded our expectations due to better claims development.

Life Insurance

- New business slumps in response to coronavirus pandemic
- Operating profit strained by updates to actuarial assumptions with lower interest rates

KEY FIGURES FOR THE RETAIL GERMANY DIVISION – LIFE INSURANCE SEGMENT

EUR million	2020	2019	+/–
Gross written premiums	4,351	4,612	–5.7 %
Net premiums earned	3,352	3,493	–4.0 %
Underwriting result	–1,792	–1,602	–11.9 %
Net investment income	1,903	1,786	+6.5 %
Operating profit/loss (EBIT)	70	131	–47.1 %
New business measured in annual premium equivalent	385	409	–5.8 %
Single premiums	1,244	1,442	–13.8 %
Regular premiums	261	265	–1.4 %
New business by product measured in annual premium equivalent	385	409	–5.8 %
of which capital-efficient products	178	174	+2.3 %
of which biometric products	121	141	–14.2 %

MANAGEMENT METRICS FOR THE LIFE INSURANCE SEGMENT

%	2020	2019	+/–
Gross premium growth	–5.7	2.1	–7.8 ppts
EBIT margin	2.1	3.8	–1.7 ppts

Premium volume and new business

In the financial year, the Life Insurance segment saw premiums decrease by 5.7% to EUR 4.4 (4.6) billion, which includes the savings elements of premiums from unit-linked life insurance policies.

This was driven in part by the slump in new business when measures were introduced to contain the coronavirus pandemic. Branch shutdowns in the banking sector and companies' reluctance to enter into contracts for occupational retirement provisions had a serious impact. The bancassurance biometric business saw a downturn of EUR 113 million and single premiums (excluding bancassurance biometric business) were down by EUR 74 million, with regular premiums (excluding bancassurance biometric business) also falling by EUR 74 million. Overall, EUR 221 million of these declines is attributable to the pandemic.

Allowing for the savings elements of premiums from our unit-linked products and the change in the unearned premium reserve, net premiums earned in the Life Insurance segment fell by 4.0% to EUR 3.4 (3.5) billion.

Measured in APE, new business in life insurance products declined from EUR 409 million to EUR 385 million.

Underwriting result

The underwriting result declined to EUR –1.8 (–1.6) billion in the reporting period. This was partly due to the unwinding of discounts on the 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 improved by 6.5% to EUR 1.9 (1.8) billion. This growth was driven predominantly by higher disposal gains, which easily offset lower ordinary investment income due to interest rates and coronavirus-related write-downs on equities. Total realised net gains on the disposal of investments in the reporting period were well above the prior-year figure, at EUR 780 (572) million. In the financial year, numerous realisations were used to realise unrealised gains in order to finance the additional interest reserve required by the HGB for life insurance and occupational pension plans, as well as precautionary payments of EUR 122 million to avoid interest rate risks from additional claims notices for certain life insurance policies, which were offset by realised gains on the disposal of investments in a similar amount.

The negative impact of the coronavirus pandemic is estimated at EUR 6 million.

Operating profit/loss

Operating profit (EBIT) in the Life Insurance segment in the Retail Germany Division decreased by 47.1% year-on-year to EUR 70 (131) million, due chiefly to the regular adjustment of actuarial assumptions to take account of the again lower interest rates. The EBIT margin decreased to 2.1% (3.8%).

Comparison of actual business development with the 2020 forecast

MANAGEMENT METRICS FOR THE LIFE INSURANCE SEGMENT

%	2020	Forecast for 2020 from the 2019 Annual Report
Gross premium growth[1]	–5.7	stable
EBIT margin[2]	2.1	~ 3

[1] The forecast for 2020 pertains to the printed forecast in the 2019 Group Annual Report. The forecast was adjusted to "~ –5%" during 2020.
[2] The forecast was adjusted to "2–3%" during 2020.

Premium income in the Life segment was lower than the guidance for 2020 on account of the slump in new business stemming from the pandemic. Falling EBIT meant that the EBIT margin was below the forecast.

Retail Germany Division as a whole

RETURN ON EQUITY FOR THE RETAIL GERMANY DIVISION AS A WHOLE

%	2020	2019	+/–
Return on equity	4.6	5.5	–0.9 ppts

After adjusting for taxes on income, financing costs and non-controlling interests, Group net income fell to EUR 119 (133) million as a result of lower earnings in Life Insurance. This depressed the return on equity by 0.9 percentage points to 4.6%.

Comparison of actual business development with the 2020 forecast

RETURN ON EQUITY FOR THE RETAIL GERMANY DIVISION AS A WHOLE

%	2020	Forecast for 2020 from the 2019 Annual Report
Return on equity[1]	4.6	5–6

[1] The forecast for 2020 pertains to the printed forecast in the 2019 Group Annual Report. The forecast was adjusted to "4–5%" during 2020.

Since Group net income was below the previous year's level at EUR 119 (133) million, the forecast return on equity was not achieved.

Retail International

- Gross written premiums decreased by 1.6% adjusted for currency effects
- Combined ratio of 95.2% benefits from less frequent motor vehicle claims as a temporary effect of coronavirus pandemic

KEY FIGURES FOR THE RETAIL INTERNATIONAL DIVISION

EUR million	2020	2019	+/–
Gross written premiums	5,527	6,111	–9.6 %
Net premiums earned	4,950	5,343	–7.3 %
Underwriting result	41	33	+22.6 %
Net investment income	326	381	–14.4 %
Operating profit/loss (EBIT)	266	283	–6.0 %

MANAGEMENT METRICS FOR THE RETAIL INTERNATIONAL DEVISION

	2020	2019	+/–
Gross premium growth (adjusted for currency effects)	–1.6	11.8	–13.4 ppts
Value of new business (life) in EUR million [1]	31	48	–34.7 %
Combined ratio (net, property/casualty only)	95.2	95.5	–0.3 ppts
EBIT margin	5.4	5.3	+0.1 ppts
Return on equity	7.3	8.2	–0.9 ppts

[1] Excluding non-controlling interests; 2020: estimated figure, the final figure will be published in the 2021 Annual Report.

This division bundles the Talanx Group's international retail business activities and is active in both Europe and Latin America. The coronavirus pandemic that broke out across the world in the first half of 2020 initially had an essentially positive impact in an amount of EUR 107 million on the underwriting result due to less frequent motor vehicle claims as fewer vehicles were on the roads, and has so far had only a minor impact in an amount of EUR –12 million on net investment income in the Retail International segment. Nonetheless, the decline in premium volume as a result of the coronavirus pandemic is expected to have a delayed adverse effect on the underwriting result in 2021. Provisions of EUR 35 million were recognised for coronavirus effects in the year under review, impacting the combined ratio by 1.1 percentage points.

In the Europe region, the Italian HDI Assicurazioni S.p.A. signed a contract on 21 October 2020 to acquire the Italian Amissima Assicurazioni as a way of expanding property insurance business and thus increasing diversification. The transaction is still pending approval from Italian supervisory authorities.

Market developments

Unless indicated otherwise, the market developments described in the following section refer to growth rates in the respective local national currency.

The Latin America region suffered an economic slowdown in 2020 as a consequence of the coronavirus pandemic. Gross domestic product in Brazil was forecast at –4.4% for the year as a whole, following –7.7% in the second quarter. By contrast, the property insurance market saw growth of 3.0% at the end of November. An 8.5% decline in GDP is also expected for the Mexican economy in 2020, with premium erosion of 3.1% anticipated for the insurance market. Chile's economy was hit particularly hard by the negative impact of the coronavirus pandemic in the second half of the year, after the effects of violent protests in 2019 had already been curbing economic growth since the start of the year. All three markets saw a considerable reduction in new vehicle sales in 2020 (down about 30%), which weighed heavily on premiums in motor insurance.

The economic situation on insurance markets in the Europe region was also adversely affected by the pandemic in 2020. Poland saw its economy contract for the first time since 1991 in 2020, declining by 2.8%, whereas premiums on the property insurance market in the third quarter of 2020 were stable against the prior year period. By contrast, the soft market phase continued in the motor vehicles business, bringing about a decline in average premiums and thus in growth momentum. However, lower loss frequencies in connection with fewer vehicles on the roads during lockdowns shored up the underwriting result. After several quarters of the economic slowdown, Turkey generated real growth of 0.5% of its GDP in the first three quarters of 2020. At the same time, inflation rose to 15% and the Turkish prime rate to 17% in 2020 as a whole. Property insurers generated overall growth of 17% in 2020, 11% of which in motor insurance premiums.

Premium volume

The division's gross written premiums (including premiums from unit-linked life and annuity insurance) decreased by 9.6% year-on-year to EUR 5.5 (6.1) billion. Adjusted for currency effects, gross premiums were down 1.6% on the comparative period.

The Europe region reported a 6.0% decrease in gross written premiums to EUR 4.1 billion, driven primarily by lower single premiums in the life insurance line of the Italian HDI Assicurazioni S.p.A., whereas premiums at the Turkish HDI Sigorta A.Ş. rose by 38.6% adjusted for currency effects, largely in connection with motor and homeowners insurance. Ergo Sigorta A.Ş. which was acquired in the third quarter of 2019, was included in the figures for all of 2020. Adjusted for currency effects, the downturn in premium volume in the Europe region stood at 2.0%.

In the Latin America region, gross written premiums fell by 18.5% compared to the same period of the previous year to EUR 1.4 (1.8) billion, especially in Brazil, Mexico and Chile. Adjusted for currency effects, the downturn in gross written premiums stood at 0.6%. Premiums for the division's companies in the Latin America region are generated chiefly from motor vehicle contracts. Sales of these fell as new vehicle sales experienced a downturn on account of the economy and the repercussions of the coronavirus pandemic.

Underwriting result

The combined ratio from property insurance companies decreased by 0.3 percentage points year-on-year to 95.2%. The loss ratio accounts for 1.1 percentage points of this improvement. Fewer vehicles on the roads as a result of lockdowns to contain the coronavirus pandemic temporarily resulted in less frequent motor vehicle claims and so loss ratios declined in the 2020 financial year. The expense ratio for the division was 0.9 percentage points higher than the previous year at 30.5%. The rise in the expense ratio reflected – in equal measure – both the higher acquisition cost ratio due to stiffer competition and more diversification and the higher administrative expense ratio, in part a result of an increase in IT expenses for remote working during the pandemic.

Risk products from the Polish TUnŻ WARTA S.A. played a key role in the EUR 8 million improvement in the underwriting result in life insurance.

Net investment income

Net investment income declined by 14.4% against the 2019 financial year to EUR 326 (381) million. This decrease stemmed from the 50.0% fall in extraordinary net investment income, which declined to EUR 32 (64) million chiefly on the back of realised losses and write-downs of equity securities due to the coronavirus pandemic at the Italian HDI Assicurazioni S.p.A. and the higher losses at the Brazilian HDI Seguros S.A. The division's ordinary investment income declined by 6.2% to EUR 318 (339) million in comparison to the previous year, attributable mainly to negative currency effects and lower interest rates on all markets, in particular in Poland and Turkey. These effects were partially offset by higher investment volumes.

Operating profit/loss and Group net income

The Retail International Division generated an operating profit (EBIT) of EUR 266 (283) million in the 2020 financial year, down 6.0% year-on-year. Adjusted for currency effects, EBIT picked up by around 1%. The Europe region contributed to the operating profit of the segment with EBIT of EUR 273 (281) million, a year-on-year decrease of 3.0%, whereby this downturn was primarily due to the lower earnings contribution by the Polish TUiR WARTA S.A. EBIT of EUR 44 (50) million was generated in the Latin America region. The decline in EBIT in this region can be attributed primarily to the Brazilian HDI Seguros S.A., where income was strained predominantly by higher losses in extraordinary net investment income. Group net income after non-controlling interests declined accordingly by 2.5% to EUR 160 (164) million. The return on equity declined by 0.9 percentage points to 7.3% compared to the same period in the previous year.

Comparison of actual business development with the 2020 forecast

MANAGEMENT METRICS FOR THE RETAIL INTERNATIONAL DIVISION

%	2020	Forecast for 2020 from the 2019 Annual Report
Gross premium growth (adjusted for currency effects)[1]	–1.6	moderate growth
Value of new business (life) in EUR million[2,3]	31	~40
Combined ratio (net, property/casualty only)	95.2	~95
EBIT margin[4]	5.4	5–6
Return on equity[5]	7.3	8–9

[1] The forecast for 2020 pertains to the printed forecast in the 2019 Group Annual Report. The forecast was adjusted to ">–5%" during 2020.
[2] The forecast was adjusted to "~ 30" EUR million during 2020.
[4] The forecast was adjusted to "~ 5%" during 2020.
[5] The forecast was adjusted to "~ 7" during 2020.

Adjusted for currency effects, the Retail International Division saw gross premiums decrease by 1.6% in the 2020 financial year, falling short of the prior-year forecast of moderate growth. The value of new business (life) was also lower than expected at EUR 31 million. This downturn was essentially driven by the Polish Towarzystwo Ubezpieczeń na Życie "WARTA" S.A. following a decrease both in premium volume and in the new business margin due to the coronavirus pandemic and lower interest rates. At 95.2%, the combined ratio for international property insurance companies reached its target, as did the EBIT margin at 5.4%. Nevertheless, return on equity was 7.3% and thus fell short of expectations for 2020.

Additional key figures

RETAIL INTERNATIONAL DIVISION BY LINE OF BUSINESS AT A GLANCE

EUR million	2020	2019	+/–
Gross written premiums	**5,527**	**6,111**	**–9.6 %**
Property/Casualty	3,776	4,092	–7.7 %
Life	1,750	2,018	–13.3 %
Net premiums earned	**4,950**	**5,343**	**–7.3 %**
Property/Casualty	3,275	3,471	–5.7 %
Life	1,675	1,871	–10.5 %
Underwriting result	**41**	**33**	**+22.6 %**
Property/Casualty	160	160	–0.2 %
Life	–119	–127	+6.1 %
Net investment income	**326**	**381**	**–14.4 %**
Property/Casualty	159	200	–20.7 %
Life	175	188	–6.9 %
Others	–7	–7	+8.7 %
New business by product measured in annual premium equivalent (life)	**168**	**248**	**–32.0 %**
Single premiums	971	1,728	–43.8 %
Regular premiums	71	75	–4.8 %
New business by product measured in annual premium equivalent (life)	**168**	**248**	**–32.0 %**
of which capital-efficient products	71	138	–48.2 %
of which biometric products	66	68	–2.6 %

RETAIL INTERNATIONAL DIVISION BY REGION AT A GLANCE

EUR million	2020	2019	+/–
Gross written premiums	**5,527**	**6,111**	**–9.6 %**
of which Europe	4,100	4,359	–6.0 %
of which Latin America	1,427	1,752	–18.5 %
Net premiums earned	**4,950**	**5,343**	**–7.3 %**
of which Europe	3,695	3,827	–3.4 %
of which Latin America	1,255	1,516	–17.2 %
Underwriting result	**41**	**33**	**+22.6 %**
of which Europe	37	35	+5.2 %
of which Latin America	39	26	+48.6 %
Net investment income	**326**	**381**	**–14.4 %**
of which Europe	290	317	–8.5 %
of which Latin America	43	71	–39.0 %
Operating profit/loss (EBIT)	**266**	**283**	**–6.0 %**
of which Europe	273	281	–3.0 %
of which Latin America	44	50	–12.0 %

Reinsurance

Property/Casualty Reinsurance

- Gross premiums in the Property/Casualty Reinsurance segment up 15.8% adjusted for currency effects
- Prices and conditions improving over the year
- Expenses for pandemic losses total EUR 950 million
- Combined ratio rises to 101.6%

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

EUR million	2020	2019	+/–
Gross written premiums	16,744	14,781	+13.3 %
Net premiums earned	14,205	12,798	+11.0 %
Underwriting result	–274	186	–247.3 %
Net investment income	1,008	1,093	–7.8 %
Operating profit/loss (EBIT)	854	1,256	–32.0 %

MANAGEMENT METRICS FOR THE PROPERTY/CASUALTY REINSURANCE SEGMENT

%	2020	2019	+/-
Gross premium growth (adjusted for currency effects)	15.8	20.4	–4.6 ppts
Combined ratio (net)	101.6	98.2	+3.4 ppts
EBIT margin	6.0	9.8	–3.8 ppts

Business development

Global property/casualty reinsurance markets were dominated in the past financial year by the impact of the coronavirus pandemic and the insured losses in connection with this. In addition, high large losses from natural disasters in previous years and the renewed rise in pressure on interest income negatively affected results of operations. Interest also fell further in the reporting period, especially in our key investment regions in Europe and North America, as a result of large-scale government stimulus packages to mitigate the impact of the pandemic.

To meet investors' return expectations, sustainable improvements to prices and conditions for reinsurance cover were necessary and feasible in the reinsurance market over the course of the financial year. In particular, policies affected by losses reported price increases, chiefly amounting to double digits. However, improvements were also possible for claims-free policies, both for primary insurers and for reinsurers. We also noted that – as well as higher demand generally for high-quality reinsurance cover – primary insurers are increasingly seeking tailor-made solvency relief solutions.

We were able to increase prices for renewed business by an average of 2.3% in the treaty renewal round as at 1 January 2020. As expected, our main renewal season – where we renegotiated 67% of our portfolio in Property/Casualty Reinsurance (excluding facultative business and structured reinsurance – went well, with renewed business also achieving good growth (adjusted for currency effects) of 14.0%.

Against the backdrop of the impact of the pandemic, the improvements in prices and conditions continued to gain momentum in the treaty renewal rounds throughout the 2020 financial year.

We identified that the market was hardening more rapidly in the treaty negotiations as at 1 April and achieved an average price rise of 4.4% while keeping premium growth high. Traditionally, this is when business in Japan is renewed and contract renewals – albeit to a lesser extent – are also on the agenda for the Australia, New Zealand, Asia and North America markets.

This trend continued in the renewals as at 1 June and 1 July, when we secured further double-digit improvements to prices and conditions in some cases. Prices rose by an average of 5.1%, with premium growth remaining in the double digits. During this time, parts of the North America business, the area of natural disaster risks and parts of reinsurance coverage for risks from the credit and surety business were renewed. This was also the main renewal season in Australia and New Zealand. Prices rose substantially, in particular for programmes or regions that have been affected by losses, but we also made some improvements in claims-free coverage.

In natural catastrophe business, we maintained our profit-driven underwriting policy. Our risk appetite, which we decide on relative to the economic capital available, remained unchanged on the prior year in the 2020 financial year.

Despite large pandemic-related losses, the situation also created business opportunities for Hannover Re, for example by way of higher demand for high-quality reinsurance cover and tailor-made coverage concepts. Measures to contain the crisis, such as lockdowns, also reduced the frequency of losses in some lines, an effect that was particularly pronounced in motor insurance.

Premium development

Gross written premiums in the Property/Casualty Reinsurance segment increased by 13.3% to EUR 16.7 (14.8) billion. At constant exchange rates, the increase would have amounted to 15.8%. Retention was stable at 90.3% (90.3%). Net premiums earned climbed by 11.0% to EUR 14.2 (12.8) billion; adjusted for currency effects, growth would have stood at 13.5%.

Earnings

Large losses exceeded our expectations in the 2020 financial year for the fourth year in a row. In particular, claims payments and loss reserves for the coronavirus pandemic led to a significant underwriting adverse effect.

We made payments or set aside provisions totalling EUR 950 million in the Property/Casualty Reinsurance segment for Covid-19 claims. Reported claims account for EUR 331 million of this and claims that have been incurred but not reported for EUR 619 million, which we recognise as part of our conservative reserves policy. The breakdown of the total amount for each line is as follows: business interruption insurance 22%, commercial credit default insurance 26%, event cancellation insurance 21% and other lines 31%. Uncertainty regarding future loss reports by our cedants is relatively high, especially in commercial credit default insurance and liabilities cover, and so we strengthened our reserves again at the end of the year, particularly in these areas.

Total large losses, including Covid-19 claims, came to EUR 1.595 billion. We had set our large loss budget for 2020 at EUR 975 million. In addition to the negative effects of the pandemic, the most severe large losses in the year under review included a storm that swept over the eastern United States and resulted in a net loss for Hannover Re of EUR 111 million, hurricane "Laura" at EUR 88 million and the explosion at the port of Beirut (EUR 87 million). We generally classify large losses as events for which we expect to pay out over EUR 10 million in gross claims and claims expenses.

The underwriting result in the Property/Casualty Reinsurance segment came to EUR –274 (186) million. The combined ratio increased to 101.6% (98.2%). This was chiefly the result of the expenses in connection with the pandemic described above.

Operating profit and net investment income

Net investment income in the Property/Casualty Reinsurance segment decreased by 7.8% to EUR 1,008 (1,093) million. Operating profit (EBIT) declined by 32.0% to EUR 854 (1,256) million. The EBIT margin was 6.0% (9.8%).

Comparison of actual business development with the 2020 forecast

MANAGEMENT METRICS FOR THE PROPERTY/CASUALTY REINSURANCE SEGMENT

%	2020	Forecast for 2020 from the 2019 Annual Report
Gross premium growth (adjusted for currency effects)	15.8	solid growth
Combined ratio (net)	101.6	≤ 97
EBIT margin	6.0	≥ 10

The goal of achieving solid growth in gross written premiums, adjusted for currency effects, in the Property/Casualty Reinsurance segment was achieved, coming to 15.8%. The combined ratio deteriorated to 101.6%, well above the target for the financial year of no higher than 97%. This stemmed in part from the coronavirus pandemic. The EBIT margin fell to 6.0% (9.8%), lower than the target EBIT margin of at least 10%.

Life/Health Reinsurance

- Gross premium volume rises by 4.7% adjusted for currency effects
- Payments and reserves for expected losses from the coronavirus pandemic total EUR 261 million
- Global demand for financial solutions remains strong

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

EUR million	2020	2019	+/–
Gross written premiums	8,021	7,816	+2.6 %
Net premiums earned	7,150	6,932	+3.2 %
Underwriting result	–646	–411	–57.2 %
Net investment income	693	682	+1.6 %
Operating profit/loss (EBIT)	377	562	–32.9 %

MANAGEMENT METRICS FOR THE LIFE/HEALTH REINSURANCE SEGMENT

%	2020	2019	+/–
Gross premium growth (adjusted for currency effects)	4.7	6.7	–2.0 ppts
Value of new business [1] in EUR million	391	333	+17.3 %
EBIT growth	–32.9	114.5	–147.5 ppts

[1] Excluding non-controlling interests; 2020: estimated figure, the final figure will be published in the 2021 Annual Report.

Business development

The coronavirus pandemic also dominated the 2020 financial year in the Life/Health Reinsurance segment. Despite this, it had a far lesser direct negative impact than in the Property/Casualty Reinsurance segment. Overall, negative effects in the Life/Health Reinsurance segment that are directly attributable to Covid-19 came to EUR 261 million in the past financial year. Reported claims accounted for EUR 175 million or 67% of this, with the rest resulting from claims that have been incurred but not reported. Most negative impacts from Covid-19 result from diseases and fatalities in the US, our largest single market.

Generally, 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 continued to decline throughout the reporting period, especially in Hannover Re's key markets of Europe and North America. This has a negative impact on net investment income at primary insurance and reinsurance undertakings. 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.

As well as the traditionally key UK market, demand for longevity risk hedging solutions picked up worldwide. This is a positive development that we actively support and promote with our outstanding, many years of expertise. One driver of this was the high capital requirements for this kind of business at primary insurers and pension funds.

Digital insurance solutions and automation are also increasingly playing a key role in all activities – not only in longevity – in particular in collaboration with start-ups.

Pandemic-related negative effects, especially in mortality and morbidity solutions, severely strained earnings in the Life/Health Reinsurance segment. Excluding losses attributable to the pandemic puts US business performance in line with our expectations.

Premium development

Gross written premiums in the Life/Health Reinsurance segment increased by 2.6% to EUR 8.0 (7.8) billion; adjusted for currency effects, growth would have amounted to 4.7%. Retention amounted to 89.8% (89.5%). Net premiums earned climbed by 3.2% to EUR 7.2 (6.9) billion; adjusted for currency effects, growth would have stood at 5.3%.

Operating profit and net investment income

The underwriting result came to EUR –646 (–411) million. The further decline reflected pandemic-related payments and loss reserves. Net investment income in the Life/Health Reinsurance segment improved by 1.6% to EUR 693 (682) million. Operating profit (EBIT) declined by 32.9% to EUR 377 (562) million.

Comparison of actual business development with the 2020 forecast

MANAGEMENT METRICS FOR THE LIFE/HEALTH REINSURANCE SEGMENT

%	2020	Forecast for 2020 from the 2019 Annual Report
Gross premium growth (adjusted for currency effects)	4.7	moderate growth
Value of new business [1] in EUR million	391	≥ 110
EBIT growth [2]	–32.9	> 5

[1] Excluding non-controlling interests; 2020: estimated figure, the final figure will be published in the 2021 Annual Report.
[2] Average annual growth in 2017 – 2020 (strategic target definition): +18.1%.

Gross written premiums in the Life/Health Reinsurance segment increased by 4.7% adjusted for currency effects, thus in line with expectations of moderate growth. At EUR 391 million, the value of new business was significantly higher than the forecast of over EUR 110 million. This missed the target of EBIT growth of over 5%, with operating profit decreasing by 32.9%.

Reinsurance Division as a whole

RETURN ON EQUITY FOR THE REINSURANCE DIVISION AS A WHOLE

%	2020	2019	+/−
Return on equity	8.5	13.3	−4.8 ppts

Group net income in the Reinsurance Division declined to EUR 442 (619) million in the year under review, also resulting in a 4.8 percentage point decrease in return on equity to 8.5%.

Comparison of actual business development with the 2020 forecast

RETURN ON EQUITY FOR THE REINSURANCE DIVISION AS A WHOLE

%	2020	Forecast for 2020 from the 2019 Annual Report
Return on equity [1]	8.5	12–13

[1] The forecast for 2020 pertains to the printed forecast in the 2019 Group Annual Report. The forecast was adjusted to “>7.5%” during 2020.

Group net income in the Reinsurance Division declined to EUR 442 (619) million in the year under review, representing a 28.6% downturn. The return on equity in the year under review was 8.5%, higher than the target of over 7.5%, which was revised during the year.

Corporate Operations

- Considerable rise in gross written premiums in Corporate Operations segment
- Pandemic loss expenditure of EUR 10 million
- Assets under own management up 4.8%

The Group’s reinsurance specialists

We have reported underwriting business that Group companies cede to Talanx AG in the Corporate Operations segment since 2019. Gross written premiums here amounted to EUR 738 (64) million in 2020, resulting from reinsurance cessions in the Industrial Lines, Retail Germany and Retail International Divisions. The underwriting result in the Corporate Operations segment came to EUR −49 (−15) million in the current financial year and contains pandemic-related loss expenditure for losses caused by business shutdowns of EUR 10 million, three additional large losses in the property insurance line totalling EUR 13 million and a EUR 24 million entry loss due to a loss portfolio transfer in the third-party liability line.

The Group’s investment specialists

In cooperation with its subsidiary Ampega Investment GmbH, Ampega 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 129 (123) billion. The total contribution to the segment’s operating profit made by the two companies and Ampega Real Estate GmbH amounted to EUR 61 (51) million in 2020.

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. After an encouraging start to the year with moderate gains and cash inflows to all product and sales segments, the investment sector suffered a sharp downturn in March and April. This was provoked by the rapid spread of Covid-19 infections in Europe and the lockdowns implemented around the world in connection with the virus. Both equities and fixed-income securities slumped. Thanks to massive financial intervention by European Union states, the market broadly enjoyed a substantial rebound that started in May 2020 and continued – intermittently – until the end of the year. This was accompanied by cash inflows into retail funds, which strengthened towards the end of the year. The total volume of assets managed rose by 6.3% against the figure at the beginning of the year to EUR 29.5 (27.8) billion. At EUR 14.1 (12.7) billion, half the total volume is managed on behalf of Group companies using special funds and direct investment mandates. Of the remainder, EUR 7.7 (7.3) billion was attributable to institutional third-party clients and EUR 7.7 (7.7) 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/loss

The operating profit in the Corporate Operations segment decreased to EUR −19 (−8) million in 2020. Higher negative effects in underwriting were only partly offset by a rise in commission earnings from investment management activities. Group net income attributable to shareholders of Talanx AG for this segment improved in 2020 thanks to positive tax effects, coming to EUR −92 (−97) million.

Net assets and financial position

Net assets

- Total assets up EUR 3.4 billion to EUR 181.0 billion
- Investments account for 77% of total assets

ASSET STRUCTURE

EUR million	2020		2019	
Intangible assets	1,879	1%	1,998	1%
Investments	138,925	77%	134,104	76%
Investments for the benefit of life insurance policyholders who bear the investment risk	11,619	6%	11,824	7%
Reinsurance recoverables on technical provisions	7,473	4%	8,483	5%
Accounts receivable on insurance business	8,964	5%	8,525	5%
Deferred acquisition costs	5,312	3%	5,940	3%
Cash at banks, cheques and cash-in-hand	3,477	2%	3,518	2%
Deferred tax assets	323	0%	326	0%
Other assets	3,035	2%	2,819	2%
Non-current assets and assets of disposal groups classified as held for sale	31	0%	57	0%
Total assets	**181,037**	**100%**	**177,594**	**100%**

Significant changes in the asset structure

The increase in total assets is primarily due to the increase in investments (up EUR 4.6 billion). This was countered by the change in reinsurance recoverables on technical provisions (EUR –1.0 billion).

Intangible assets of EUR 1.9 (2.0) billion include EUR 839 (893) million of other intangible assets (including PVFP) and capitalised goodwill of EUR 1,040 (1,105) 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	31.12.2020	31.12.2019
Other intangible assets before the deduction of non-controlling interests and the policyholders' portion, including deferred taxes	**839**	**893**
of which: attributable to non-controlling interests	101	108
of which: attributable to policyholders' portion	242	253
of which: attributable to deferred taxes	56	62
Other intangible assets after the deduction of non-controlling interests and the policyholders' portion, net of deferred taxes	**440**	**470**

The "technical provisions for life insurance policies where the investment risk is borne by the policyholders" item declined by EUR 0.2 billion (previous year: rise of EUR 1.8 billion) in line with the decrease 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 14 (15) million attributable to HDI Seguros de Vida S. A., Santiago, Chile, and property holdings of EUR 17 (42) million. (See also "Non-current assets and disposal groups held for sale" in the Notes.)

Asset management and objectives

The outbreak of the coronavirus pandemic in 2020 and the global quarantine measures imposed as a result of this triggered a decline in GDP and private consumption. To cushion the repercussions of the pandemic, central banks of major economies loosened monetary policy and launched the stabilising measures described. 2020 was therefore shaped by exceptionally low interest rates. The key interest rate in the eurozone was unchanged at 0.0% as at the reporting date.

At the end of the year, the interest rate for ten-year German government bonds was around –0.56%, down approx. 37 basis points on the figure at the beginning of the year. Two-year bonds declined to around –0.71% (–0.63%) and five-year bonds came to –0.73% (–0.49%).

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 2019, the exchange rate was USD 1.12 to the euro. The dollar lost around 9.8% against the euro over the course of the financial year, ending the year at USD 1.23. As at the year-end closing date, the portfolio of US dollar-denominated investments amounted to EUR 22.5 (23.2) billion and represented 18% (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 systematically and hence manage risks efficiently. The effectiveness of our risk management and its early warning tools was also made clear in the crisis experienced in the financial year just ended.

76% (75%) 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. In accordance with our asset/liability management guidelines and the individual companies' risk-bearing capacity, we continued to optimise the portfolios and used the crisis as an opportunity as part of individual company strategies.

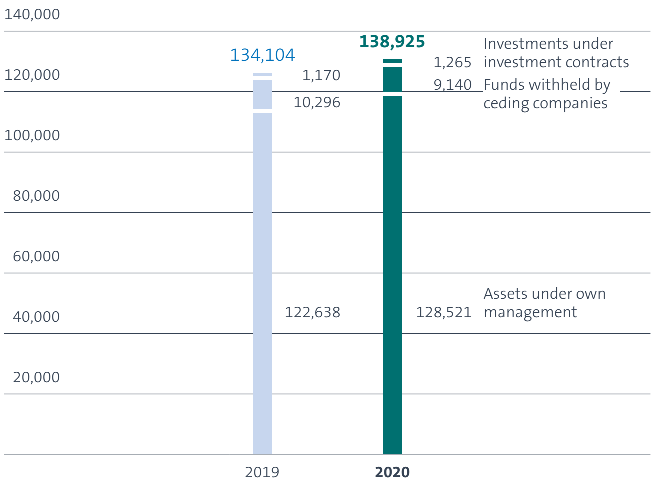
The investment guidelines at Group, segment and company level provide a further framework for our activities; these are reviewed annually and amended where necessary for appropriateness in the light of regulatory and market restrictions.

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

EUR million



The total investment portfolio increased to EUR 138.9 (134.1) billion as at the end of the 2020 financial year. The portfolio of assets under own management climbed by 4.8% to EUR 128.5 (122.6) billion. Growth in the portfolio of assets under own management was due to the increase in valuation reserves under "Available-for-sale financial instruments" (up EUR +2.6 billion) and cash inflows from the underwriting business, which were reinvested in accordance with the guidelines at the companies concerned.

At EUR 1.3 billion, the portfolio of investment contracts was also slightly higher than at the start of the year (EUR 1.2 billion). Funds withheld by ceding companies declined by EUR 1.2 billion to EUR 9.1 billion in the year under review, chiefly in connection with the termination of a contract and exchange rate effects in the Life/Health Reinsurance segment.

Fixed-income investments remained the most significant asset class in 2020. Reinvestments were largely made in this asset class, taking the existing investment structure into account. The asset class contributed EUR 3.7 (3.4) billion to earnings, with the figure being almost totally reinvested in the reporting period.

INVESTMENT PORTFOLIO

%

2020/2019

BREAKDOWN OF ASSETS UNDER OWN MANAGEMENT BY ASSET CLASS

EUR million	2020		2019	
Investment property	3,250	3%	3,193	3%
Shares in affiliated companies and participating interests	572	0%	398	0%
Shares in associates and joint ventures	438	0%	337	0%
Loans and receivables				
Loans including mortgage loans	459	0%	413	0%
Loans and receivables due from government or quasi-governmental entities and fixed-income securities	26,945	21%	27,228	22%
Held-to-maturity financial instruments	474	0%	336	0%
Available-for-sale financial instruments				
Fixed-income securities	86,742	67%	81,483	66%
Variable-yield securities	2,725	2%	2,067	2%
Financial instruments at fair value through profit or loss				
Financial instruments classified at fair value through profit or loss				
Fixed-income securities	585	0%	1,128	1%
Variable-yield securities	40	0%	147	0%
Financial instruments held for trading				
Fixed-income securities	—	0%	—	0%
Variable-yield securities	135	0%	122	0%
Derivatives [1]	307	0%	321	0%
Other investments	5,849	5%	5,465	4%
Assets under own management	**128,521**	**100%**	**122,638**	**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 4.6 billion in financial year 2020 to total EUR 114.7 (110.2) billion as at the year-end. At 83% (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.

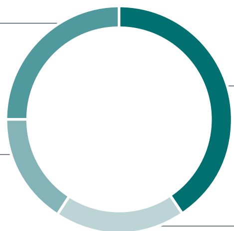
"Available for sale fixed-income securities" accounted for 76% (74%) of the total portfolio of fixed-income securities and rose by EUR 5.3 billion to EUR 86.7 (81.5) billion. Corporate bonds and government bonds accounted for the majority of these investments. Valuation reserves – i.e. net unrealised gains and losses – have climbed substantially from EUR 5.6 billion to EUR 8.0 billion since the end of 2019, 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, German covered bonds (Pfandbriefe) or similarly secure securities. Total holdings in fixed-income securities in the "Loans and receivables" category amounted to EUR 27.4 (27.6) billion as at the end of the year, or 24% (25%) of total holdings in the fixed-income asset class. Off-balance-sheet valuation reserves for "Loans and receivables" (including mortgage and policy loans) remained virtually constant at EUR 5.2 (5.1) billion.

Investments made in fixed-income securities in 2020 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 48.5 (44.7) billion as at the reporting date.

RATING STRUCTURE FOR FIXED-INCOME SECURITIES

%



2020/2019

The Talanx Group pursues a comparatively conservative investment policy. As a result, 76% (75%) 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 5.6 (5.1) billion and therefore corresponds to a share of 4.4% (4.1%) of the 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 108 ff. of the Group management report.

Equities and equity funds

During the financial year, the size of the equities portfolio grew to around EUR 1.5 (1.2) billion. As a result, the equity allocation ratio after derivatives was 1.2% (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 95 million to EUR 261 (166) million.

Real estate including shares in real estate funds

Demand on the German real estate market was high in 2020, too, with particularly high demand for core real estate continuing. Nonetheless, the real estate market was affected by the pandemic. However, the impact on the investment and rental market varied.

The German real estate investment market was completely unfazed by the pandemic in the first quarter of 2020, as transactions had either been completed or were already in the final negotiation stage. The transaction volume came to around EUR 28 billion, more than 80% higher than in the first quarter of 2019. While the second and third quarters saw a substantial downturn, with the transaction volume coming to just approx. EUR 15 billion in both quarters, this remained high in comparison to average figures for previous years. The transaction volume in the fourth quarter was approx. EUR 23.6 billion. This puts the overall transaction volume for 2020 at EUR 81.6 billion, about 11% lower than in 2019.

There was no relaxation in prime rents. Yields rose only for shopping centre and city centre office buildings, which were already under pressure. Yields for all other asset classes were stable or declined (including "office" prime rents –12 basis points to 2.81%, logistics properties –37 basis points to 3.38%).

By contrast, the rental market saw a substantial downturn. Leased space in the Big 7 declined by about a third against 2019 figures to approx. 2.7 million m^2. Nevertheless, vacancies hit record lows in previous years and so vacancy rates in 2020 were still far lower than the long-term average. Prime rents in strongholds mostly remained unchanged.

The investment property portfolio totalled EUR 3.3 (3.2) billion as at the reporting date. An additional EUR 1,343 (1,170) million is held in real estate funds, which are reported as "Available-for-sale financial instruments".

Depreciation of EUR 66 (61) million was recognised on investment property in the reporting period. This rise reflects our increasing involvement in this area. Impairment losses amounted to EUR 6 (9) million. Impairment losses on real estate funds stood at EUR 19 (7) million. Impairment losses on real estate funds are partially a result of the pandemic. Nevertheless, the situation improved over the course of the year. In the long term, we expect markets to stabilise and values to recover.

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. The infrastructure asset class proved highly stable in light of current market fluctuations and those caused by Covid-19. Values are stable overall essentially because the assets in question address the public's basic needs and so demand is inelastic. In addition, many projects generate income that is guaranteed by regulations (e.g. feed-in fees for renewable energy). This constitutes another stabilising element and reduces risk for 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. At present, our diversified infrastructure portfolio includes, among other things, finance for wind farms and solar farms, power grids, utilities, transport projects, fibre optic providers and public-private partnership (PPP) projects in Germany and other countries in Europe.

Talanx continued to expand and diversify its infrastructure portfolio in 2020, including by adding fibre optic projects, an indirect minority interest in EWE AG and in the area of rail passenger local transport. As at the reporting date, the Talanx Group had set aside a total of around EUR 3.7 billion for direct investments in equity or debt-based infrastructure projects. Direct infrastructure investments are also planned for the future, with a volume per project of between EUR 50 million and EUR 150 million (equity) and between EUR 75 million and EUR 200 million (debt), and an investment horizon of five to 30 years.

Other alternative investments

The Talanx Group has a long-term, broadly diversified private equity portfolio. The portfolio is dispersed worldwide over many regions and various sectors of the economy and investments stretch back over a decade, making the fund portfolio both defensive and high-performance with valuation volatility low in comparison to fluctuations on public markets.

At the same time, the fair values of private equity fund investments were also affected by critical changes in the 2020 financial year and showed – often unrealised – losses, most of which ran counter to existing reserves. The evaluation of fund valuations so far shows a limited crisis effect in the first two quarters, followed by a significant recovery in the final two quarters.

Net investment income

CHANGES IN NET INVESTMENT INCOME

EUR million	2020	2019
Ordinary investment income	3,336	3,503
of which current income from interest	2,535	2,713
of which attributable to profit/loss from shares in associates	100	35
Realised net gains on disposal of investments	1,206	938
Depreciation of and impairment losses/reversals of impairment losses on investments	−301	−169
Unrealised net gains/losses on investments	77	131
Other investment expenses	284	272
Income from assets under own management	4,033	4,130
Net interest income from funds withheld and contract deposits	210	190
Net income from investment contracts	—	3
Total	**4,243**	**4,323**

At EUR 4,243 (4,323) million, net investment income was down on the previous year's level on account of the impact of the coronavirus pandemic and the need to recognise impairment losses in connection with this, as well as the continued decline in interest rates. This resulted in an annualised net return on investment of 3.2% (3.5%).

The EUR 167 million decline in ordinary investment income to EUR 3,336 (3,503) million is essentially driven by persistently low interest rates. This caused a fall in ordinary income from fixed-income securities (EUR 2.5 [2.7] billion). It continues to represent the largest component of earnings. Persistently low interest rates were further consolidated over the year, in part by the central bank stimulus described above. The average coupon in the fixed-income securities portfolio is 2.5%, slightly lower than the previous year's 2.7%. 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 of hedging can be found in Note 13 in the "Notes to the consolidated balance sheet" section of the Notes. Income from private equity was somewhat lower than in the previous year. The impact of the coronavirus pandemic was evident in individual sectors. Even the real estate sector did not escape this entirely, with income declining marginally. The increase in ordinary income from profit/loss from shares in associates to EUR 100 (35) million essentially reflects a bargain purchase in the Life/Health Reinsurance segment.

