

PERFORMANCE AND RESULTS

2018

Group Interim Report as at 30 June 2018

tal anx.

Insurance. Investments.

THE TALANX GROUP AT A GLANCE

GROUP KEY FIGURES

	UNIT	Q1 2018	Q2 2018	6M 2018	Q1 2017	Q2 2017	6M 2017	+/- % 6M 2018 v. 6M 2017
Gross written premiums	EUR MILLION	10,560	8,200	18,760	9,752	7,801	17,553	+6.9
by region								
Germany	%	30	22	27	33	23	29	-2.0 pt.
United Kingdom	%	7	9	8	7	8	7	+1.0 pt.
Central and Eastern Europe (CEE), including Turkey	%	8	9	8	8	10	9	-1.0 pt.
Rest of Europe	%	16	16	16	17	15	16	-
USA	%	17	18	18	15	18	16	+2.0 pt.
Rest of North America	%	2	2	2	2	2	2	-
Latin America	%	7	8	7	8	8	8	-1.0 pt.
Asia and Australia	%	11	14	12	9	14	11	+1.0 pt.
Africa	%	2	2	2	1	2	2	-
Gross written premiums by type and class of insurance								
Property/casualty primary insurance	EUR MILLION	3,768	2,043	5,811	3,669	1,921	5,590	+4.0
Primary life insurance	EUR MILLION	1,611	1,641	3,252	1,685	1,586	3,271	-0.6
Property/Casualty Reinsurance	EUR MILLION	3,452	2,800	6,252	2,702	2,491	5,193	+20.4
Life/Health Reinsurance	EUR MILLION	1,729	1,716	3,445	1,696	1,803	3,499	-1.5
Net premiums earned	EUR MILLION	6,989	7,446	14,435	6,698	6,752 ⁶⁾	13,450 ⁶⁾	+7.3
Underwriting result	EUR MILLION	-430	-318	-748	-415	-525	-940	+20.4
Net investment income	EUR MILLION	1,063	944	2,007	1,011	1,074	2,085	-3.7
Net return on investment¹⁾	%	3.7	-	3.5	3.5	-	3.7	-0.2 pt.
Operating profit/loss (EBIT)	EUR MILLION	592	620	1,212	576	549	1,125	+7.7
Net income (after financing costs and taxes)	EUR MILLION	388	383	771	398	386	784	-1.7
of which attributable to shareholders of Talanx AG	EUR MILLION	218	219	437	238	225	463	-5.6
Return on equity^{2), 3)}	%	9.9	10.1	10.0	10.4	9.8	10.3	-0.3 pt.
Earnings per share								
Basic earnings per share	EUR	0.86	0.87	1.73	0.94	0.89	1.83	-5.5
Diluted earnings per share	EUR	0.86	0.87	1.73	0.94	0.89	1.83	-5.5
Combined ratio in Property/Casualty primary insurance and Property/Casualty Reinsurance⁴⁾	%	97.0	96.5	96.7	96.3	97.6	97.0	-0.3 pt.
Combined ratio of property/casualty primary insurers ⁵⁾	%	98.2	98.0	98.1	97.6	97.8	97.6	+0.5 pt.
Combined ratio of Property/Casualty Reinsurance	%	95.9	95.5	95.7	95.6	97.4	96.5	-0.8 pt.
EBIT margin primary insurance and reinsurance								
EBIT margin primary insurance ⁵⁾	%	5.3	4.6	5.0	6.0	5.6 ⁶⁾	5.8	-0.8 pt.
EBIT margin Property/Casualty Reinsurance	%	14.2	13.1	13.6	14.6	15.3	14.9	-1.3 pt.
EBIT margin Life/Health Reinsurance	%	5.9	7.5	6.7	5.5	4.3	4.9	+1.8 pt.
				30.6.2018			31.12.2017	+/- %
Policyholders' surplus	EUR MILLION			16,590			16,983	-2.3
Equity attributable to shareholders of Talanx AG	EUR MILLION			8,592			8,835	-2.8
Non-controlling interests	EUR MILLION			5,261			5,411	-2.8
Hybrid capital	EUR MILLION			2,737			2,737	-
Assets under own management	EUR MILLION			110,756			107,881	+2.7
Total investments	EUR MILLION			121,844			118,673	+2.7
Total assets	EUR MILLION			163,288			158,386	+3.1
Carrying amount per share at end of period	EUR			33.99			34.95	-2.8
Share price at end of period	EUR			31.28			34.07	-8.2
Market capitalisation of Talanx AG at end of period	EUR MILLION			7,908			8,613	-8.2
Employees	FULL-TIME EQUIVALENTS			20,891			20,419	+2.3

¹⁾ Ratio of annualised net investment income excluding interest income on funds withheld and contract deposits and profit on investment contracts to average assets under own management (30 June 2018 and 31 December 2017).

²⁾ Ratio of annualised net income for the reporting period excluding non-controlling interests to average equity excluding non-controlling interests.

³⁾ Ratio of annualised net income for the quarter excluding non-controlling interests to average equity excluding non-controlling interests at the beginning and the end of the quarter.

⁴⁾ Combined ratio taking into account interest income on funds withheld and contract deposits, before elimination of intra-Group cross-segment transactions.

⁵⁾ Excluding figures from the Corporate Operations segment.

⁶⁾ Adjusted in accordance with IAS 8; see "Accounting policies", "Changes in accounting policies and errors" in the Notes.