Total realised net gains on the disposal of investments in the financial year were well above the prior-year figure, at EUR 1,206 (938) million. In the financial year, numerous realisations were used to realise unrealised gains in order to finance the additional interest reserve required by the HGB for life insurance and occupational pension plans, as well as precautionary payments of EUR 122 million to avoid interest rate risks from additional claims notices for certain life insurance policies. The latter was offset by realised gains on the disposal of investments in a similar amount. In addition, regular portfolio turnover in all segments also contributed to net gains.

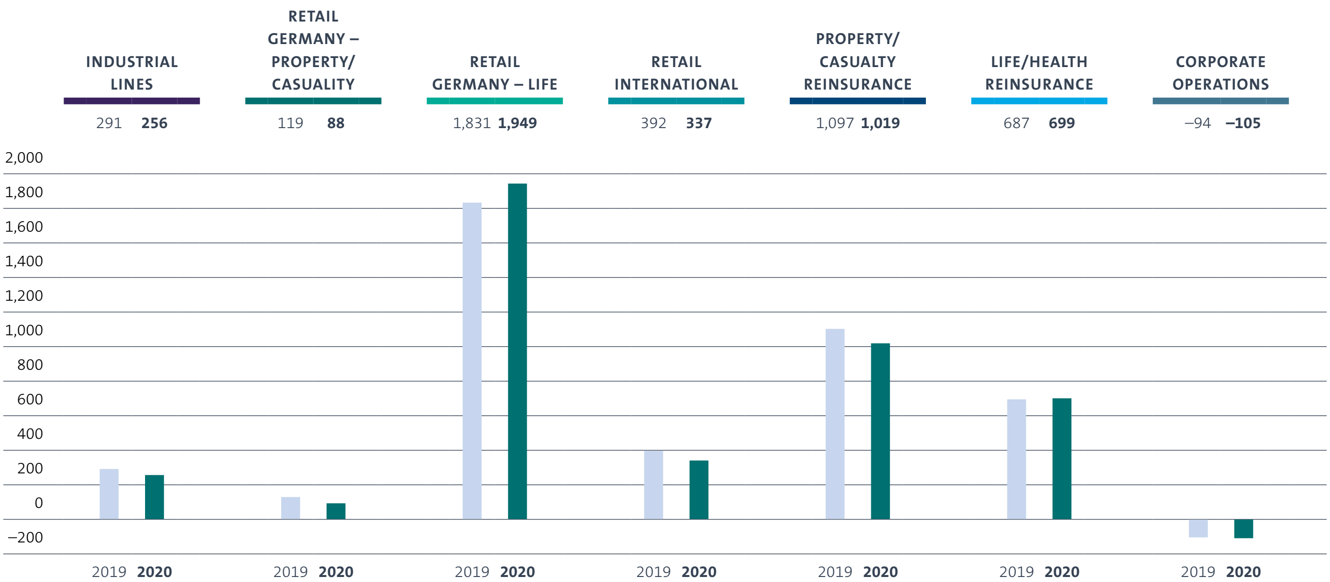
Higher depreciation and amortisation was required overall in the reporting period compared to the prior year. There were no reversals of impairment losses in the financial year, i.e. the net income effect from reversals of impairment losses and impairment losses was equal to total impairment losses of EUR 301 (169) million. EUR 100 (95) million of this related to depreciation on directly held real estate and infrastructure investments. Impairment losses amounted to a total of EUR 201 (77) million. EUR 53 (11) million of these were attributable to equities and EUR 126 (55) million to other investments, chiefly alternative investments (EUR 80 [40] million). These particularly reflect the economic turbulence at companies on account of the pandemic in the area of private equity, although this turbulence lost pace towards the end of the reporting period. On the whole, sectors that have been hit particularly hard by the pandemic did not play a significant role in our investment portfolio. Depreciation on directly held property came to EUR 6 (9) million. Impairment losses for fixed rate bonds totalled EUR 16 (2) million.

Unrealised net gains/losses dropped by EUR 54 million to EUR 77 (131) million. The decrease was due to changes in the fair value of our assets held at fair value through profit or loss, as well as the effect of derivative items. This included, among other things, the unrealised net gains/losses of EUR −6 (8) million on modco derivatives in the Life/Health Reinsurance segment.

Further information, including a breakdown by segment, can be found in Note 31, "Net investment income", in the Notes to the consolidated statement of income.

NET INVESTMENT INCOME BY GROUP SEGMENT[1]

EUR Million



[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.

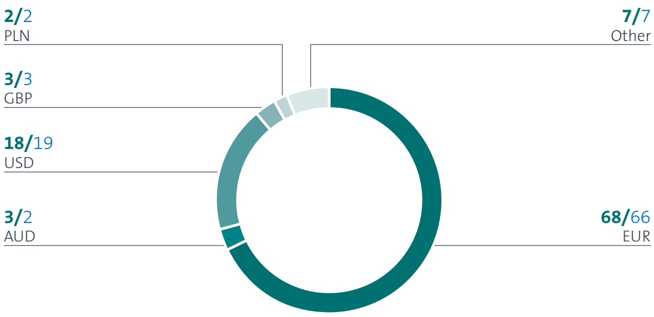
As a general rule, our international insurers receive payments and pay claims in their respective national currencies. This means that assets are also held in foreign currencies (currency matching). Please see the disclosures in our risk report for further details. For the purposes of the consolidated 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 18% (19%). Sizeable exposures – amounting to 8% (7%) of total investments – are also held in pound sterling, Polish zloty and Australian dollars. All in all, 32% (34%) 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

%



2020/2019

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Financial position

Capital structure analysis

- Equity up EUR 0.5 billion year on year at EUR 17.1 (16.6) billion
- Technical provisions up EUR 2.9 billion to EUR 128.5 billion

CAPITAL STRUCTURE

EUR million	2020		2019	
Equity	17,125	9%	16,610	9%
Subordinated liabilities	3,473	2%	3,479	2%
Technical provisions	128,541	71%	125,614	71%
Technical provisions for life insurance policies where the investment risk is borne by the policyholders	11,619	6%	11,824	7%
Other provisions	3,916	2%	3,816	2%
Liabilities	13,858	8%	14,081	8%
Deferred tax liabilities	2,497	1%	2,160	1%
Liabilities included in disposal groups classified as held for sale	9	0%	9	0%
Total equity and liabilities	**181,037**	**100%**	**177,594**	**100%**

Significant changes in the capital structure

Overall, net technical provisions (i.e. less reinsurance recoverables on these obligations) rose by 3.3% or EUR 3.9 billion year-on-year to EUR 121.3 (117.4) billion. This increase was due to the loss and loss adjustment expense reserve (EUR 2.0 billion), the benefit reserve (EUR 0.8 billion), the provision for premium refunds (EUR 0.6 billion) and the unearned premium reserve (EUR 0.5 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 88.1% (88.3%) at the reporting date. Investments exceeded provisions by EUR 16.3 (15.5) 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 (ALM)

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 in the risk report on page 108 ff.

The so called effective duration of the Group’s total fixed-income securities investment portfolio was 9.0 (8.3) across all segments in the year under review. Effective duration is a measure of the interest rate sensitivity of the present value of assets/liabilities that takes the options into account. The higher the figure, the higher the interest rate sensitivity. 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 at 13.4 (10.8) years is relatively long compared with that of the Industrial Lines Division at 5.3 (4.5) 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

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 division 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	2020	2019
Total equity	17,125	16,610
of which non-controlling interests	6,732	6,461
Total assets	181,037	177,594
Equity ratio	9.5%	9.4%

RETURN ON EQUITY

EUR million	2020	2019
Group net income [1]	673	923
Return on equity [2]	6.6%	9.8%

[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 514 million – an increase of 3.1% – to EUR 17,125 (16,610) million in the reporting period just ended.

Group equity (i.e. equity excluding non-controlling interests) amounted to EUR 10,392 (10,149) million. The EUR 243 million rise in Group equity in comparison to 31 December 2019 to EUR 10,392 million is due predominantly to Group net income, EUR 673 (923) million of which is attributable to our shareholders and which was allocated in full to retained earnings. This equity-increasing effect was offset by the EUR 379 (367) million dividend payment to the shareholders of Talanx AG in May of the reporting period. Retained earnings picked up by EUR 292 million (3.8%).

Accumulated other comprehensive income (other reserves) decreased by EUR 49 million (–7.4%) in the reporting period. This decline is primarily a result of the change in policyholder participation/shadow accounting (EUR –1,067 million), lower accumulated earnings from currency translation (currency translation losses of EUR 602 million were recognised in the reporting period due to changes in foreign currency exchange rates against the euro) and the rise in pension provisions due to interest rates (EUR –143 million). These equity-reducing effects were offset in the reporting period by the increase in unrealised gains on investments (up EUR 1,798 million), which corresponded with the declines in risk premiums for corporate bonds and in the risk-free interest rate seen in the Talanx Group's main currency areas in the reporting period.

Non-controlling interests rose by EUR 271 million (4.2%) to EUR 6.7 billion. Net income attributable to non-controlling interests in the reporting period amounted to EUR 522 (748) million. The dividend payment to non-Group shareholders of EUR 379 (402) million mainly related to the Hannover Re Group.

EQUITY BY DIVISION [1] INCLUDING NON-CONTROLLING INTERESTS

EUR million	31.12.2020	31.12.2019
Segment		
Industrial Lines	2,214	2,378
of which non-controlling interests	66	62
Retail Germany	2,814	2,572
of which non-controlling interests	97	76
Retail International	2,588	2,335
of which non-controlling interests	273	251
Reinsurance	11,650	11,166
of which non-controlling interests	6,986	6,654
Corporate Operations	–2,186	–1,889
of which non-controlling interests	—	—
Consolidation	44	47
of which non-controlling interests	–690	–582
Total equity	**17,125**	**16,610**
Group equity	10,392	10,149
Non-controlling interests	6,732	6,461

[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. In addition to increasing the holding company function, acquiring the reinsurance license in 2019 also expanded underwriting business, although the volume of this is not currently enough to offset the financing effects. The associated liabilities mainly relate to pension provisions of EUR 1,262 (1,186) million, notes payable of EUR 1,065 (1,065) million, a subordinated bond of EUR 750 (750) million, technical provisions of EUR 395 (3) million and provisions for taxes of EUR 70 (45) million. These liabilities are matched on Talanx AG's balance sheet by liquid assets, reinsurance recoverables on technical provisions, accounts receivable on insurance business, 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 5.2 (5.1) 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	2020	2019
Group equity	17.1	16.6
Unrecognised valuation reserves before taxes including shares attributable to policyholders and non-controlling interests	5.9	5.6

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 2020, 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 cooperation agreement with HDI V.a.G. allows the Group to offer HDI V.a.G. subordinated bonds with a maturity of five years and a volume of up to EUR 500 million on a revolving basis. For more information see the note on "Related party disclosures" in the "Other disclosures" section of the Notes.

The guaranteed subordinated bond of Hannover Finance (Luxembourg) S.A. in the amount of EUR 500 million was called and repaid at the amount of the entire nominal amount with effect from the first regular repayment date in the reporting year.

Hannover Rück SE placed a subordinated bond of EUR 500 million with a term of 20 years on the European capital market in July 2020. The bond cannot be called under normal conditions before 8 July 2030.

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	2020	2019
Subordinated bonds issued by Hannover Finance (Luxembourg) S. A.	499	999
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	1,683	1,186
Subordinated loan taken out by HDI Assicurazioni S. p. A.	27	27
Subordinated bond isued by HDI Assicurazioni S. p. A. (formerly CBA Vita S. p. A.)	—	14
Subordinated loans taken out by HDI Assicurazioni S. p. A.	11	—
Notes payable issued by Talanx AG	1,065	1,065
Notes payable issued by Hannover Rück SE	744	743
Mortgage loans taken out by HR GLL Central Europe GmbH & Co. KG	145	145
Loans from infrastructure investments	84	93
Mortgage loans taken out by Hannover Re Real Estate Holdings, Inc.	117	129
Mortgage loans taken out by Real Estate Asia Select Fund Limited	110	121
Other	17	15
Total	**5,752**	**5,787**

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	2020	2019
Cash flows from operating activities	6,319	6,972
Cash flows from investing activities	−5,222	−6,654
Cash flows from financing activities	−1,031	−203
Net change in cash and cash equivalents	66	116

Cash flows from operating activities are characterised chiefly by changes in cash flow from the insurance business and investment income. The decline results primarily from the change in the technical items and, by contrast, from 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 interest paid, chiefly from strategic debt (prior year: impacted by taking up subordinated liabilities).

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, decreased by EUR 42 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 rating 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.

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] Subgroup of primary insurers including HDI V.a.G.; definition: "Primary Insurance Group". Corresponds to the Industrial Lines, Retail Germany and Retail International Divisions, including Talanx AG.
[3] Hannover Rück SE and its major core companies; corresponds to the Talanx Group's Reinsurance Division.

Despite the challenges presented by the coronavirus pandemic, the Group retained its financial strength rating. The S&P rating for the subgroups Hannover Re and Talanx Primary Insurance Group was unchanged in comparison to the prior year, as was the stable outlook. The financial strength rating for the Primary Insurance Group and its core companies was confirmed at A+, with S&P attesting to the Talanx Primary Insurance Group's particularly good financial risk profile. S&P also confirmed Hannover Re's rating of AA–, an extremely strong assessment compared to competitors. Its business risk profile particularly stood out in the preliminary results. The S&P financial strength ratings for the individual subsidiaries also remained stable in the reporting period, and were therefore unchanged.

There were almost no changes at A.M. Best in the year under review. The primary insurance companies in the Talanx Group were again assigned 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. The outlook for PVI Insurance Corporation was also upgraded from "stable" to "positive" in the reporting period thanks to the company's improved earnings. The company's financial strength rating remains B++ ("good"), as does the rating for its subsidiary PVI Reinsurance Corporation.

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 the year under review, S&P confirmed Talanx AG's issuer credit 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 credit rating at A+ with a "stable" outlook.

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

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 2020, 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).

Talanx AG – as a listed financial and management holding company – is responsible for managing the Group's subsidiaries. The Talanx statement of income is thus also shaped by income and expenses in connection with its affiliated companies and long-term equity investments. In addition, Talanx AG has also underwritten property/casualty risks from Group companies as a reinsurer since January 2019.

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	2020	2019
Technical account		
Net income before equalisation reserve	–78	–6
Change in equalisation reserve and similar reserves	–3	–2
Net technical result	**–81**	**–7**
Non-technical reserve		
Income from investments	1,078	836
Investment expenses	224	5
Other income	36	30
Other expenses	254	256
Non-underwriting result	**636**	**606**
Result from ordinary activities	556	599
Taxes on income	3	17
Net income for the financial year	**553**	**582**

The underwriting volume was also increased as planned during the financial year. As part of its additional function as an intragroup reinsurer optimiser, it also underwrote portfolio accessions.

Performance in lines of business

INSURANCE BUSINESS AS A WHOLE

	2020		2019	
EUR million	Gross	Net	Gross	Net
Premiums	738	259	39	39
Premiums earned	557	210	38	38
Expenses on insurance claims	499	211	29	29
Expenses for insurance operations	158	61	15	15
Underwriting result (net)	–120	–81	–7	–7
%				
Expense ratio	89.6	100.2	76.2	76.2
Cost ratio	28.4	29.1	38.9	38.9
Combined ratio	118.0	129.3	115.1	115.1

The underwriting result for the financial year was marked by multiple large losses, including in connection with the coronavirus pandemic, as well as by effects from portfolio accessions. The underwriting result came to EUR –81 (–7) million at the end of the year.

GROSS PREMIUMS BY LINE OF BUSINESS

	2020		2019	
	EUR million	%	EUR million	%
All risk insurance	337	45.7	5	13.4
Motor vehicle insurance	149	20.2	21	52.6
Liability insurance	109	14.8	4	9.5
Engineering insurance	46	6.3	2	4.6
Other insurance	37	5.1	5	12.3
Marine and aviation insurance	30	4.1	0	1.3
Fire insurance	25	3.4	2	6.1
Casualty insurance	4	0.5	0	0.2
Total	**738**	**100.0**	**39**	**100.0**

All risk insurance
Gross premium income for all risk insurance came to EUR 337 (5) million, representing 45.7% (13.4%) of total premiums. The gross loss ratio was 117.5% (80.0%), with a gross underwriting result of EUR –97 (0) million. Net income in this line was shaped by significant large losses.

Motor vehicle insurance
Motor insurance accounted for EUR 149 (21) million of gross premiums, representing a share of 20.2% (52.6%). The gross loss ratio was 47.3% (76.0%), with the gross underwriting result unchanged on the previous year at EUR –4 million.

Liability insurance
The liability insurance line made up EUR 14.8% (9.5%) of gross premiums, coming to EUR 109 (4) million in absolute terms. A gross loss ratio of 125.3% (121.2%) resulted in a gross underwriting result of EUR –35 (–2) million. A loss portfolio agreement concluded in the financial year was central to earnings developments.

Engineering insurance
6.3% (4.6%) of gross premiums (EUR 46 (2) million) can be attributed to engineering insurance. The underwriting result was unchanged on the previous year at EUR –1 million, based on a loss ratio of 66.0% (63.0%).

Other insurance
At EUR 37 (5) million, other insurance accounted for 5.1% (12.3%) of gross premiums. Chiefly the lines Other non-life insurance and Other property insurance are recognised here, which include the classes Comprehensive householders, Storm and Legal protection. The gross loss ratio came to 46.2% (44.4%) and resulted in a positive gross underwriting result of EUR 5 (–1) million.

Non-underwriting business

The balance of income and expenses from investments increased to EUR 854 (831) million. Net income from long-term equity investments included in this, which results from income from long-term equity investments and income and expenses from profit and loss transfers from our subsidiaries, declined to EUR 314 (687) million in the financial year. This chiefly reflects a decline in income from long-term equity investments on account of the pandemic at the subsidiaries HDI Global SE (to EUR 4 [51] million), HDI Deutschland AG (to EUR 106 [140] million) and HDI International AG (to EUR –217 [78] million), with the latter squeezed by write-downs on the carrying amounts of investments. This was offset by an increase in gains on the disposal of investments to EUR 534 (138) million, chiefly due to a gain on disposal from investments in affiliated companies.

The balance of other income and expenses improved slightly to EUR –218 (–225) million, primarily thanks to higher income on tax assets/liabilities of EUR 8 (–1) million.

Tax expenditure came to EUR 3 (17) million in the reporting period. Net income for the financial year declined slightly year-on-year to EUR 553 (582) million. After adding in the retained profit brought forward of EUR 321 (119) million, the distributable profit amounted to EUR 874 (700) 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	31.12.2020	31.12.2019
Investments in affiliated companies and other long-term equity investments	8,143	7,398
Other investments	739	619
Deposits with ceding companies	73	68
Other assets	1,197	1,063
Total assets	**10,152**	**9,149**

As in previous years, Talanx AG's balance sheet is shaped predominantly by its role as a holding company and, on the assets side, largely by its interests in its subsidiaries, which are denominated in euros. The reinsurance business assumed in 2019 was also reflected in individual balance sheet items. Total assets rose by 11.0% to EUR 10,152 (9,149) million. Investments in affiliated companies and other long-term equity investments saw an increase to EUR 8,143 (7,398) million. Other investments increased to EUR 739 (619) million, mostly due to investing technical cash flows. The balance of the reinsurance treaty with HDI Re (Ireland) and a new reinsurance treaty with HDI Versicherung AG concluded in the financial year totalling EUR 73 (68) million is recognised here. Miscellaneous other assets increased to EUR 1,197 (1,063) million, mainly a result of accounts receivable from the reinsurance business.

BALANCE SHEET STRUCTURE – EQUITY AND LIABILITIES (HGB)

EUR million	31.12.2020	31.12.2019
Equity	5,486	5,312
Subordinated liabilities	1,250	1,250
Technical provisions	385	71
Other provisions	1,132	1,051
Other liabilities	1,899	1,464
Total equity and liabilities	**10,152**	**9,149**

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 2020.

Talanx AG's capital structure and the composition of its liabilities primarily reflect its role as a holding company, a role which has been expanded to include the reinsurance business assumed in 2019. Equity amounted to EUR 5,486 (5,312) million. The increase of EUR 174 million was due entirely to the distributable profit.

Technical provisions went up in the financial year on account of the substantial expansion of reinsurance business to EUR 385 (71) million. Other provisions increased to EUR 1,132 (1,051) million, attributable mainly to the rise in provisions for taxes, provisions for pensions and other post-employment benefits.

The rise in other liabilities to EUR 1,899 (1,464) million essentially reflected higher reinsurance payables from the reinsurance business, which came to EUR 229 (–) million, and liabilities from loss absorption at subsidiaries of EUR 217 (–) million.

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 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 did 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. These risks are affected by the coronavirus pandemic.

The coronavirus pandemic fundamentally altered the global economy in the first half of 2020. The pandemic and the restrictions imposed to contain it result in substantial costs for the real economy. Demand was curbed chiefly by changes to household consumption and the slump in exports. This effect was exacerbated by uncertainty over the duration and extent of cases and mitigation efforts. Global financial markets experienced massive price losses and exceptionally high volatility following the outbreak of the pandemic. Uncertainties surrounding company solvency led to a tightening of financing conditions and higher risk premiums for corporate bonds.

Talanx AG implemented risk mitigation measures in light of the coronavirus pandemic. As an intragroup reinsurer, we work in close collaboration with the Talanx Group primary insurers to closely monitor the development of Covid-19 losses and to ensure maximum collections from retrocessionaires. Counterparty risk is strictly monitored with regard to the selection of retrocessionaires. Existing business relations with reinsurers are also regularly assessed in terms of the counterparty risk. We are also in direct, permanent contact with our reinsurance partners and reinsurance brokers that operate on the market in order to assess the overall market situation and allow us to take action at an early stage if needed.

Talanx AG has implemented business continuity measures to ensure that business remains in operation even given the current environment. The situation is closely monitored by the Group crisis management team and local crisis management teams play a central role. A traffic light dashboard has been developed for this purpose and provides an overall view of regional incidence rates and new infections in the Group. Depending on the traffic light level, measures can be tightened or eased at the locations.

Talanx AG recognised a loss ratio of 100.2% (76.2%) in the financial year 2020 as a reinsurer, with the loss ratio for the financial year coming to 75.0% (69.5%). A run-off loss of EUR –53 (–3) million – not accounting for subsequent offsetting premiums – was recognised. This was shaped chiefly by a loss portfolio occurrence in 2020. The run-off ratio was 81.5%. The previous year's figure does not provide meaningful information on account of the reinsurance business assumed as at 1 January 2019 and so it is not discussed.

As at 31 December 2020, Talanx reported funds withheld by ceding companies of EUR 58 million and funds withheld by ceding companies from a new EUR 16 million reinsurance treaty with HDI Versicherung AG entered into in the financial year for 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 2020. 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 2020. 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.

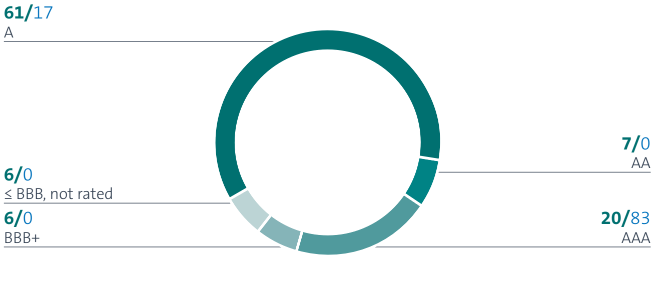
SCENARIOS FOR FAIR VALUE CHANGES IN SECURITIES

EUR million	2020	2019
Change in portfolio on a fair value basis		
Portfolio		
Equities and other variable-yield securities		
Equity prices –20%	–1	—
Fixed-income securities and other loans		
Increase in yield + 100 basis points	–15	–0.1
Decrease in yield –100 basis points	+17	+0.1

Talanx AG predominantly holds securities rated A or better, with only a relatively small number rated lower than A.

SECURITIES BY RATING CLASS

%



2020 / 2019

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 substantial decline in net income for the financial year for Talanx AG in 2021, in part a result of lower income from the investment in Hannover Re.

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 in 2019. 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 proved solid and positive in the reporting period considering the overall global economic environment and the conditions prevailing in the industry. Gross premiums rose slightly, whereas operating profit shrunk by about a third in the year under review on account of the pandemic. Group net income exceeded November's forecast. The Industrial Lines and Reinsurance Divisions, in particular, paid high claims expenses to our customers.

The Group return on equity slightly outperformed our forecast, which was revised during the year. The return on equity in all divisions remained either within or slightly above the range (in Industrial Lines and Reinsurance) that was reduced during the year; the conservative accounting policy was continued and partially reinforced.

The Group remains 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. We believe the coronavirus pandemic is likely to continue to affect the Talanx Group's net assets, financial position and results of operations in the short term, but we do not expect it to jeopardise our targets for 2021 as a whole.

Other reports and declarations

We progressed with our work on the Company's non-financial key performance indicators in 2020. Their importance for us continued to rise.

Consolidated non-financial statement

Introduction

The Talanx Group is an international insurance group and long-term investor. We base our activities on responsible, sustainably oriented corporate management, as can also be seen from our Talanx Purpose: "Together we take care of the unexpected and foster entrepreneurship". The Talanx Group adopts a forward-looking approach so as to ensure it can continue to deliver on the promises made to its customers in the future, too, and takes ecological, social, and governance aspects into account in its business.

The Talanx Group has prepared this consolidated non-financial statement in accordance with the requirements of the HGB (sections 315b to c and 289c to e). In addition, Talanx follows the structure of the Global Reporting Initiative's GRI Standards (GRI 103) with respect to its statements on its management approaches in particular.

To date, the Company has only used financial indicators in its management, in line with their importance for the Group. However, non-financial aspects are also becoming increasingly relevant to the Group's business decisions. This is why Talanx includes them in its strategic considerations at a fundamental level. The Company has not been subject to any reporting requirement as set out in section 289c(3) no. 5 of the HGB to date.

Comprehensive information on investments is provided in the "Net assets and financial position" section of the report on Talanx's economic position. The only reference to the consolidated financial statements is in the section entitled "ESG in insurance solutions". Otherwise, 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 to other places in the non-financial information in 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 250 f.

References to information outside the management report and the consolidated financial statements do not form part of the 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. To this extent, this consolidated non-financial statement completes the combined non-financial statement issued by Hannover Rück SE in relation to its group companies and to the extent that the statement issued by Hannover Rück SE does not include any information on this.

Description of the business model

TThe 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

The Talanx Group’s sustainability strategy is derived from the Group’s strategy and is aligned with its mission statement and values. This integration with the Group’s strategy supplements the latter to include ESG (environment, social and governance) aspects. The sustainability strategy comprises concrete action areas, goals and measures, and serves to ensure that the Company’s operations are aligned with ecological and social challenges.

Regular Board of Management meetings devoted to sustainability discussed the contents, key strategic points and focus of the Group’s sustainability strategy and drove forward with putting it into practice in the past financial year.

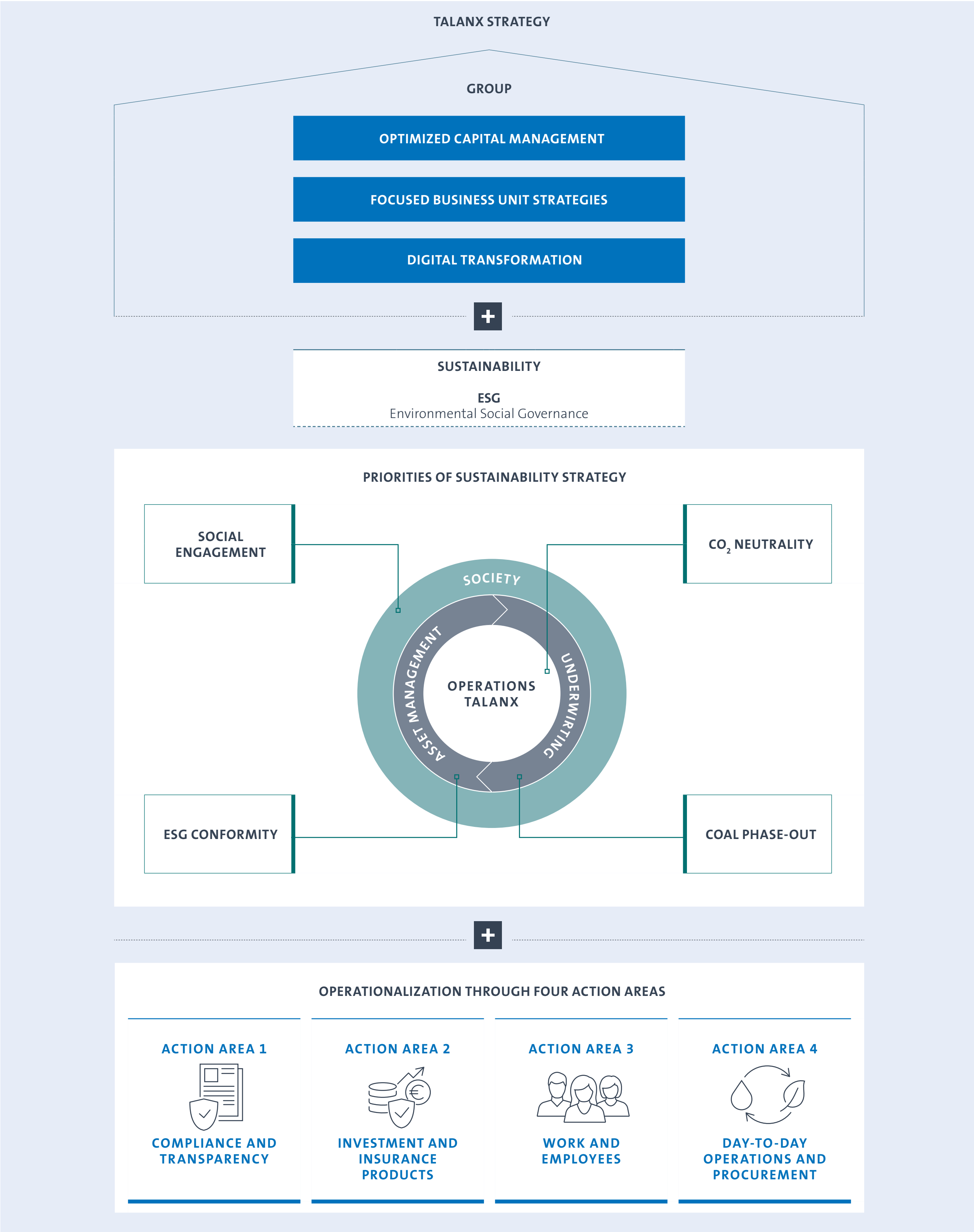
Talanx continued rounding off its sustainability strategy by joining well-known sustainability initiatives in 2020. After signing up to the Principles for Responsible Investment (PRI) in 2019, the Talanx Group took the next logical step for the Underwriting unit during the reporting period by undertaking to comply with the Principles for Sustainable Insurance (PSI). Another stated goal is to successively expand the carbon neutrality first achieved in 2019 for Talanx’s domestic operations to its international business. In addition, the Group will also address the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) in greater detail in the current financial year and is supporting this global reporting initiative for climate-related financial risks and opportunities. Talanx AG has also joined the UN Global Compact (UNGC) – the world’s largest and most important initiative for good corporate governance.

The corona pandemic that dominated the reporting period is impacting a large number of aspects within the Group (see the Talanx Group’s risk report on page 108 ff.).

The Talanx Group’s sustainability strategy addresses not only on the Company’s social framework but also and in particular its core business: asset management, underwriting and operations. The main way in which the Group can contribute to sustainable development is through its investments and insurance products. It is therefore aiming to integrate sustainability aspects more closely with its asset management activities (in line with the ESG criteria adopted by the Talanx Group such as its coal phase-out pledge; see also the section on the material topics), its insurance products and services, and its operational processes. As regards social issues, the sustainability strategy focuses on the following seven SDGs where the Group can make an active contribution: 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). Both positive and any negative impacts on, and contributions to, the SDGs are continuously evaluated as part of the enhancements made to the sustainability strategy. No impact assessment has been performed to date.

In addition, the Company’s sustainability strategy and sustainability management activities are based on the needs and interests of its stakeholders. Customers, business partners, investors and employees play a particularly important role here. The sustainability strategy of the Talanx Group is operationalized through four action areas.

TALANX STRATEGY - FLANKED BY SUSTAINABILITY APPROACH



The Talanx Group's initial stakeholder survey, which was performed in 2014, was updated and expanded in financial year 2018. The Company also took an active part in a sector-wide stakeholder survey in the reporting period, by holding a workshop. This allowed Talanx to verify its materiality matrix in discussions with its stakeholders. In addition, the annual meeting of the Sustainability Competence Team examined how up to date the current material topics are. A decision was reached that no changes are required at present. A comprehensive, customised new stakeholder survey for the Talanx Group is being planned as part of the regular schedule for 2022/2023, in line with the Group's strategy cycle.

The analysis is based on our stakeholder surveys performed in 2014 and 2018: Talanx identified the topics that are relevant for the consolidated non-financial statement using an internal survey and an online survey of external stakeholders, plus telephone interviews that were conducted in close cooperation with an external partner. The internal stakeholders were asked about three categories: "relevance from our own perspective", "impact of business activities" and "relevance to business". The external stakeholders evaluated the relevance of the topics from their own individual perspectives. The Group investigated a variety of potential material issues in these surveys, ranking them for importance on a scale ranging from 1 (= not important) to 7 (= extremely important). Issues that received an average score of 5.0 or more in the evaluation were classified as "material". In addition, Talanx held an internal workshop to prioritise the impact of the Group's operations on the non-financial matters, and included this in its assessment. In the course of its fundamental revision of its sustainability strategy in 2019, Talanx AG's Board of Management defined climate change as an additional material aspect. Previously, climate change statements had been included in the "ESG in asset management" and "ESG in insurance solutions" aspects. The Group has identified a total of nine material issues within the meaning of the HGB and also reports on three others voluntarily as described below.

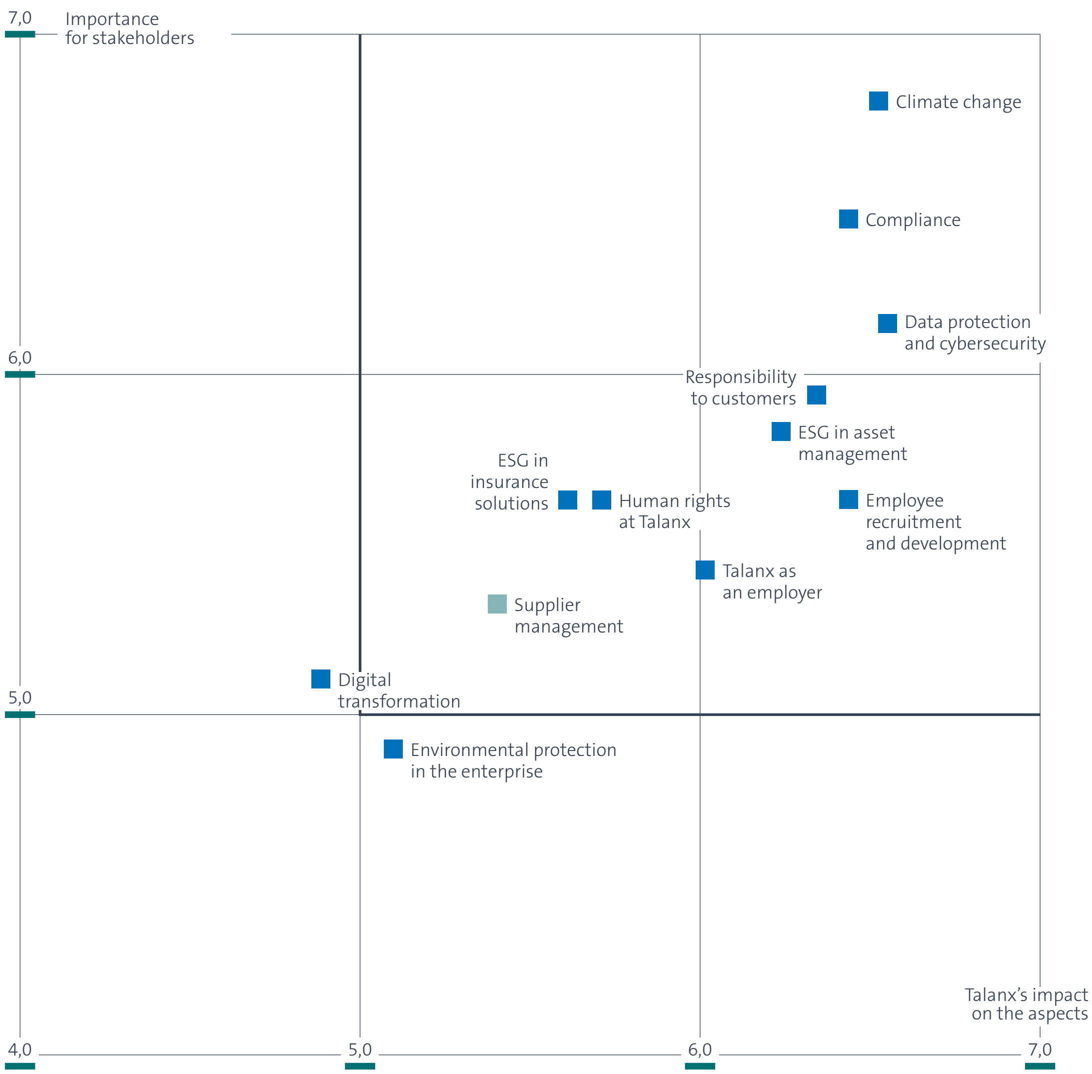
MATERIAL TOPICS AND CONTENTS OF THE CONSOLIDATED NON-FINANCIAL STATEMENT – AN OVERVIEW

Material topics	Non-financial aspects	Section of consolidated non-financial statement
Compliance	Anti-corruption and bribery matters	67 f.
Responsibility to customers	Social matters	69 f.
Data protection and cybersecurity	Social matters	70 ff.
Digital transformation[1]	Social matters	72 f.
ESG[2] in asset management[3]	Social matters	73 f.
ESG in insurance solutions[3]	Social matters	74 f.
Employee recruitment and development	Employee matters	76 f.
Talanx as an employer	Employee matters	78 f.
Human rights at Talanx	Respect for human rights	79 f.
Supplier management[1]	Respect for human rights	70
Climate change	Environmental matters	80 f.
Environmental protection in the enterprise[1]	Environmental matters	81 ff.

1 Relevant issue that was not identified as material pursuant to the HGB but which is reported voluntarily.
2 ESG = Environmental, social, governance.
3 This cross-cutting material issue also affects two non-financial aspects, "environmental matters" and "respect for human rights".

The following matrix depicts the material issues for the Talanx Group:

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, the Talanx Group has voluntarily included three additional relevant issues in the consolidated non-financial statement. These are:

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

Talanx performs its sustainability management activities throughout the Group. Ownership of the topic lies with the full Board of Management of Talanx AG. The Board of Management resolves and monitors the development and enhancement of Talanx's sustainability strategy, its sustainability goals and the implementation of the associated measures. It has underlined the importance of sustainability for the Group by issuing a Sustainability Commitment, which is published on the Group's website (https://www.talanx.com/media/Files/talanx-group/pdf/tx_nachhaltigkeit_vscommitment_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 a wide range of measures relating to putting the sustainability strategy into practice, as well as developing sustainability goals and preparing the sustainability report. The head of Group Communications reports directly to the Chairman of the Board of Management, who is responsible for sustainability/ESG. At the Supervisory Board level, the Finance and Audit Committee is responsible for sustainability/ESG and receives the annual report on the consolidated non-financial statement.

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. This was revised in the 2020 reporting period for the 2021–2023 strategy cycle. Hannover Rück SE publishes a separate sustainability report and a separate combined non-financial statement. The Group and Hannover Rück SE keep in contact about sustainability issues via a number of working groups.

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; it identifies risks throughout the Group using key indicators and a number of risk surveys. It has systematically collected information on qualitative risks using a Group-wide risk capture system. Talanx addresses risks spanning multiple divisions, such as compliance risks, by involving the areas or experts concerned. To ensure that the Group has identified all risks, these are compared with the Group's customized, comprehensive risk categorisation system, which is used as the basis for risk identification.

The Talanx Group assesses risks after risk mitigation measures have been taken into account. There are no non-financial aspects that, if they were to be associated with risks, could have severe adverse impacts on our business; this applies both to our business relationships and to our products and services. Our structured sustainability management and the checks performed as part of risk management ensure we can identify potential changes at an early stage. The same applies to Hannover Rück SE, which publishes a separate combined non-financial statement. Talanx monitors emerging risks such as climate change whose risk content cannot yet be reliably assessed as part of its Group-wide risk management process. The Talanx Group captures and assesses these risks in a group-wide process that integrates experts from a number of different units. In addition, the Company makes use of external expertise and material for this.

For a basic overview of the Talanx Group's risk management system and for the impact of the corona pandemic, please refer to the risk report on page 108 ff. of the combined management report.

Anti-corruption and bribery matters

Compliance

For the Talanx 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 that Talanx has defined as core or coordination topics in its compliance programme, the Group puts particular emphasis on ensuring that laws and regulations relating to environmental and social issues are observed.

The corona pandemic that dominated the reporting period led to increased legal monitoring effort. The multilevel training programme had to be adapted, with planned classroom sessions being offered and held as webinars. In addition, monitoring was performed remotely as from April onwards. This applies both to active monitoring by the Company's Compliance function and to passive monitoring by BaFin and by other supervisory authorities abroad.

The Group-wide Code of Conduct, which is available in nine languages, is an effective tool for the Group to make its commitment to complying with the applicable laws transparent. The Code of Conduct for employees was updated during the reporting period and formulates fundamental legal and ethical requirements and duties that Group staff have to abide by during their work. It 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; equity interests in other companies and participations in transactions. The Code of Conduct applies at all Group companies. Employees who have any questions on how to apply it can find further information on the intranet. Talanx's Compliance Guidelines provide more detailed guidance for use in its business processes and underpin this with appropriate rulebooks.

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

The Group's training plan, which is tailored to specific target groups, gives employees regular opportunities to refresh, broaden and deepen their knowledge of selected compliance topics. New employees are given comprehensive information on these issues as part of their induction events. Web-based training (WBT) offerings have become another important training instrument, and were expanded during the reporting period. In addition to the Group's anti-corruption training courses, which ensure that gifts are dealt with correctly, Compliance offers target-group-specific training on financial sanctions and embargoes, integrity, the capital market and antitrust law.

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 updating compliance policies such as 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, it provides in-depth advice on relevant compliance issues as and when needed.

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. These classroom courses were held as webinars during the reporting period due to the corona pandemic. The regular dialogue helps Group Compliance identify any consulting requirements in good time and to develop specially customized training offerings for these. Some years ago, Group Compliance introduced a regular virtual compliance meeting format known as ComplianceXchange, in which it and local compliance officers from around the world regularly share best practice solutions and discuss local developments in individual countries. This dialogue is flanked by information material on specific compliance issues that is tailored to the needs of the individual groups affected. This information is available on demand 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 interest 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 "Supplier management").

GOALS AND MEASURES: "COMPLIANCE"

Goal	Measure	Scope	Deadline	Status
Review Compliance Guidelines for sustainability criteria and incorporate these where necessary	Expand compliance management system to include Group-wide integrity management	Talanx Group	2021	In process
Implement specialist training	Plan corruption prevention training for specific target groups	Talanx Group	2021	In process
Optimise compliance management	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
	Technical upgrade to meeting format for ComplianceXchange to facilitate dialogue within the international compliance community	Talanx Group	2021	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 (CMS) 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. It builds on Talanx's compliance policy, which comprises Talanx's Code of Conduct, Compliance Guidelines and work instructions.

Hannover Re has implemented its own compliance management system, which also applies to the companies within its subgroup. This consists of six elements: compliance culture (comprising the Code of Conduct and the "tone from the top"), the Compliance function (this describes its decentralised approach using global experts), compliance risk (for identifying and reacting to compliance risks), the compliance program (dealing with core compliance subjects), compliance communication (addresses a wide range of topics including reporting, training and the whistle-blowing system) and compliance monitoring and improvement (monitoring of the measures implemented to identify potential weaknesses and implement corrective measures). To this extent, the detailed rules applicable to the elements of the CMS at Hannover Re may differ from the ones described here. From an organisational perspective, Compliance is a department within Legal Affairs, with a defined reporting line to Hannover Re's executive board. In addition, Hannover Re has, for example, drawn up its own business polices and code of conduct for suppliers, its own guideline and process management, its own compliance training concept, separate access to the whistle-blowing system already mentioned above and other channels for reporting compliance issues. In addition to taking part in bilateral liaison sessions, Hannover Re also submits its annual compliance report to the Talanx Group's Chief Compliance Officer.

Adherence to the compliance requirements is verified by Group Compliance and during internal audits. Content reviews of the applicable compliance rules and regulations 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. Further details are provided in the risk report on page 108 ff. of the combined management report.

Social matters

Responsibility to customers

Easy-to-understand information about insurance solutions, financial incentives in the remuneration system for providing fair sales advice, and rapid, transparent claims processing are all material for the Talanx Group in the "responsibility to clients" group of topics. These issues have a significant impact on customer satisfaction. Meeting customer needs is a top priority and is also reflected in the Talanx Values with their reference to "comprehensive customer orientation". Key elements in addition to high-quality advice are transparency, fairness and innovative, customer-oriented products and services.

The Regulation on Information Obligations for Insurance Contracts (VVG-InfoV) imposes extensive duties to inform customers on the insurance industry, which the Talanx Group complies 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). The Talanx Group has also committed voluntarily to complying in full with this code[1].

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 now undertaken to abide by the revised, IDD-compliant version of the Code. Compliance with the requirements is checked at regular intervals.	Germany and HDI Global	2018 onwards	Ongoing
Financial incentives in the remuneration system for providing fair sales advice	The provisions of the IDD were implemented on schedule at HDI Deutschland AG's subsidiaries and HDI Global SE, and have been applied since then.	Germany and HDI Global	2018 onwards	Ongoing

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. The contracts for tied agents require these to comply with HDI's Basic Code for Insurance Agents, whereas the contracts for brokers/non-exclusive agents refer to the basic tenets underscoring the GDV Code of Conduct or an alternative, vetted broker code. 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 used by HDI also provide for a consultation document to be drawn up and made available to customers.

Giving customers easy-to-understand information and focusing on their needs are a component of independent reviews and audits. In 2016, the Talanx Group introduced a compliance management system aimed at ensuring that the code is properly implemented at HDI Versicherung AG, HDI Lebensversicherung AG and its bancassurance companies. This is regularly recertified by independent auditors in accordance with audit standard IDW PS980.

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 increase transparency even further. 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.

Our Group aims to provide customers with fair, transparent service. To ensure this, it constantly examines how it can continue to improve the advice that it provides.

The GDV Code of Conduct for Insurance Distribution emphasises the importance of having qualified sales intermediaries and focuses on continuing 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. The Talanx Group implemented the requirements of the EU's Insurance Distribution Directive, including the related delegated

[1] The code relates exclusively to the primary insurance business and is not relevant to Hannover Re.

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.

To ensure that intermediaries have the necessary qualifications and expertise required for advising customers, the Talanx Group companies concerned are active in the "Gut beraten – Weiterbildung der Versicherungsvermittler in Deutschland" initiative, which was set up by the GDV and the associations representing intermediaries in the German insurance industry. All tied agents are contractually required to take part. The Retail Germany Division has reviewed the provisions on additional remuneration contained in all existing agreements. Where necessary, the companies have drafted new sample agreements and drawn up clear rules redesigning additional remuneration.

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

Above and beyond this, the Talanx Group did not resolve any specific goals for the "responsibility to customers" group of topics in the reporting period.

In view of the corona pandemic, HDI Lebensversicherung AG, HDI Versicherung AG and the bancassurance companies have introduced a "coronavirus pause". Customers that are in economic difficulty can apply for the premiums under an existing policy to be modified, suspended or deferred, with full insurance cover remaining in place. In addition, HDI Versicherung offers free mobility protection, among other things, for customers who are front-line workers and special private accident insurance benefits. The bancassurance companies have prolonged or increased their payment protection insurance benefits in the case of statutory loan payment holidays. In addition, almost all companies took short-term working into account when calculating grace periods for unemployment insurance.

Data protection and cybersecurity

Information is an essential basis for the Talanx Group's 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 the Group collects, processes and stores personal data in connection with human resources management, shareholders and its funds business, among other things. The basic principle applied is that Group employees may only capture, 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. The Talanx Group transfers 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. These 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. The Talanx Group uses these as the basis for conducting awareness-raising measures and training, and for performing random checks. 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 executed 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 of the EU's General Data Protection Regulation (GDPR) and of other statutory data protection requirements (e.g. as a result of court rulings and pronouncements by data protection authorities) 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 are being monitored and must be implemented in line with a brief analysis. The same also applies to new legal requirements such as the e-Privacy Regulation and national legislation supplementing the GDPR. Group Auditing has included complex data protection requirements, such as blocking and deletion policies, in its audit plan. The Group has established a common data protection framework for those branches and subsidiaries that are domiciled in the EU or the European Economic Area (EEA). The branch or subsidiary concerned must observe the national legal data requirements. Centralised consultations (between Talanx AG data protection and the local data protection officers) are now being established, based on a structured survey of the implementation status for the Group measures. The same also applies in the case of rulings by the European Court of Justice, for example.

We have established a data protection management system within the Group (Primary Insurance Group 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 companies in its subgroup. Within the Primary Insurance Group, a distinction must be made between two ways of allocating responsibility, which are described in the following:

GOALS AND MEASURES: "DATA PROTECTION AND CYBERSECURITY"

Goal	Measure	Scope	Deadline	Status
Continue establishing 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	Completed
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 (primary insurance)	2020	Completed
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 (primary insurance)	2020	Completed
Refresher training for senior executives 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 (primary insurance)	2020	Completed
Perform employee data protection training	Roll-out e-learning-based data protection course as refresher training for course held in May 2018	Germany (primary insurance)	2020	In process (starting in January 2021)
Assess monitoring required for EU locations	Use 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	Completed
Maintain ISO 27001 certification	Perform annual monitoring audits and obtain recertification of information security management system after three years	Germany (primary insurance)	Ongoing	In process
Ensure regular training	Perform regular data protection training for new recruits and monitor execution	Germany (primary insurance)	Ongoing	In process
Expand culture of data protection	Measures to ensure compliance with data protection requirements at the Talanx Group and sustainably anchor data protection as part of the processes for core topics and high-profile issues	Germany (primary insurance)	2021	In process
Enhance the GDV Code of Conduct (CoC) for Data Protection	Establish checks on compliance with the rules set out in the CoC (e.g. with the involvement of the data protection coordinators) and ensure external monitoring of the CoC (Art. 41 of the GDPR)	Germany (primary insurance)	2021	In process
Standardise the Talanx data protection organisation	Enhance the Talanx data protection organisation on the basis of IDW PH 9.860.1 (IDW Auditing Practice Statement on Audits of the Implementation of the GDPR and the BDSG) to ensure the auditability of the Group data protection organisation and demonstrate its appropriateness and effectiveness	Germany (primary insurance)	2021	In process

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

HDI Global SE manages its data protection topics 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 actively perform 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 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 2020, the Talanx Group set up a consulting process for HDI Global SE's and HDI International AG's EU locations, which ensures information sharing e.g. in relation to rulings by the ECJ.

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 standards under data protection law. Responsibilities have been established and documented throughout the Group and interfaces to Data Protection Management have been implemented.

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 serve as the interface to 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 at 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.

Customers, 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. In the case of the Talanx Group (with the exception of Hannover Re), 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 and are audited every two years in line with the German Act on the Federal Office for Information Security (BSIG).

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

The security standards in place at the Talanx Group are continuously enhanced by an internal, growth-oriented unit that has been specifically authorised to perform this task and that reports directly to the Chief Information Officer (CIO); the results are constantly monitored. In addition, our staff in this area regularly network with other experts such as those in the BSI's Allianz für Cyber-Sicherheit (ACS). In addition to the deliberate management of IT risks, ongoing awareness campaigns are used to sensitise employees to security issues.

Digital transformation

Digital transformation is a strategic focus at the Talanx Group. The COVID-19 pandemic did not have a material impact on digitalisation at the Talanx Group, since customers were already making greater use of digital channels to submit insurance claims, for example. This strategy is being driven forward by the divisions, in line with the Group's distributed 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 revolves around 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	HDI Global	2022	In process
		HDI International	2022	In process
		HDI Germany	2022	In process
		Hannover Re	2020	In process

ESG in asset management

The Talanx Group has total assets under management of approximately EUR 138.9 billion. Of this figure, 83% was invested in fixed-income securities as at 31 December 2020, 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 short-term investments, 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 the Group is increasingly avoiding non-sustainable investments. To achieve this goal, the Talanx Group has developed a Group-wide ESG screening process. At the same time, it aims to make a positive impact through its asset management activities. It does 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. In the reporting period, Talanx Group companies Hannover Rück SE and Ampega Asset Management GmbH also committed to the PRI. This has strengthened the overarching sustainability strategy for its investments and committed Talanx 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. Talanx has 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, the Group excludes investments in controversial weapons such as anti-personnel mines. Building on this, an expanded global standards screening procedure identifies issuers who infringe international norms and standards, such as the OECD Guidelines for Multinational Corporations or the Universal Declaration on Human Rights. In 2018, Talanx expanded its list of screening criteria to include coal. As a matter of principle, the Talanx Group no longer invests in companies that derive more than 25% of their revenue or generate more than 25% of their power from coal. Above and beyond this, Talanx is limiting the duration of its investments to 2038. This is in line with the Talanx Group's sustainability strategy, which has sets the goal of exiting coal in Germany entirely by that year. The Group also extended its list of screening criteria in 2019 to include oil sands, and now excludes companies generating more than 25% of revenues from this source. The Group also checks whether issuers meet the ESG criteria before making new securities purchases. Talanx uses separate investment guidelines for asset classes such as infrastructure and real estate that cannot currently be included in the screening procedure. Among other things, the Group excludes investments in facilities involving a significant potential environmental impact such as nuclear power projects. Every six months an external service provider performs ESG screening and assesses all tradable fixed-income securities and equities included in the Talanx Group's assets under own management.

In April 2020, an overarching working group was set up to develop a climate strategy for investments with the aim of helping achieve the goals of the Paris Agreement on climate change. The working group comprises representatives of Talanx AG, Hannover Rück SE, HDI Deutschland AG, HDI International AG, HDI Global SE and Ampega Asset Management GmbH. The strategy is currently focused on decarbonising the internally managed bond and equities portfolios, i.e. on reducing these investments' carbon footprint (Scope 1+2). The goal in financial year 2021 is to resolve a significant carbon intensity reduction target in this area (compared to the 31 December 2019 reporting date) for the period up to 2025. In addition, the Group is examining how a climate strategy can be extended to cover additional asset classes, and how climate-friendly investments and engagement activities can be implemented as part of strategy.

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 core selection criterion for investments is a regulated environment, e.g. in the form of statutory feed-in fees, incentive-based regulation or public-private partnerships (PPPs). The Group's infrastructure investments are mainly located in the eurozone, with the focus being on projects in the areas of transport, energy and social infrastructure. In addition, communications infrastructure projects (e.g. fibre optics) are becoming increasingly important. 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, its diversified infrastructure portfolio includes, among other things, finance for wind and solar farms, power grids and PPP projects in Germany and the rest of Europe.

In addition, direct infrastructure investments with investment volumes of between EUR 50 million and EUR 150 million per project (equity) and between EUR 50 million and EUR 250 million (debt) are planned; the investment horizon is approximately 5–30 years. As at 31 December 2020, the Talanx Group had made available a total of roughly EUR 3.7 billion for direct investments in infrastructure projects. More than EUR 2 billion of this figure is attributable to renewable energies. For 2021, the Infrastructure Investments team expects new investments to total approximately EUR 300–500 million of equity and debt.

GOALS AND MEASURES: "ESG IN ASSET MANAGEMENT"

Goal	Measure	Scope	Deadline	Status
Reduce carbon footprint (Scope 1 + 2)	Resolve and implement a carbon intensity reduction target for internally managed bonds and equities (compared to the 31 December 2019 reporting date) for the period up to 2025.	Talanx Group	Resolution in 2021, implementation by 2025	In process
Check sustainability criteria when selecting investments	RIC to continuously review and, where appropriate, fine-tune the sustainability approach applied in asset management (filter catalogue extended to include oil sands and phaseout of coal by 2038)	Talanx Group	Ongoing	In process
Increase investments in infrastructure and renewable energy sources that contribute to climate protection 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	Analyse portfolio using negative screening criteria every six months; exclude and actively shed holdings of non-conforming issuers; apply a best-in-class approach	Hannover Re	2020	In process

ESG in insurance solutions

The inclusion of social matters and support for environmentally friendly products and projects are in line with the growing importance attached by the Talanx Group's customers to these issues. Customer satisfaction also improves employee satisfaction and staff identification with their employer, among other things. 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 the impact of any damage can be remedied or mitigated. Information on provisions for asbestos-related claims is contained in our risk report on page 108 ff. The insurance business essentially has a positive social impact – it involves transferring risk so that losses arising from loss events can be absorbed and financial protection can be provided for both entities and individuals.

Nevertheless, the potential indirect ecological and social impacts of the insurance business on sustainable development, such as any consequences that insured projects may have, must be borne in mind. The Talanx Group 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, the aim is not to have any coal-fired power stations or coal mines in the portfolio by 2038. In 2020, the underwriting policy for coal risks was extended to include oil sands.

In financial year 2020, Talanx AG signed up to the Principles for Sustainable Insurance (PSI), a finance initiative launched by the United Nations Environment Programme. By doing so, it has voluntarily committed to continuously improving the sustainability of its insurance business in line with the initiative's four principles.

In financial year 2019, Talanx's Board of Management decided to add a fixed item – the "Responsible Underwriting Committee" (RUC) – to the agenda for its meetings twice a year, in the interests of increasing internal transparency about ESG aspects in underwriting. This body is also looking more closely at ESG aspects in underwriting.

The RUC was established in January 2020 and consists of Talanx's Board of Management. It meets at least twice a year.

A Group-wide working group was established in the 2020 reporting period to look at ways of incorporating sustainability criteria into underwriting for individual risks. The working group's goal is to identify and monitor business activities that are particularly impacted by ESG aspects. In these cases, the underwriting process is monitored specially using procedures that are defined and managed for each type of business by the Group units involved. The working group's tasks also include information sharing between Group units, discussing how to deal with such ESG aspects and making recommendations to the Responsible Underwriting Committee.

The Responsible Underwriting Committee supplements the Responsible Investment Committee (RIC), which was established in 2017. The goal of both committees is to support the process of identifying and prioritising material ESG topics.

GOALS AND MEASURES: "ESG IN INSURANCE SOLUTIONS"

Goal	Measure	Scope	Deadline	Status
Support, develop and expand sustainable insurance solutions	Establish the Responsible Underwriting Committee (RUC)	Talanx Group	2020	In process
	Support various sustainability initiatives and frameworks (PSI, UN Global Compact)	Talanx Group	2020	Done
	Expand TCFD reporting	Talanx Group	2021	Ongoing
	Withdraw from providing insurance cover for oil sands and coal risks	Talanx Group	2038	In process
	Reduce exposure to fossil fuels	Hannover Re	2020	Ongoing
	Increase facultative insurance business's exposure to renewable energies	Hannover Re	2020	Ongoing
	Support various sustainability initiatives, including in developing and threshold countries	Hannover Re	2020	Ongoing
	Expand sustainable insurance solutions in Life & Health area	Hannover Re	2020	Ongoing

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. 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 reinsurance solutions, 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

The Talanx Group's human resources activities aim to support staff[2] in their work in such a way as to best achieve its corporate goals, and attract and retain new employees. 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 up-to-the-minute recruitment processes and staff qualification/professional development topics down to designing incentive systems and state-of-the-art working conditions.

The corona pandemic that dominated the reporting period is also impacting a large number of aspects in the world of work and has substantially accelerated existing developments. These include greater integration of office and remote working, working time models that are adapted to meet employees' situations, and opportunities for digital learning. These changes are becoming more and more of a fixture in modern, agile working environments and enhance both the Company's attractiveness on the labour market and employee satisfaction, loyalty and commitment.

[2] Gender-neutral language has been used throughout this report.

Employee recruitment and development

Talanx's employees use their talents in numerous ways to make the Company's business a success and to promote customer satisfaction. The Group's professional programmes assist in employee development and help staff continuously enhance their skills. Its 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. Diversity management is taken into account when recruiting and developing staff. For us, this means consciously encouraging employee diversity so as to ensure our decisions are based on the broadest possible range of skills and experience and a wide variety of perspectives. The Group gives ensuring equal opportunities a high priority here, so that all employees can deploy their skills and talents as optimally as possible. Human resources controlling is responsible for planning, managing and evaluating human resources activities and processes. Key elements of this process include regular headcount trend analyses and human resources reporting (both internal and external). Talanx's Operational Auditing Competence Centre regularly performs risk and process audits for the human resources area based on the principles set out by the Institute of Internal Auditors (IIA).

In future, the Group will use the newly designed HDI Group employer brand to recruit top talent and specialists. This new brand aims to specifically attract people who are drawn to the new slogan, "Together. We (re)shape insurance". This has created a basis for downstream human resources marketing activities. For example, greater use is being made of social media channels to communicate with potential applicants, based on the new careers.hdi.group website. Group Marketing combines the employer brand with active sourcing of potential recruits on social media so as to attract latent candidates for open positions. In 2020, the HDI Group also took part in a number of (digital) university and careers fairs in order to position its companies as attractive employers.

GOALS AND MEASURES: "EMPLOYEE RECRUITMENT AND DEVELOPMENT"

Goal	Measure	Scope	Deadline	Status
Review human resources guidelines for sustainability criteria and add these where necessary	Analyse/review existing guidelines for sustainability criteria	Germany (primary insurance)	Ongoing	In process
Ensure adequate numbers of talented young staff	Promote initial vocational training and dual-track degree programmes	Germany (primary insurance)	Ongoing	In process
Maintain/restore employees' working capacity	■ Roll out employee health days/ health management to locations ■ Employee qualification offerings ■ Sports offerings for employees	Germany (primary insurance)	Ongoing	In process
	■ Continue existing health/screening and prevention programmes ■ Expand health promotion programmes by at least 10%	Hannover Re	2020 2023	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 2020: 2.7 days	Germany (primary insurance)	Ongoing	In process
Attract, identify, develop and retain high-performing, suitable staff	Design and enhance powerful branding and recruitment systems	Hannover Re	2023	In process
Promote life-long learning among employees worldwide	Align education and training measures with Hannover Re's values and core competencies and expand reporting on the global training offering	Hannover Re	2023	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. Our development programs and training measures were migrated to virtual formats within a very short space of time in 2020, which was dominated by the effects of the corona pandemic. This meant that Talanx was able to safeguard systematic employee development. In addition, 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 the Group's human resources development work. Customised development programmes are used to prepare and qualify high-potentials for their future work. The development programme for young professionals that we launched in 2018 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 enhance their personal skills. In 2018, Talanx established an Agility Campus for executives and employees in order to facilitate its transformation into an agile organisation. This comprises a number of different modules, teaches participants about agile methods and helps promote an agile mindset. One focus of the almost entirely digital training offering in 2020 was on working together in virtual environments and leadership. 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 a 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 2020 was on leadership and digital transformation.

The Talanx Group's university marketing strategy focuses on selected universities in order to recruit suitable graduates for the Group. In addition, the Group, local 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 the Talanx Group's moderate employee turnover rate and the long periods of staff service.

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 incorporating relevant aspects in their daily work. The basics were taught in a well-attended two-day seminar, while opportunities for introducing the topics and all the relevant details were addressed as appropriate – alongside other topics – during the "Praxistage", or examined more concretely in customized workshops for individual departments. In addition, Hannover Re continued offering prevention seminars designed to improve resilience and expanded these to include recovery skills.

Talanx as an employer

The Talanx Group's 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. The Group's goal is to actively strengthen diversity so as to maintain and enhance its competitiveness. The Talanx Group employs men and women from an extremely wide range of national, ethnic, religious and personal backgrounds. Numerous examples show how the nature of work within the Group is changing. These include a growing number of female and older employees, the entry into the workforce of generations Y and Z, demands 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 "Employee recruitment and development").

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 at the company concerned)	Recruit women to at least 25% of vacant management positions at all levels of the hierarchy in Germany	Germany (primary insurance)	2020	Done
	Recruit women to at least 35% of management positions	WARTA Group	2020	Done
	Mentoring programme for women	Germany	Ongoing	In process
	Women@Talanx network	Germany	Ongoing	In process
	Seminar offering for women	Germany (primary insurance)	Ongoing	In process
Women should account for at least 18% of second- and third-level management positions at the Hannover location	Additional round of the mentoring programme for women in 2019–2020	Hannover Re	Ongoing	In process
Increase diversity at all levels of management, especially with respect to women	Gender-neutral new/replacement appointments (50/50) to all vacant positions at all levels of management worldwide	Hannover Re	2023	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 ■ Plan a daycare centre at the Hannover location	Germany (primary insurance)	Ongoing 2020	In process 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 ■ Mobile working to be offered globally	Hannover Re	2020 2023	In process 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
Board of Management remuneration system	Concept for integrating Talanx's sustainability strategy	Talanx Group	2020	Done
	Development and enhancement of Talanx's sustainability strategy	Talanx Group	2021	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 decision by the Talanx Board of Management in September 2020 to make a Board of Management member responsible for diversity underscores the importance that promoting this topic within the Company has for the Talanx Group. In addition, the Group Board of Management has issued a Diversity Commitment undertaking to acknowledge, value and incorporate diversity as part of Talanx's corporate culture, and signed Germany's Diversity Charter (Charta der Vielfalt), which serves as a binding basis for our activities, back in 2013. Equally, it takes diversity into consideration when making appointments to management positions, in line with the Company's Corporate Governance Principles.

The "Women@Talanx" network gives the Talanx Group's female employees a platform for gender-specific networking. The members of the group 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 who have returned to work following parental leave have received a tax-free Group subsidy of up to EUR 100 per month in the first year towards the cost of looking after their pre-school children. Parent-child offices at a number of locations help solve short-term childcare problems. A dedicated day care centre is being planned for Hannover and is scheduled to open in 2021.

Employees have access to a comprehensive range of preventive measures as part of the Company's holistic health management programme, allowing them to strengthen their personal resources. Health days are held regularly at all German locations; in 2020 an overarching digital HDI Health Week was held for the first time. 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 invites all 23,500 or so employees to take part in an "Organisational Health Check" (OHC) survey. The OHC was held for the second time in 2020 and comprised around 50 questions.

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 Group pay 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 using the standardised Hay method.

A concept for integrating Talanx's sustainability strategy with the Board of Management remuneration system was resolved in the reporting period. The objective is to cover all strategic focal areas for sustainability (operations, underwriting, investments and social commitment). Work on implementing this in the Talanx Group and its business areas will continue in 2021.

Respect for human rights

Human rights at Talanx

The importance of the "human rights at Talanx" topic was underlined in the past financial year when the revised version of the Code of Conduct for Employees was resolved. Nobody in the Group may be forced to work through violence or intimidation. Fairness, politeness and respect for individuals' personal rights are key principles that are enshrined in Talanx's Code of Conduct and form the basis for how we interact with each other.

In addition, as required by section 54(5) of the UK Modern Slavery Act 2015, the following Group statement sets out the measures that the Talanx Group took in financial year 2020 to prevent modern slavery and human trafficking:

GOALS AND MEASURES: "HUMAN RIGHTS"

Goal	Measure	Scope	Deadline	Status
Revise Talanx's Code of Conduct	Stronger focus on the human rights aspect	Talanx Group	2020	Done
Commitment to respecting human rights	Join the UN Global Compact	Talanx AG	2020	Done
Comply with human rights due diligence	Define measures in keeping with the UN Guiding Principles on Business and Human Rights	Hannover Re	2023	In process

The Talanx Group is aware of its responsibilities as an international group to its customers, investors, employees and business partners. The Group is committed to the applicable laws, conventions and regulations that respect human rights worldwide and actively support employee rights. Talanx uses internal rules to underscore the importance of compliance for employees and business partners; these are designed to ensure that human rights are respected, and that compliance in this area is monitored. 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 also "Compliance") and on the Code of Conduct for Business Partners (see "Supplier management").

Talanx's diversity management also includes human rights aspects. Diversity involves a holistic approach that is based on the principles of universal human rights. Back in 2013, the Board of Management signed the Diversity Charter, a corporate initiative designed to promote diversity at companies and institutions. The Group promotes diversity, combats discrimination and supports employee development regardless of their age, ethnic origin, nationality, gender and gender identity, physical and mental abilities, religion, ideology, sexual orientation or social origin. In its "Diversity Commitment", the Group Board of Management has undertaken to acknowledge, value and incorporate diversity in Talanx's corporate culture (see also the section entitled "Talanx as an employer"). By signing up to the UN Global Compact, Talanx has undertaken to comply with international human rights. The first six of the initiative's principles cover respect for human rights and the implementation of labour standards (the ILO core labour standards). In addition to supporting international human rights, the Group has also pledged its commitment to freedom of association, to make sure it is not complicit in human rights abuses, to eliminate force labour and child labour, and to eliminate discrimination in respect of employment and occupation.

Talanx also gives particular support to 7 out of the UN's 17 Sustainable Development Goals, focusing on those topics in which it can make a concrete difference. These include SDG 5 (Gender Equality) and 8 (Decent Work and Economic Growth).

In addition, the Group takes human rights into account explicitly in its core business, i.e. investment (see also "ESG in asset management") and underwriting. The regular RUC meetings (see also "ESG in insurance solutions") transparently identify and examine ESG aspects of underwriting; in line with this, the committee also addresses human rights aspects, for example.

Supplier management

Although Talanx considers the risk of human rights abuses and of significant negative environmental impacts in its supply chain to be minor, the Group takes care when selecting suppliers to ensure that they comply with national legislation on environmental protection and human rights, and with the Talanx Values. It has developed a uniform Group Code of Conduct for Business Partners, which was resolved by the Board of Management, in order to underscore its commitment and 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.

The implementation process for the new code was launched in the individual divisions during the reporting period. For example, IT Purchasing issued a new invitation to tender for IT service providers in 2020, which included successfully piloting the use of the new code. As a result, the code has been incorporated in the new master agreements with all preferred and qualified business partners for IT services. Hannover Re also uses a similar code and has developed corresponding procedures.

GOALS AND MEASURES: "SUPPLIER MANAGEMENT"

Goal	Measure	Scope	Deadline	Status
Take sustainability management criteria into account more in procurement	Develop and successively implement a uniform Group code of conduct for suppliers in the appropriate languages	Talanx Group	2018	In process
Ongoing requirement that IT and non-IT suppliers throughout the world comply with environmental and social standards	Ongoing supplier selection and assessment in accordance with environmental and social standards	Hannover Re	2020	In process

Environmental matters

Climate change

The Talanx Group does not just address the issue of climate change from a social responsibility perspective, but also because the topic affects its business and its economic success directly. The average temperature on Earth is rising as emissions of greenhouse gases increase. In turn, this is leading to more extreme weather events, which are leading to significantly higher losses from natural disasters and to the assumption for us, as insurers, of a growing need for insurance solutions in this area. This affects both primary insurance and reinsurance. The Talanx Group is aiming to make a contribution in three areas – through investments, underwriting and environmental management – and to steadily expand it going forward. We can best achieve this by taking into account, and actively participating in, initiatives and frameworks such as the UN Global Compact, the PRI, the United Nations Environment Programme Finance Initiative (UNEP FI)/PSI and the Allianz für Klima und Entwicklung (Alliance for Climate and Development).

GOALS AND MEASURES: "CLIMATE CHANGE"

Goal	Measure	Scope	Deadline	Status
Support for the TCFD recommendations	Expand TCFD reporting	Talanx Group	2021	Ongoing
Climate scenario analysis	Use of scenario analyses to assess the risks and opportunities associated with transitioning to a low-carbon economy and society, and the risks resulting from the physical effects of climate change	Talanx Group	2021	In process

The Task Force on Climate-related Financial Disclosures (TCFD), which the Talanx Group has supported since the spring of 2020, published dedicated recommendations for transparent, effective corporate climate reporting in 2017. For example, the TCFD calls on companies to transparently disclose their strategy for dealing with the opportunities and risks associated with climate change to their shareholders and other stakeholders.

Due to the complexity of the challenges resulting from climate change, the Talanx Group's departments share information both regularly and ad hoc, especially with Risk Management (see "Sustainability strategy and governance"). Particularly important in this context are the Group's two ESG bodies – the RIC and the RUC – which are helping to put Talanx's sustainability strategy into practice.

The challenges posed by climate change impact all areas of the 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. Since climate change impacts a number of non-financial aspects, please see the corresponding sections of the consolidated non-financial statement for a presentation of the related targets and measures. Talanx's Board of Management formulated the overarching strategic goal of achieving carbon neutrality at its German locations from financial year 2019 onwards. After determining its corporate carbon footprint in Germany for the first time in 2019, the Group again offset approximately 36,000 tonnes of unavoidable carbon emissions in 2020 using two high-quality offset projects in Indonesia and Brazil (reforestation: REDD+; Verified Carbon Standard (VCS) & Climate, Community and Biodiversity (CCBS) project), achieving its sustainability goals as a result. Talanx's approach is firstly to avoid and secondly to reduce greenhouse gases, and only in a third step to offset them.

"Climate change" is a cross-cutting material topic that also impacts other non-financial aspects, including "environmental protection in the enterprise", "ESG in asset management" and "ESG in insurance solutions". For this reason, the goals and measures derived for the "climate change" aspect, e.g. in relation to carbon neutrality, are to be found there.

Environmental protection in the enterprise

As a service provider, the Talanx Group has a comparatively small environmental impact. The effects that it does produce stem mainly from its employees, who consume energy and materials, take business trips, and travel to and from work every day. In the reporting period, these environmental impacts were substantially lower due to the corona pandemic and the resulting recommendation in favour of widespread mobile working. Nevertheless, the Group aims to minimise the negative ecological impact of its business operations. The Talanx Group's attempts to make its day-to-day operations and procurement activities sustainable and cost-efficient are focused on using resources sparingly. This applies in particular to the consumption of energy, water and materials.

The Group intends to reduce its emissions and energy consumption, and is constantly reviewing the progress being made towards this goal. The energy audits in accordance with DIN EN 16247 that the Group performs in line with the German Energy Services Act (EDL-G) also help here. Talanx is consciously using its participation in local initiatives such as "Hannover ohne Plastik" to take stock of its situation, analyse its weaknesses and develop measures to improve its internal environmental management. Its analyses and reviews also incorporate ESG rating results.

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 2020 covered deliveries of 25,900 MWh.

The Talanx Group is helping employees get to work in an environmentally friendly way by subsidising local public transport offerings at a variety of locations in Germany. It aims to reduce the number of internal business trips by making greater use of videoconferencing technology. Once again, the corona pandemic has substantially accelerated this development and is also having an effect on ways of working within the Group: we are seeing fewer or no business trips and largely mobile work or hybrid work (i.e. a mix of office work and mobile work). A "New Work" task force at the Talanx Group is developing fundamentally new ways of working with the aim of defining a framework for how to organise work in future.

Since the Talanx Group provides insurance and financial services, the "materials used" aspect mainly relates to paper consumption. The volume of other materials used by the Group in producing insurance cover and other services is not significant. Talanx focuses on a variety of sustainability seals when procuring paper. It is also continuously optimising energy consumption at its 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, 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. The Hannover location has been consistently climate-neutral since 2016. Since then, the environmental management system has undergone annual certification audits; from 2016 onwards, these have been conducted in accordance with the revised DIN EN ISO 14001:2015 standard. In addition, Hannover Re has published a validated Eco-Management and Audit Scheme (EMAS) III environmental statement every year since 2016.

GOALS AND MEASURES: "ENVIRONMENTAL PROTECTION IN THE ENTERPRISE"

Goal	Measure	Scope	Deadline	Status
Carbon-neutral operations	Successive expansion of carbon footprinting and offsetting of unavoidable carbon emissions	Talanx Group	2030	In process
Reduce CO_2 emissions and consumption of energy and resources	Successively migrate to renewable energies	Germany	2018 onwards	Done
	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)	Talanx Group, 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 (primary insurance)	Ongoing	In process
Expand and promote sustainable mobility policies	Equip all company cars with a Climate Card fuel card, which ensures that their CO_2 emissions are offset in full.	Germany (primary insurance)	2020	Done
	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 and acquired 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 (primary insurance)	2020	Done
	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 (primary insurance)	2020	In process
	Use e-smarts for city trips in Hannover, Essen, Hamburg and Dortmund in order to reduce pollutant emissions	Germany (primary insurance)	2017 onwards	In process
	A pilot project at our headquarters in Hannover is offering employees 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 (primary insurance)	2017 onwards	In process
	Implement the measures resulting from the "ÖKOPROFIT" project	Germany, Hannover (primary insurance)	2019 onwards	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 (primary insurance)	2019 onwards	Implementation ongoing
	Electricity peak shaving	Germany (primary insurance)	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	Ongoing requirement that IT and non-IT suppliers throughout the world comply with environmental and social standards	Hannover Re	2020	In process

Corporate Governance

Declaration on Corporate Governance in accordance with sections 289f, 315d of the German Commercial Code (HGB)[1]

Here Talanx AG provides an insight into its corporate governance practices as part of the Declaration on Corporate Governance in accordance with sections 289f and 315d of the HGB in conjunction with section 289f of the HGB for the Talanx Group.

Corporate Governance

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, which are based on the German Corporate Governance Code ("the Code") (https://www.talanx.com/media/Files/talanx -gruppe/pdf/corp_gov_en.pdf). 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.

As a way of facilitating industry self-regulation, the Code establishes best practices in corporate governance and aims to make the German corporate governance system clear and transparent. It aims to promote confidence in the management and monitoring of listed German companies by national and international investors, customers, employees and the general public. While the Code is not legally binding, section 161 of the German Stock Corporation Act (AktG) requires users to declare each year whether or not the recommendations of the Code have been and continue to be observed in practice. If recommendations are not met, the reasons for this must be explained and published in the declaration of compliance.

Talanx's positive stance on the Code 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.

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

Declaration of Compliance with the German Corporate Governance Code by Talanx AG pursuant to section 161 of the AktG

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 compliance with the recommendations of the Government Commission on the German Corporate Governance Code published by the Federal Ministry of Justice and Consumer Protection, or alternatively to explain which recommendations were or are not being followed and why. The following declaration is divided into two sections, reflecting the fact that the German Corporate Governance Code (the "Code") has been updated since the last Declaration of Compliance was issued on 8 November 2019.

I. German Corporate Governance Code in the version dated 7 February 2017

The Board of Management and Supervisory Board hereby declare pursuant to section 161 of the AktG that, with the exception of the departures stated below, Talanx AG complied with the recommendations of Code in the version dated 7 February 2017 in the period between the issuance of its last Declaration of Compliance on 8 November 2019 and the publication on 20 March 2020 of the Code in the version dated 16 December 2019.

Section 4.2.3 (2) of the Code (cap on variable remuneration components in Management Board 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 believed that it did not make sense in the context of the existing remuneration system 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.

[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).

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

Section 4.2.3 (4) of the Code (severance caps in Management Board 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 have departed from the recommendation set out in section 4.2.3 (4) of the Code in the above-mentioned period.

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

The current Chairman of the Finance and Audit Committee is also the Chairman of the full 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 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 have departed from the recommendations contained in section 5.3.2 (3) sentences 2 and 3 of the Code in the above-mentioned period.

II. German Corporate Governance Code 2019 in the version dated 16 December 2019

Additionally, the Board of Management and Supervisory Board hereby declare pursuant to section 161 of the AktG that, with the exceptions of the departures stated below, Talanx AG has complied with the recommendations of the Government Commission on the German Corporate Governance Code in the version dated 16 December 2019 in the period since their publication on 20 March 2020, and that it will continue to do so in future.

Recommendations C.10 sentence 1 and D.4 sentence 2 of the Code (Chair of the Supervisory Board, Chair of the Audit Committee, and Chair of the committee that addresses Management Board remuneration; independence from the Company and the Management Board)

Prior to his appointment as a member of the Supervisory Board, Talanx AG's current Chairman of the Supervisory Board, Chairman of the Finance and Audit Committee, and Chairman of the Personnel Committee was a member and Chairman of the Company's Board of Management. Our goal is for his comprehensive 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. Together with his many years' experience of managing the Company and the Group, this makes him particularly well suited to the role of Chairman of the committees. Moreover, he has extensive experience of designing remuneration systems for boards of management, due in particular to his many years' work as a supervisory board member at Group companies. For this reason, the Company believes that the current Chairman of the Supervisory Board is optimally suited to chairing the Finance and Audit Committee and the Personnel Committee.

It is therefore in the Company's interests to depart from the recommendations contained in sections C.10 sentence 1 and D.4 sentence 2 of the Code.

Recommendations G.1, G.10 and G.11 (remuneration of the Management Board)

Following the publication of the new Code on 20 March 2020 the Supervisory Board resolved, with effect from 1 January 2021, a new remuneration system for the Board of Management that complies with the recommendations of the new Code in the version dated 16 December 2019. This remuneration system will be implemented in the Board of Management contracts effective 1 January 2021. The Code in the version dated 16 December 2019 does not require the recommendations on Board of Management remuneration contained in section G to be implemented in current Board of Management contracts for the period up to 31 December 2020.

To ensure a uniform remuneration system for the Board of Management as a collegiate body, the remuneration arrangements for Dr Christopher Lohmann, who was appointed to the Board of Management for the first time on 1 August 2020, were structured in line with the system used for the other members of the Board of Management. For this reason, the remuneration arrangements for Dr Christopher Lohmann that apply for the period up to 31 December 2020 correspond to the Company's existing remuneration system for the Board of Management and are therefore not in line with the Code in the version dated 16 December 2019.

Therefore, as a highly precautionary measure, Talanx AG hereby draws attention to the fact that, for the period up to 31 December 2020, this involves a departure from recommendations G.1 (cap on the maximum amount of Talanx share awards at the time they are paid out), G.10 (predominately share-based variable remuneration) and G.11 (retention or reclaiming of variable remuneration) of the Code in the version dated 16 December 2019 in relation to the Board of Management contract for Dr Christopher Lohmann, who was appointed to the Board of Management for the first time on 1 August 2020. With effect from 1 January 2021, the remuneration system for all members of the Board of Management will comply with the recommendations of the Code in the version dated 16 December 2019.

The Company will also continue to comply with all recommendations of the Code in the version dated 16 December 2019 in future, with the exception of the departures set out in Section II. of this Declaration of Compliance.

Hannover, 11 November 2020

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

The declaration of compliance and further information on corporate governance at Talanx can be found on our website at https://www.talanx.com/en/talanx-group/corporate_governance/declaration_of_conformity. 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.

Sustainability

The Talanx Group is working on making the company more sustainable in all areas. As a company that is steeped in tradition yet also modern, Talanx is rising to this challenge and supporting the process of transitioning into a low-emission, socially responsible economy. This holistic approach is the basis of Talanx's sustainability strategy, which is continuously being refined and developed from year to year. You can find detailed information on sustainability at our website (https://www.talanx.com/en/talanx-group/sustainability).

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 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 Constitution

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 the 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 the 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 regularly assesses how effective the work of the Supervisory Board as a whole and its committees is. The next self-assessment, which is performed every three years, is scheduled for 2022.

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. A systematic approach is taken here: a list of potential candidates, together with development periods and taking account of diversity targets, is maintained, regularly updated and discussed in the committee. The list is frequently a topic of reports and advice at committee meetings and is discussed in detail, including in connection with the Board of Management's strategic talent management goals.

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 two independent members, both from the Company and from its Board of Management and from the controlling shareholder, is considered appropriate. A review of the current Supervisory Board found that the five shareholder representatives currently on the Supervisory Board are considered independent in this sense: Ms Aschendorf, Mr Lohmann, Dr Jung, Mr Steiner and Ms Titzrath. Dr Schipporeit and Dr Lindner also largely meet the independence criteria set out in the Code. However, they have been on the board for more than 12 years as they were initially appointed on 27 June 2003.

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 90 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 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 20,000. In relation to this, Talanx AG not only ensures that it makes the relevant disclosures and publications required in accordance with Article 19 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 2020.

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. In addition, Compliance continuously monitors regulatory and legal developments, which changed during the reporting period as a result of the coronavirus pandemic and associated shift in general conditions and led to noticeable efforts on the part of Compliance. The results from risk analyses and legal monitoring are incorporated into the compliance plan, which paves the way for the risk-oriented resource input in terms of compliance work across the Group in the coming year. The result of our compliance work is documented in the compliance report, which the Board of Management submits to the Finance and Audit Committee before the annual financial statements are adopted. The report sets out the Talanx Group's structure and its wide range of activities in this area.

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.

Statutory requirements and provisions of the Articles of Association governing the appointment and dismissal of Members of the Board of Management and amendments to the Articles of Association

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

The Supervisory Board appoints the Members of the Board of Management for a maximum period of three 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 termination.

Compensation arrangements in the event of a takeover bid

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

Remuneration report

The remuneration report describes and explains the basic features of the remuneration structure for the Board of Management of Talanx AG, the amount of the remuneration paid to the Board of Management and the key criteria for its calculation. The description covers the payments made to the Board of Management in financial year 2020 in respect of the activities of the Members of the Board of Management on behalf of Talanx AG and its consolidated companies. It also explains the structure and amount of remuneration paid to the Supervisory Board of Talanx AG and the basic principles governing the remuneration of senior executives below the level of the Group Board of Management.

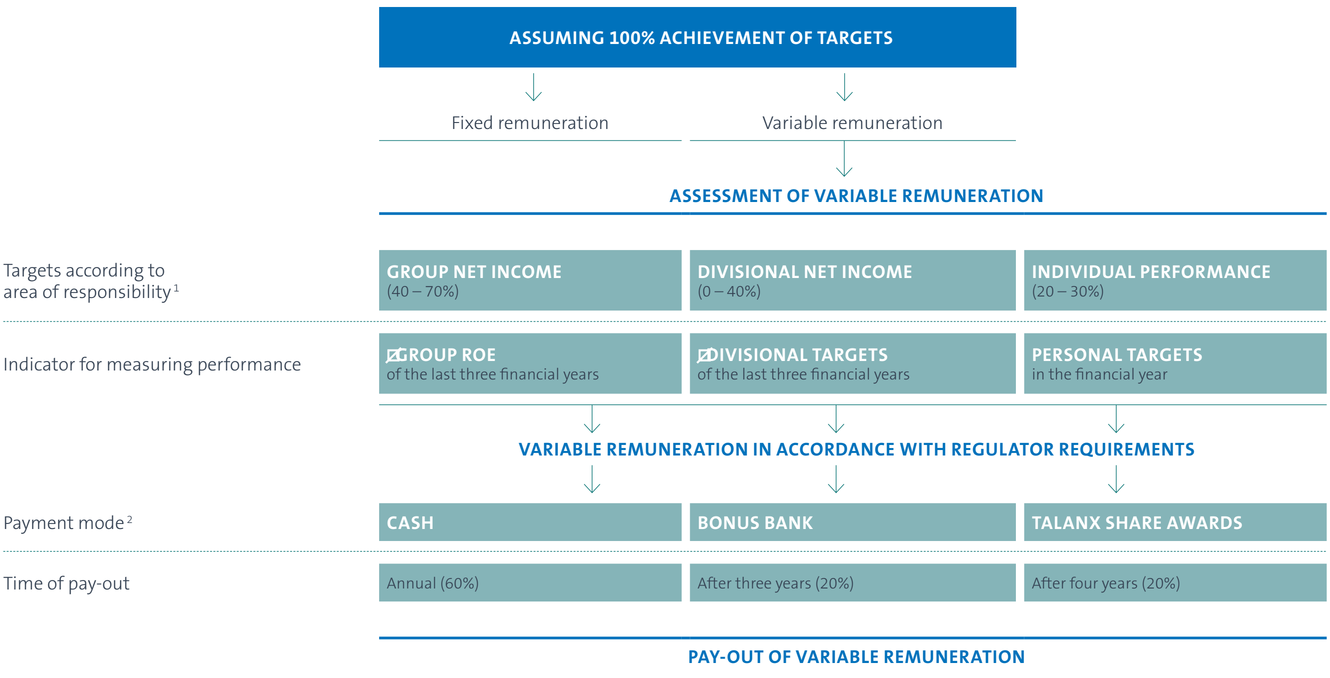
The remuneration report is based on the recommendations of the German Corporate Governance Code and contains information that is included in the Notes to the 2020 consolidated financial statements in accordance with IAS 24 “Related Party Disclosures”. In accordance with German commercial law, the information 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). As well as the MDAX companies, a comparison group of selected peer group companies from the insurance sector was also used for the market comparison. At present, these companies are Allianz SE, AXA S.A., Generali S.p.a, Mapfre S.A., Münchener Rückversicherungsgesellschaft AG, Swiss Re AG, Vienna Insurance Group AG and Zurich Insurance Group AG. 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 65% 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 2020: 0.0%). 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 section 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 2020: 8% ■ 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 three-year 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 three-year 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, there is no claim for any amounts to be paid into the bonus bank and no share awards may be allocated 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 member of the Board of Management in the last year – or part-year – of his or her work.

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.

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

Amount of remuneration for the Board of Management
The aggregate benefits for all active Members of the Board of Management in respect of their activities on behalf of Talanx AG and its affiliated companies amounted to EUR 10,736 (12,329) 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	**2020**	850	12	913	240	304
	2019	850	12	1,008	123	336
Sven Fokkema (until 31 December 2020)	**2020**	450	18	394	—	131
	2019	450	13	433	—	144
Jean-Jacques Henchoz (since 1 April 2019)	**2020**	880	31	952	—	317
	2019	693	1,077	836	—	279
Dr Wilm Langenbach (since 1 December 2020)	**2020**	45	1	68	—	—
	2019	—	—	—	—	—
Dr Christopher Lohmann (since 1 August 2020)	**2020**	229	417	233	—	78
	2019	—	—	—	—	—
Dr Edgar Puls (since 9 May 2019)	**2020**	360	9	311	—	104
	2019	232	6	210	3	70
Dr Immo Querner [10] (until 31 August 2020)	**2020**	425	12	313	63	104
	2019	638	19	582	113	194
Dr Jan Wicke	**2020**	679	2	634	14	211
	2019	677	—	650	13	217
Total [11]	**2020**	**3,918**	**502**	**3,818**	**317**	**1,249**
	2019	**3,997**	**1,135**	**4,435**	**260**	**1,381**

1 No governing body resolution regarding the amount of performance-related remuneration for 2020 had been taken as at the 2020 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 2020.
3 The figure shown represents the nominal amount; payment will be made in full or in part from 2024 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 2025 at the value applicable at that time.
5 Total of I, II, III, V, VI, VII.
6 Estimate of number of Talanx share awards to be granted, based on the XETRA closing price of Talanx shares as at the reporting date (EUR 31,76 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 2021.
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 130,30 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 2021.
8 Payments for performance-related remuneration in 2019 were EUR 183 thousand lower (previous year: EUR 330 thousand more) than the provisions recognised for this. The total amount recognised for performance-related remuneration in 2020 and the number of share awards for 2020 were increased accordingly.
9 The non-performance related remuneration includes a special payment of EUR 400 thousand for Dr Lohmann for 2020 and EUR 1,000 thousand for Mr Henchoz for 2019.
10 The figure shown represents the benefits for Dr Querner's work performed as an active member of the Board of Management. His further benefits for financial year 2020 of EUR 501 thousand are included in the aggregate benefits of former members of the Board of Management.
11 Overall remuneration for 2019 includes pro rata remuneration for Dr Hinsch (536) and Mr Wallin (927).

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]
304	—	2,383	9,584	—
336	—	2,542	7,609	—
131	—	1,124	4,135	
144	—	1,184	3,266	—
63	254	2,497	1,980	2,122
50	229	3,164	1,121	1,489
—	—	114	—	
—	—	—	—	—
78	—	1,035	2,450	
—	—	—	—	—
104	—	888	3,261	
70	—	588	1,582	—
104	—	958	3,282	
194	—	1,627	4,390	—
211	—	1,737	6,652	
217	—	1,761	4,906	—
995	**254**	**10,736**	**31,344**	**2,122**
1,044	**337**	**12,329**	**23,618**	**1,892**

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	2020	89	—	24	—	—	—	113
	2019	71	—	459	—	—	—	530
Sven Fokkema (until 31 December 2020)	2020	101	—	80	—	—	—	181
	2019	60	—	46	—	—	—	106
Jean-Jacques Henchoz (since 1 April 2019)	2020	30	123	16	58	—	—	227
	2019	15	70	—	—	—	—	85
Dr Wilm Langenbach (since 1 December 2020)	2020	—	—	—	—	—	—	—
	2019	—	—	—	—	—	—	—
Dr Christopher Lohmann (since 1 August 2020)	2020	11	—	—	—	—	—	11
	2019	—	—	—	—	—	—	—
Dr Edgar Puls (since 9 May 2019)	2020	44	—	24	—	—	—	68
	2019	21	—	—	—	—	—	21
Dr Immo Querner (until 31 August 2020)	2020	86	—	23	—	—	—	109
	2019	77	—	427	—	—	—	504
Dr Jan Wicke	2020	49	—	–7	—	—	—	42
	2019	41	—	376	—	—	—	417
Total [4]	2020	410	123	160	58	—	—	751
	2019	310	167	1,945	1,012	—	—	3,434

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 2019 and the distribution of expenses for share awards across the individual remaining terms of the contracts of service.
4 Figures for 2019 include pro rata remuneration for Dr Hinsch (536) and Mr Wallin (927).

Occupational retirement provision

The contract of service of one active Member of the Board of Management provides for a commitment 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 five 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 937 (1,479) thousand. The service cost (and/or annual funding contribution) for active Members of the Board of Management amounted to EUR 1,426 (1,555) 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	**2020**	350	7,696	652
	2019	350	5,936	578
Sven Fokkema[4] (until 31 December 2020)	**2020**	60	686	90
	2019	60	499	90
Jean-Jacques Henchoz[4] (since 1 April 2019)	**2020**	53	371	188
	2019	52	149	188
Dr Wilm Langenbach (since 1 December 2020)	**2020**	—	—	—
	2019	—	—	—
Dr Christopher Lohmann (since 1 August 2020)	**2020**	—	—	—
	2019	—	—	—
Dr Edgar Puls[4] (since 9 May 2019)	**2020**	94	1,255	90
	2019	94	938	90
Dr Immo Querner (until 31 August 2020)	**2020**	257	10,639	231
	2019	217	5,244	206
Dr Jan Wicke[4]	**2020**	123	1,412	175
	2019	123	1,031	175
Total[5]	**2020**	**937**	**22,059**	**1,426**
	2019	**1,479**	**22,508**	**1,555**

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.
5 Figures for 2019 include pro rata remuneration for Dr Hinsch and Mr Wallin .

Total payments made to former Members of the Board of Management and their surviving dependants, for which there were 9 (8) commitments in force in the year under review, amounted to EUR 2,827 (2,222) thousand. Provisions recognised for pension obligations towards this group of people totalled EUR 45,434 (33,881) thousand.

The following two tables show the benefits granted to and received by the active Members of the Board of Management.

VALUE OF BENEFITS GRANTED IN THE YEAR UNDER REVIEW

EUR thousand											Benefits granted	
		I	II	III	IV	V	VI	VII	VIII	IX	X	
Name		Fixed remuneration	Fringe benefits	Total (I + II)	One-year variable remuneration	Multi-year variable remuneration (Total VI + VII + VIII)	Bonus bank (3 years)	Talanx share awards (4 years)	Hannover Re share awards (4 years)	Total (III + IV + V)	Pension expense	Overall remuneration
Torsten Leue, Chairman of the Board of Management	**2020[1]**	850	12	**862**	797	532	266	266	—	**2,191**	652	**2,843**
	(Min.)[2]	850	12	**862**	—	–719	–719	—	—	**143**	652	**795**
	(Max.)[3]	850	12	**862**	1,593	1,062	531	531	—	**3,517**	652	**4,169**
	2019[1]	850	12	**862**	797	532	266	266	—	**2,191**	578	**2,769**
Sven Fokkema, Member of the Board of Management (until 31 December 2020) Head of Division (until 30 November 2020)	**2020[1]**	450	18	**468**	390	260	130	130	—	**1,118**	90	**1,208**
	(Min.)[2]	450	18	**468**	—	–221	–221	—	—	**247**	90	**337**
	(Max.)[3]	450	18	**468**	780	520	260	260	—	**1,768**	90	**1,858**
	2019[1]	450	13	**463**	390	260	130	130	—	**1,113**	90	**1,203**
Jean-Jacques Henchoz, Head of Division (since 1 April 2019)	**2020[1]**	880	31	**911**	840	560	280	60	220	**2,311**	188	**2,499**
	(Min.)[2]	880	31	**911**	—	–252	–252	—	—	**659**	188	**847**
	(Max.)[3]	880	31	**911**	1,680	1,120	560	120	440	**3,711**	188	**3,899**
	2019[1]	693	1,077	**1,770**	630	420	210	45	165	**2,820**	188	**3,008**
Dr Wilm Langenbach, Head of Division (since 1 December 2020)	**2020[1]**	45	1	**46**	68	—	—	—	—	**114**	—	**114**
	(Min.)[2]	45	1	**46**	—	—	—	—	—	**46**	—	**46**
	(Max.)[3]	45	1	**46**	135	—	—	—	—	**181**	—	**181**
	2019[1]	—	—	**—**	—	—	—	—	—	**—**	—	**—**
Dr. Christopher Lohmann, Member of the Board of Management (since 1 August 2020) Head of Division (since 1 September 2020)	**2020[1]**	229	417	**646**	200	134	67	67	—	**980**	—	**980**
	(Min.)[2]	229	417	**646**	—	—	—	—	—	**646**	—	**646**
	(Max.)[3]	229	417	**646**	400	266	133	133	—	**1,312**	—	**1,312**
	2019[1]	—	—	**—**	—	—	—	—	—	**—**	—	**—**
Dr Edgar Puls, Head of Division (since 9 May 2019)	**2020[1]**	360	9	**369**	312	208	104	104	—	**889**	90	**979**
	(Min.)[2]	360	9	**369**	—	–69	–69	—	—	**300**	90	**390**
	(Max.)[3]	360	9	**369**	624	416	208	208	—	**1,409**	90	**1,499**
	2019[1]	232	6	**238**	203	136	68	68	—	**577**	90	**667**
Dr Immo Querner, Chief Financial Officer (until 31 August 2020)	**2020[1]**	425	12	**437**	327	218	109	109	—	**982**	231	**1,213**
	(Min.)[2]	425	12	**437**	—	–333	–333	—	—	**104**	231	**335**
	(Max.)[3]	425	12	**437**	654	436	218	218	—	**1,527**	231	**1,758**
	2019[1]	638	19	**657**	491	328	164	164	—	**1,476**	206	**1,682**
Dr Jan Wicke, Chief Financial Officer (since 1 September 2020) Head of Division (until 31 August 2020)	**2020[1]**	679	2	**681**	559	372	186	186	—	**1,612**	175	**1,787**
	(Min.)[2]	679	2	**681**	—	–538	–538	—	—	**143**	175	**318**
	(Max.)[3]	679	2	**681**	1,117	744	372	372	—	**2,542**	175	**2,717**
	2019[1]	677	—	**677**	550	366	183	183	—	**1,593**	175	**1,768**

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

EUR thousand

Name		Fixed remuneration	Fringe benefits	Total	One-year variable remuneration[1]
Torsten Leue, Chairman of the Board of Management	**2020**	850	12	**862**	1,053
	2019	850	12	**862**	791
Sven Fokkema, Head of Division (until 31 December 2020)	**2020**	450	18	**468**	407
	2019	450	13	**463**	256
Jean-Jacques Henchoz, Head of Division (since 1 April 2019)	**2020**	880	31	**911**	757
	2019	693	1,077	**1,770**	—
Dr Wilm Langenbach, Head of Division (since 1 December 2020)	**2020**	45	1	**46**	—
	2019	—	—	**—**	—
Dr Christopher Lohmann, Head of Division (since 1 August 2020)	**2020**	229	417	**646**	—
	2019	—	—	**—**	—
Dr Edgar Puls, Head of Division (since 9 May 2019)	**2020**	360	9	**369**	205
	2019	232	6	**238**	—
Dr Immo Querner, Chief Financial Officer (until 31 August 2020)	**2020**	425	12	**437**	468
	2019	638	19	**657**	474
Dr Jan Wicke, Head of Division (until 31 August 2020) Chief Financial Officer (since 1 September 2020)	**2020**	679	2	**681**	601
	2019	677	—	**677**	550

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

Outlook for 2021

Changes to the remuneration system for members of the Board of Management as at 1 January 2021

The Act Implementing the Second Shareholders' Rights Directive (ARUG II) resulted in material changes to the requirements for the Board of Management remuneration system in the reporting period. In addition, the revised German Corporate Governance Code (the Code) took effect on 20 March 2020 and contains new recommendations on remuneration for members of the Board of Management.

The Talanx AG Supervisory Board took this as an opportunity to review and thoroughly revise the system for Board of Management remuneration. Taking into account new statutory and regulatory frameworks and the expectations of our investors and other stakeholders, the Supervisory Board decided on changes to the Board of Management remuneration system at its meeting on 11 August 2020. These came into force on 1 January 2021. In accordance with section 120a (1) AktG, the Supervisory Board will submit the revised Board of Management remuneration system to the Annual General Meeting on 6 May 2021 for approval.

The Board of Management remuneration system effective from the 2021 financial year is fully consistent with new statutory and regulatory requirements and recommendations. The overall structure of the remuneration system as a whole is simpler as a result of reducing variable remuneration components and focussing on fewer but equally key financial and non-financial key performance indicators derived from our Group strategy. This also accounts for sustainability criteria. In addition, Board of Management remuneration is even more closely aligned with our investors' interests thanks to stronger share awards and a relative performance assessment of the Talanx share in comparison to our competitors. Introducing malus and clawback provisions also strengthens the position of the Supervisory Board in the event that members of the Board of Management commit gross breaches of duty. A detailed description of the new remuneration system will be included in the invitation to the 2021 Talanx AG Annual General Meeting.

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.

							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
210	241				**2,366**	652	**3,018**
197	245				**2,095**	578	**2,673**
—	—				**875**	90	**965**
—	—				**719**	90	**809**
—	—				**1,668**	188	**1,856**
—	—	—	—	—	**1,770**	188	**1,958**
—	—				**46**	—	**46**
—	—	—	—	—	**—**	—	**—**
—	—				**646**	—	**646**
—	—	—	—	—	**—**	—	**—**
—	—				**574**	90	**664**
—	—	—	—	—	**238**	90	**328**
179	204				**1,288**	231	**1,519**
167	209	—	—	—	**1,507**	206	**1,713**
175	195				**1,652**	175	**1,827**
159	139	—	—	—	**1,525**	175	**1,700**

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

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

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

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

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

The aggregate benefits for all active Members of the Supervisory Board amounted to EUR 2,465 (2,514) thousand. The details are given in the following table.

INDIVIDUAL REMUNERATION OF SUPERVISORY BOARD MEMBERS[1]

EUR thousand

Name	Function	Type of remuneration	2020[2]	2019[2]
Herbert K. Haas[3]	■ Chairman of the ■ Supervisory Board ■ Personnel Committee ■ Finance and Audit Committee ■ Nomination Committee ■ Standing Committee	Basic remuneration	170	182
		Variable remuneration	154	171
		Remuneration for committee activities	138	141
		Attendance allowances	23	21
			485	**515**
Dr Thomas Lindner	■ Deputy Member of the Supervisory Board ■ Member of the ■ Personnel Committee ■ Finance and Audit Committee ■ Standing Committee	Basic remuneration	75	75
		Variable remuneration	68	70
		Remuneration for committee activities	50	50
		Attendance allowances	14	10
			207	**205**
Ralf Rieger[3]	■ Deputy Chairman of the Supervisory Board ■ Member of the ■ Finance and Audit Committee ■ Standing Committee	Basic remuneration	81	81
		Variable remuneration	68	70
		Remuneration for committee activities	25	25
		Attendance allowances	9	8
			183	**184**
Franz Adamczyk (from 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	45	47
		Attendance allowances	5	5
			130	**132**
Benita Bierstedt (since 9 May 2019)	■ Member of the Supervisory Board	Basic remuneration	50	32
		Variable remuneration	45	27
		Attendance allowances	4	4
			99	**63**
Rainer-Karl Bock-Wehr (since 9 May 2019)	■ Member of the Supervisory Board	Basic remuneration	58	42
		Variable remuneration	45	27
		Attendance allowances	5	4
			108	**73**
Sebastian L. Gascard (since 9 May 2019)	■ Member of the Supervisory Board	Basic remuneration	60	42
		Variable remuneration	45	27
		Attendance allowances	8	6
			113	**75**
Jutta Hammer[3]	■ Member of the ■ Supervisory Board ■ Finance and Audit Committee	Basic remuneration	58	60
		Variable remuneration	45	47
		Remuneration for committee activities	25	25
		Attendance allowances	10	8
			138	**140**
Dr Hermann Jung	■ Member of the ■ Supervisory Board ■ Finance and Audit Committee	Basic remuneration	50	50
		Variable remuneration	45	47
		Remuneration for committee activities	25	25
		Attendance allowances	10	8
			130	**130**
Dirk Lohmann	■ Member of the ■ Supervisory Board ■ Nomination Committee	Basic remuneration	50	50
		Variable remuneration	45	47
		Attendance allowances	5	5
			100	**102**
Christoph Meister	■ Member of the Supervisory Board	Basic remuneration	50	50
		Variable remuneration	45	47
		Attendance allowances	5	5
			100	**102**
Jutta Mück[3]	■ Member of the ■ Supervisory Board ■ Personnel Committee (since 9 May 2019)	Basic remuneration	60	60
		Variable remuneration	45	47
		Remuneration for committee activities	25	16
		Attendance allowances	12	9
			142	**132**

INDIVIDUAL REMUNERATION OF SUPERVISORY BOARD MEMBERS [1]

EUR thousand

Name	Function	Type of remuneration	2020 [2]	2019 [2]
Katja Sachtleben-Reimann (until 9 May 2019)	Member of the Supervisory Board; Personnel Committee	Basic remuneration	—	18
		Variable remuneration	—	20
		Remuneration for committee activities	—	9
		Attendance allowances	—	2
			—	**49**
Dr Erhard Schipporeit [3]	Member of the Supervisory Board; Finance and Audit Committee	Basic remuneration	80	80
		Variable remuneration	74	77
		Remuneration for committee activities	33	33
		Attendance allowances	15	16
			202	**206**
Prof. Dr Jens Schubert	Member of the Supervisory Board; Standing Committee	Basic remuneration	50	50
		Variable remuneration	45	47
		Attendance allowances	5	5
			100	**102**
Norbert Steiner	Member of the Supervisory Board; Personnel Committee	Basic remuneration	50	50
		Variable remuneration	45	47
		Remuneration for committee activities	25	25
		Attendance allowances	9	7
			129	**129**
Angela Titzrath	Member of the Supervisory Board; Nomination Committee	Basic remuneration	50	50
		Variable remuneration	45	47
		Attendance allowances	4	5
			99	**102**
Jörn von Stein [3] (until 9 May 2019)	Member of the Supervisory Board	Basic remuneration	—	18
		Variable remuneration	—	20
		Attendance allowances	—	1
			—	**39**
Total [4]			**2,465**	**2,514**

[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 2019 remuneration exceeded provisions by a total of EUR 72 (91). The total amount for 2020 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	2020	2019
Salaries and other short-term remuneration	10,703	12,081
Other long-term benefits [1]	1,249	1,381
Awards of shares and other equity-based remuneration [2]	1,249	1,381
Termination benefits	1,390	—
Cost of retirement provisions [3]	1,426	1,555
Total	**16,017**	**16,398**

[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 2019, which was paid out in April 2020, stood at 25.7%.

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 236 of the Notes.

Risk report

Risk strategy

Talanx's risk strategy is derived from, and is therefore directly intertwined 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.

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.

The basis of consolidation used in the internal model corresponds to that in the Group Annual Report. There is one exception to this: 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 2020 are not yet available. 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 2021 in the Solvency and Financial Condition Report as at 31 December 2020. Even during the coronavirus crisis, we still expect to comply with our own limits.

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 by 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 ■ 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 is also a member of the Board of Management at HDI Service AG.

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 management 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 additional models for the operational management of certain risk categories. 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 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 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 tool 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.

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 risks
- Other material risks

Risk management also specifically looks at sustainability risks and, in particular, the issue of how these affect the company ("outside-in"). These risks are events or conditions related to the environment, society or corporate governance that could have a real or potential negative impact on the company's net assets, financial position and results of operations and reputation. Sustainability risks affect all the risk categories we analyse. They can have an impact on all areas of our business activities in the form of physical risks and transitional risks in connection with changeover processes.

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).

Losses in connection with the coronavirus pandemic were particularly high in property/casualty insurance in 2020. Depending on how the pandemic progresses, further such losses next year cannot be ruled out.

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 32.2 (30.1) years; reserves for asbestos-related claims and environmental damage amounted to EUR 89 (125) 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 consulting 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. The bonds are used to protect portions 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 753 (710) 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. This may also be affected by unexpected losses resulting from the development of the coronavirus pandemic.

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 loss 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.

PROPERTY/CASUALTY INSURANCE RETENTION RATIOS BY SEGMENT

%	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Industrial Lines	47.9	50.2	58.6	55.2	53.4	51.8	50.9	44.5	45.6	44.1
Retail Germany – Property/Casualty	88.3	95.0	94.5	94.6	95.4	95.6	95.6	94.9	94.6	92.9
Retail International	87.9	88.7	89.3	89.0	87.9	87.3	88.9	88.5	88.5	88.7
Property/Casualty Reinsurance	90.3	90.3	90.7	89.7	88.5	89.3	90.6	89.9	90.2	91.3
Corporate Operations [1]	34.6	68.3	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total property/casualty insurance	**78.9**	**81.0**	**83.9**	**82.4**	**80.7**	**80.7**	**81.0**	**79.3**	**79.8**	**79.8**

[1] Talanx AG underwrote significant business for the financial year 2020 as a result of receiving the reinsurance license in financial year 2019. No disclosures are made on account of the lack of comparability with previous periods.

NET LOSS RATIO BY SEGMENT

%	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Industrial Lines	84.4	79.9	87.3	85.7	74.9	76.5	81.2	81.8	75.2	66.8
Retail Germany – Property/Casualty	61.9	61.0	63.4	64.6	66.7	64.2	74.1	67.0	65.2	67.5
Retail International	64.7	65.8	65.8	66.2	65.4	64.9	65.3	66.3	68.9	70.4
Property/Casualty Reinsurance	72.8	69.0	67.0	71.2	66.7	69.3	68.9	70.3	70.7	78.8
Corporate Operations [1]	97.1	105.1	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total property/casualty insurance	**72.7**	**69.5**	**69.5**	**71.9**	**67.8**	**69.1**	**70.8**	**70.8**	**70.3**	**74.4**

[1] Talanx AG underwrote significant business for the financial year 2020 as a result of receiving the reinsurance license in financial year 2019. No disclosures are made on account of the lack of comparability with previous periods.

The 4.5 percentage point rise in the loss ratio in the Industrial Lines segment to 84.4% is due primarily to Covid-19 losses, which were offset somewhat by a decline in other large losses The loss ratio in the Retail Germany – Property/Casualty segment increased only marginally by 0.9 percentage points. Significant negative effects resulting from multiple large losses were partially offset by profitable growth in the third-party liability, accident and property lines and improved basic losses in the motor line. The loss ratio in the Retail International segment declined by 1.1 percentage point compared to the previous year, chiefly a result of fewer vehicles on the roads as a result of the Covid-19 pandemic and the decline in the frequency of claims that this entailed. In the Property/Casualty Reinsurance segment the loss ratio increased by 3.8 percentage points to 72.8%. This rise reflects Covid-19 losses, which come to EUR 950 million for the 2020 financial year. The repercussions of the pandemic also meant that expenses for large losses, including those resulting from natural disasters and man-made losses, were EUR 620 million higher than expected. Talanx AG, Corporate Operations segment, was granted a reinsurance license in the 2019 financial year, and has been expanding its business since. The first significant premiums were collected for the 2020 financial year and so the change in the loss ratio for these two financial years is not as meaningful as it is for other segments.

The loss ratio for property/casualty insurance deteriorated by 3.2 percentage points to 72.7%, chiefly as result of the impact of the Covid-19 described. Without the negative impact of the pandemic, large losses would have been below the planned large loss budget. Large losses came to EUR 2,148 (1,319) million, of which Covid-19 claims accounted for EUR 1,198 million.

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	2020	2019
Large losses budget	1,335	1.190
Large losses (net)	2,148	1,319
of which Covid-19	1,198	—
of which natural catastrophes	658	773
of which other large losses	292	546
%		
Combined ratio for property/casualty primary insurance and reinsurance	100.9	98.3
of which large losses (net)	9.8	6.4

[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 deals with future loss events in line with premium risk. 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	2020	2019
200-year loss Atlantic hurricane	2,626	2,605
200-year loss US/Canadian earthquake	2,261	2,350
200-year loss Asia-Pacific earthquake	1,596	1,692
200-year loss European storm	1,187	1,151
200-year loss Central and South-American earthquake	1,525	1,600
200-year loss European earthquake	1,112	1,226
200-year loss European flood	988	811

[1] Actual developments in the area of natural hazards may differ from model assumptions.

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. Net large losses in the financial year amounted to EUR 2,148 (1,319) million; in particular, this figure included large losses in connection with the coronavirus pandemic (EUR 1,198 million), losses from hurricane "Laura" in the US (net loss: EUR 145 million) and hailstorm "Derecho" in the US (net loss: EUR 111 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]
31.12.2020			
Germany	9,798	1,010	8,787
United Kingdom	4,622	597	4,025
Central and Eastern Europe (CEE), including Turkey	2,537	258	2,279
Rest of Europe	9,792	1,617	8,175
USA	10,767	444	10,323
Rest of North America	1,465	1,242	223
Latin America	1,652	242	1,409
Asia and Australia	4,364	229	4,135
Africa	341	15	326
Total	**45,337**	**5,655**	**39,682**
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**

[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
31.12.2020		
Property/casualty primary insurance		
Motor insurance	3,976	3,589
Property insurance	4,232	1,756
Liability insurance	2,686	1,685
Casualty insurance	333	275
Marine	783	448
Other property/casualty insurance	665	334
Property/casualty reinsurance	16,744	15,116
Total	**29,418**	**23,204**
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**

[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

%	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Retail Germany – Life Insurance	93.9	93.9	93.6	95.2	95.4	95.8	95.2	93.9	94.4	93.6
Retail International	99.2	98.9	98.8	98.5	98.5	97.2	98.0	95.8	89.7	82.8
Life/Health Reinsurance	89.8	89.5	90.7	91.7	90.4	84.2	83.9	87.7	89.3	91.0
Total life/health insurance	**92.1**	**92.1**	**92.6**	**93.6**	**92.9**	**89.1**	**89.6**	**90.9**	**91.3**	**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. Nevertheless, excess deaths recorded in 2020 are within general modelling when taking safety margins into account (see below).

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

%	2020	2019
Mortality/morbidity +5% (excluding annuity business)	–3 to 0	–3 to 0
Mortality –5% (annuity business only)	–4 to 0	–4 to 0
Lapse rate +10%	–2 to +1	–2 to 0
Expenses +10%	–5 to 0	–5 to 0

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 2020 was 1.61% (1.78%). 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 the maturities for the interest liabilities to a certain extent. As a result, fixed interest rates on the assets side regularly have a shorter term than those on the liabilities side (this is known as a duration mismatch or asset-liability mismatch).

As at 31 December 2020, the (effective) duration for the Group as a whole for fixed-income securities (including interest rate derivatives) was 9.0 (8.2) years[1] and the average remaining term for the gross loss reserves including the gross benefit reserves was 9.3 (9.3) 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 12.3 (12.2) years.[2]

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. 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] Effective duration is a measure of the interest rate sensitivity of the present value of assets/liabilities that takes the options into account. The higher the figure, the higher the interest rate sensitivity. As at 31 December 2020, this was 9.0 years for the Talanx Group. The previous year figure represents the Macaulay duration as at 31 December 2019.

[2] 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 US life/health reinsurance portfolio in 2009. Mortality experience for this portfolio was affected by the coronavirus pandemic in 2020. Adjusted for the impact of Covid-19, the underlying result was better than expected. We monitor how the underlying mortality develops – especially how it is affected by the further development of the coronavirus pandemic – 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.

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

UNDERWRITING RISK SENSITIVITIES, REINSURANCE DIVISION

%	2020	2019
Mortality +5% (excluding annuity business)	−10 to −7	−10 to −7
Morbidity +5%	−4 to −2	−4 to −2
Mortality −5% (annuity business only)	−5 to −2	−4 to −2
Lapse rate +10%	−2 to 0	−2 to 0
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.

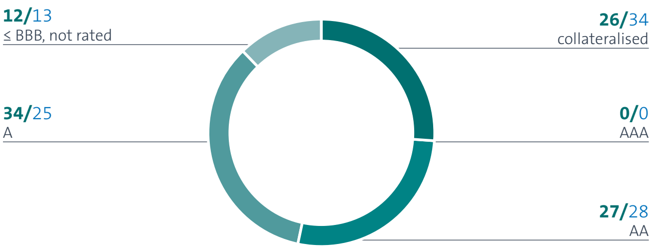
The reinsurance recoverables on technical provisions amount to EUR 7.5 (8.5) billion. This figure is partially matched firstly by guarantees and secondly by cash deposits and other offsetting items amounting to EUR 2.0 (2.9) billion, which are reported as funds withheld under reinsurance treaties.

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 5.5 (5.6) billion remains after deducting the items mentioned above.

The rating structure here is as follows:

REINSURANCE RECOVERABLES ON TECHNICAL PROVISIONS BY RATING CLASS

%



2020/2019

A total of 84% (81%) 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 –1,106 (–888) million in the reporting period.

Depending on developments in the coronavirus pandemic and the restrictions imposed to contain it, default risks could be higher than in pre-crisis years.

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.

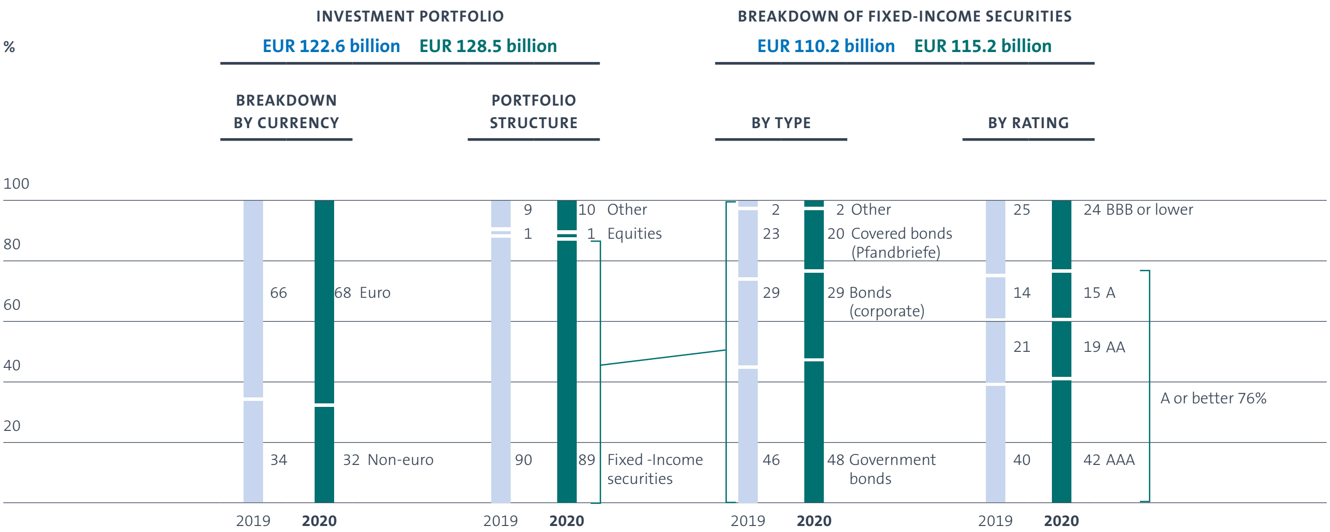
Equity price risk arises from negative changes in the value of equities, equity derivatives and equity index derivatives held in the portfolio.

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, 76% (75%) 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. In contrast to the standard formula, we always model these in TERM taking account of the credit spread risks, regardless of the issuer and issue currency.

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 2020, the ALM VaR was EUR 2,612 (1,786) million, or 1.95% of the investments under consideration. The considerable rise in the ALM VaR ratio compared to the previous year (1.4%) is chiefly due to a model amendment. Adjusted to take account of the model amendment, the ALM VaR ratio rose only slightly by 0.11 percentage points. This primarily reflects the significant decrease in interest rates in the long term, with a large part of the associated increase in risk offset by our company's asset/liability matching.

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%	94	248	341	197
	Equity prices	+10%	46	124	170	97
	Equity prices	–10%	–18	–126	–143	–94
	Equity prices	–20%	–26	–252	–278	–184
Fixed-income securities						
	Increase in yield	+200 bp	–232	–12,375	–19,088	–16,652
	Increase in yield	+100 bp	–141	–6,664	–10,287	–9,165
	Decrease in yield	–100 bp	218	7,928	12,285	10,167
	Decrease in yield	–200 bp	549	17,499	27,248	21,711
Exchange rate-sensitive investments						
	Appreciation of the EUR[4]	+10%	–3,826	–322	–4,148	–4,113
	against USD		–1,978	–273	–2,251	–2,308
	against GBP		–389	–6	–395	–414
	against PLN		–277	–1	–279	–256
	against other currencies		–1,181	–42	–1,222	–1,134
	Depreciation of the EUR[4]	–10%	3,826	322	4,148	4,113
	against USD		1,978	273	2,251	2,308
	against GBP		389	6	395	414
	against PLN		277	1	279	256
	against other currencies		1,181	42	1,222	1,134

[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 Scope 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
- he 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.

The impact the coronavirus pandemic had on capital markets throughout the year also affected the Talanx Group's existing lending risks. Following declines in fair value in the spring, markets recovered over the course of the year.

As at 31 December 2020, the credit VaR for the Group as a whole was EUR 6,176 (5,804) million, or 4.7% (4.7%) 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 selective risk reduction in weaker market phases and 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	31.12.2020	31.12.2019
Rating downgrade by one notch	7.377 (+19%)	6.990 (+20%)
Rating downgrade by two notches	8.808 (+43%)	8.412 (+45%)
Increase of ten percentage points in LGD	6.900 (+12%)	6.493 (+12%)

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 5.6 (5.1) billion on a fair value basis, or 4.4 (4.1%) 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
31.12.2020								
Italy	BBB	3,406	—	790	563	363	—	**5,122**
Brazil	BB–	263	—	77	233	—	12	**585**
Mexico	BBB	217	—	141	334	—	—	**693**
Hungary	BBB	546	—	18	15	19	—	**598**
Russia	BBB	288	10	37	188	—	—	**524**
South Africa	BB	140	—	3	99	—	2	**244**
Portugal	BBB	70	—	24	29	—	—	**123**
Turkey	B+	96	—	18	36	4	—	**154**
Others BBB+		101	—	61	76	—	—	**238**
Others BBB		362	102	91	214	—	—	**768**
Others <BBB		118	51	72	185	—	—	**426**
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**

[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 956 (914) million serve as collateral for liabilities and contingent liabilities. Of this amount, carrying amounts of EUR 65 (26) 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 662 (701) 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 1.4 (1.6) billion. In addition, assets with a fair value of EUR 79 (96) 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 31 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	31.12.2020	31.12.2019
Gross written premiums including premiums from unit-linked life and annuity insurance	27,178	25,248
Claims and claims expenses incurred (gross)	–14,237	–14,070
Acquisition costs and reinsurance commissions paid plus administrative expenses	–7,103	–6,788
Liquid funds	**5,838**	**4,390**

[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, the Group has agreements with banks regarding LoC facilities amounting to the equivalent of EUR 2.8 (3.0) billion. Their durations vary and they run until 2026 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.

In terms of the liquidity risk, we still assume that we would be able to comply with even relatively large, unexpected payout requirements within the required time frame, even during the coronavirus crisis.

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. Operational risk is an inevitable corollary of our business.

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 calculated 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. Payments were made to the tax office to limit an interest rate risk until a final decision is made. This was done as a highly precautionary measure without any acknowledgement of any legal obligation.

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.

The assumptions made about the discount rate for liabilities with a term of more than 20 years were reviewed in the 2020 Solvency II review. The "Opinion on the 2020 Review of Solvency II" recently published by the EIOPA proposes a change to the method of extrapolating the risk-free yield curve in order to better reflect market conditions. These changes could negatively affect the solvency rates of German life insurers.

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, is certified in accordance with ISO 27001 – Information Security, while external partners are obliged to comply with high standards. The 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 liabilities assumed by Talanx AG in the course of its acquisition of Gerling, may result in the need to establish additional reserves if interest rates remain at the current low level or fall even further, or if 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 EU and the United Kingdom negotiated a trade and cooperation agreement for future relations. The deal includes regulations on cross-border financial services, which ensure continued market access. The EU and the United Kingdom will continue to discuss supervisory equivalence and have decided to prepare a framework on regulatory collaboration. With a deal achieved, we believe that the impact of Brexit on the Talanx Group is manageable at present.

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.

The repercussions of the coronavirus pandemic may continue to influence our risk profile. As things stand at present, it is impossible to reliably say when we can expect the pandemic to end worldwide, for example through large-scale vaccination immunisation. The scope and pace of economic recovery is also unclear. If this happens later or is weaker than expected, there is a risk of falling short of our business expectations. Surprising new outbreaks and measures to counter these, such as lockdowns, can also result in increased uncertainty again on financial markets, affecting our portfolio accordingly.

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

The latest lockdown restrictions imposed around the new year again hampered the global economic recovery that had begun in the third quarter of 2020 for the winter half of the year. Nonetheless, we believe that the economy will pick up again as vaccination rates increase throughout the year, if the various monetary and fiscal policy support measures launched last year take effect in full. Given the low starting basis for economic output following the crisis year that was 2020, it seems entirely possible that in 2021 the global economy will see the strongest rate of growth since the financial crisis. Most economies around the world look set to return to pre-crisis levels this year, or next year at the latest. In our opinion, the greatest risk is the possibility of measures to contain the pandemic remaining in place for a longer period of time, delaying any significant economic recovery until into the second half of the year.

In the eurozone, funds from the Next Generation EU programme will not be available until later in the year. Following the usual time lag, the effects of the ECB's flood of liquidity are then likely to make themselves felt. Consumption that was postponed during lockdowns (e.g. travel, restaurant visits) could then further stimulate growth, provided higher unemployment does not prompt a return to panic saving. Taking all of this into consideration, there are many indications that 2021 will see record growth at levels not seen since the formation of the currency union in 1999. We have identified the repercussions of Brexit, a sharp rise in insolvencies and significant delays in vaccinating large swathes of the population as material risks.

The situation is similar for the US. In addition, the Democrats winning a majority in both chambers of Congress under new US President Biden at the start of his term in office should pave the way for further government assistance for companies, private households and local governments. We also believe the US administration will likely wait until after the crisis has been resolved to shift its focus back to issues that have the potential to harm growth, such as the unsolved international trade conflicts, in particular with China, or tax increases.

This recovery narrative also applies to emerging markets. However, while many Asian economies have already almost returned to pre-pandemic growth levels thanks to their successful efforts to tackle the virus, there is still considerable catching up to do, especially in Latin America but also in central and eastern Europe.

Capital markets

Given this, central banks around the world will likely be reluctant to hurt economic recovery by scaling back their expansive monetary policy too early or too intensively. We expect prime rates in the eurozone and the US to remain at current levels at the end of the year.

This should also keep the rise in German government bond or US Treasuries yields in response to the economic upturn in check, while risk premiums on government and corporate bonds with lower credit quality are likely to be generally stable. Nonetheless, a short-term widening of spreads in the event of sluggish vaccination progress or economic setbacks can by no means be ruled out.

Despite the impressive recovery since last spring, we believe there is further – albeit limited – upside potential on stock markets for the year as a whole thanks to the boost in company profits following the economic upturn. Setbacks are still very likely in the interim given the fragile environment.

Future state of the industry

German insurance industry

The macroeconomic environment remains marked by risk factors and so forecasts are generally subject to reservations. In particular, uncertainty over how the coronavirus pandemic will progress will affect industry performance in 2021. Assuming that lockdown restrictions will gradually be eased starting in the spring and that vaccinations are successfully expanded, the German Insurance Association (GDV) believes that the insurance industry should see a slight rise in premium growth again in 2021 in comparison to the year under review.

We expect premium income growth in **property/casualty insurance** to be somewhat weaker in 2021 in Germany than in the reporting period. We are anticipating restrained premium performance in motor insurance and in commercial property/casualty business. In light of ongoing construction, premiums are likely to rise in homeowners insurance.

The GDV expects to see catch-up effects and a slight rise in premiums in **life insurance** in 2021. Following restrictions on consumption opportunities during the pandemic, consumers have built up savings, some of which may also be invested in private retirement provision. The profitability of German life insurers is likely to remain squeezed on account of continued low interest rates.

International insurance markets

In **international property/casualty insurance,** we expect premium growth to pick up again in 2021. We are assuming stronger growth momentum both in developed insurance markets and in emerging markets. This momentum looks set to be significantly stronger in the latter. Profitability should remain stable in 2021, which demands strict underwriting discipline in view of the consistently low interest rates.

For developed **European insurance markets**, we expect premiums to increase against the year under review in 2021. Growth in **North America** is expected to remain at a similar level. We think that this development will be driven by an increasingly tough market for commercial and industrial insurance, chiefly in industrial property and liability insurance. For **central and eastern Europe** and for **Latin America**, we expect slightly positive performance. The strongest growth this year is likely to be seen in **Asia**, especially in China.

We believe that **international life insurance markets** in developed insurance markets will see slight growth, with those in emerging markets enjoying a sharp upturn in real premium growth. This is likely to be driven chiefly by **Asia** – especially China. We believe **central and eastern Europe** and **Latin America** will be slightly weaker but still well into positive territory. This is based on the assumption that increased awareness of risk following the coronavirus pandemic could revive demand. Nonetheless, consistently low interest rates are continuing to squeeze profitability.

Focus and forecasts for the Talanx Group in financial year 2021

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. This is all the more true given the ongoing coronavirus pandemic.

In the Industrial Lines Division we will continue our profit-driven underwriting policy. In 2021, we will continue to leverage the attractive growth perspectives of HDI Global Specialty SE and should also benefit from improved market conditions. In the Retail Germany Division, we expect profitability to improve further following the successful implementation of our “KuRS” programme which we launched in 2015 to sustainably improve competitiveness. In the Retail International Division, we will focus on our core markets and plan to continue our profitable growth, especially in the property/casualty business. Given the very satisfactory treaty renewal round in the Property/Casualty Reinsurance segment as at 1 January 2021, we expect gross premiums to expand by at least 5% in the current financial year on the basis of constant currency rates. In the Life/Health Reinsurance segment we anticipate that gross premiums will increase by at least 3% in the current financial year on the basis of constant currency rates.

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	■ Gross premium growth of at least 5% in Property/Casualty Reinsurance on the basis of constant currency rates ■ Establish a selective underwriting policy in Property/Casualty Reinsurance ■ Gross premium growth of at least 3% Life/Health Reinsurance

Anticipated financial development of the Group

We are making the following assumptions:

- moderate global economic growth
- steady inflation rates
- further 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
- large losses in line with expectations
- coronavirus pandemic is contained this year

Talanx Group

MANAGEMENT METRICS

%	2021
Gross premium growth (adjusted for currency effects)	~ 5
Net return on investment	~ 2,5
Group net income in EUR million	800 – 900
Return on equity	7.5 – 8.5
Payout ratio	35 – 45

We expect an increase in gross premiums (adjusted for currency effects) of around 5% for the Talanx Group in 2021. The IFRS net return on investment is expected to be around 2.5%. We are expecting Group net income to be in the range of EUR 800 million to EUR 900 million. This should correspond to a return on equity of between 7.5% and 8.5%, which would be achieving or close to achieving our minimum strategic target. This earnings target assumes that any large losses will be within the expected range and that there will not be any more sudden shocks on the currency and capital markets. 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.

The Group is standing by its medium-term targets for the 2022 financial year, in particular average annual growth in earnings per share of at least 5% against the original target of EUR 850 million for the 2018 financial year.

Industrial Lines

MANAGEMENT METRICS FOR THE INDUSTRIAL LINES DIVISION

%	2021
Gross premium growth (adjusted for currency effects)	solid growth
Combined ratio (net)	< 99
Return on equity	~ 5

We anticipate solid growth in gross premium income in financial year 2021. As in the prior year, specialty business is expected to account for a considerable portion of this growth. The rest of the portfolio should also benefit from higher premiums and new business thanks to improved market conditions. The "HDI Global 4.0" corporate strategy is to be systematically continued. We expect the successes we have already achieved to help us meet our profitability targets and develop into a global player. For 2021, we anticipate a combined ratio below 99%. The return on equity is expected to be around 5%.

Retail Germany

Property/Casualty Insurance

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

%	2021
Gross premium growth	stable
Combined ratio (net)	< 95

For the Property/Casualty Insurance segment we anticipate stable gross written premiums in 2021. Following the successful implementation of the "KuRS" programme, we expect profitability to improve further, causing the combined ratio to fall below 95%.

Life Insurance

MANAGEMENT METRICS FOR THE RETAIL GERMANY DIVISION – LIFE INSURANCE SEGMENT

%	2021
Gross premium growth	stable

In the Life Insurance segment, the division will continue to focus on business with biometric risks and on growth opportunities in occupational retirement provisions. Provided that no further lockdowns are required on account of the pandemic, we assume that gross written premiums will be stable in 2021.

Retail Germany overall

RETURN ON EQUITY MANAGEMENT METRIC FOR THE RETAIL GERMANY DIVISION OVERALL

%	2021
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 2021.

Retail International

MANAGEMENT METRICS FOR THE RETAIL INTERNATIONAL DIVISION

%	2021
Gross premium growth (adjusted for currency effects)	slight decrease
Combined ratio (net, property/casualty insurance)	≤ 95
Return on equity	5 – 6

We expect gross written premiums (adjusted for currency effects) to decline slightly in the Retail International Division in 2021 on account of the coronavirus pandemic and a greater effect in foreign markets. According to our estimates, the combined ratio for property/casualty insurance is unlikely to exceed 95% in 2021. This should translate into return on equity of 5%–6% in 2021.

Reinsurance

Property/Casualty Reinsurance

MANAGEMENT METRICS FOR THE PROPERTY/CASUALTY REINSURANCE SEGMENT

%	2021
Gross premium growth (adjusted for currency effects)	≥ 5
Combined ratio (net)	≤ 96

Given the very satisfactory treaty renewal round in the Property/Casualty Reinsurance segment as at 1 January 2021, we expect gross premiums to grow by at least 5% in the current financial year on the basis of constant currency rates. We will remain true to our selective underwriting policy which is to underwrite, for the most part, only business that meets our margin requirements.

On the basis of our many years of good ratings and stable client relationships and our low combined ratio, we should again be in a position to generate a good result, provided that large losses are consistent with our expectations. Our goal for the combined ratio here is a figure not exceeding 96%.

Life/Health Reinsurance

MANAGEMENT METRICS FOR THE LIFE/HEALTH REINSURANCE SEGMENT

%	2021
Gross premium growth (adjusted for currency effects)	≥ 3
Value of new business [1] in EUR million	≥ 125

[1] Excluding non-controlling interests.

In the Life/Health Reinsurance segment we anticipate that gross premiums will increase by at least 3% in the current financial year on the basis of constant currency rates. The value of new business should be at least EUR 125 million.

Reinsurance Division overall

RETURN ON EQUITY MANAGEMENT METRIC FOR THE REINSURANCE DIVISION OVERALL

%	2021
Return on equity	10 – 12

For 2021, the Talanx Group expects return on equity for the entire Reinsurance Division to come to between 10% and 12%, 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 in order to offer them the best service possible. 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

Coronavirus pandemic: As well as being a human tragedy, the current pandemic caused by the SARS-CoV-2 virus has also become a global economic crisis. This crisis also poses a challenge to our Group that we have to face, yet we also see it as an opportunity for positive business development: the Talanx subsidiary HDI Versicherung AG decided to bear the damage resulting from business shutdowns due to the risk of infection during the pandemic, provided this was agreed in the insurance policy terms and conditions. The decision boosts our reputation as an insurance company and inspires more confidence in us on the part of our customers. The increased use of digital services during the pandemic opens up the opportunity for us to move ahead with digital projects more quickly than beforehand. We also believe the digitalisation push at our Group offers us the opportunity to step up sales of products via online sales channels. Many primary insurance companies worldwide have seen a decline in solvency as a result of the crisis. This creates an increase in solvency-related reinsurance requirements, which can be covered by our subsidiary Hannover Rück SE. Last but not least, the pandemic is also accelerating the transformation of our corporate culture. During this crisis, we have demonstrated that we can quickly adapt to changing circumstances. We managed the sudden shift of a significant portion of Group employees from working in the office to working remotely without any problems in a very short period of time – a key milestone in our transformation to an agile organisation.

If we handle the coronavirus pandemic better than expected, this could have a positive impact on our premium growth and results of operations, and could lead to us exceeding our forecasts.

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 new products 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 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 company operates under the name "Santander Auto" and provides 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.

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.

Consolidated financial statements

Consolidated balance sheet

as at 31 December 2020

CONSOLIDATED BALANCE SHEET – ASSETS

EUR million	Notes			31.12.2020	31.12.2019
A. Intangible assets					
a. Goodwill	1			1,040	1,105
b. Other intangible assets	2			839	893
				1,879	**1,998**
B. Investments					
a. Investment property	3		3,250		3,193
b. Shares in affiliated companies and participating interests	4		572		398
c. Shares in associates and joint ventures	5		438		337
d. Loans and receivables	6/12		27,404		27,641
e. Other financial instruments					
i. Held to maturity	7/12	474			336
ii. Available for sale	8/12	89,467			83,550
iii. At fair value through profit or loss	9/12/13	1,067			1,718
f. Other investments	10/12		5,849		5,465
Assets under own management			**128,521**		**122,638**
g. Investments under investment contracts	11/12/13		1,265		1,170
h. Funds withheld by ceding companies			9,140		10,296
Investments				**138,925**	**134,104**
C. Investments for the benefit of life insurance policyholders who bear the investment risk				11,619	11,824
D. Reinsurance recoverables on technical provisions				7,473	8,483
E. Accounts receivable on insurance business	14			8,964	8,525
F. Deferred acquisition costs	15			5,312	5,940
G. Cash at banks, cheques and cash-in-hand				3,477	3,518
H. Deferred tax assets	29			323	326
I. Other assets	12/13/16			3,035	2,819
J. Non-current assets and assets of disposal groups classified as held for sale[1]				31	57
Total assets				**181,037**	**177,594**

[1] 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			31.12.2020	31.12.2019
A. Equity	17				
a. Subscribed capital [1]		316			316
b. Reserves		10,076			9,833
Equity excluding non-controlling interests			**10,392**		**10,149**
c. Non-controlling interests in equity			6,732		6,461
Total equity				**17,125**	**16,610**
B. Subordinated liabilities	12/18/28		3,473		3,479
C. Technical provisions					
a. Unearned premium reserve	19	10,538			9,837
b. Benefit reserve	20	56,932			56,859
c. Loss and loss adjustment expense reserve	21	51,189			49,651
d. Provision for premium refunds	22	9,114			8,511
e. Other technical provisions		770			755
			128,541		**125,614**
D. Technical provisions for life insurance policies where the investment risk is borne by the policyholders			11,619		11,824
E. Other provisions					
a. Provisions for pensions and other post-employment benefits	23	2,445			2,284
b. Provisions for taxes	24	537			561
c. Miscellaneous other provisions	25	934			971
			3,916		**3,816**
F. Liabilities					
a. Notes payable and loans	12/26/28	2,279			2,308
b. Funds withheld under reinsurance treaties		3,709			4,550
c. Other liabilities	12/13/27/28	7,871			7,224
			13,858		**14,081**
G. Deferred tax liabilities	29		2,497		2,160
H. Liabilities included in disposal groups classified as held for sale [2]			9		9
Total liabilities/provisions				**163,913**	**160,983**
Total equity and liabilities				**181,037**	**177,594**

[1] The nominal amount stands at EUR 316 (316) million. The contingent capital amounts to EUR 158 (158) million.
[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 2020

EUR million	Notes	2020	2019
1. Gross written premiums including premiums from unit-linked life and annuity insurance		41,105	39,494
2. Savings elements of premiums from unit-linked life and annuity insurance		890	943
3. Ceded written premiums		4,819	4,473
4. Change in gross unearned premiums		–1,446	–1,065
5. Change in ceded unearned premiums		–235	–42
Net premiums earned	30	**34,185**	**33,054**
6. Claims and claims expenses (gross)	32	30,686	29,210
Reinsurers' share		2,767	2,845
Claims and claims expenses (net)		**27,919**	**26,366**
7. Acquisition costs and administrative expenses (gross)	33	9,695	9,141
Reinsurers' share		711	698
Acquisition costs and administrative expenses (net)		**8,984**	**8,442**
8. Other technical income		66	60
Other technical expenses		145	139
Other technical result		**–80**	**–79**
Net technical result		**–2,798**	**–1,833**
9. a. Investment income	31	5,169	4,909
b. Investment expenses	31	1,136	779
Net income from assets under own management		**4,033**	**4,130**
Net income from investment contracts	31	—	3
Net interest income from funds withheld and contract deposits	31	210	190
Net investment income		**4,243**	**4,323**
of which share of profit or loss of equity-accounted associates and joint ventures		100	35
10. a. Other income	34	1,432	1,114
b. Other expenses	34	1,207	1,173
Other income/expenses		**226**	**–60**
Profit before goodwill impairments		**1,671**	**2,430**
11. Goodwill impairments		—	—
Operating profit/loss (EBIT)		**1,671**	**2,430**
12. Financing costs	35	198	191
13. Taxes on income	36	277	568
Net income		**1,196**	**1,671**
of which attributable to non-controlling interests		522	748
of which attributable to shareholders of Talanx AG		673	923
Earnings per share			
Basic earnings per share (EUR)		2.66	3.65
Diluted earnings per share (EUR)		2.66	3.65

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 2020

EUR million	2020	2019
Net income	**1,196**	**1,671**
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	–222	–176
Tax income (expense)	67	51
	–156	**–126**
Changes in policyholder participation/shadow accounting		
Gains (losses) recognised in other comprehensive income for the period	10	10
Tax income (expense)	—	—
	10	**10**
Total items that will not be reclassified to profit or loss, net of tax	**–145**	**–115**
Items that may be reclassified subsequently to profit or loss		
Unrealised gains and losses on investments		
Gains (losses) recognised in other comprehensive income for the period	3,321	4,379
Reclassified to profit or loss	–486	–331
Tax income (expense)	–429	–588
	2,407	**3,460**
Exchange differences on translating foreign operations		
Gains (losses) recognised in other comprehensive income for the period	–1,095	226
Reclassified to profit or loss	—	—
Tax income (expense)	81	–22
	–1,014	**204**
Changes in policyholder participation/shadow accounting		
Gains (losses) recognised in other comprehensive income for the period	–1,165	–2,138
Tax income (expense)	41	104
	–1,124	**–2,034**
Changes from cash flow hedges		
Gains (losses) recognised in other comprehensive income for the period	27	27
Reclassified to profit or loss	–55	–26
Tax income (expense)	4	–3
	–24	**–1**
Changes from equity method measurement		
Gains (losses) recognised in other comprehensive income for the period	–20	6
Reclassified to profit or loss	—	—
Tax income (expense)	—	—
	–20	**6**
Total items that may be reclassified subsequently to profit or loss, net of tax	**224**	**1,634**
Other comprehensive income for the period, net of tax	**79**	**1,519**
Total comprehensive income for the period	**1,274**	**3,190**
of which attributable to non-controlling interests	649	1,345
of which attributable to shareholders of Talanx AG	625	1,845

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
2020			
Balance at 1.1.2020	**316**	**1,373**	**7,795**
Changes in ownership interest without a change in control	—	—	—
Other changes in basis of consolidation	—	—	—
Net income	—	—	673
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 changes in policyholder participation/shadow accounting	—	—	—
Total comprehensive income	**—**	**—**	**673**
Capital increases	—	—	—
Dividends to shareholders	—	—	–379
Other changes outside profit or loss	—	—	–2
Balance at 31.12.2020	**316**	**1,373**	**8,087**
2019			
Balance at 31.12.2018	**316**	**1,373**	**7,281**
IAS 8 adjustments [1]	—	—	1
Adjusted 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 changes in policyholder participation/shadow accounting	—	—	—
Total comprehensive income	**—**	**—**	**923**
Capital increases	—	—	—
Dividends to shareholders	—	—	–367
Other changes outside profit or loss [2]	—	—	–53
Balance at 31.12.2019	**316**	**1,373**	**7,795**

[1] First time application of IFRS 16; see chapter "Other disclosures", section "rents and leases" of these Notes.
[2] The decrease in retained earnings includes an decrease in the amount of EUR 28 million which is attributable to the subsequent purchase cost recognised in connection with the acquisition of non-controlling interests in a company that was completed in prior years; in accordance with IFRS 10.23, this is classified as an equity transaction.

Other reserves						
Unrealised gains/losses on investments	Currency translation gains/losses	Other changes in equity	Measurement gains/losses on cash flow hedges	Equity attributable to shareholders of Talanx AG	Non-controlling interests	Total equity
4,636	**−93**	**−4,130**	**252**	**10,149**	**6,461**	**16,610**
—	—	—	—	—	−1	−1
—	—	—	—	—	—	—
—	—	—	—	673	522	1,196
1,798	**−602**	**−1,230**	**−14**	**−48**	**127**	**79**
—	**—**	**−134**	**—**	**−134**	**−11**	**−145**
—	—	−143	—	−143	−12	−156
—	—	9	—	9	1	10
1,798	**−602**	**−1,096**	**−14**	**86**	**138**	**224**
1,798	—	—	—	1,798	609	2,407
—	−602	—	—	−602	−412	−1,014
—	—	—	−14	−14	−10	−24
—	—	−20	—	−20	—	−20
—	—	−1,076	—	−1,076	−48	−1,124
1,798	**−602**	**−1,230**	**−14**	**625**	**649**	**1,274**
—	—	—	—	—	1	1
—	—	—	—	−379	−379	−758
—	—	—	—	−2	—	−2
6,434	**−695**	**−5,360**	**237**	**10,392**	**6,732**	**17,125**
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**

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 2020

EUR million	2020	2019
I. 1. Net income	1,196	1,671
I. 2. Changes in technical provisions	6,312	5,220
I. 3. Changes in deferred acquisition costs	381	–554
I. 4. Changes in funds withheld and in accounts receivable and payable	–524	–774
I. 5. Changes in other receivables and liabilities	–102	309
I. 6. Changes in investments and liabilities under investment contracts	8	9
I. 7. Changes in financial instruments held for trading	23	8
I. 8. Gains/losses on disposal of investments and property, plant and equipment	–1,217	–955
I. 9. Changes in technical provisions for life insurance policies where the investment risk is borne by the policyholders	–187	1,831
I. 10. Other non-cash expenses and income (including income tax expense/income)	430	207
I. Cash flows from operating activities [1, 2]	**6,319**	**6,972**
II. 1. Cash inflow from the sale of consolidated companies	—	4
II. 2. Cash outflow from the purchase of consolidated companies	—	–5
II. 3. Cash inflow from the sale of real estate	187	239
II. 4. Cash outflow from the purchase of real estate	–290	–433
II. 5. Cash inflow from the sale and maturity of financial instruments	30,933	32,711
II. 6. Cash outflow from the purchase of financial instruments	–35,402	–36,758
II. 7. Changes in investments for the benefit of life insurance policyholders who bear the investment risk	187	–1,831
II. 8. Changes in other investments	–691	–447
II. 9. Cash outflows from the acquisition of tangible and intangible assets	–158	–164
II. 10. Cash inflows from the sale of tangible and intangible assets	13	31
II. Cash flows from investing activities	**–5,222**	**–6,654**
III. 1. Cash inflow from capital increases	1	2
III. 2. Cash outflow from capital reductions	—	—
III. 3. Dividends paid	–758	–769
III. 4. Net changes attributable to other financing activities	–274	564
III. Cash flows from financing activities [2]	**–1,031**	**–203**
Net change in cash and cash equivalents (I. + II. + III.)	**66**	**116**
Cash and cash equivalents at the beginning of the reporting period	**3,519**	**3,363**
Effect of exchange rate changes on cash and cash equivalents	**–97**	**41**
Effect of changes in the basis of consolidation on cash and cash equivalents [3]	**–10**	**–1**
Cash and cash equivalents at the end of the reporting period [4]	**3,477**	**3,519**

[1] EUR 288 (347) million of "Income taxes paid", EUR 330 (378) million of "Dividends received" and EUR 3,453 (3,477) 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 181 (163) million of the "Interest paid" item is attributable to "Cash flows from financing activities" and EUR 430 (445) 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" includeitem 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.

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.

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 110–117, "Technical risks", for the disclosures in accordance with IFRS 4 and pages 117–122, "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 coronavirus pandemic greatly impacted the entire world economy in the reporting period and so this also had an effect on the Talanx Group's consolidated financial statements. The Property/Casualty Reinsurance, Life/Health Reinsurance and Industrial Lines segments were the most affected. A total of around EUR 1,459 million was set aside for losses in the financial year (of which EUR 950 million for Property/Casualty Reinsurance, EUR 261 million for Life/Health Reinsurance and EUR 174 million for Industrial Lines). Impairment losses on investments totalled EUR 201 million and relate primarily to equities (EUR 53 million) and alternative investments (EUR 80 million). This partly reflects the economic turbulence expected in the wake of the coronavirus pandemic.

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 2020; there were no material effects on the consolidated financial statements:

- IFRS conceptual framework: Conceptual framework for financial reporting
- IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors": Change to definition of materiality
- IFRS 3 "Business Combinations": Definition of a business

The IASB launched a two-phase project following the reform of benchmark rates initiated by the G20 states, chiefly the Interbank Offered Rates (IBOR), under which current benchmark rates are either to be redefined or replaced by alternative benchmark rates by the end of 2021. As part of phase 1, the amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition And Measurement" and IFRS 7 "Financial instruments: Disclosures": "reform of the benchmark rates" were published in September 2019. The amendments cover the period until the actual transition to the new benchmark rates and mean that hedge accounting can continue to exist/be designated despite the expected replacement of various benchmark rates. They also provide exemptions from the effectiveness test. Initial application of these amendments did not impact the Group in the financial year.

In May 2020, the IASB issued an amendment to IFRS 16 "Leases": Covid-19-related amendments. The aim of the amendment is to make it easier for lessees to recognise concessions such as deferred rent payments or rent reductions that are granted as a direct result of the coronavirus pandemic. The amendment is to be applied to reporting periods beginning on or after 1 June 2020. The Group decided not to make use of the exemption.

Standards, Interpretations and revisions to issued standards that were not yet effective in 2020 and that were not applied by the Group prior to their effective date

a) EU endorsement 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 2023 – taking into account all adjustments made to the Standard by that date – on account of the new 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 2021.

The number and size of associates and joint ventures included in the consolidated financial statements using the equity method and that are already required to apply IFRS 9 due to local regulations is insignificant. Given this, these companies are not remeasured, nor is any other information provided.

As part of phase 2 of the Interest Rate Benchmark Reform project, the IASB published the amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 "Reform of benchmark rates" in August 2020. The revisions to these standards were adopted by the EU in January 2021 and are effective for financial years beginning on or after 1 January 2021. The amendments serve to address specific issues related to the replacement of an existing benchmark rate by an alternative rate at the time of the replacement. A separate implementation project was launched to assess the impact of the IBOR reform on the Group and to ensure a smooth transition to alternative benchmark rates. The assessment was carried out for individual contracts. Implications on the measurement of financial instruments and the changes in IT systems that this requires are still taken into account. In addition to a status analysis, the impact on accounting and financial reporting was analysed as at 31 December 2020 and our investment strategy was adapted to reflect this. This was also communicated across the Group and to counterparties and issuers. The transition to the new benchmark rates is planned for the start of 2021 and so there are no measurement effects for the year under review. It should be noted that there can still be measurement effects for certain assets in our portfolio even where the contractual terms to not refer explicitly to the reformed benchmark rates if these benchmark rates are used to determine their fair value. We assume that there will be no significant effects on earnings as a result of the transition.

CONTRACTS AS AT 31 DECEMBER 2020 AT BENCHMARK RATES AFFECTED BY THE REFORM

LIBOR rate (old)	Number of contracts	Fair value (EUR million)
EONIA	17	354
USD LIBOR	156	211
GBP LIBOR	2	4
SOFR (Secured overnight finance rate)	12	17
Total	**187**	**586**

b) EU endorsement is still pending

IFRS 17 "Insurance Contracts" was published by the IASB on 18 May 2017 and will replace IFRS 4 in future. The IASB released an amendment to IFRS 17 in June 2020. In addition to providing precise clarifications on individual issues, the amendments postpone the effective date of the Standard until 1 January 2023. The exemption from applying IFRS 9 for the first time allowed for insurers is also to be postponed until 1 January 2023.

IFRS 17 will, for the first time, implement 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 insurance coverage that is still due to be provided and the investment management service. 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 that provide for surplus participation – the variable fee approach. IFRS 17 is to be initially applied retrospectively in principle. 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. Following the completion of the technical accounting principles, and the extensive requirements are now being implemented into the Group's processes and systems. Additional development and testing activities, including an analysis of the impact the standard has on Group financial data, are planned for 2021. 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, IAS 16 "Property, Plant and Equipment" and IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"	Amendments to IFRS 3, IAS 16 and IAS 37	1.1.2022
Amendments in the context of the "Annual Improvements (2018 to 2020 Cycle)"	Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41	1.1.2022
IAS 1	Adjustment of the assessment criteria for classifying liabilities as current or non-current	1.1.2023
IAS 1	Disclosure of accounting policies	1.1.2023
IAS 8	Definition of accounting estimates	1.1.2023

[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 2020 are described in the "Basis of preparation and application of IFRSs" section, while the consolidation principles are described in the "Consolidation" section 141 ff. and 164 ff. respectively.

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 "Impairment test" 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 29 and 36 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 "Summary of significant accounting policies" section under "Assets" "Leases" and the "Other disclosures" section of the 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 "Insurance Contracts" (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 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.

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.

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 securities 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	Input parameter	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
Cross currency swaps	Theoretical price	Price of underlying, yield curve	Present value method
Total return swaps	Theoretical price	Listed price of the 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	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
Infrastructure equity investment	a) Payment (construction phase) b) Theoretical price (in operation)	Cost, derived cash flow, yield curve	a) Net payments b) 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 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 equity and liabilities side of the balance sheet. Our disclosures on the recognition of financial instruments also apply. 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 a lessee, the Group recognises a right-of-use asset and a lease liability. The right-of-use asset is first measured at cost equal to the initial measurement of the lease liability. In the subsequent measurement, the right-of-use asset is written down on a straight-line basis until the end of the lease term. Impairment losses are recognised where necessary. Lease liabilities in the Group are discounted at the present value of the remaining lease payments and generally measured using the lessee's incremental borrowing rate. Lease liabilities are measured at amortised cost using the effective interest rate method. The Group has decided not to recognise right-of-use assets or lease liabilities for short-term leases and leases for which the underlying asset is of low value or for intangible assets. The lease payments for these leases are distributed over the term as an expense on a straight-line basis. Relevant disclosures in the Notes and the balance sheet items for right-of-use assets can be found in the "Other disclosures" section of the Notes. Lease liabilities are recognised under other liabilities.

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". Exchange differences on translating foreign operations 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 benefit 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 (SFAS 120) occurs "naturally", 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 loss 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. When extrapolating the euro yield curve, the Group also accounts for a trend in the spread of corporate bonds in order to improve the accuracy of estimates. For material plans, individual interest rates are used in accordance with spot rate methods to calculate interest expenses and income, i.e. the various cash flows are weighted with different interest rates.

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.

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 201.).

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 administrative expenses 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. Realised losses on disposal of investments include expenses from precautionary payments to avoid interest rate risks from additional claims notices.

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 generally 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 exchange differences on translating foreign operations 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		2020	2019	2020	2019
AUD	Australia	1.6030	1.6000	1.6533	1.6095
BRL	Brazil	6.3706	4.5128	5.8716	4.4212
CAD	Canada	1.5704	1.4620	1.5326	1.4872
CNY	China	8.0199	7.8181	7.8887	7.7355
GBP	United Kingdom	0.9041	0.8520	0.8869	0.8781
JPY	Japan	126.6900	122.1900	121.8977	122.3546
MXN	Mexico	24.4152	21.0814	24.4614	21.6720
PLN	Poland	4.5224	4.2576	4.4481	4.2998
USD	USA	1.2291	1.1190	1.1449	1.1208
ZAR	South Africa	18.0114	15.7385	18.6678	16.1594

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 intragroup reinsurance of Talanx AG) 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. Cross-segment 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 banks, independent brokers and multiple agents as well as own tied agents.

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 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 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. 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 2020

EUR Million

Assets	Industrial Lines		Retail Germany	
	31.12.2020	31.12.2019	**31.12.2020**	31.12.2019
A. Intangible assets				
a. Goodwill	153	153	248	248
b. Other intangible assets	10	10	411	438
	163	**163**	**660**	**687**
B. Investments				
a. Investment property	164	170	1,442	1,263
b. Shares in affiliated companies and participating interests	15	12	97	83
c. Shares in associates and joint ventures	183	192	35	35
d. Loans and receivables	1,031	996	23,401	23,966
e. Other financial instruments				
i. Held-to-maturity	65	69	168	168
ii. Available-for-sale	7,308	6,846	30,057	27,043
iii. At fair value through profit or loss	47	135	425	361
f. Other investments	941	856	2,175	1,743
Assets under own management	**9,753**	**9,278**	**57,801**	**54,662**
g. Investments under investment contracts	—	—	—	—
h. Funds withheld by ceding companies	32	14	4	3
Investments	**9,785**	**9,292**	**57,805**	**54,665**
C. Investments for the benefit of life insurance policyholders who bear the investment risk	—	—	11,185	11,353
D. Reinsurance recoverables on technical provisions	7,355	7,409	1,688	1,811
E. Accounts receivable on insurance business	2,307	2,060	313	287
F. Deferred acquisition costs	78	75	1,503	2,021
G. Cash at banks, cheques and cash-in-hand	717	857	481	832
H. Deferred tax assets	47	44	69	89
I. Other assets	707	663	773	771
J. Non-current assets and assets of disposal groups classified as held for sale [2]	6	—	10	—
Total assets	**21,166**	**20,564**	**74,488**	**72,517**

[1] For further information see the "Non-current assets and disposal groups held for sale" section of these Notes.

	Retail International		Reinsurance		Corporate Operations		Consolidation		Total	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019
	604	668	34	36	—	—	—	—	1,040	1,105
	163	170	158	168	97	106	—	—	839	893
	767	**838**	**192**	**204**	**97**	**106**	**—**	**—**	**1,879**	**1,998**
	55	10	1,589	1,750	—	—	—	—	3,250	3,193
	—	—	434	278	25	24	—	—	572	398
	—	—	219	109	—	—	—	—	438	337
	368	484	2,532	2,194	72	1	—	—	27,404	27,641
	348	168	186	223	—	—	−292	−292	474	336
	11,791	10,910	39,812	38,632	498	119	—	—	89,467	83,550
	249	408	340	814	5	—	—	—	1,067	1,718
	418	485	3,285	3,072	578	751	−1,547	−1,442	5,849	5,465
	13,228	**12,465**	**48,398**	**47,073**	**1,179**	**894**	**−1,839**	**−1,734**	**128,521**	**122,638**
	1,265	1,170	—	—	—	—	—	—	1,265	1,170
	—	—	9,958	11,274	16	1	−871	−997	9,140	10,296
	14,493	**13,636**	**58,356**	**58,346**	**1,195**	**896**	**−2,710**	**−2,731**	**138,925**	**134,104**
	434	471	—	—	—	—	—	—	11,619	11,824
	871	921	2,242	3,028	456	18	−5,140	−4,704	7,473	8,483
	1,213	1,339	5,606	5,270	287	11	−761	−443	8,964	8,525
	589	671	2,857	2,932	21	2	264	238	5,312	5,940
	342	387	1,278	1,089	660	353	—	—	3,477	3,518
	103	92	11	45	328	276	−235	−221	323	326
	751	561	2,256	1,797	707	1,183	−2,159	−2,158	3,035	2,819
	14	21	—	36	—	—	—	—	31	57
	19,576	**18,936**	**72,799**	**72,748**	**3,750**	**2,845**	**−10,741**	**−10,017**	**181,037**	**177,594**

CONSOLIDATED BALANCE SHEET BY DIVISION AS AT 31 DECEMBER 2020

EUR million

Equity and liabilities	Industrial Lines		Retail Germany	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
B. Subordinated liabilities	279	283	257	162
C. Technical provisions				
a. Unearned premium reserve	2,325	2,026	1,409	1,460
b. Benefit reserve	—	—	43,030	41,365
c. Loss and loss adjustment expense reserve	12,737	12,466	3,568	3,482
d. Provision for premium refunds	21	15	8,289	7,857
e. Other technical provisions	61	55	6	6
	15,143	**14,561**	**56,303**	**54,169**
D. Technical provisions for life insurance policies where the investment risk is borne by the policyholders	—	—	11,185	11,353
E. Other provisions				
a. Provisions for pensions and other post-employment benefits	670	623	177	158
b. Provisions for taxes	128	91	80	102
c. Miscellaneous other provisions	95	89	351	361
	893	**803**	**609**	**622**
F. Liabilities				
a. Notes payable and loans	11	12	73	82
b. Funds withheld under reinsurance treaties	31	67	1,352	1,479
c. Other liabilities	2,396	2,251	1,636	1,824
	2,438	**2,330**	**3,061**	**3,386**
G. Deferred tax liabilities	200	209	258	253
H. Liabilities included in disposal groups classified as held for sale [1]	—	—	—	—
Total liabilities/provisions	**18,953**	**18,186**	**71,673**	**69,945**

Retail International 31.12.2020	Retail International 31.12.2019	Reinsurance 31.12.2020	Reinsurance 31.12.2019	Corporate Operations 31.12.2020	Corporate Operations 31.12.2019	Consolidation 31.12.2020	Consolidation 31.12.2019	Total 31.12.2020	Total 31.12.2019
68	42	2,590	2,628	1,280	1,280	–1,001	–916	3,473	3,479
2,418	2,684	5,070	4,392	247	10	–931	–735	10,538	9,837
6,810	6,603	7,218	9,028	—	—	–126	–137	56,932	56,859
3,624	3,530	33,929	32,996	571	98	–3,241	–2,920	51,189	49,651
804	639	—	—	—	—	—	—	9,114	8,511
17	21	702	673	16	—	–32	—	770	755
13,673	**13,478**	**46,919**	**47,089**	**834**	**108**	**–4,330**	**–3,792**	**128,541**	**125,614**
434	471	—	—	—	—	—	—	11,619	11,824
59	68	229	202	1,309	1,234	—	—	2,445	2,284
120	125	133	192	76	50	—	—	537	561
105	122	176	198	207	201	—	—	934	971
284	**315**	**538**	**592**	**1,592**	**1,485**	**—**	**—**	**3,916**	**3,816**
158	76	1,341	1,398	1,499	1,524	–803	–786	2,279	2,308
22	50	3,838	4,739	—	—	–1,534	–1,785	3,709	4,550
2,235	2,056	3,778	3,344	729	337	–2,903	–2,588	7,871	7,224
2,415	**2,182**	**8,957**	**9,481**	**2,228**	**1,861**	**–5,240**	**–5,158**	**13,858**	**14,081**
105	104	2,145	1,792	2	—	–214	–198	2,497	2,160
9	9	—	—	—	—	—	—	9	9
16,988	**16,601**	**61,148**	**61,582**	**5,936**	**4,734**	**–10,785**	**–10,064**	**163,913**	**160,983**

	Total 31.12.2020	Total 31.12.2019
Equity [2]	**17,125**	**16,610**
Total liabilities	**181,037**	**177,594**

1 For further information see the "Non-current assets and disposal groups held for sale" section of these Notes.
2 Equity attributable to Group shareholders and non-controlling interests.

CONSOLIDATED STATEMENT OF INCOME BY DIVISION/REPORTABLE SEGMENT FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2020[1]

	Industrial Lines		Retail Germany	
EUR million	2020	2019	2020	2019
1. Gross written premiums including premiums from unit-linked life and annuity insurance	6,658	6,214	5,853	6,201
of which attributable to other divisions/segments	62	57	62	58
of which attributable to third parties	6,596	6,157	5,791	6,143
2. Savings elements of premiums from unit-linked life and annuity insurance	—	—	820	830
3. Ceded written premiums	3,470	3,094	389	310
4. Change in gross unearned premiums	–404	–278	50	–78
5. Change in ceded unearned premiums	–223	–126	8	3
Net premiums earned	**3,008**	**2,968**	**4,685**	**4,979**
6. Claims and claims expenses (gross)	4,446	4,369	5,018	5,328
Reinsurers' share	1,919	2,007	178	84
Claims and claims expenses (net)	**2,527**	**2,362**	**4,840**	**5,243**
7. Acquisition costs and administrative expenses (gross)	1,335	1,276	1,772	1,488
Reinsurers' share	726	641	205	169
Acquisition costs and administrative expenses (net)	**609**	**635**	**1,566**	**1,318**
8. Other technical income	3	4	28	17
Other technical expenses	14	15	37	20
Other technical result	**–11**	**–11**	**–9**	**–4**
Net technical result	**–139**	**–40**	**–1,730**	**–1,586**
9. a. Investment income	424	424	2,482	2,227
b. Investment expenses	173	138	478	310
Net income from assets under own management	**252**	**286**	**2,004**	**1,917**
Net income from investment contracts	—	—	—	—
Net interest income from funds withheld and contract deposits	2	–1	–13	–12
Net investment income	**254**	**285**	**1,992**	**1,905**
of which share of profit or loss of equity-accounted associates and joint ventures	20	11	—	—
10. a. Other income	164	137	261	237
b. Other expenses	230	223	319	326
Other income/expenses	**–66**	**–86**	**–59**	**–89**
Profit before goodwill impairments	**48**	**159**	**203**	**230**
11. Goodwill impairments	—	—	—	—
Operating profit/loss (EBIT)	**48**	**159**	**203**	**230**
12. Financing costs	12	12	9	9
13. Taxes on income	–15	44	64	80
Net income	**52**	**104**	**130**	**140**
of which attributable to non-controlling interests	5	1	11	7
of which attributable to shareholders of Talanx AG	47	103	119	133

[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.

Retail International		Reinsurance		Corporate Operations		Consolidation		Total	
2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
5,527	6,111	24,765	22,598	738	64	−2,436	−1,693	41,105	39,494
1	1	1,807	1,513	503	64	−2,436	−1,693	—	—
5,526	6,110	22,958	21,084	235	—	—	—	41,105	39,494
69	113	—	—	—	—	—	—	890	943
471	485	2,443	2,252	483	20	−2,437	−1,689	4,819	4,473
−48	−203	−1,028	−637	−237	−4	220	135	−1,446	−1,065
−11	−33	−61	−21	−172	−1	226	136	−235	−42
4,950	**5,343**	**21,356**	**19,730**	**190**	**40**	**−4**	**−6**	**34,185**	**33,054**
3,997	4,415	18,300	16,221	467	55	−1,543	−1,178	30,686	29,210
315	353	1,621	1,561	296	13	−1,562	−1,174	2,767	2,845
3,683	**4,063**	**16,679**	**14,660**	**171**	**42**	**19**	**−4**	**27,919**	**26,366**
1,271	1,293	5,855	5,555	106	15	−644	−486	9,695	9,141
91	95	264	266	52	2	−626	−475	711	698
1,180	**1,198**	**5,592**	**5,289**	**55**	**13**	**−17**	**−11**	**8,984**	**8,442**
34	35	—	3	—	—	—	1	66	60
82	84	5	9	14	—	−6	11	145	139
−47	**−49**	**−5**	**−5**	**−14**	**—**	**6**	**−10**	**−80**	**−79**
41	**33**	**−920**	**−224**	**−49**	**−15**	**—**	**—**	**−2,798**	**−1,833**
475	427	1,833	1,873	17	19	−63	−62	5,169	4,909
147	45	355	304	111	103	−128	−121	1,136	779
328	**382**	**1,479**	**1,569**	**−94**	**−84**	**64**	**59**	**4,033**	**4,130**
—	3	—	—	—	—	—	—	—	3
−2	−4	222	206	—	—	—	—	210	190
326	**381**	**1,700**	**1,776**	**−94**	**−84**	**65**	**59**	**4,243**	**4,323**
—	—	81	24	—	—	—	—	100	35
141	76	842	630	819	824	−794	−790	1,432	1,114
242	207	392	363	694	733	−671	−679	1,207	1,173
−101	**−131**	**450**	**267**	**125**	**91**	**−123**	**−111**	**226**	**−60**
266	**283**	**1,230**	**1,818**	**−19**	**−8**	**−59**	**−52**	**1,671**	**2,430**
—	—	—	—	—	—	—	—	—	—
266	**283**	**1,230**	**1,818**	**−19**	**−8**	**−59**	**−52**	**1,671**	**2,430**
17	12	110	106	105	105	−55	−53	198	191
56	65	205	394	−32	−17	−1	—	277	568
193	**205**	**915**	**1,318**	**−92**	**−97**	**−3**	**1**	**1,196**	**1,671**
33	41	474	699	—	—	—	—	522	748
160	164	442	619	−92	−97	−3	1	673	923

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 2020

	Retail Germany – Property/Casualty		Retail Germany – Life		Property/Casualty Reinsurance		Life/Health Reinsurance	
EUR million	2020	2019	2020	2019	2020	2019	2020	2019
1. Gross written premiums including premiums from unit-linked life and annuity insurance	1,502	1,588	4,351	4,612	16,744	14,781	8,021	7,816
of which attributable to other segments	—	—	62	58	1,673	1,370	134	144
of which attributable to third parties	1,502	1,588	4,289	4,554	15,071	13,411	7,887	7,673
2. Savings elements of premiums from unit-linked life and annuity insurance	—	—	820	830	—	—	—	—
3. Ceded written premiums	176	80	214	230	1,628	1,434	815	818
4. Change in gross unearned premiums	11	−22	38	−56	−974	−569	−55	−68
5. Change in ceded unearned premiums	4	—	3	3	−63	−20	1	−1
Net premiums earned	**1,334**	**1,486**	**3,352**	**3,493**	**14,205**	**12,798**	**7,150**	**6,932**
6. Claims and claims expenses (gross)	908	922	4,110	4,406	11,189	9,680	7,112	6,542
Reinsurers' share	88	20	90	64	844	848	777	713
Claims and claims expenses (net)	**820**	**902**	**4,019**	**4,342**	**10,344**	**8,832**	**6,335**	**5,828**
7. Acquisition costs and administrative expenses (gross)	559	590	1,212	898	4,331	3,987	1,524	1,567
Reinsurers' share	114	25	91	144	196	209	67	57
Acquisition and administrative expenses (net)	**445**	**565**	**1,121**	**754**	**4,135**	**3,778**	**1,457**	**1,511**
8. Other technical income	2	2	26	15	—	—	—	3
Other technical expenses	7	7	30	14	—	2	4	7
Other technical result	**−6**	**−5**	**−3**	**1**	**—**	**−2**	**−4**	**−4**
Net technical result	**62**	**15**	**−1,792**	**−1,602**	**−274**	**186**	**−646**	**−411**
9. a. Investment income	124	137	2,358	2,091	1,252	1,292	582	580
b. Investment expenses	35	17	443	293	295	247	60	57
Net income from assets under own management	**89**	**119**	**1,915**	**1,798**	**957**	**1,046**	**522**	**523**
Gains or losses from investment contracts	—	—	—	—	—	—	—	—
Net interest income from funds withheld and contract deposits	−1	−1	−12	−11	50	48	171	159
Net investment income	**88**	**119**	**1,903**	**1,786**	**1,008**	**1,093**	**693**	**682**
of which share of profit or loss of equity-accounted associates and joint ventures	—	—	—	—	−1	1	81	23
10. a. Other income	70	53	191	184	393	255	449	375
b. Other expenses	87	89	232	237	273	279	120	85
Other income/expenses	**−17**	**−36**	**−41**	**−53**	**120**	**−24**	**329**	**290**
Profit before goodwill impairments	**134**	**98**	**70**	**131**	**854**	**1,256**	**377**	**562**
11. Goodwill impairments	—	—	—	—	—	—	—	—
Operating profit/loss (EBIT)	**134**	**98**	**70**	**131**	**854**	**1,256**	**377**	**562**

Gross written premiums, assets under own management and non-current assets by geographical origin

ASSETS UNDER OWN MANAGEMENT BY GEOGRAPHICAL ORIGIN [1]

EUR million	2020	2019
Germany	29,363	28,830
United Kingdom	7,307	7,531
Central and Eastern Europe (CEE), including Turkey	4,934	4,839
Rest of Europe	48,067	43,762
USA	20,110	19,750
Rest of North America	4,177	3,514
Latin America	3,893	4,098
Asia and Australia	10,355	9,967
Africa	314	348
Total	**128,521**	**122,638**

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

NON-CURRENT ASSETS BY GEOGRAPHICAL ORIGIN [1]

EUR million	2020	2019
Germany	4,166	4,186
United Kingdom	99	107
Rest of Europe	321	366
USA	713	779
Rest of North America	316	336
Latin America	232	243
Asia and Australia	32	27
Africa	8	10
Total	**5,887**	**6,054**

[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 [2]		Reinsurance		Total	
EUR million	2020	2019	2020	2019	2020	2019
Germany	7,519	7,780	1,027	922	8,545	8,701
United Kingdom	584	547	2,946	2,622	3,530	3,169
Central and Eastern Europe (CEE), including Turkey	2,595	2,698	417	522	3,012	3,221
Rest of Europe	3,384	3,455	3,151	2,853	6,535	6,308
USA	1,220	1,071	6,981	6,761	8,200	7,832
Rest of North America	183	180	1,039	846	1,222	1,026
Latin America	1,834	2,015	1,046	1,045	2,880	3,059
Asia and Australia	776	611	5,835	4,942	6,612	5,553
Africa	51	54	518	571	569	624
Total	**18,146**	**18,410**	**22,958**	**21,084**	**41,105**	**39,494**

[1] After elimination of intragroup cross-segment transactions. This may result in differences to the amounts disclosed in the management report.
[2] The segment Corporate Operations is included in the primary insurance.

Gross written premiums by type and class of insurance at Group level

GROSS WRITTEN PREMIUMS BY TYPE AND CLASS OF INSURANCE [1]

EUR million	2020	2019
Property/casualty primary insurance	12,108	11,837
Life primary insurance	6,039	6,573
Property/casualty reinsurance	15,071	13,411
Life/health reinsurance	7,887	7,673
Total	**41,105**	**39,494**

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

There were no transactions with any single external client during the reporting period amounting to 10% or more of total gross premiums.

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 if the set of activities and assets qualify as a business. 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, 36 (32) subsidiaries whose primary business purpose is to provide services for the Group's insurance companies were not consolidated in the reporting period. A further 12 (13) associates and 4 (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 237 ff. Information on associates and joint ventures can be found in Note 5.

BASIS OF CONSOLIDATION

	2020	2019
Number of consolidated subsidiaries		
Domestic [1]	85	84
Foreign [2]	142	141
Subtotal	**227**	**225**
Number of consolidated investment funds (subsidiaries) [3]		
Domestic	20	19
Foreign	3	3
Subtotal	**23**	**22**
Number of consolidated structured entities		
Domestic	—	—
Foreign	3	3
Subtotal	**3**	**3**
Total number of consolidated entities		
Domestic	105	103
Foreign	148	147
Subtotal	**253**	**250**
Number of equity-accounted associates and joint ventures		
Domestic	3	3
Foreign [4, 5]	9	6
Total	**12**	**9**

[1] This figure comprises 83 (82) individual entities and 2 (2) entities consolidated in 1 (1) subgroup.
[2] This figure comprises 63 (64) individual entities and 79 (77) 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 (4) individual entities and 5 (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 6,961 (7,464) 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 2,464 (2,717) 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 3,584 (3,522) million. In certain countries, collateral for liabilities to credit institutions of EUR 662 (701) 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 6,732 (6,461) million as at the reporting date.

SUBSIDIARIES WITH SIGNIFICANT NON-CONTROLLING INTERESTS [1]

	Hannover Rück SE subgroup [2]		Towarzystwo Ubezpieczeń i Reasekuracji WARTA S. A.	
EUR million	2020	2019	2020	2019
Domicile/country of formation	Hannover, Germany	Hannover, Germany	Warsaw, Poland	Warsaw, Poland
Non-controlling interests	49.78%	49.78%	24.26%	24.26%
Investments	59,179	58,903	2,809	2,482
Reinsurance recoverables on technical provisions	2,242	3,028	242	240
Accounts receivable on insurance business	5,606	5,270	244	261
Total assets	**71,440**	**71,356**	**3,626**	**3,330**
Subordinated liabilities	2,232	2,234	—	—
Technical provisions	46,919	47,089	2,419	2,317
Other provisions	538	592	21	22
Equity	**11,839**	**11,354**	**830**	**724**
of which non-controlling interests [3]	6,350	6,125	201	176
Total debt	**59,600**	**60,002**	**2,796**	**2,607**
Gross written premiums	24,765	22,598	1,395	1,392
Net premiums earned	21,356	19,730	1,288	1,246
Underwriting result	–915	–216	102	116
Net investment income	1,688	1,757	64	70
Operating profit/loss (EBIT)	1,214	1,853	148	172
Net income	**883**	**1,373**	**117**	**146**
of which non-controlling interests [3]	474	699	28	35
Other comprehensive income	**274**	**1,142**	**–10**	**25**
Total comprehensive income	**1,193**	**2,516**	**107**	**171**
of which non-controlling interests [3]	600	1,279	26	41
Cash flows from operating activities	3,231	2,509	415	301
Cash flows from investing activities	–2,245	–2,709	–461	–199
Cash flows from financing activities	–726	108	—	–82
Cash and cash equivalents at the end of the reporting period	**1,278**	**1,091**	**14**	**27**
Dividends paid to non-controlling interests during the year [4]	**376**	**369**	**—**	**20**

[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

IVEC Institutional Venture and Equity Capital GmbH, Cologne, Germany, was deconsolidated for reasons of immateriality effective 1 January 2020. This resulted in deconsolidation income of EUR 7.0 million in the Retail Germany – Life segment.

In August 2020, all shares in the real estate company Pipera Business Park S.r.l., Bucharest, Romania, were sold for a purchase price of EUR 84.4 million via HR GLL Europe Holding S.à. r.l., Luxembourg (Property/Casualty Reinsurance segment). Deconsolidating the company generated income of EUR 5 million, which was recognised in net investment income.

Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover, established a wholly owned subsidiary of Hannover Rück SE – Hannover Re Holdings (UK) Limited, London, UK – in August 2020 (Life/Health Reinsurance segment). This is a holding company that brings together the North American insurance companies.

HDI-Gerling Verzekeringen N.V., Rotterdam, Netherlands, was merged with HDI Global SE, Hannover, Germany (both Industrial Lines segment), with retroactive effect from 1 January 2020, under a merger agreement dated 27 March 2020. This was entered in the commercial register on 7 September 2020.

Hannover Life Reassurance Bermuda Ltd., Hamilton, Bermuda (Life/Health Reinsurance segment) was merged with its affiliate Hannover Re (Bermuda) Ltd., Hamilton, Bermuda (Property/Casualty Reinsurance segment) as at 31 December 2020. This intragroup transaction did not affect Group net income.

In addition, there were no material changes to the basis of consolidation in comparison to the end of 2019.

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 15.5 (15.1) billion and the generated commissions total EUR 101 (97) 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 101 (79) 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 3,920 (6,559) 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 1,366 (3,126) 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 36 (37) 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 432 (410) 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 4,063 (3,716) 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 AMOUN TS OF THE ASSETS AND LIABILITIES OF UNCONSOLIDATED STRUCTURED ENTITIES

EUR million	31.12.2020				31.12.2019			
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	—	—	217	2	—	—	—
Other financial instruments – available-for-sale financial instruments	5,742	—	—	—	4,486	—	—	—
Other financial instruments – financial instruments at fair value through profit or loss	105	—	100	—	214	—	78	—
Investment contracts	598	—	—	—	534	—	—	—
Other investments	4,526	—	—	—	3,746	—	—	—
Funds withheld by ceding companies	—	—	—	6	—	—	—	2
Investments for the benefit of life insurance policyholders who bear the investment risk	—	11,619	—	—	—	11,824	—	—
Reinsurance recoverables on technical provisions	—	—	—	916	—	—	—	1,064
Accounts receivable on insurance business	—	—	—	127	—	—	—	163
Total asset items	**10,973**	**11,619**	**100**	**1,048**	**8,983**	**11,824**	**78**	**1,228**
Equity and liabilities								
Technical provisions for life insurance policies where the investment risk is borne by the policyholders	—	11,619	—	—	—	11,824	—	—
Other liabilities – reinsurance payables	—	—	—	552	—	—	—	503
Total equity and liabilities items	**—**	**11,619**	**—**	**552**	**—**	**11,824**	**—**	**503**

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.

Kubera Insurance (SAC) Ltd set up an additional segregated account in September 2020. This gathered investor capital via issued bonds that was provided to an Australian insurance broker in a swap agreement to finance the broker's business. Redemption of the bonds depends on the broker's business development. Hannover Rück SE, along with other external parties, is an investor in the bonds. The segregated account can be used flexibly for other rounds of financing. Hannover Re does not own the segregated account.

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 14 (15) million and liabilities of EUR 9 (9) million. The main carrying amounts for the disposal group relate to "investments" (EUR 10 million), "cash at banks, cheques and cash-in-hand", "deferred tax assets" and "accounts receivable on insurance business" (each EUR 1 million), "technical provisions" (EUR 6 million) and "liabilities" (EUR 3 million). The transaction is expected to be completed in the first half of 2021. The sale was signed on 6 August 2020 but has not yet been approved by local supervisory authorities. The Group plans to use the sale to optimise its portfolio in South America.

Real estate

We report property holdings as held for sale in the amount of EUR 17 (42) million as at the reporting date. They are attributable to the Retail Germany segment (EUR 10 million) and the Industrial Lines segment (EUR 6 million) (previous year: essentially Property/Casualty Reinsurance segment, EUR 36 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	Retail Property/Casualty Reinsurance International	Corporate Operations	2020	2019
Gross carrying amount as at 31.12. of the previous year	**157**	**324**	**202**	**686**	**36**	**4**	**1,409**	**1,362**
Currency translation as at 1.1. of the financial year	—	—	—	–67	–2	—	–68	2
Gross carrying amount as at 31.12. after currency translation as at 1.1. of the financial year	157	324	202	619	34	4	1,341	1,363
Additions due to business combinations	—	—	—	—	—	—	—	48
Disposals	—	—	—	—	—	—	—	1
Exchange rate changes	—	—	—	—	—	—	—	–1
Gross carrying amount as at 31.12. of the financial year	**157**	**324**	**202**	**619**	**34**	**4**	**1,341**	**1,409**
Accumulated impairment losses as at 31.12. of the previous year	**5**	**75**	**202**	**18**	**—**	**4**	**304**	**303**
Currency translation as at 1.1. of the financial year	—	—	—	–3	—	—	–3	1
Accumulated impairment losses after currency translation as at 1 January of the financial year	5	75	202	15	—	4	301	304
Accumulated impairment losses as at 31.12. of the financial year	**5**	**75**	**202**	**15**	**—**	**4**	**301**	**304**
Carrying amount as at 31.12. of the previous year	153	248	—	668	36	—	1,105	1,058
Carrying amount as at 31.12. of the financial year	**153**	**248**	**—**	**604**	**34**	**—**	**1,040**	**1,105**

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)	31.12.2020	31.12.2019
Industrial Lines segment	153	153
Retail Germany – Property/Casualty segment	248	248
Retail International segment		
Latin America	179	203
Europe	425	465
Property/Casualty Reinsurance segment	34	36

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 2020[1]	Capitalisation rate 2019[1]	Long-term growth rate 2020[1]	Long-term growth rate 2019[1]
Industrial Lines				
Eurozone	5,81–6,83	5,41–7,03	1.00	1.00
Other countries	7,31–21,06	7,88–17,13	1,00–5,00	1,00–5,00
Retail Germany – Property/Casualty	5.81	5,38–5,48	0,00–1,00	0,00–1,00
Retail International				
Europe				
Poland	7,06–9,35	7.63	2.00	2.00
Italy	7.81	6.63	1.00	1.00
Other countries	5,81–20,93	5,77–20,13	1,00–8,00	1,00–8,00
Latin America				
Brazil	14,06–15,00	13.13	5.00	5.00
Chile	8.81	8.13	2.00	2.00
Mexico	13.31	13.38	4.00	4.00
Other countries	12,56–35,56	12,38–29,38	4,00–8,00	4,00–8,00

[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 49 (172) million. Depending on the country, the detailed planning used a combined ratio of approximately 90% – 100% % (90%–100%) for the material companies of the group of CGUs. A change of the combined ratio by +0.44 (+0.88) percentage points for the "Latin American" group of CGUs in the detailed planning and depreciation of local currencies against the euro of 7.43% 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

					Finite useful life	Indefinite useful life		
		Software						
EUR million	Insurance-related intangible assets	Purchased	Developed	Acquired distribution networks and customer relationships	Other	Acquired brand names	2020	2019
Gross carrying amount as at 31.12. of the previous year	**2,351**	**640**	**46**	**160**	**171**	**38**	**3,407**	**3,299**
Change in basis of consolidation (additions)								
Business combinations	—	—	—	—	—	—	—	10
Additions	—	47	3	—	32	—	83	120
Disposals	6	33	2	—	8	—	50	34
Reclassifications	—	30	—	—	–30	—	—	—
Exchange rate changes	–19	–13	–2	–8	–14	–2	–59	12
Gross carrying amount as at 31.12. of the financial year	**2,326**	**671**	**45**	**152**	**151**	**36**	**3,381**	**3,407**
Accumulated amortisation and impairment losses as at 31.12. of the previous year	**1,876**	**440**	**37**	**128**	**30**	**3**	**2,514**	**2,404**
Change in basis of consolidation (additions)								
Business combinations	—	—	—	—	—	—	—	4
Disposals	6	31	1	—	4	—	42	10
Amortisation/impairment losses								
Amortisation	36	56	2	5	6	1	105	110
Impairment losses	—	1	—	—	—	—	1	—
Exchange rate changes	–16	–7	–1	–6	–5	—	–35	5
Accumulated amortisation and impairment losses as at 31.12. of the financial year	**1,890**	**459**	**37**	**126**	**26**	**4**	**2,542**	**2,514**
Carrying amount as at 31.12. of the previous year	475	200	8	33	141	35	893	895
Carrying amount as at 31.12. of the financial year	**435**	**212**	**8**	**26**	**125**	**32**	**839**	**893**

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	31.12.2020	31.12.2019
Shareholders' portion	167	186
Policyholders' portion	242	253
Carrying amount	**409**	**439**

Amortisation of the PVFP totalled EUR 36 (45) million. EUR 26 (14) million of this amount is attributable to the shareholders' portion and EUR 10 (31) million to the policyholders' portion. These relate to Retail Germany – Life (EUR 25 [33] million), Life/Health Reinsurance (EUR 5 [7] million) and Retail International (EUR 6 [6] 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	25	100	39	29	**193**
of which investment contracts	5	—	—	—	5
Policyholders' portion	66	71	60	45	**242**
Carrying amount as at 31.12.2020	**91**	**171**	**99**	**74**	**435**

The acquired brand names worth EUR 32 (35) million (essentially "WARTA" [EUR 29 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	2020	2019
Gross carrying amount as at 31.12. of the previous year	**3,616**	**3,357**
IAS 8 adjustments[1]	—	34
Change in basis of consolidation (additions)		
Business combinations	—	1
Additions	272	418
Disposals	108	175
Disposal groups in accordance with IFRS 5	–14	–40
Reclassification	–15	1
Other changes	42	—
Exchange rate changes	–92	20
Gross carrying amount as at 31.12. of the financial year	**3,701**	**3,616**
Accumulated depreciation and impairment losses as at 31.12. of the previous year	**422**	**372**
Disposals	8	17
Reversal of impairment	—	1
Depreciation and impairment losses		
Depreciation	66	61
Impairment losses	6	9
Reclassification	–18	—
Disposal groups in accordance with IFRS 5	6	4
Exchange rate changes	–12	2
Accumulated depreciation and impairment losses as at 31.12. of the financial year	**451**	**422**
Carrying amount as at 31.12. of the previous year	3,193	2,985
Carrying amount as at 31.12. of the financial year	**3,250**	**3,193**

[1] First time application of IFRS 16, see chapter "Other disclosures", section "rents and leases" of these Notes.

Additions in the reporting period were mainly attributable to the Property/Casualty Reinsurance (EUR 62 million) and Retail Germany – Life (EUR 202 million) segments.

The fair value of investment property amounted to EUR 4,312 (4,056) million as at the reporting date. EUR 65 (16) million of this amount is attributable to Level 2 of the fair value hierarchy and EUR 4,247 (4,040) 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 78 (77) million. Operating expenses of EUR 2(2) 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 973 (1,017) million as at 31 December 2020. Contractual obligations to purchase, construct or develop investment property and for repairs, maintenance and enhancements amounted to EUR 1,040 (486) million as at the reporting date.

(4) Shares in affiliated companies and participating interests

SHARES IN AFFILIATED COMPANIES AND PARTICIPATING INTERESTS

EUR million	2020	2019
Affiliated companies	71	58
Participating interests	501	340
Carrying amount as at 31.12. of the financial year	**572**	**398**

(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	2020	2019
Carrying amount as at 31.12. of the previous year	**337**	**265**
Additions	31	89
Disposals	—	–47
Disposal groups in accordance with IFRS 5	1	—
Impairment losses	—	—
Result from investments in associated companies and joint ventures	100	35
Dividend payments	–11	–11
Adjustment recognised outside profit or loss	–1	—
Exchange rate changes	–19	6
Carrying amount as at 31.12. of the financial year	**438**	**337**

EUR 30 million of the additions to companies accounted for using the equity method are attributable to Monument Insurance Group Limited, Hamilton, Life/Health Reinsurance segment.

The goodwill of all equity-accounted companies amounted to EUR 105 (110) million at the year-end. As in the prior year, no shares of losses incurred by associates were not recognised in the financial year.

For further information on the Group's share in the capital of associates and joint ventures please refer to the "List of shareholdings" section on pages 237 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	2020	2019
Profit from continuing operations	443	140
Profit after tax from discontinued operations	—	—
Other comprehensive income	19	–9
Total comprehensive income	**462**	**131**

(6) Loans and receivables

LOANS AND RECEIVABLES

EUR million	Amortised cost 31.12.2020	Amortised cost 31.12.2019	Unrealised gains/losses 31.12.2020	Unrealised gains/losses 31.12.2019	Fair value 31.12.2020	Fair value 31.12.2019
Mortgage loans	351	298	89	46	440	343
Loans and prepayments on insurance policies	107	115	—	—	107	115
Loans and receivables due from government or quasi-governmental entities[1]	10,834	10,428	1,962	1,654	12,795	12,082
Corporate bonds	5,058	4,260	429	496	5,487	4,756
Covered bonds/asset-backed securities	11,054	12,540	2,678	2,881	13,731	15,421
Total	**27,404**	**27,641**	**5,158**	**5,077**	**32,562**	**32,718**

[1] Loans and receivables due from government or quasi-governmental entities include securities of EUR 2,657 (2,952) 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 11,053 (12,538) million; this corresponds to 99% (99%) of the total amount.

CONTRACTUAL MATURITIES

EUR million	Amortised cost 31.12.2020	Amortised cost 31.12.2019	Fair value 31.12.2020	Fair value 31.12.2019
Due within 1 year	1,193	1,232	1,286	1,284
More than 1 year and up to 2 years	736	836	772	871
More than 2 years and up to 3 years	1,042	830	1,086	894
More than 3 years and up to 4 years	802	786	886	868
More than 4 years and up to 5 years	960	1,114	1,083	1,269
More than 5 years and up to 10 years	6,414	7,256	7,766	8,728
More than 10 years	16,256	15,588	19,683	18,804
Total	**27,404**	**27,641**	**32,562**	**32,718**

RATING STRUCTURE FOR LOANS AND RECEIVABLES

EUR million	Amortised cost 31.12.2020	Amortised cost 31.12.2019
AAA	17,586	16,680
AA	4,157	5,762
A	2,404	2,243
BBB or lower	2,457	2,248
Not rated	800	707
Total	**27,404**	**27,641**

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	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Government debt securities issued by EU member states	116	123	16	14	132	137
Other foreign government debt securities	17	34	—	3	17	37
Debt securities issued by quasi-governmental entities [1]	227	24	1	1	228	25
Corporate bonds	—	2	—	4	—	5
Covered bonds/asset-backed securities	114	153	2	8	116	161
Total	**474**	**336**	**19**	**29**	**494**	**365**

[1] Debt securities issued by quasi-governmental entities include securities of EUR 204 (0) 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 113 (153) million; this corresponds to 99% (100%) of the total amount.

CONTRACTUAL MATURITIES

	Amortised cost		Fair value	
EUR million	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Due within 1 year	137	51	140	52
More than 1 year and up to 2 years	48	139	52	147
More than 2 years and up to 3 years	51	53	56	58
More than 3 years and up to 4 years	11	53	11	62
More than 4 years and up to 5 years	22	15	23	17
More than 5 years and up to 10 years	192	17	196	21
More than 10 years	14	8	16	9
Total	**474**	**336**	**494**	**365**

RATING STRUCTURE FOR HELD-TO-MATURITY FINANCIAL INSTRUMENTS

	Amortised cost	
EUR million	31.12.2020	31.12.2019
AAA	101	140
AA	36	37
A	320	124
BBB or lower	17	35
Not rated	—	—
Total	**474**	**336**

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		Unrealised gains/losses		Fair value	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Fixed-income securities						
Government debt securities issued by EU member states	12,584	12,409	1,969	1,423	14,554	13,831
US treasury notes	7,354	7,820	499	182	7,853	8,002
Other foreign government debt securities	4,497	3,752	192	109	4,689	3,861
Debt securities issued by quasi-governmental entities [1]	14,893	12,626	2,204	1,410	17,098	14,036
Corporate bonds	26,520	26,098	1,782	1,419	28,302	27,517
Investment funds	2,310	1,845	156	141	2,466	1,986
Covered bonds/asset-backed securities	10,533	11,348	1,245	872	11,778	12,220
Profit participation certificates	1	30	—	–1	1	30
Other	2	—	—	—	2	—
Total fixed-income securities	**78,694**	**75,929**	**8,048**	**5,554**	**86,742**	**81,483**
Variable-yield securities						
Equities	436	362	84	105	520	467
Investment funds	1,847	1,350	280	167	2,127	1,517
Profit participation certificates	75	77	3	7	78	83
Total variable-yield securities	**2,358**	**1,789**	**367**	**279**	**2,725**	**2,067**
Total securities	**81,052**	**77,718**	**8,415**	**5,832**	**89,467**	**83,550**

[1] Debt securities issued by quasi-governmental entities include securities of EUR 4,167 (3,607) 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 9,523 (10,131) million; this corresponds to 81% (83%) of the total amount.

CONTRACTUAL MATURITIES OF FIXED-INCOME SECURITIES

EUR million	Fair value		Amortised cost	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Due within 1 year	4,163	5,336	4,142	5,310
More than 1 year and up to 2 years	5,141	4,200	5,011	4,144
More than 2 years and up to 3 years	5,678	5,612	5,450	5,470
More than 3 years and up to 4 years	5,193	5,702	4,933	5,487
More than 4 years and up to 5 years	6,566	5,322	6,242	5,104
More than 5 years and up to 10 years	27,789	26,337	25,758	24,871
More than 10 years	32,212	28,973	27,158	25,544
Total	**86,742**	**81,483**	**78,694**	**75,929**

RATING STRUCTURE FOR FIXED-INCOME SECURITIES

EUR million	Fair value 31.12.2020	31.12.2019
AAA	30,824	27,867
AA	17,494	17,061
A	14,930	13,024
BBB or lower	21,872	21,559
Not rated	1,623	1,972
Total	**86,742**	**81,483**

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 31.12.2020	31.12.2019
Fixed-income securities		
Government debt securities issued by EU member states	15	18
Other foreign government debt securities	15	381
Debt securities issued by quasi-governmental entities	16	17
Corporate bonds	364	456
Investment funds	123	215
Covered bonds/asset-backed securities	4	4
Profit participation certificates	30	37
Other	18	—
Total fixed-income securities	**585**	**1,128**
Investment funds (variable-yield securities)	22	36
Other variable-yield securities	18	111
Total financial instruments classified at fair value through profit or loss	**625**	**1,275**
Investment funds (variable-yield securities)	135	122
Derivatives	307	321
Total financial instruments held for trading	**442**	**443**
Total	**1,067**	**1,718**

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 31.12.2020	31.12.2019
Due within 1 year	84	602
More than 1 year and up to 2 years	39	43
More than 2 years and up to 3 years	46	28
More than 3 years and up to 4 years	30	35
More than 4 years and up to 5 years	68	4
More than 5 years and up to 10 years	181	188
More than 10 years	136	226
Total	**585**	**1,128**

RATING STRUCTURE FOR FIXED-INCOME SECURITIES

EUR million	Fair value 31.12.2020	31.12.2019
AAA	—	54
AA	—	289
A	168	188
BBB or lower	132	70
Not rated	284	526
Total	**585**	**1,128**

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 0 (1) million in the reporting period and EUR 0 (0) 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 31.12.2020	31.12.2019
Loans and receivables	709	191
Available-for-sale financial instruments	4,663	4,730
Financial instruments at fair value through profit or loss	20	26
Non-current assets from infrastructure investments	457	517
Total	**5,849**	**5,465**

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	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Investments in partnerships	2,854	2,359	641	605	3,495	2,964
Other participating interests	230	220	14	32	244	252
Other short-term investments	924	1,514	—	—	924	1,514
Total	**4,008**	**4,093**	**655**	**637**	**4,663**	**4,730**

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 31.12.2020	31.12.2019
AAA	—	—
AA	78	106
A	342	666
BBB or lower	433	616
Not rated	71	126
Total	**924**	**1,514**

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	2020	2019
Gross carrying amount as at 31.12. of the previous year	**659**	**626**
IAS 8 adjustments[1]	—	32
Additions	—	—
Disposals	—	—
Exchange rate changes	—	—
Gross carrying amount as at 31.12. of the financial year	**659**	**659**
Accumulated depreciation and impairment losses as at 31.12. of the previous year	**142**	**108**
Depreciation and impairment losses		
Depreciation	34	34
Impairment losses	27	—
Exchange rate changes	—	—
Accumulated depreciation and impairment losses as at 31.12. of the financial year	**202**	**142**
Carrying amount as at 31.12. of the previous year	517	518
Carrying amount as at 31.12. of the financial year	**457**	**517**

[1] First time application of IFRS 16, see chapter "Other disclosures", section "rents and leases" 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	31.12.2020	31.12.2019
Loans and receivables	41	43
Financial instruments classified at fair value through profit or loss	1,223	1,127
Derivatives	—	—
Total	**1,265**	**1,170**

Loans and receivables

CONTRACTUAL MATURITIES

	Amortised cost		Fair value	
EUR million	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Due within 1 year	41	3	41	3
More than 1 year and up to 2 years	—	39	—	39
More than 2 years and up to 3 years	—	—	—	—
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	**41**	**43**	**41**	**43**

RATING STRUCTURE

	Amortised cost	
EUR million	31.12.2020	31.12.2019
AAA	—	—
AA	—	—
A	2	3
BBB or lower	39	40
Not rated	—	—
Total	**41**	**43**

Financial instruments classified at fair value through profit or loss

CONTRACTUAL MATURITIES

EUR million	Fair value 31.12.2020	31.12.2019
Due within 1 year	61	33
More than 1 year and up to 2 years	16	36
More than 2 years and up to 3 years	34	27
More than 3 years and up to 4 years	70	47
More than 4 years and up to 5 years	138	58
More than 5 years and up to 10 years	160	270
More than 10 years	745	655
Total	**1,223**	**1,127**

RATING STRUCTURE

EUR million	Fair value 31.12.2020	31.12.2019
AAA	19	5
AA	25	37
A	122	119
BBB or lower	867	782
Not rated	190	185
Total	**1,223**	**1,127**

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 is used to measure the financial instrument.

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 (2019: none).

As in the previous year, there were no debts issued with an inseparable third-party credit enhancement within the meaning of IFRS 13.98 as at the reporting date. The credit enhancements are not reflected in the measurement of the fair value.

FAIR VALUE HIERARCHY – FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

EUR million

Carrying amounts of financial instruments measured at fair value by class	Level 1	Level 2	Level 3 [1]	Carrying amount
31.12.2020				
Financial assets measured at fair value				
Available-for-sale financial instruments				
Fixed-income securities	64	86,676	2	86,742
Variable-yield securities	1,233	91	1,401	2,725
Financial instruments at fair value through profit or loss				
Financial instruments classified at fair value through profit or loss	30	434	160	625
Derivatives held for trading	10	142	155	307
Other financial instruments held for trading	135	—	—	135
Other investments	924	242	3,517	4,684
Other assets, derivative financial instruments (hedging instruments)	—	35	—	35
Investment contracts				
Financial instruments classified at fair value through profit or loss	1,042	—	181	1,223
Derivatives	—	—	—	—
Total financial assets measured at fair value	**3,440**	**87,621**	**5,415**	**96,476**
Financial liabilities measured at fair value				
Other liabilities (negative fair values from derivative financial instruments)				
Negative fair values from derivatives	—	94	122	216
Negative fair values from hedging instruments	—	13	—	13
Other liabilities (investment contracts)				
Financial instruments classified at fair value through profit or loss	332	711	181	1,224
Derivatives	—	—	—	—
Total financial liabilities measured at fair value	**332**	**818**	**303**	**1,453**
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	—	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**

[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 2020

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
2020								
Opening balance at 1.1.2020	**3**	**1,227**	**84**	**160**	**3,242**	**201**	**—**	**4,918**
Income and expenses								
recognised in the statement of income	—	–19	–4	39	–69	1	—	–53
recognised in other comprehensive income	—	–3	—	—	92	—	—	89
Transfer into Level 3	—	—	—	—	—	—	—	—
Transfers out of Level 3	—	—	—	—	—	—	—	—
Additions								
Purchases	—	338	96	56	709	7	—	1,206
Disposals								
Sales	1	105	2	92	287	16	—	504
Repayments/redemptions	—	—	10	—	—	—	—	10
Exchange rate changes	—	–37	–4	–9	–168	–12	—	–231
Closing balance at 31.12.2020	**2**	**1,401**	**160**	**155**	**3,517**	**181**	**—**	**5,415**
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**

[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 2020

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
2020				
Opening balance at 1.1.2020	**123**	**201**	**—**	**325**
Income and expenses				
recognised in the statement of income	1	–1	—	—
recognised in other comprehensive income	—	—	—	—
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	—	—	—
Additions				
Purchases	5	7	—	12
Disposals				
Sales	—	16	—	17
Repayments/redemptions	—	—	—	—
Exchange rate changes	–5	–12	—	–17
Closing balance at 31.12.2020	**122**	**181**	**—**	**303**
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**

[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
2020							
Gains and losses in financial year 2020							
Investment income	—	5	39	—	20	—	64
Investment expenses	–19	–9	—	–69	–19	—	–117
of which attributable to financial instruments included in the portfolio as at 31.12.2020							
Investment income[2]	—	5	39	—	20	—	64
Investment expenses[3]	–19	–9	—	–69	–19	—	–117
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

[1] The term "financial instruments" is abbreviated to "FI" in the following.
[2] Of which EUR 64 (65) million attribute to unrealised gains.
[3] Of which EUR 29 (22) million attribute 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
2020				
Gains and losses in financial year 2020				
Investment income	8	19	—	27
Investment expenses	–1	–20	—	–21
Financing costs	–6	—	—	–6
of which attributable to financial instruments included in the portfolio as at 31.12.2020				
Investment income [2]	8	19	—	27
Investment expenses [3]	–1	–20	—	–21
Financing costs [4]	–6	—	—	–6
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

1 The term "financial instruments" is abbreviated to FI in the following.
2 Of which EUR 27 (24) million attributable to unrealised gains.
3 Of which EUR 21 (28) million attributable to unrealised losses.
4 Of which EUR 6 (4) million attributable to unrealised losses.

ADDITIONAL INFORMATION ABOUT THE MEASUREMENT OF LEVEL 3 FINANCIAL INSTRUMENTS

EUR million	Fair value 31.12.2020	Fair value 31.12.2019	Measurement technique	Unobservable inputs	Fluctuation (weighted average)
CDOs/CLOs [1]	19	30	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]	1,591	1,680	NAV method [3]	n. a.	n. a.
Private equity funds/private equity real estate funds [2]	3,199	2,653	NAV method [3]	n. a.	n. a.
Written put options and forward contracts for non-controlling interests [2]	95	93	Discounted NAV [3]	Risk free interest rate	0%–0,87%
Unlisted bond funds [2]	110	34	NAV method [3]	n. a.	n. a.
Insurance related contracts [1]	275	306	Present value method	Fair values of CAT bonds, credit-spread	n. a. [4]
Investment contracts	362	402	—	—	—
Unlisted bonds	48	21	Present value method	Remeasurement rate, credit-spread	2,4 % (2,3 %) n. a.
Interest rate swaps	18	24	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 5.7 (5.2) billion as at the reporting date.Of this figure, the Group generally measures EUR 5.0 (4.5) 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 181 (201) 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 275 (306) 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 37 (75) 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
31.12.2020				
Financial assets not measured at fair value				
Loans and receivables	34	29,990	2,537	32,562
Held-to-maturity financial instruments	—	494	—	494
Other investments	40	37	632	709
Investment contracts - loans and receivables	1	41	—	41
Total financial assets not measured at fair value	**75**	**30,561**	**3,170**	**33,806**
Financial liabilities not measured at fair value				
Subordinated liabilities	809	2,976	1	3,785
Notes payable	49	2,283	153	2,485
Other commitments under investment contracts	—	54	—	54
Total financial liabilities not measured at fair value	**857**	**5,313**	**154**	**6,324**
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**

[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 page 146.

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	31.12.2020	31.12.2019
Balance sheet item (positive fair values)			
Financial instruments at fair value through profit or loss, financial instruments held for trading (derivatives)	No	307	321
Investment contracts, financial instruments held for trading (derivatives)	No	—	—
Other assets, derivative financial instruments (hedging instruments)	Yes	35	47
Balance sheet item (negative fair values)			
Other liabilities:			
Liabilities from derivatives	No	−216	−179
Liabilities from derivatives (hedging instruments)	Yes	−13	−7
Investment contracts, derivatives	No	—	—
Total		**113**	**183**

Derivative financial instruments – not including hedging instruments – generated an unrealised gain of EUR 73 (99) million in the financial year. The gain realised on positions closed out in 2020 amounted to EUR −11 (−10) 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 113 (183) 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	31.12.2020 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	31.12.2019
Interest rate hedges							
Fair value	–11	28	1	6	—	24	25
Notional amount	559	784	108	121	—	1,572	1,064
Currency hedges							
Fair value	–7	–29	–10	—	—	–46	–8
Notional amount	1,565	834	173	—	—	2,573	2,188
Equity and index hedges							
Fair value	22	—	–64	—	—	–42	–17
Notional amount	426	—	–67	—	—	359	384
Derivatives associated with insurance contracts [1]							
Fair value	21	56	16	55	45	194	190
Credit risk							
Fair value	—	6	9	—	—	15	24
Notional amount	64	287	42	—	—	392	376
Other risks							
Fair value	—	–31	—	—	—	–31	–31
Notional amount	—	–31	—	—	—	–31	–22
Total hedges							
Fair value	**26**	**29**	**–49**	**61**	**45**	**113**	**183**
Notional amount	**2,614**	**1,874**	**256**	**121**	**—**	**4,865**	**3,989**

[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
31.12.2020					
Derivatives (positive fair values)	114	28	56	—	30
Derivatives (negative fair values)	90	17	35	18	20
31.12.2019					
Derivatives (positive fair values)	114	10	67	—	37
Derivatives (negative fair values)	45	22	14	9	1

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, losses of EUR 12 (gains: 1) million from the hedge derivatives were recognised in the reporting period, along with gains of EUR 15 (losses: 2) 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	2020	2019
Carrying amount as at 31.12. of the previous year (before taxes)	281	279
Additions (hedges of forecast transactions)	37	24
Additions (hedges of price risks)	−10	8
Additions (hedges of currency risks relating to long-term investments)	−1	−4
Reversals to the statement of income (hedges of forecast transactions)	−55	−26
Reversals to the statement of income (hedges of price risks)	—	—
Reversals to the statement of income (exercise of forward sales)	—	—
Carrying amount as at 31.12. of the financial year (before taxes)	**253**	**281**

The reserve for cash flow hedges changed by EUR −28 (2) million before taxes and by EUR −24 (−1) million net of taxes in the reporting period. A total of EUR 42 (26) million was amortised in the statement of income in 2020 in connection with forward purchases falling due and EUR 13 (0) million was amortised in connection with forward purchases terminated early, resulting in gains being realised in "Net investment income".

As in the previous reporting period, no material ineffectiveness of cash flow hedges was recognised in income in the year under review (in "Net investment income").

The expected cash flows from cash flow hedges were as follows:

CASH FLOWS OF HEDGED FORECAST TRANSACTIONS

EUR million	31.12.2020	31.12.2019
Cash flows of hedged items	**366**	**189**
Due within 1 year	54	55
More than 1 year and up to 5 years	312	134
More than 5 years and up to 10 years	—	—

There were no forecast transactions in 2020 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	31.12.2020	31.12.2019
Fair value hedges		
Forward sales	–7	1
Cash flow hedges		
Forward securities transactions	29	34
Equity swaps	—	6
	29	**39**
Hedges of currency risks relating to long-term investments		
Currency forwards	—	—
Total	**22**	**40**

Net gains or losses on hedging derivatives recognised in the statement of income in the reporting period amounted to EUR 43 (27) million. They related to the amortisation of equity amounts (EUR 55 (26) million), changes in fair value recognised in income as a result of ineffectiveness (EUR 0 [0] million) and changes in fair value from fair value hedges (EUR –12 [1] 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 15 (23) 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 0 (1) million. Over the course of the year, the changes in the derivative's fair value resulted in total expenses of EUR 6 million before taxes (income of EUR 8 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 58 (26) million. The changes in the value of this derivative in the financial year lifted earnings by EUR 34 (20) 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 32 (44) 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 39 (38) 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 was recognised at fair value as a derivative financial instrument. The derivative fell due and was derecognised in the current financial year. As at the prior year reporting date, this derivative was reported at a positive fair value of EUR 14 million in other financial instruments at fair value in income. Over the course of the prior year, the change in the fair value of the derivative generated expenses of EUR 9 million. Conversely, the performance of the structured bond, which was also measured at fair value, led to income 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 27 (30) million and of other financial instruments at fair value through profit or loss of EUR 123 (117) million. Overall, these contracts lifted earnings by EUR 6 (6) 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 as at the reporting date in other liabilities at a negative fair value of EUR 2 million (prior year: EUR 5 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 resulted in earnings of EUR 2 (earnings: 6) million.

Overall, application of the accounting requirements for insurance derivatives led to the recognition as at the reporting date of assets totalling EUR 228 (229) million and of liabilities associated with insurance derivatives of EUR 34 (39) million. Increases in earnings of EUR 83 (78) million and decreases in earnings of EUR 8 (12) 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 2,447 (3,345) million; the equivalent of EUR 1,902 (2,742) 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	2020	2019
Accounts receivable on direct insurance business	3,078	3,029
of which		
from policyholders	1,572	1,780
from insurance intermediaries	1,506	1,250
Accounts receivable from reinsurance business	5,886	5,496
Carrying amount as at 31.12. of the financial year	**8,964**	**8,525**

ACCOUNTS RECEIVABLE ON INSURANCE BUSINESS THAT WERE PAST DUE BUT NOT IMPAIRED AT THE REPORTING DATE

EUR million	> 3 months < 1 year	> 1 year
31.12.2020		
Accounts receivable from policyholders	164	181
Accounts receivable from insurance intermediaries	81	53
Accounts receivable from reinsurance business	393	282
Total	**638**	**517**
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**

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 479 (472) million on the reporting date; of this figure, EUR 234 (222) million was more than one year past due. Consequently, accounts receivable that were more than one year past due accounted for 7.6% (7.4%) of total accounts receivable. The combined average default rate in the past three years was 0.6% (0.8%). The default rate in 2020 was 0.4% (0.8%).

Accounts receivable from the reinsurance business that were more than 90 days past due totalled EUR 675 (647) million, of which EUR 282 (276) million was more than one year past due.The latter category therefore accounted for 4.8% (5.0%) of total accounts receivable. The average default rate on reinsurance business in the past three years was 0.2% (0.3%).

Impaired accounts receivable relate to the following items:

INDIVIDUALLY IMPAIRED ASSETS RESULTING FROM INSURANCE CONTRACTS

EUR million	Risk provision	of which attributable to 2020/2019	Carrying amount after risk provision
31.12.2020			
Accounts receivable from policyholders	73	−3	1,572
Accounts receivable from insurance intermediaries	15	−8	1,506
Accounts receivable from reinsurance business	42	−4	5,886
Total	**130**	**−14**	**8,964**
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**

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	2020	2019
Accumulated impairments as at 31.12. of the previous year	143	135
Change in basis of consolidation	—	6
Impairments in financial year	48	48
Reversals of impairment losses	53	46
Exchange rate changes	−8	—
Other changes	—	—
Accumulated impairments as at 31.12. of the financial year	**130**	**143**

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 1.4% (1.7%) of total accounts receivable.

Accounts receivable from passive reinsurance business in the primary insurance companies including Corporate Operations amounted to EUR 629 (546) million (after deduction of impairments). 88% (74%) 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 5.9 (5.5) billion, 51% (49%) had a category A rating or better.

IMPAIRMENT RATES

%	31.12.2020	31.12.2019
Accounts receivable from policyholders	4.4	4.1
Accounts receivable from insurance intermediaries	1.0	1.8
Accounts receivable from reinsurance business	0.7	0.8

ANNUAL DEFAULT RATES

%	31.12.2020	31.12.2019
Accounts receivable from policyholders	0.8	0.8
Accounts receivable from insurance intermediaries	0.1	0.8
Accounts receivable from reinsurance business	0.3	0.2

(15) Deferred acquisition costs

DEFERRED ACQUISITION COSTS

	2020			2019		
EUR million	Gross business	Reinsurers' share	Net business	Gross business	Reinsurers' share	Net business
Carrying amount as at 31.12. of the previous year	**6,310**	**370**	**5,940**	**5,525**	**167**	**5,358**
Change in basis of consolidation	—	—	—	−1	—	−1
Portfolio entries/withdrawals	—	—	—	—	—	—
Additions	1,592	213	1,380	2,261	274	1,987
Amortised acquisition costs	1,984	203	1,781	1,548	74	1,474
Currency adjustments	−241	−14	−227	74	3	71
Disposal groups in accordance with IFRS 5	—	—	—	−1	—	−1
Carrying amount as at 31.12. of the financial year	**5,678**	**366**	**5,312**	**6,310**	**370**	**5,940**

(16) Other assets

OTHER ASSETS

EUR million	2020	2019
Real estate held and used	829	897
Tax assets	769	511
Operating and office equipment	151	147
Interest and rent due	23	19
Derivative financial instruments – hedging instruments, hedge accounting	35	47
Miscellaneous assets	1,230	1,198
Carrying amount as at 31.12. of the financial year	**3,035**	**2,819**

The fair value of real estate held and used amounted to EUR 1,004 (1,047) million as at the reporting date. EUR 173 (193) million of this amount is attributable to Level 2 of the fair value hierarchy and EUR 831 (854) 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 220 (265) million as at 31 December 2020. Capitalised expenditures for property, plant and equipment under construction totalled EUR 8 (4) million as at the reporting date.

CHANGES IN REAL ESTATE HELD AND USED

EUR million	2020	2019
Gross carrying amount as at 31.12. of the previous year	**1,164**	**735**
IAS 8 adjustments[1]	—	393
Change in basis of consolidation (addition)		
Business combinations	—	—
Additions	18	15
Disposals	55	9
Reclassifications	15	–1
Other changes	32	29
Exchange rate changes	–22	2
Gross carrying amount as at 31.12. of the financial year	**1,153**	**1,164**
Accumulated depreciation and impairment losses as at 31.12. of the previous year	**267**	**194**
Disposals	32	2
Depreciation and impairment losses		
Depreciation	79	77
Impairment losses	—	1
Reversal of impairment	2	2
Reclassifications	18	—
Other changes	–2	—
Exchange rate changes	–5	—
Accumulated depreciation and impairment losses as at 31.12. of the financial year	**324**	**267**
Carrying amount as at 31.12. of the previous year	897	541
Carrying amount as at 31.12. of the financial year	**829**	**897**

[1] First time application of IFRS 16, see chapter "Other disclosures", section "rents and leases" of these Notes.

CHANGES IN OPERATING AND OFFICE EQUIPMENT

EUR million	2020	2019
Gross carrying amount as at 31.12. of the previous year	**485**	**497**
IAS 8 adjustments[1]	—	4
Change in basis of consolidation (additions)		
Business combinations	—	2
Additions	56	39
Disposals	57	58
Reclassifications	9	—
Exchange rate changes	–17	1
Gross carrying amount as at 31.12. of the financial year	**476**	**485**
Accumulated depreciation and impairment losses as at 31.12. of the previous year	**338**	**343**
Change in basis of consolidation (additions)		
Business combinations	—	2
Disposals	54	54
Depreciation and impairment losses		
Depreciation	52	46
Exchange rate changes	–10	1
Accumulated depreciation and impairment losses as at 31.12. of the financial year	**325**	**338**
Carrying amount as at 31.12. of the previous year	147	154
Carrying amount as at 31.12. of the financial year	**151**	**147**

[1] First time application of IFRS 16, see chapter "Other disclosures", section "rents and leases" of these Notes.

MISCELLANEOUS ASSETS

EUR million	2020	2019
Trade accounts receivable	115	132
Receivables relating to investments	73	73
Receivables from non-Group-led business	430	389
Other tangible assets	21	17
Claims under pension liability insurance/ surrender values	117	117
Prepaid insurance benefits	116	105
Deferred income	89	95
Other miscellaneous assets	268	268
Total	**1,230**	**1,198**

Notes to the consolidated balance sheet – equity and liabilities

(17) Equity

Changes in equity and non-controlling interests

COMPOSITION OF EQUITY

EUR million	31.12.2020	31.12.2019
Subscribed capital	316	316
Capital reserves	1,373	1,373
Retained earnings	7,413	6,872
Other reserves	617	665
Group net income	673	923
Non-controlling interests in equity	6,732	6,461
Total	**17,125**	**16,610**

Retained earnings include equalisation reserves of EUR 2,039 (1,824) million (after deferred taxes).

Other reserves include gains and losses from currency translation of EUR –695 (–93) million.

UNREALISED GAINS AND LOSSES INCLUDED IN OTHER RESERVES

EUR million	31.12.2020	31.12.2019
From available-for-sale investments	7,271	5,200
From cash flow hedges	244	261
From the measurement of associates using the equity method	–12	8
Other changes	–1,302	–1,097
less/plus		
Policyholder participation/shadow accounting [1]	–4,567	–3,460
Deferred taxes recognised directly in equity	–323	–154
Non-controlling interests in equity	995	868
Total	**2,307**	**1,626**

[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	31.12.2020	31.12.2019
Unrealised gains and losses on investments	1,599	991
Share of net income	522	748
Other equity	4,610	4,723
Total	**6,732**	**6,461**

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

As in 2019, an employee share programme was launched for 2020, under which employees at German companies (excluding Hannover Rück SE) were each offered a maximum of 36 shares for subscription. The shares were acquired via a buyback of treasury shares in November. The shares were resold to employees in November. The reselling price was based on the lowest daily rate on the Frankfurt and Hannover stock exchanges on 30 October 2020, less a discount of EUR 10 per share, and came to EUR 25.00. A total of 118,007 shares were acquired via XETRA at an average price of EUR 28.61. The transaction resulted in personnel expenses of EUR 1.2 million. The shares issued are subject to a lock-up period, which expires on 25 November 2022. 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.

The guaranteed subordinated bond of Hannover Finance (Luxembourg) S.A. in the amount of EUR 500 million was called and repaid at the amount of the entire nominal amount with effect from the first regular repayment date.

Hannover Rück SE placed a subordinated bond of EUR 500 million on the European capital market on 8 July 2020. The bond has a maturity of approximately 20 years. The bond cannot be called under normal conditions before 8 July 2030. The bond has a fixed coupon of 1.75% p.a. for the first ten years of the term and then has a variable interest rate of 3% over the three-month EURIBOR.

LONG-TERM SUBORDINATED DEBT

EUR million	Nominal amount	Coupon	Maturity	Rating [2]	Issue	31.12.2020	31.12.2019
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.	741	740
Hannover Rück SE	500	Fixed (1.75%), then floating rate	2020/2040	(—; A)	These guaranteed subordinated bonds were issued on the European capital market in 2020. They can be called for the first time under normal conditions in 2030.	495	—
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
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	499
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.	447	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
HDI Assicurazioni S.p.A.	11	Fixed (5,7557 %)	2020/2030	(—; —)	Two subordinated loans, callable after ten years.	11	—
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						**3,473**	**3,479**

[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	31.12.2020	31.12.2019
Amortised cost	3,473	3,479
Unrealised gains/losses	313	303
Fair value	3,785	3,782

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 –137 (–133) million from subordinated liabilities in the reporting period consisted of interest expenses in the amount of EUR 135 (132) million and amortisation expenses (EUR 2 [1] million).

SUBORDINATED LIABILITIES: MATURITIES

EUR million	31.12.2020	31.12.2019
Due within 1 year	—	14
More than 1 year and up to 5 years	—	—
More than 5 years and up to 10 years	38	27
More than 10 years and up to 20 years	1,236	740
More than 20 years	1,750	2,249
No fixed maturity	450	449
Total	**3,473**	**3,479**

(19) Unearned premium reserve

UNEARNED PREMIUM RESERVE

			2020			2019
EUR million	Gross	Re	Net	Gross	Re	Net
Balance at 31.12. of the previous year	**9,837**	**740**	**9,097**	**8,590**	**684**	**7,906**
Change in basis of consolidation	—	—	—	38	9	29
Portfolio entries/withdrawals	3	—	3	5	—	5
Additions	4,178	752	3,426	4,519	544	3,975
Reversals	2,731	509	2,222	3,454	503	2,952
Disposal groups in accordance with IFRS 5	—	—	—	–3	—	–3
Exchange rate changes	–749	–76	–674	142	5	137
Balance at 31.12. of the financial year	**10,538**	**908**	**9,630**	**9,837**	**740**	**9,097**

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

	2020			2019		
EUR million	Gross	Re	Net	Gross	Re	Net
Balance at 31.12. of the previous year	**56,859**	**1,121**	**55,738**	**56,234**	**1,209**	**55,025**
Portfolio entries/withdrawals	–486	–239	–248	–528	53	–581
Additions	6,248	–375	6,623	4,648	–130	4,778
Reversals	5,078	37	5,041	3,846	35	3,811
Exchange rate changes	–611	–30	–581	352	24	328
Balance at 31.12. of the financial year	**56,932**	**440**	**56,492**	**56,859**	**1,121**	**55,738**

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

	2020			2019		
EUR million	Gross	Re	Net	Gross	Re	Net
Due within 1 year	3,268	15	3,254	3,730	636	3,095
More than 1 year and up to 5 years	10,426	54	10,372	10,670	109	10,561
More than 5 years and up to 10 years	14,745	89	14,656	14,145	103	14,042
More than 10 years and up to 20 years	13,743	73	13,670	13,066	132	12,934
More than 20 years	11,265	63	11,203	11,177	140	11,036
Deposits	3,484	147	3,337	4,070	2	4,069
Total	**56,932**	**440**	**56,492**	**56,859**	**1,121**	**55,738**

(21) Loss and loss adjustment expense reserve

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVE

	2020			2019		
EUR million	Gross	Re	Net	Gross	Re	Net
Balance at 31.12. of the previous year	**49,651**	**6,311**	**43,340**	**45,887**	**6,284**	**39,603**
Change in basis of consolidation	—	—	—	237	88	149
Portfolio entries/withdrawals	−21	−8	−12	−3	1	−5
plus						
Claims and claims expenses incurred (net); financial year	22,522	2,223	20,299	20,903	2,218	18,685
Claims and claims expenses incurred (net); previous year	4,218	867	3,352	3,354	725	2,628
Total claims and claims expenses incurred	26,740	3,090	23,650	24,257	2,943	21,313
minus						
Claims and claims expenses incurred (net); financial year	7,642	437	7,206	7,737	448	7,289
Claims and claims expenses incurred (net); previous year	15,011	2,783	12,229	13,695	2,626	11,069
Total claims and claims expenses incurred	22,653	3,220	19,434	21,432	3,074	18,358
Other changes	—	4	−4	−4	−5	1
Exchange rate changes	−2,528	−327	−2,202	710	73	636
Balance at 31.12. of the financial year	**51,189**	**5,850**	**45,339**	**49,651**	**6,311**	**43,340**

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 2010 to 2020, 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 runoff 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 intragroup relationships between primary insurance segments (including Corporate Operations) and reinsurance. The figures reported for the 2010 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 2020.

Total net loss reserves for the Group amount to EUR 45.3 (43.3) billion. EUR 15.0 (14.1) billion of this figure is attributable to our property/casualty insurance companies in the primary insurance area (including Corporate Operations) and EUR 24.7 (23.7) billion to the Property/Casualty Reinsurance segment. The remaining EUR 5.6 (5.5) billion is attributable to the Life/Health Reinsurance segment (EUR 4.5 [4.4] billion) and the life primary insurance business (EUR 1.1 [1.1] 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Loss and loss adjustment expense reserve	**6,838**	**6,925**	**7,082**	**7,843**	**8,433**	**8,734**	**9,009**	**9,435**	**10,367**	**11,038**	**12,200**
Cumulative payments for the year in question and previous years											
One year later	1,296	1,488	1,101	1,635	1,741	1,875	1,912	2,023	2,335	2,196	
Two years later	2,093	1,811	1,860	2,362	2,583	2,810	2,791	3,068	3,324		
Three years later	2,198	2,328	2,346	2,906	3,188	3,383	3,414	3,706			
Four years later	2,577	2,701	2,774	3,340	3,592	3,842	3,865				
Five years later	2,888	3,055	3,103	3,663	3,951	4,172					
Six years later	3,181	3,321	3,368	3,953	4,200						
Seven years later	3,398	3,536	3,601	4,120							
Eight years later	3,578	3,730	3,735								
Nine years later	3,742	3,835									
Ten years later	3,830										
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	6,838	6,925	7,082	7,843	8,433	8,734	9,009	9,435	10,367	11,038	12,200
One year later	6,425	6,561	6,755	7,562	7,963	8,426	8,710	9,335	10,289	10,968	
Two years later	6,187	6,391	6,647	7,137	7,697	8,153	8,632	9,097	10,237		
Three years later	6,115	6,326	6,384	7,041	7,458	8,153	8,453	9,114			
Four years later	5,994	6,108	6,305	6,821	7,485	8,009	8,458				
Five years later	5,791	6,087	6,054	6,887	7,361	8,012					
Six years later	5,791	5,844	6,148	6,771	7,353						
Seven years later	5,578	5,941	6,055	6,797							
Eight years later	5,670	5,870	6,089								
Nine years later	5,600	5,960									
Ten years later	5,744										
Change year-on-year											
in the final loss reserve[2] = run-off result	**–143**	**53**	**57**	**8**	**34**	**–10**	**–2**	**–12**	**69**	**19**	
%	**–2**	**1**	**1**	**—**	**—**	**—**	**—**	**—**	**1**	**—**	

[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 2010 (EUR 5,600 million minus EUR 5,744 million = EUR –143 million) is calculated. This figure is recorded and then updated in each subsequent period, e.g. in 2011 by the change e.g. from 2010 to 2011. Therefore, in 2011 the first step involves calculating the difference between the two amounts for 2011 and then subtracting the result from the value for 2010 (calculation for 2011: EUR 5,870 million less EUR 5,960 million = EUR –90 million; subtracting EUR –143 million from EUR –90 million results in a figure of EUR 53 million for 2011). This process must then be repeated for each subsequent year.

The Group reported a positive run-off result of EUR 70 (89) 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Loss and loss adjustment expense reserve	**15,072**	**16,427**	**17,037**	**17,596**	**19,481**	**21,501**	**22,412**	**22,534**	**23,923**	**26,135**	**27,464**
Cumulative payments for the year in question and previous years											
One year later	2,408	3,082	2,850	3,136	3,449	3,217	3,688	4,703	4,777	5,499	
Two years later	4,037	4,791	4,448	4,921	5,177	5,116	5,908	6,740	7,442		
Three years later	5,019	5,713	5,631	6,028	6,435	6,564	7,149	8,390			
Four years later	5,665	6,640	6,473	7,016	7,501	7,542	8,249				
Five years later	6,419	7,352	7,260	7,908	8,327	8,442					
Six years later	6,956	7,944	7,939	8,489	9,073						
Seven years later	7,392	8,446	8,405	9,071							
Eight years later	7,789	8,748	8,915								
Nine years later	8,027	9,178									
Ten years later	8,425										
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	15,072	16,427	17,037	17,596	19,481	21,501	22,412	22,534	23,923	26,135	27,464
One year later	14,477	16,138	16,558	17,403	18,980	20,607	21,284	21,792	23,132	25,545	
Two years later	13,881	15,748	16,204	16,777	17,881	19,220	20,300	20,537	22,235		
Three years later	13,435	15,300	15,685	15,743	16,935	18,224	19,249	19,786			
Four years later	12,977	14,679	14,979	14,892	16,051	17,262	18,504				
Five years later	12,412	14,005	14,278	14,126	15,224	16,595					
Six years later	11,874	13,363	13,593	13,339	14,586						
Seven years later	11,280	12,686	12,995	12,813							
Eight years later	10,885	12,162	12,583								
Nine years later	10,458	11,877									
Ten years later	10,279										
Change year-on-year											
in the final loss reserve[2] = run-off result	**179**	**107**	**127**	**114**	**112**	**28**	**78**	**6**	**146**	**–307**	
%	**1**	**1**	**1**	**1**	**1**	**—**	**—**	**—**	**1**	**–1**	

[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 2010 (EUR 10,458 million minus EUR 10,279 million = EUR 179 million) is calculated. This figure is recorded and then updated in each subsequent period, e.g. in 2011 by the change e.g. from 2010 to 2011. Therefore, in 2011 the first step involves calculating the difference between the two amounts for 2011 and then subtracting the result from the value for 2010 (calculation for 2011: EUR 12,162 million less EUR 11,877 million = EUR 286 million; subtracting EUR 179 million from EUR 286 million results in a figure of EUR 107 million for 2011). This process must then be repeated for each subsequent year.

Property/Casualty Reinsurance recorded a positive run-off result of EUR 591 (834) million in financial year 2020; 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 5.9 (6.3) billion) includes cumulative specific valuation allowances of EUR 52 (61) 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

	31.12.2020			31.12.2019		
EUR million	Gross	Re	Net	Gross	Re	Net
Due within 1 year	15,256	1,664	13,593	14,720	1,883	12,837
More than 1 year and up to 5 years	19,594	2,542	17,052	18,652	2,704	15,948
More than 5 years and up to 10 years	7,580	868	6,712	7,393	887	6,506
More than 10 years and up to 20 years	4,446	490	3,956	4,569	521	4,048
More than 20 years	2,147	239	1,907	2,216	264	1,952
Deposits	2,165	47	2,118	2,101	54	2,048
Total	**51,189**	**5,850**	**45,339**	**49,651**	**6,311**	**43,340**

(22) Provision for premium refunds

PROVISION FOR PREMIUM REFUNDS

	2020			2019		
EUR million	Gross	Re	Net	Gross	Re	Net
Balance at 31.12. of the previous year	**8,511**	**1**	**8,510**	**5,703**	**6**	**5,697**
Change in basis of consolidation	–9	—	–9	—	—	—
Additions/reversals (—)	278	—	278	1,295	—	1,295
Changes attributable to other comprehensive income from investments	1,027	—	1,027	1,761	—	1,761
Disposals						
Life insurance policies	689	—	689	229	—	229
Liability/casualty policies with premium refunds	—	—	—	18	4	14
Other changes	1	—	1	—	—	—
Exchange rate changes	–5	—	–5	–1	—	–1
Balance at 31.12. of the financial year	**9,114**	**1**	**9,112**	**8,511**	**1**	**8,510**

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 1,977 (1,738) million of the gross provision for premium refunds is attributable to obligations associated with surplus participations and EUR 7,137 (6,772) 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	2020	2019
Final salary plans that depend on length of service		
Plan assets	−68	−72
Present value of defined benefit obligation	2,255	2,154
Effect of the asset ceiling	—	—
Surplus (net asset)	−1	—
Shortfall (net liability)	2,186	2,082
Plan based on pension modules		
Plan assets	—	—
Present value of defined benefit obligation	133	118
Effect of the asset ceiling	—	—
Surplus (net asset)	—	—
Shortfall (net liability)	133	118
Contribution-based plans with guarantees		
Plan assets	−274	−204
Present value of defined benefit obligation	398	285
Effect of the asset ceiling	1	3
Surplus (net asset)	—	—
Shortfall (net liability)	125	84
Balance at 31.12. of the financial year (net asset)	**—**	**—**
Balance at 31.12. of the financial year (net liability)	**2,445**	**2,284**

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 2020 and as at 31 December 2019.

CHANGE IN NET PENSION OBLIGATIONS AND NET PENSION ASSETS FOR THE VARIOUS DEFINED BENEFIT PENSION PLANS

	Defined benefit obligation		Fair value of plan assets		Asset adjustment	
EUR million	2020	2019	2020	2019	2020	2019
Balance at 1.1. of the financial year	**2,557**	**2,379**	**–276**	**–236**	**3**	**1**
Changes recognised in net income						
Current service cost	27	28	—	—	—	—
Past service cost and plan curtailments	3	1	—	—	—	—
Net interest component	24	42	–4	–5	—	—
Gain or loss from settlements	—	—	—	—	—	—
	54	**70**	**–4**	**–5**	**—**	**—**
Other comprehensive income						
Remeasurements						
Actuarial gains (–)/losses (+) from changes in biometric assumptions	39	18	—	—	—	—
Actuarial gains (–)/losses (+) from changes in financial assumptions	225	176	—	—	—	—
Experience adjustments	14	–6	—	—	—	—
Return on plan assets (excluding interest income)	—	—	–51	–15	—	—
Change from asset adjustment	—	—	—	—	–2	2
Exchange rate changes	–5	1	—	—	—	—
	274	**190**	**–51**	**–15**	**–2**	**2**
Other changes						
Employer contributions	—	—	–23	–18	—	—
Employee contributions and deferred compensation	1	—	–1	–2	—	—
Benefits paid during the year	–89	–85	8	6	—	—
Business combinations and disposals	2	2	—	–2	—	—
Effect of plan settlements	—	—	—	—	—	—
Exchange rate changes	–12	—	4	–3	—	—
	–98	**–83**	**–11**	**–18**	**—**	**—**
Balance at 31.12. of the financial year	**2,786**	**2,557**	**–342**	**–276**	**1**	**3**

The structure of the investment portfolio underlying the plan assets was as follows:

PLAN ASSET PORTFOLIO STRUCTURE

%	2020	2019
Cash and cash equivalents	—	—
Equity instruments	2	3
Fixed-income securities	6	8
Real estate	2	2
Securities funds	11	14
Qualifying insurance contracts	76	72
Other	1	—
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 55 million. Income of EUR 20 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, %	2020	2019
Discount rate DBO	0.6	1.2
Net interest element discount factor [1]	0.7	—
Discount factor for current service cost [1]	1.2	—
Expected rate of salary increase [1]	2.5	2.5
Pension trend [1]	1.6	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.

The spot rate approach was expanded to cover interest expenses and income as at 31 December 2020. This approach is used to determine the valuation rate as per IAS 19.83 for the euro currency by discounting projected benefits with the entire yield curve. Defined benefit obligation assumptions include an additional discount factor for calculating net interest elements. The discount factor for the current service cost – for which there were no changes – is also shown. The discount factors for the net interest elements and current service costs are determined at the beginning of the financial year.

As in the previous year, the 2018 G Heubeck Mortality Tables were used without change 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 2020:

EFFECT OF CHANGES IN ACTUARIAL ASSUMPTIONS

	Effect on defined benefit obligation			
	Parameter increase		Parameter decrease	
EUR million	2020	2019	2020	2019
Discount rate (+/– 0.5%)	–213	–189	242	214
Salary increase rate (+/– 0.25%)	8	7	–19	–7
Pension adjustment rate (+/– 0.25%)	78	70	–95	–75

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 109 (93) 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 2021, the Group anticipates employer contributions of EUR 20 (19) 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 72 (68) 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	31.12.2020	31.12.2019
Provisions for income tax	327	313
Other tax provisions	210	248
Total	**537**	**561**

(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 31.12.2019	**98**	**50**	**196**	**18**	**41**	**90**	**144**	**333**	**971**
2020									
Change in basis of consolidation	—	—	—	—	—	—	—	—	**—**
Additions	14	—	92	2	14	112	702	208	**1,144**
Unwinding of discounts	—	—	—	—	—	—	—	6	**6**
Utilisation	13	4	113	2	13	98	713	149	**1,104**
Reversals	16	—	12	—	—	2	12	14	**58**
Change in fair value of plan assets	—	—	—	—	–4	—	—	—	**–4**
Other changes	–8	—	—	—	8	—	—	—	**—**
Exchange rate changes	–1	—	–5	—	—	–3	–3	–10	**–21**
Carrying amount as at 31.12.2020	**75**	**47**	**159**	**17**	**45**	**99**	**118**	**374**	**934**

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 74 (94) million at the reporting date. The main occurrences in the reporting period were additions of EUR 14 million, utilisations of EUR 12 million and reversals of EUR 14 million. EUR 8 million was also transferred from the restructuring provision to the provision for partial retirement. 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 374 [333] 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 88 (72) million) and provisions for commissions (EUR 84 [63] 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
31.12.2020				
Restructuring	44	31	—	**75**
Assumption of third-party pension obligations in return for payment [1]	—	—	47	**47**
Bonuses and incentives	117	41	—	**159**
Anniversary bonuses [1]	—	17	—	**17**
Early retirement/partial retirement [1]	—	45	—	**45**
Other personnel expenses	84	15	1	**99**
Outstanding invoices	118	—	—	**118**
Other	260	104	10	**374**
Total	**624**	**253**	**57**	**934**
Total, previous year	**606**	**304**	**60**	**971**

[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	31.12.2020	31.12.2019
Talanx AG notes payable	1,065	1,065
Hannover Rück SE	744	743
Loans from infrastructure investments	84	93
Hannover Re Real Estate Holdings, Inc. mortgage loans	117	129
HR GLL Central Europe GmbH & Co. KG mortgage loans	145	145
Real Estate Asia Select Fund Limited mortgage loans	110	121
Others	13	11
Total	**2,279**	**2,308**

NOTES PAYABLE

EUR million	Nominal amount	Coupon	Maturity	Rating[1]	Issue	31.12.2020	31.12.2019
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**	**1,809**

[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	31.12.2020	31.12.2019
Amortised cost	2,279	2,308
Unrealised gains/losses	206	188
Fair value	**2,485**	**2,496**

NOTES PAYABLE AND LOANS: MATURITIES

EUR million	31.12.2020	31.12.2019
Due within 1 year	11	46
More than 1 year and up to 5 years	884	914
More than 5 years and up to 10 years	1,382	1,339
More than 10 years and up to 20 years	2	8
More than 20 years	—	—
Total	**2,279**	**2,308**

As at 31 December 2020, 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 55 (54) million and consisted essentially of interest expenses on bonds issued by Talanx AG (EUR 30 [30] million) and Hannover Rück SE (EUR 8 [8] million), net expenses from mortgage loans (EUR 9 [8] million), loans on infrastructure investments (EUR 3 [3] million) and amortisation (EUR 3 [3] million).

(27) Other liabilities

OTHER LIABILITIES

EUR million	2020	2019
Liabilities under direct insurance business	1,926	1,860
of which to policyholders	1,252	1,151
of which to insurance intermediaries	675	709
Reinsurance payables	2,778	2,320
Lease liabilities	437	442
Trade accounts payable	173	202
Liabilities relating to investments	218	195
Liabilities relating to non-Group lead business	356	314
Liabilities from derivatives	229	186
of which negative fair values from derivative hedging instruments	13	7
Deferred income	53	57
Interest	81	88
Liabilities to social insurance institutions	18	19
Miscellaneous other liabilities	324	359
Total other liabilities (not including liabilities relating to investment contracts)	**6,593**	**6,042**
Other liabilities relating to investment contracts		
Other obligations measured at amortised cost	54	54
Financial instruments classified at fair value through profit or loss	1,224	1,128
Derivatives	—	—
Total other liabilities relating to investment contracts	**1,278**	**1,182**
Carrying amount as at 31.12. of the financial year	**7,871**	**7,224**

Other liabilities (not including liabilities relating to investment contracts)

Liabilities relating to investments include interim distributions of EUR 16 (19) 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 229 [186] 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	31.12.2020	31.12.2019
Due within 1 year	1,270	1,358
More than 1 year and up to 5 years	319	304
More than 5 years and up to 10 years	213	132
More than 10 years and up to 20 years	48	28
More than 20 years	38	39
No fixed maturity	—	—
Total	**1,889**	**1,862**

[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 45 [30] million; 1–5 years: EUR 88 [69] million; 5–10 years: EUR 83 [76] million; 10–20 years: EUR 10 [7] million; more than 20 years: EUR 3 [4] 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

	Amortised cost		Fair value	
EUR million	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Due within 1 year	53	15	53	15
More than 1 year and up to 5 years	—	40	—	40
More than 5 years and up to 10 years	—	—	—	—
More than 10 years and up to 20 years	—	—	—	—
No fixed maturity	—	—	—	—
Total	**54**	**54**	**54**	**54**

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: MATURITIES

EUR million	31.12.2020	31.12.2019
Due within 1 year	21	7
More than 1 year, up to 5 years	173	79
More than 5 years, up to 10 years	97	217
More than 10 years, up to 20 years	91	86
More than 20 years	129	121
No fixed maturity	713	618
Total	**1,224**	**1,128**

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) Liabilities from financing activities

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.
2020						
Subordinated liabilities	3,479	–8	—	—	2	3,473
Notes payable and loans	2,308	–7	—	–23	1	2,279
Lease liabilities	442	–77	—	–17	88	437
Total debt from financing activities	**6,229**	**–92**	**—**	**–40**	**92**	**6,189**
Interest paid from financing activities		–181				
Total cash flows from other financing activities		**–273**				
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**				

(29) Deferred taxes

CHANGE IN RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES DURING THE YEAR

	31.12.2020			31.12.2019		
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)	—	–51	–51	—	–56	–56
Investments	373	–1,264	–891	326	–838	–512
Funds withheld by ceding companies/funds withheld under reinsurance treaties	91	–2	89	625	–121	504
Accounts receivable on insurance business	127	–162	–35	60	–161	–101
Deferred acquisition costs[1]	60	–413	–353	46	–424	–378
Equalisation reserves	—	–1,684	–1,684	—	–1,472	–1,472
Loss reserves	724	–155	569	604	–72	532
Other technical provisions	458	–1,313	–855	270	–1,329	–1,059
Other provisions	482	–24	458	453	–10	443
Consolidation of intercompany balances	—	–14	–14	—	–19	–19
Other	890	–723	167	318	–447	–129
Loss carryforwards	695	—	695	681	—	681
Impairments	–269	—	–269	–268	—	–268
Tax assets (liabilities) before offsetting	**3,631**	**–5,805**	**–2,174**	**3,115**	**–4,949**	**–1,834**
Recognised amounts offset	**–3,308**	**3,308**	**—**	**–2,789**	**2,789**	**—**
Tax assets (liabilities) after offsetting	**323**	**–2,497**	**–2,174**	**326**	**–2,160**	**–1,834**

[1] 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 –340 (–610) million. EUR –229 (–447) million was recognised in other comprehensive income, thereby increasing equity, while EUR –118 (–156) 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

(30) 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
2020[1]								
Gross written premiums, including premiums from unit-linked life and annuity insurance	6,596	1,502	4,289	5,526	15,071	7,887	235	**41,105**
Savings elements of premiums from unit-linked life and annuity insurance	—	—	820	69	—	—	—	**890**
Ceded written premiums	1,605	17	109	243	1,643	752	447	**4,819**
Change in gross unearned premiums	–407	11	38	–48	–819	–55	–168	**–1,446**
Change in ceded unearned premiums	–46	3	3	26	–62	1	–159	**–235**
Net premiums earned	**4,630**	**1,493**	**3,394**	**5,140**	**12,671**	**7,079**	**–222**	**34,185**
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**

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

(31) 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
2020[1]								
Income from real estate	27	4	107	3	164	—	1	**306**
Dividends[2]	27	8	14	—	3	82	3	**137**
Current interest income	142	72	1,105	312	635	271	–1	**2,535**
Other income	80	18	98	2	146	13	—	**358**
Ordinary investment income	**276**	**102**	**1,323**	**318**	**948**	**365**	**3**	**3,336**
Income from reversal of impairment losses	—	—	—	—	—	—	—	**—**
Realised gains on disposal of investments	144	16	977	60	270	130	3	**1,600**
Unrealised gains on investments	1	1	43	98	4	86	—	**233**
Investment income	**421**	**119**	**2,343**	**475**	**1,222**	**582**	**6**	**5,169**
Realised losses on disposal of investments	91	7	197	21	54	16	7	**394**
Unrealised losses on investments	3	4	30	91	3	23	—	**156**
Total	**95**	**12**	**228**	**113**	**57**	**39**	**7**	**550**
Depreciation of/impairment losses on investment property								
Depreciation	3	—	23	3	37	—	—	**66**
Impairment losses	—	—	—	—	6	—	—	**6**
Impairment losses on equity securities	22	4	19	7	—	—	1	**53**
Impairment losses on fixed-income securities	2	—	—	2	10	2	—	**16**
Amortisation of/impairment losses on other investments								
Amortisation	7	4	23	—	—	—	—	**34**
Impairment losses	20	5	27	—	75	—	—	**126**
Investment management expenses	7	1	19	10	26	5	100	**168**
Other expenses	11	5	48	1	45	4	3	**116**
Other investment expenses/impairment losses	**70**	**20**	**159**	**24**	**199**	**11**	**104**	**586**
Investment expenses	**165**	**31**	**386**	**136**	**256**	**50**	**111**	**1,136**
Net income from assets under own management	**256**	**88**	**1,957**	**339**	**966**	**532**	**–105**	**4,033**
Net income from investment contracts	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Interest income from funds withheld and contract deposits	—	—	—	—	54	292	—	**346**
Interest expense from funds withheld and contract deposits	—	—	8	2	1	125	—	**136**
Net interest income from funds withheld and contract deposits	**—**	**—**	**–8**	**–2**	**52**	**167**	**—**	**210**
Net investment income	**256**	**88**	**1,949**	**337**	**1,019**	**699**	**–105**	**4,243**

[1] After elimination of intragroup cross-segment transactions.
[2] Income from shares in associates and joint ventures amounted to EUR 100 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
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 intersegment transactions.
[2] Income from shares in associates and joint ventures amounted to EUR 35 million and is reported under "Dividends".

Net gains and losses on investments

Including investment management expenses (EUR 168 [162] million) and other expenses for assets under own management (EUR 116 [110] million), total net investment income as at the reporting date amounted to EUR 4,243 (4,323) million.

NET GAINS AND LOSSES FROM INVESTMENTS, BASED ON THE CLASSES ESTABLISHED IN THE GROUP – 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]
2020[1]									
Shares in affiliated companies and participating interests	17	—	—	4	9	—	—	—	**4**
Loans and receivables	757	2	590	2	1	—	—	—	**1,347**
Held-to-maturity financial instruments	14	—	—	—	—	—	—	—	**14**
Available-for-sale financial instruments									
Fixed-income securities	1,737	–56	788	102	15	—	—	—	**2,351**
Variable-yield securities	71	—	60	13	72	—	—	—	**47**
Financial instruments at fair value through profit or loss									
Financial instruments classified at fair value through profit or loss									
Fixed-income securities	23	—	13	12	—	—	12	14	**22**
Variable-yield securities	1	—	2	18	—	—	3	—	**–12**
Financial instruments held for trading									
Variable-yield securities	—	—	17	12	—	—	—	—	**5**
Derivatives	14	—	43	81	—	—	111	25	**62**
Other investments (financial instruments)	397	3	13	—	130	—	—	1	**283**
Other[2]	355	—	74	150	74	—	106	116	**195**
Assets under own management	**3,387**	**–51**	**1,600**	**394**	**301**	**—**	**233**	**156**	**4,317**
Financial instruments classified at fair value through profit or loss (assets)	2	—	5	7	—	—	70	33	**38**
Financial instruments (assets) held for trading – (derivatives)	—	—	—	—	—	—	—	—	**—**
Other obligations measured at amortised cost (liabilities)	–1	—	—	—	—	—	—	—	**—**
Financial instruments classified at fair value through profit or loss (liabilities)	—	—	4	3	—	—	19	58	**–37**
Liabilities held for trading – (derivatives)	—	—	—	—	—	—	—	—	**—**
Other[4]	2	–2	—	—	—	—	—	—	**—**
Net income from investment contracts	**4**	**–2**	**9**	**10**	**—**	**—**	**89**	**91**	**—**
Funds withheld by ceding companies/funds withheld under reinsurance treaties	210	—	—	—	—	—	—	—	**210**
Total	**3,601**	**–53**	**1,609**	**404**	**301**	**—**	**322**	**247**	**4,528**

[1] After elimination of intragroup cross-segment transactions.
[2] The "Other" item is used for reconciliation to the consolidated statement of income and combines expenses of EUR 122 million from precautionary payments to avoid interest rate risks from additional claims notices, gains on investment property, and income from infrastructure investments, associates and derivative financial instruments with negative fair values under "Losses on disposal and expenses". 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 12 million) from the management of investment contracts. Amortisation of PVFP totalled EUR 2 million.

NET GAINS AND LOSSES FROM INVESTMENTS, BASED ON THE CLASSES ESTABLISHED IN THE GROUP – PREVIOUS 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**
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.

INTEREST INCOME FROM INVESTMENTS

EUR million	2020	2019
Loans and receivables	759	869
Held-to-maturity financial instruments	14	16
Available-for-sale financial instruments	1,681	1,718
Financial assets at fair value through profit or loss		
Financial instruments classified at fair value through profit or loss	23	31
Other	58	79
Financial instruments classified at fair value through profit or loss – investment contracts	2	4
Total	**2,538**	**2,717**

(32) 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
2020 [1]								
Gross								
Claims and claims expenses paid	3,679	854	3,063	3,204	7,696	7,236	2	**25,734**
Change in loss and loss adjustment expense reserve	729	46	41	420	2,359	308	184	**4,087**
Change in benefit reserve	—	—	1,319	329	—	−487	—	**1,161**
Expenses for premium refunds	11	8	−359	43	—	—	—	**−296**
Total	**4,419**	**908**	**4,064**	**3,997**	**10,055**	**7,057**	**186**	**30,686**
Reinsurers' share								
Claims and claims expenses paid	1,050	10	55	151	852	1,144	27	**3,291**
Change in loss and loss adjustment expense reserve	−359	−2	1	45	−20	−22	244	**−113**
Change in benefit reserve	—	—	−20	—	—	−391	—	**−412**
Expenses for premium refunds	1	—	—	—	—	—	—	**1**
Total	**692**	**8**	**36**	**196**	**833**	**731**	**271**	**2,767**
Net								
Claims and claims expenses paid	2,628	844	3,008	3,053	6,843	6,092	−25	**22,443**
Change in loss and loss adjustment expense reserve	1,088	49	40	375	2,378	330	−60	**4,200**
Change in benefit reserve	—	—	1,339	330	—	−96	—	**1,573**
Expenses for premium refunds	10	8	−359	43	—	—	—	**−297**
Total	**3,727**	**900**	**4,028**	**3,801**	**9,222**	**6,326**	**−85**	**27,919**

[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
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.

(33) 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
2020[1]								
Gross								
Acquisition costs and reinsurance commissions	1,090	342	638	1,045	3,779	1,049	66	**8,008**
Changes in deferred acquisition costs and in provisions for commissions	–56	–2	465	12	–161	162	–50	**371**
Total acquisition costs	**1,035**	**340**	**1,103**	**1,057**	**3,619**	**1,211**	**16**	**8,379**
Administrative expenses	299	219	102	214	223	254	5	**1,316**
Total acquisition costs and administrative expenses	**1,334**	**559**	**1,205**	**1,271**	**3,841**	**1,465**	**21**	**9,695**
Reinsurers' share								
Acquisition costs and reinsurance commissions	283	8	67	51	202	16	91	**718**
Changes in deferred acquisition costs and in provisions for commissions	–3	—	–2	5	–8	44	–43	**–8**
Total acquisition costs	**280**	**8**	**65**	**57**	**194**	**60**	**47**	**711**
Net								
Acquisition costs and reinsurance commissions	807	334	570	993	3,577	1,032	–25	**7,290**
Changes in deferred acquisition costs and in provisions for commissions	–52	–2	467	7	–153	118	–7	**379**
Total acquisition costs	**755**	**332**	**1,038**	**1,000**	**3,425**	**1,151**	**–31**	**7,668**
Administrative expenses	299	219	102	214	223	254	5	**1,316**
Total acquisition costs and administrative expenses	**1,054**	**551**	**1,140**	**1,214**	**3,647**	**1,405**	**–26**	**8,984**
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**

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

(34) Other income/expenses

OTHER INCOME/EXPENSES

EUR million	2020	2019
Other income		
Foreign exchange gains	519	193
Income from services, rents and commissions	347	343
Recoveries on receivables previously written off	24	29
Income from contracts recognised in accordance with the deposit accounting method	353	300
Income from the sale of property, plant and equipment	11	1
Income from the reversal of other non-technical provisions	41	70
Interest income [1]	87	57
Miscellaneous other income	49	123
Total	**1,432**	**1,114**
Other expenses		
Foreign exchange losses	330	190
Other interest expenses [2]	66	68
Depreciation, amortisation and impairment losses [3]	61	61
Expenses for the company as a whole	333	363
Personnel expenses	20	30
Expenses for services and commissions	178	175
Expenses from contracts recognised in accordance with the deposit accounting method	10	4
Other taxes	70	83
Miscellaneous other expenses	139	197
Total	**1,207**	**1,173**
Other income/expenses	**226**	**–60**

[1] Interest income is attributable to the segments as follows: Retail International: EUR 5 (6) million; Industrial Lines: EUR 0 (8) million; Retail Germany – Life: EUR 6 (5) million; Retail Germany – Property/Casualty: EUR 0 (1) million; Property/Casualty Reinsurance: EUR 14 (12) million; Life/Health Reinsurance: EUR 50 (29) million; Corporate Operations: EUR 18 (0) million. EUR 5 (4) million of interest income is consolidated.

[2] Other interest expenses are attributable to the segments as follows: Retail International: EUR 6 (7) million; Industrial Lines: EUR 10 (13) million; Retail Germany – Life: EUR 18 (9) million; Retail Germany – Property/Casualty: EUR 1 (1) million; Property/Casualty Reinsurance: EUR 12 (12) million; Life/Health Reinsurance: EUR 9 (9) million; Corporate Operations: EUR 22 (27) million. EUR 11 (11) million of interest expenses is consolidated.

[3] This figure includes depreciation and amortisation of EUR 17 (16) million. These amounts are attributable to the Retail International (EUR 10 (8) million), Industrial Lines: EUR 2 (2) million, Retail Germany – Life: EUR 1 (0), Property/Casualty Reinsurance (EUR 4 (5) million), Life/Health Reinsurance (EUR 0 (1) million) and Corporate Operations: EUR 0 (1) 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.

(35) Financing costs

The financing costs of EUR 198 (191) million consist of interest expenses on borrowings that are not directly related to the operational insurance business. A large proportion (EUR 137 [133] 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 (8) million to bonds issued by Hannover Rück SE. The item also includes EUR 13 (12) million in interest expenses from leasing.

(36) 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	2020	2019
Current taxes for the reporting period	232	485
Current taxes for prior periods	–74	–73
Deferred taxes in respect of temporary differences	132	–94
Deferred taxes in respect of loss carryforwards	–21	250
Change in deferred taxes arising from changes in tax rates	8	—
Reported tax expense	**277**	**568**

Current and deferred taxes totalling EUR –236 (–458) 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	2020	2019
Profit before income taxes	1,473	2,239
Expected tax rate	32.20%	32.20%
Expected tax expense	474	721
Change in deferred tax rates	8	—
Difference due to tax rate differences	−220	−182
Non-deductible expenses	230	432
Tax-exempt income	−155	−199
Valuation allowances on deferred tax assets	3	4
Prior-period tax expense	−36	−117
Other	−27	−91
Reported tax expense	**277**	**568**

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 18.79% (25.37)% 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 214 (151) 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 449 (433) million; EUR 79 (28) million of this is expected to be realised within one year and EUR 370 (405) million after one year or longer.

Current income taxes declined by EUR 3 (0) 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 16 (3) million in the reporting period. Conversely, the reversal of previous impairment losses resulted in deferred tax income of EUR 13 (15) 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 21 (41) 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 1,305 (1,342) million and gross deductible temporary differences of EUR 99 (75) million because their realisation is not sufficiently certain. Total deferred tax assets for these items after recognition of the impairment loss amounted to EUR 269 (268) million.

AVAILABILITY OF IMPAIRED LOSS CARRYFORWARDS AND TEMPORARY DIFFERENCES

					2020					2019
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	53	—	4	1,248	1,305	—	3	9	1,330	1,342
Temporary differences	—	—	—	99	99	—	—	—	75	75
Total	**53**	**—**	**4**	**1,347**	**1,404**	**—**	**3**	**9**	**1,405**	**1,417**

Other disclosures

Number of employees and personnel expenses

Number of employees

AVERAGE ANNUAL NUMBER OF EMPLOYEES

	2020	2019
Industrial Lines	3,839	3,481
Retail Germany	4,073	4,203
Retail International	8,589	8,407
Reinsurance companies	3,115	3,151
Corporate Operations	2,942	2,786
Total excluding vocational trainees	**22,558**	**22,028**
Vocational trainees	507	509
Total	**23,065**	**22,537**

The Group's total workforce at the reporting date numbered 23,527 (23,324).

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	2020	2019
Wages and salaries	**1,323**	**1,379**
Social security contributions and other employee benefit costs		
Social security contributions	197	191
Post-employment benefit costs	69	65
Other employee benefit costs	24	25
	290	**281**
Total	**1,613**	**1,659**

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 Board of Management and the Supervisory Board of Talanx AG and HDI V.a.G. Transactions between Talanx AG and its subsidiaries (including structured entities) are eliminated in the course of consolidation and 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 80 ff. of the "Corporate Governance" section of this report, and the "Remuneration of the governing bodies of the parent company" subsection on page 235 of the Notes to the consolidated financial statements.

Share-based payments

The following share-based payment plans existed in the Group in financial year 2020:

- 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 2010 and 2011 gave rise to the commitments in financial year 2020 shown in the table below. There are no commitments for years prior to 2010.

STOCK APPRECIATION RIGHTS AT HANNOVER RÜCK SE

	Allocation year	
	2011	2010
Award date	15.3.2012	8.3.2011
Term	10 years	10 years
Lock-up period	4 years	4 years
Strike price (EUR)	40.87	33.05
Participants in year of issue	143	129
Number of rights granted	263,515	1,681,205
Fair value as at 31.12.2020 (EUR)	32.21	8.92
Maximum value (EUR)	32.21	8.92
Weighted exercise price (EUR)	32.21	8.92
Number of rights as at 31.12.2020	4,147	—
Provision as at 31.12.2020 (EUR million)	0.13	—
Amounts paid out in FY 2020 (EUR million)	0.09	0.21
Expense in FY 2020 (EUR million)	—	—

Financial year 2020 saw the expiry of the vesting period for 100% of the stock appreciation rights granted for the years 2010 and 2011. A total of 23,601 stock appreciation rights from the 2010 allocation year and 2,660 stock appreciation rights from the 2011 allocation year were exercised. The total amount paid out was EUR 0.3 million.

On this basis, the aggregate provisions, which are recognised in other non-technical provisions, amounted to EUR 0.1 (0.4) million for financial year 2020. 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

	2020		2019
	Anticipated allocation in 2020 for 2019	Final allocation in 2020 for 2019	Anticipated allocation in 2020 for 2019
Measurement date	30.12.2020	13.3.2020	30.12.2019
Value per share award (EUR)	31.76	29.25	44.18
Number allocated in year	214,994	220,495	151,879
of which: Talanx AG Board of Management	31,344	31,833	23,618
of which: Other boards of management	61,015	65,959	43,387
of which: Executives [1]	122,635	122,703	84,874

[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	2020	2019	2018	2017	2016	2015	2014	Total
Addition in 2014	—	—	—	—	—	—	893	893
Addition in 2015	—	—	—	—	—	3,979	624	4,603
Addition in 2016	—	—	—	—	3,706	1,224	555	5,485
Addition in 2017	—	—	—	5,266	1,016	1,060	611	7,953
Addition in 2018	—	—	4,546	1	52	–58	126	4,667
Utilisation 2018	—	—	—	138	—	—	—	138
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**
Addition in 2020	5,068	1,387	–1,320	–1,462	–1,643	–2,835	—	–805
Utilisation/reversal in 2020	—	—	—	—	—	6,815	—	6,815
Provision as at 31.12.2020	**5,068**	**6,050**	**5,849**	**6,225**	**6,925**	**—**	**—**	**30,117**

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 –0.8 (18.1) million. It comprised expenses for the share awards for 2020 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 1.2 (1.1) million. This item covers distributed dividends, but not expected dividend claims. Dividends are recognised at their discounted amount.

The 192,030 definitively allocated share awards dating from 2015, each of which was worth EUR 29.25 plus the dividend entitlement of EUR 5.50 per share, were paid out to the eligible Board of Management members and executives in the reporting period.

The negative addition to the provision for the 2015 share awards is calculated on the basis of the difference between the share price as of the last reporting date (EUR 44.18) and the March 2020 share price used for the payment of the share awards (EUR 29.25).

Hannover Re share awards

HANNOVER RE SHARE AWARDS

	2020	2019	
	Anticipated allocation in 2020 for 2019	Final allocation in 2020 for 2019	Anticipated allocation in 2020 for 2019
Measurement date for Board of Management	30.12.2020	18.3.2020	30.12.2019
Value per share award (EUR)	130.30	139.04	172.30
Measurement date for Executives	30.12.2020	25.3.2020	30.12.2019
Value per share award (EUR)	130.30	156.39	172.30
Number allocated in year	62,679	53,419	52,381
of which: Board of Management	9,214	7,993	7,278
of which: Executives [1]	53,465	45,426	45,103

[1] At the Talanx Group, executives from HDI Global Specialty receive Hannover Re share awards, which are not included in the table. They were awarded 1,198 share awards as at 30 December 2020, with 963 ultimately allocated in 2020 for 2019.

CHANGES IN PROVISIONS FOR HANNOVER RE SHARE AWARDS

	Allocation year							
EUR thousand	2020	2019	2018	2017	2016	2015	2014	Total
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 in 2019	—	—	—	—	—	—	13,047	13,047
Reversal in 2019	—	—	—	195	225	264	278	962
Provision as at 31.12.2019	**—**	**1,895**	**4,981**	**7,198**	**12,187**	**15,691**	**—**	**41,952**
Addition in 2020	1,902	1,398	1,040	500	13	—	—	4,853
Utilisation 2020	—	—	—	—	—	14,747	—	14,747
Reversal in 2020	—	—	70	90	105	944	—	1,209
Provision as at 31.12.2020	**1,902**	**3,293**	**5,951**	**7,608**	**12,095**	**—**	**—**	**30,849**

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 4.9 (22.1) million. It comprised expenses for the share awards for 2020 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 1.4 (1.6) million. This item covers distributed dividends, but not expected dividend claims. Dividends are recognised at their discounted amount.

The 10,185 definitively allocated share awards for the Board of Management from 2015, each of which was worth EUR 139.04 plus the dividend entitlement of EUR 20.00 each, were paid out to the eligible members of the Board of Management in the reporting period. 74,346 share awards made to executives for the 2015 financial year were paid out in 2020; the value was EUR 156.39 each plus a dividend entitlement of EUR 20.00 per share.

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 408 (295) 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 49 (66) million, with the associated liabilities at EUR 48 (66) 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 31.12.2020	Fair value 31.12.2019	Change in fair value during the reporting period
Financial instruments that meet the SPPI test[1]			
Loans and receivables	32,146	32,276	614
Held-to-maturity financial instruments	494	365	6
Available-for-sale financial instruments			
Fixed income securities	82,383	78,052	1,974
Variable-yield securities	—	—	—
Financial instruments classified at fair value through profit or loss	7	21	—
Other investments	801	299	14
Other assets	721	765	—
Non-current assets and assets of disposal groups classified as held for sale	1	1	—
Total	**116,553**	**111,779**	**2,608**
All other financial instruments			
Loans and receivables	310	329	38
Held-to-maturity financial instruments	—	—	—
Available-for-sale financial instruments			
Fixed income securities	4,360	3,431	131
Variable-yield securities	2,725	2,067	153
Financial instruments at fair value through profit or loss			
Financial instruments classified at fair value through profit or loss	619	1,255	17
Derivatives held for trading	307	321	63
Other financial instruments held for trading	135	122	–3
Other investments	4,592	4,648	1
Other assets			
Derivative financial instruments (hedge accounting)	35	47	–4
Remaining other assets	52	46	—
Investment contracts			
Loans and receivables	43	43	—
Financial instruments at fair value through profit or loss	1,223	1,127	43
Derivatives	—	—	—
Investments for the benefit of life insurance policyholders who bear the investment risk[2]	11,619	11,824	27
Cash at banks and cash-in-hand	3,477	3,518	9
Total	**29,497**	**28,778**	**475**

[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 31.12.2020	Carrying amount before impairment 31.12.2019
Financial instruments that meet the cash flow test [1]		
AAA	48,438	44,652
AA	20,228	21,745
A	17,043	14,867
BBB	19,483	19,748
BB or lower (greater than low default risk)	3,231	3,116
Unrated		
Low default risk	2,059	1,942
Greater than low default risk	967	605
Total	**111,449**	**106,675**

[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 4,198 (3,720) 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

	2020	2019
Net income attributable to shareholders of Talanx AG used to calculate earnings per share (EUR million)	673	923
Weighted average number of ordinary shares outstanding	252,797,634	252,797,634
Basic earnings per share (EUR)	2.66	3.65
Diluted earnings per share (EUR)	2.66	3.65

Dividend per share and appropriation of distributable profits

A dividend for financial year 2019 amounting to EUR 1.50 per share was paid in the reporting year, resulting in total distribution of EUR 379 million. A proposal will be made to the General Meeting to be held on 6 May 2021 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 495 million) will be transferred to retained profits brought forward.

Contingent liabilities and other financial commitments

Outstanding capital commitments for investments amounted to EUR 3,033 (3,126) 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 VVaG.

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 638 (630) 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 45 (103) million. These are offset by contingent assets from taxes of EUR 33 (0) 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	2020	2019
Capital management services and commission [1]	212	228
Other insurance-related services [1]	129	113
Income from infrastructure investments [2]	66	64
Total revenue [3]	**407**	**405**

[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 328 (327) million, under "9.a. Investment income" EUR 66 (64) million and under "Net income from investment contracts" EUR 13 (14) million.

Revenue from **capital management services** provided (fund management) **including related commissions** of EUR 192 (192) 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 20 (37) 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 80 (70) million), and in particular to management services (EUR 40 (35) 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 49 (43) 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 26 (18) 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 2020 in connection with leases.

CHANGES IN RIGHT-OF-USE ASSETS

EUR million	Real estate held and used	Infra-structure invest-ments	Invest-ment property	Operating and office equip-ment	Other right-of-use assets	Total
2020						
Carrying amount as at 1.1.2020	**363**	**31**	**35**	**3**	**4**	**436**
Impairments	65	3	3	1	2	74
Additions	36	—	42	—	—	78
Disposals	1	—	—	—	1	2
Exchange rate changes	–14	—	–3	—	—	–17
Carrying amount as at 31.12.2020	**319**	**27**	**71**	**1**	**3**	**421**
2019						
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 THE LEASE LIABILITY

EUR million	2020	2019
Balance at 1.1. of the financial year	**442**	**468**
Unwinding of discounts	13	12
Additions	78	31
Disposals	2	—
Redemptions	77	71
Exchange rate changes	–17	2
Balance at 31.12. of the financial year	**437**	**442**

MATURITY OF THE LEASE LIABILITIES (OTHER LIABILITIES LINE ITEM)

EUR million	31.12.2020	31.12.2019
less than 1 year	79	57
1 year and longer	44	53
2 years and longer	45	42
3 years and longer	43	35
4 years and longer	37	57
5 years and longer	189	198
Total	**437**	**442**

ADDITIONAL EXPENSES FROM LEASING CONTRACTS

EUR million	2020	2019
Expenses from short-term leases	1	2
Expenses from leases of low-value assets	25	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 77 (71) million and essentially relate to payments for leasing real estate held and used in the amount of EUR 70 (62) million. In the financial year, there were no future minimum lease payments, which cannot be terminated, in connection with leases that have been concluded but that have not yet begun (prior year: 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 1,114 (1,242) million.

FUTURE LEASING INCOME

EUR million	2020	2021	2022	2023	2024	Sub-sequent years
Income	199	188	165	145	128	289

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 270 (264) million. This does not include any income from variable lease payments that do not depend on an index or interest rate (prior year: EUR 3 million).

Remuneration of the parent company's governing bodies

The Board of Management comprised 7 (6) active members as at the reporting date. The total remuneration paid to the Board of Management amounted to EUR 10,736 (12,329) 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 995 (1,044) thousand (corresponding to 31,344 (23,618) shares) and claims for the reporting period under the Hannover Re Share Award plan to virtual shares with a fair value of EUR 254 (337) thousand (corresponding to 2,122 (1,892) shares).

Former members of the Board of Management and their surviving dependants received total remuneration of EUR 2,827 (2,222) thousand. Termination benefits accounted for EUR 1,390 thousand of this. Provisions of EUR 45,434 (33,881) 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 2,465 (2,514) 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 90 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 13 March 2020, 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	2020	2019	2020	2019
Financial statement audit services	19.4	18.0	8.1	7.6
Other assurance services	0.3	0.4	0.2	0.2
Tax advisory services	0.1	0.1	0.1	0.1
Other services	0.8	0.2	0.7	0.2
Total	**20.6**	**18.7**	**9.2**	**8.1**

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, consulting services regarding the introduction of IFRS 17 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 compliance in accordance with section 161 of the German Stock Corporation Act (AktG)

The declaration of compliance 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/en/talanx-group/corporate_governance/declaration_of_conformity), as described in the Board of Management's Declaration on Corporate Governance in the Group management report ("Corporate Governance" section).

On 3 November 2020, the Board of Management and Supervisory Board of our listed subsidiary Hannover Rück SE issued the declaration of compliance 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-re.com/200801/declaration-of-conformity).

Events after the end of the reporting period

A Hannover Rück SE cedant sold parts of its life insurance portfolio in the first quarter of 2021. Some of the collateral structures established by Hannover Rück SE in connection with reinsuring this portfolio were subsequently dissolved or restructured. This restructuring boosted earnings before taxes by EUR 130 million in the first quarter of 2021.

The ongoing coronavirus pandemic continued to negatively impact the Group's results of operations in the first few months of 2021. We expect this to depress the result for the first quarter in the Life/Health Reinsurance segment, especially in the US. Overall, the extent of Covid-19 losses is difficult to predict given the uncertainty surrounding how the pandemic will progress, but in life reinsurance we expect the positive contribution to net income for the quarter as described above to largely make up for this impact on earnings.

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
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
Dritte Hannover Beteiligungs-AG & Co. KG, Hannover[4]	100.00
E+S Rückversicherung AG, Hannover	64.79
Erste Hannover Beteiligungs-AG & Co. KG, Hannover[4]	100.00
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[13]	100.00
HDI Global Specialty 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 Aktien, Cologne[16]	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, München[5]	99.99
HR GLL Central Europe Holding GmbH, München[9]	100.00
HV Aktien, Cologne[16]	100.00
Infrastruktur Ludwigsau GmbH & Co. KG, 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

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
Vierte Hannover Beteiligungs-AG & Co. KG, Hannover[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
Zweite Hannover Beteiligungs-AG & Co. KG, Hannover[4]	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[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[9]	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 No. 16 Limited, London, Great Britain[8,15]	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]	100.00
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 Cayman, Cayman Islands	90.00
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., Leudelange, 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 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 Re Holdings (UK) Ltd., London, Great Britain	100.00
Hannover Re (Ireland) Designated Activity Company, Dublin, Ireland	100.00
Hannover Re Real Estate Holdings, Inc., Orlando, USA[5]	100.00

1. AFFILIATED COMPANIES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS

	Equity interest[1] in %
Hannover Reinsurance Africa Ltd., Johannesburg, South Africa[7]	100.00
Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg, South Africa[5]	100.00
Hannover ReTakaful B.S.C. (c), Manama, Bahrain	100.00
Hannover Services (UK) Ltd., London, Great Britain	100.00
HDI Assicurazioni S.p.A., Rom, Italy	100.00
HDI Global Insurance Company, Chicago, USA	100.00
HDI Global Insurance Limited Liability Company, Moscow, Russia	100.00
HDI Global SA Ltd., Johannesburg, South Africa	100.00
HDI Global Seguros S.A., Mexico City, Mexico	100.00
HDI Global Seguros S.A., São Paulo, Brazil	100.00
HDI Immobiliare S.r.l., Rom, 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	99.88
HDI Seguros de Vida S.A., Las Condes, Chile	100.00
HDI Seguros S.A., Bogotá, Colombia	98.32
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
Highgate sp.z o.o., Warsaw, Poland[9]	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	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[7]	85.00
Names Taxation Service Limited, London, Great Britain[8]	100.00
Nashville West, LLC, Wilmington, USA[6]	100.00
OOO Strakhovaya Kompaniya CiV Life, 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
Protecciones Esenciales S.A., Buenos Aires, Argentina	100.00
Real Assist (Pty) Ltd., Pretoria, South Africa[7]	51.00
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., São 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., Luxembourg, Luxembourg	100.00
Thatch Risk Acceptances (Pty) Ltd., Johannesburg, South Africa[7]	70.00
Towarzystwo Ubezpieczeń Europa S.A., Wrocław, Poland	50.00
Towarzystwo Ubezpieczeń i Reasekuracji WARTA S.A., Warsaw, Poland	75.74
Towarzystwo Ubezpieczeń na Życie Europa S.A., Wrocław, 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	
Community Life GmbH, Kelkheim	75.00
Fair Claims GmbH, Hannover[13]	100.00
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	100.00
HDI Global Specialty Schadenregulierung GmbH, Hannover[13]	100.00
HDI Global Specialty 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
IVEC Institutional Venture and Equity Capital GmbH, Cologne	100.00
mantel + schölzel AG, Kassel[13]	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
Dynastic Underwriting Limited, London, Great Britain	100.00
GLOBAL TRAVEL SIGORTA ARACILIK HIZMETLERI LIMITED SIRKETI, Istanbul, Turkey (formerly: 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., Mailand, 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., Mexico 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 Assuradeuren B. V. , Rotterdam, The Netherlands	100.00
HR Hannover Re, Correduría de Reaseguros, S. A., Madrid, Spain	100.00
Infrastorm Co-Invest 1 SCA, Luxembourg, Luxembourg	100.00
Svedea Skadeservice AB, Stockholm, Sweden	100.00
U FOR LIFE SDN. BHD., Petaling Jaya, Malaysia[15]	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 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
Inqaku FC (Pty) Ltd., Johannesburg, South Africa[7]	21.03
Investsure Technologies Proprietary Limited, Johannesburg, South Africa[7]	32.26
Kopano Ventures (Pty) Ltd., Johannesburg, South Africa[7]	29.05
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/Main	49.90
caplantic GmbH, Hannover	45.00
DDBR1, Cologne	50.00
Elinvar GmbH, Berlin	33.25
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
Trinity Underwriting Managers Limited, Toronto, Canada	20.37

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	20.68

7. JOINT VENTURES NOT INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS DUE TO INSIGNIFICANCE

	Equity interest[1] in %
Domestic	
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	–4,696	7,710
SWISS INSUREVOLUTION PARTNERS Holding Deutschland GmbH & Co. KG, Munich[17]	15.00	—	—	—
Foreign				
Credit Suisse (Lux) Gas TransitSwitzerland SCS, Luxembourg, Luxembourg	60.15	EUR	134,179	6,840
Meribel Mottaret Limited, St. Helier, Jersey[17]	18.92	—	—	—
Qinematic AB, Lidingö, Sweden[17]	11.94	—	—	—
Somerset Reinsurance Ltd., Hamilton, Bermuda[17]	16.90	—	—	—
SWISS INSUREVOLUTION PARTNERS Holding (CH) AG, Zurich, Switzerland[17]	15.00	—	—	—
SWISS INSUREVOLUTION PARTNERS Holding (FL) AG, Triesen, Liechtenstein[17]	15.00	—	—	—
Sureify Labs, Inc., Wilmington, USA[17]	13.49	—	—	—

9. INVESTMENTS IN LARGE CORPORATIONS EXCEEDING 5% OF THE VOTING RIGHTS

	Equity interest[1] in %
Domestic	
Extremus Versicherungs-AG, Cologne	13.00
MLP AG, Wiesloch	7.03
M 31 Beteiligungsgesellschaft mbH & Co. Energie KG, Düsseldorf	8.90
Foreign	
Acte Vie S. A. Schiltigheim, France	9.38

[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 2020 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.
[17] No disclosures are made on equity and earnings in accordance with section 313 (3) HGB.

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	288,609
Hannover Rück SE India Branch, Mumbai, India	EUR	125,322
Hannover Rück SE Canadian Branch, Toronto, Canada	EUR	433,932
Hannover Rück SE Korea Branch, Seoul, South Korea	EUR	47,634
Hannover Rück SE Shanghai Branch, Shanghai, China	EUR	2,186,683
Hannover Rück SE Succursale Française, Paris, France	EUR	934,771
Hannover Rück SE Hong Kong Branch, Wanchai, Hong Kong	EUR	292,796
Hannover Rück SE Tyskland Filial, Stockholm, Sweden	EUR	400,662
Hannover Rueck SE Australian Branch, Sydney, Australia	EUR	540,523
Hannover Rueck SE Bahrain Branch, Manama, Bahrain	EUR	137,951
Hannover Rueck SE Malaysian Branch, Kuala Lumpur, Malaysia	EUR	606,071
HDI Global SE		
HDI Global SE – Branch for Belgium, Brussels, Belgium	EUR	207,194
HDI Global SE – Direction pour la France, Paris, France	EUR	447,946
HDI Global SE – the Netherlands, Amsterdam, The Netherlands	EUR	300,814
HDI Global SE – UK, London, Great Britain	EUR	362,648
HDI Lebensversicherung AG		
HDI Lebensversicherung AG – Austria Branch, Vienna, Austria[2]	EUR	78,752
HDI Versicherung AG (Austria)		
HDI Versicherung AG (Austria) – Czech Republic Branch	EUR	15,956
HDI Global Specialty SE		
HDI Global Specialty SE, Australian Branch, Sydney, Australia	EUR	233,388
HDI Global Specialty SE, Canadian Branch, Toronto, Canada	EUR	113,992
HDI Global Specialty SE, Scandinavian Branch, Stockholm, Sweden	EUR	320,844
HDI Global Specialty SE, UK Branch, London, United Kingdom	EUR	631,986

[1] Figures prior to consolidation.
[2] Provisional/unaudited figures as at the 2020 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 26 February 2021 in Hannover.

Board of Management

Torsten Leue, Chairman

Jean-Jacques Henchoz

Dr Wilm Langenbach

Dr Christopher Lohmann

Dr Edgar Puls

Dr Jan Wicke

The following copy of the auditor’s report also includes a Report on the audit of the electronic renderings of the financial statements and the management report prepared for disclosure purposes in accordance with section 317(3b) HGB (“Separate report on ESEF conformity”). The subject matter (ESEF documents to be audited) to which the separate report on ESEF conformity relates is not attached. The audited ESEF documents can be inspected in or retrieved from the Federal Gazette.

INDEPENDENT AUDITOR'S REPORT

To Talanx AG, Hannover

Report on the audit of the consolidated financial statements and Group management report

Audit Opinions

We have audited the consolidated financial statements of Talanx AG, Hannover, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 December to 31 December 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Talanx AG, which is combined with the Company's management report, for the financial year from 1 December to 31 December 2020. In accordance with the German legal requirements, we have not audited the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2020, and of its financial performance for the financial year from 1 December to 31 December 2020, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 December to 31 December 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

1 **Fair value measurement of certain financial instruments**

2 **Valuation of loss and loss adjustment expense reserves**

3 **Valuation of the benefit reserve**

Our presentation of these key audit matters has been structured in each case as follows:

1 Matter and issue

2 Audit approach and findings

3 Reference to further information

Hereinafter we present the key audit matters:

1 **Fair value measurement of certain financial instruments**

1 Financial instruments of € 135,675 million (74.9% of total equity and liabilities) are recognised in the consolidated financial statements.

Of these financial instruments, financial assets amounting to € 96,476 million are measured at fair value. Of those financial instruments in turn, the fair value of € 93,036 million is calculated using valuation models or based third-party value indicators. The measurement of financial instruments whose fair value must be determined based on valuation models and third-party value indicators is subject to uncertainty not only due to the impacts of the coronavirus pandemic but also because the most recent market data or comparable figures are not always available and therefore estimated values and parameters that cannot be currently observed on the market are also used. This particularly concerns over-the-counter securities, other loans and derivatives.

Financial instruments measured using models are subject to an increased measurement risk due to their lower objectivity and the underlying judgments as well as due to the impacts of the coronavirus pandemic, estimates and assumptions of the executive directors. Since the estimates and assumptions, in particular with regard to interest rates and cash flows, and the valuation methods applied could materially affect the measurement of these financial instruments and the assets, liabilities and financial performance of the Group and also extensive disclosures in the note to the consolidated financial statements on measurement methods and scope of judgments are necessary, this matter was of particular significance in the context of our audit.

2 During our audit, we analyzed the financial instruments based on valuation models and third-party value indicators, with the focus on measurement uncertainties. Thereby, we assessed the appropriateness and effectiveness of the relevant controls for the measurement of these financial instruments and the model validation. In that connection we also reviewed the executive directors' assessments with respect to the impacts of the coronavirus pandemic on recoverability. Therewith, we evaluated, among other things, the integrity of the underlying data and the process for at the determination of the assumptions and estimates used in the valuation.

With the help of our internal financial mathematics specialists, we also assessed the appropriateness of the methods applied by the executive directors to test the assets for impairment and the inputs used for that purpose. We have compared the methods and assumptions used to calculate valuation adjustments in the financial year with recognized practices and industry standards and ascertained to what extent these are suitable for determining an appropriate accounting treatment.

Based on our audit procedures performed, we were able to satisfy ourselves that the methods and assumptions used by the executive directors to measure certain financial instruments (valued based on models and third-party value indicators) are suitable overall and that the disclosures contained in the notes to the consolidated financial statements are appropriate.

3 The Company's disclosures on the measurement of the financial instruments are contained in the section "Accounting policies" under "Investments" of the notes to the consolidated financial statements. 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 € 51,189 million (28.3% 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 executive directors to exercise a significant degree of discretion regarding assumptions made such as inflation, the pattern of claims processing and regulatory changes. This also included the expected impacts of the ongoing coronavirus pandemic on the loss reserves. 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 executive directors 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 help of our internal 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. In connection with this, we also evaluated the executive directors' assessment of the impact of the coronavirus pandemic on overall business and the lines affected. 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.

Based on our audit procedures performed, we were able to ourselves that the methods and assumptions used by the executive directors to measure technical provisions in property/casualty insurance are suitable overall.

3 The Company's disclosures on the valuation of the loss and loss adjustment expense reserve for property/casualty insurance are contained in the section "Accounting policies" 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 € 56,932 million (31.5% 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 executive directors, 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 executive directors for the valuation.

Based on our audit procedures performed, we were able to satisfy ourselves that the methods and assumptions used by the executive directors to measure the benefit reserve are suitable overall.

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 executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report:

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in section "corporate governance" of the group management report
- the non-financial group report pursuant to § 315b Abs. 1 HGB included in section "consolidated non-financial statement" of the group management report

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Assurance Report in Accordance with § 317 Abs. 3b HGB on the Electronic Reproduction of the Consolidated Financial Statements and the Group Management Report Prepared for Publication Purposes

Reasonable Assurance Conclusion

We have performed an assurance engagement in accordance with § 317 Abs. 3b HGB to obtain reasonable assurance about whether the reproduction of the consolidated financial statements and the group management report (hereinafter the "ESEF documents") contained in the attached electronic file Talanx_AG_KA+KLB_ESEF-2021-03-11.zip and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance engagement only extends to the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format and therefore relates neither to the information contained within this reproduction nor to any other information contained in the above-mentioned electronic file.

In our opinion, the reproduction of the consolidated financial statements and the group management report contained in the above-mentioned attached electronic file and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the above-mentioned electronic file beyond this reasonable assurance conclusion and our audit opinion on the accompanying consolidated financial statements and the accompanying group management report for the financial year from 1 December to 31 December 2020 contained in the "Report on the Audit of the Consolidated Financial Statements and on the Group Management Report" above.

Basis for the Reasonable Assurance Conclusion

We conducted our assurance engagement on the reproduction of the consolidated financial statements and the group management report contained in the above-mentioned attached electronic file in accordance with § 317 Abs. 3b HGB and the Exposure Draft of IDW Assurance Standard: Assurance in Accordance with § 317 Abs. 3b HGB on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes (ED IDW AsS 410) and the International Standard on Assurance Engagements 3000 (Revised). Accordingly, our responsibilities are further described below in the "Group Auditor's Responsibilities for the Assurance Engagement on the ESEF Documents" section. Our audit firm has applied the IDW Standard on Quality Management: Requirements for Quality Management in the Audit Firm (IDW QS 1).

Responsibilities of the Executive Directors and the Supervisory Board for the ESEF Documents

The executive directors of the Company are responsible for the preparation of the ESEF documents including the electronic reproduction of the consolidated financial statements and the group management report in accordance with § 328 Abs. 1 Satz 4 Nr. 1 HGB and for the tagging of the consolidated financial statements in accordance with § 328 Abs. 1 Satz 4 Nr. 2 HGB.

In addition, the executive directors of the Company are responsible for such internal control as they have considered necessary to enable the preparation of ESEF documents that are free from material non-compliance with the requirements of § 328 Abs. 1 HGB for the electronic reporting format, whether due to fraud or error.

The executive directors of the Company are also responsible for the submission of the ESEF documents together with the auditor's report and the attached audited consolidated financial statements and audited group management report as well as other documents to be published to the operator of the German Federal Gazette [Bundesanzeiger].

The supervisory board is responsible for overseeing the preparation of the ESEF documents as part of the financial reporting process.

Group Auditor's Responsibilities for the Assurance Engagement on the ESEF Documents

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material non-compliance with the requirements of § 328 Abs. 1 HGB, whether due to fraud or error. We exercise professional judgment and maintain professional skepticism throughout the assurance engagement. We also:

- Identify and assess the risks of material non-compliance with the requirements of § 328 Abs. 1 HGB, whether due to fraud or error, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance conclusion.
- Obtain an understanding of internal control relevant to the assurance engagement on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance conclusion on the effectiveness of these controls.
- Evaluate the technical validity of the ESEF documents, i.e., whether the electronic file containing the ESEF documents meets the requirements of the Delegated Regulation (EU) 2019/815 in the version applicable as at the balance sheet date on the technical specification for this electronic file.
- Evaluate whether the ESEF documents enables a XHTML reproduction with content equivalent to the audited consolidated financial statements and to the audited group management report.
- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) enables an appropriate and complete machine-readable XBRL copy of the XHTML reproduction.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the supervisory board on 13 March 2020. We were engaged by the supervisory board on 15 May 2020. We have been the group auditor of the Talanx AG, Hannover, without interruption since the financial year 2018.

We declare that the audit opinions expressed in this auditor’s report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German public auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Florian Möller.

Hanover, March 11, 2021

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Florian Möller	Christoph Czupalla
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German 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 sections 341a(1a) and 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 2020 (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 2020 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 annual and 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 2020 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, 11 March 2021

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Nicolette Behncke	ppa. Urata Biqkaj
Auditor	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, 26 February 2021

Board of Management

Torsten Leue, Chairman	Jean-Jacques Henchoz	Dr Wilm Langenbach
Dr Christopher Lohmann	Dr Edgar Puls	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 plus 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 reinsurance contract under which the ceding company retains a portion of the original premium that is at least equal to the ceded reserves.

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
A US GAAP 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 "effective duration" is a measure of the interest rate sensitivity of the present value of assets and liabilities that takes embedded options into account. The larger the value, the greater the interest rate sensitivity is.

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
A bond structure that has equity-like characteristics due to the fact that it is subordinated.

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
Securitised insurance risks such as cat bonds, derivatives or collateralised reinsurance.

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.

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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This English Annual Report is a translation of the original German text; the German version takes precedence in case of any discrepancies.

Online Annual Report
https://www.talanx.com/en/investor_relations/reporting/financial_reports

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Financial calendar 2021

6 May
Annual General Meeting

6 May
Quarterly Statement as at 31 March 2021

11 August
Interim Report as at 30 June 2021

15 November
Quarterly Statement as at 30 September 2021

17 November
Capital Markets Day

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