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GOVERNING BODIES OF TALANX AG

SUPERVISORY BOARD

Herbert K. Haas

Chairman

Burgwedel

Former Chairman of the Board of Management, Talanx AG

Ralf Rieger*

Deputy Chairman

Raesfeld

Employee, HDI Vertriebs AG

Antonia Aschendorf

Hamburg

Lawyer,

Member of the Board of Management, APRAXA eG

Karsten Faber*

Hannover

Managing Director

Hannover Rück SE,

E+S Rückversicherung AG

Jutta Hammer*

Bergisch Gladbach

Employee,

HDI Kundenservice AG

Dr Hermann Jung

Heidenheim

Former Member of the

Board of Directors,

Voith GmbH

Dr Thomas Lindner

Albstadt

Chairman of the Board of Directors

and General Partner,

Groz-Beckert KG

Dirk Lohmann

Forch, Switzerland

Chairman of the Administrative Board

and CEO,

Secquaero Advisors AG

Christoph Meister*

Hannover

Member of the ver.di

National Executive Board

Jutta Mück*

Oberhausen

Account Manager Sales Industrial Lines,

HDI Global SE

Katja Sachtleben-Reimann*

Hannover

Employee,

Talanx Service AG

Dr Erhard Schipporeit

Hannover

Self-employed Business Consultant

Prof Dr Jens Schubert*

Potsdam

Director of the Legal Department

ver.di National Administration,

Professor

Leuphana Universität Lüneburg

Jörn von Stein*

Employee

neue leben Lebensversicherung AG

Norbert Steiner

Baunatal

Former Chairman of the

Board of Management,

K+S AG

Angela Titzrath

Hamburg

Chairman of the Board of Management,

Hamburger Hafen und Logistik AG

BOARD OF MANAGEMENT

Torsten Leue

Chairman

Hannover

Dr Christian Hinsch

Deputy Chairman

Burgwedel

Sven Fokkema

Wedemark

Dr Immo Querner

Celle

Ulrich Wallin

Hannover

Dr Jan Wicke

Hannover

* Staff representative

REPORT ON ECONOMIC POSITION

MARKETS, BUSINESS CLIMATE AND THE INDUSTRY ENVIRONMENT

The global upswing continued overall in the first half of 2018, with growth momentum slowing noticeably compared to the second half of 2017. In addition, the growth cycles of the major economies were influenced by growing divergence.

The US economy benefited above all from the adoption of the tax reform at the end of 2017, and also from continuing positive momentum on the labour market and in investment. After reporting surprisingly weak growth of 0.5% in the first quarter, indicators are pointing to very strong growth in the second quarter. By contrast, growth momentum in the eurozone slowed considerably. While consumer spending continued to develop positively thanks to good labour markets, factors such as concerns over a trade war and the formation of an Italian protest government stifled export and investment growth. The economy grew by 0.4% in the first quarter of 2018 and by 2.3% year-on-year.

A consolidation of growth momentum was detected on the emerging markets as well. While local growth drivers – such as domestic consumer spending and investment – were mostly positive, the global economy's slower growth momentum weighed on exports. Furthermore, rising US interest rates and concern over an escalation in the trade conflict between the US and its trading partners put pressure on emerging markets, especially on the capital markets. Economic growth in China slowed as expected – the annual growth was 6.7% in the second quarter after averaging 6.9% in 2017.

EXCHANGE DIFFERENCES ON TRANSLATING FOREIGN OPERATIONS

Talanx AG's reporting currency is the euro (EUR).

EXCHANGE RATES FOR OUR KEY FOREIGN CURRENCIES

EUR 1 corresponds to	Balance sheet (reporting date)		Statement of income (average)	
	30.6.2018	31.12.2017	6M 2018	6M 2017
AUD Australia	1.5782	1.5347	1.5656	1.4439
BRL Brazil	4.5000	3.9734	4.1405	3.4740
CAD Canada	1.5434	1.5047	1.5409	1.4469
CNY China	7.7155	7.8051	7.7114	7.4670
GBP United Kingdom	0.8861	0.8875	0.8814	0.8603
JPY Japan	128.9400	135.0100	131.5629	122.4800
MXN Mexico	22.8580	23.6511	22.9951	21.0784
PLN Poland	4.3682	4.1772	4.2303	4.2695
USD USA	1.1653	1.1994	1.2061	1.0874
ZAR South Africa	16.0315	14.8140	14.9047	14.4294

Rising oil prices and growing capacity utilisation caused inflation to rise overall. However, the lack of remaining surplus capacity outside the US has meant only moderate price pressure to date, and thus a slow normalisation in monetary policy.

Interest rates were characterised by high volatility in the first half of the year. The yield on ten-year German government bonds climbed by 34 basis points to almost 0.8% within the first five weeks of the year. In the wake of (geo)political risks, such as the election in Italy, the escalation of the global trade conflict and comments by the ECB on the end of bond purchases, this was then followed by a sharp correction. The yields on ten-year German government bonds thereupon fell by more than 50 basis points from their high in February to below 0.3%. With the exception of core government bonds, bond investments across all asset classes performed negatively over this period.

The global equity markets also had a turbulent start to the year. While markets in the US were propped up by the positive effects of the tax reform, Japan and Germany fell by almost 9% at times. Global equity markets recovered in the second quarter, ending it close to or above their starting levels for the year.

The macroeconomic environment had a beneficial effect on the insurance industry. Premium growth developed positively and losses were reduced compared to the previous year. Total claims due to natural disasters amounted to approximately half their prior-year levels and the share of insured claims was also less than in the same period of 2017. Overall losses were dominated by claims caused by winter damage in Europe and North America. The most costly single event was European Storm "Friederike" (also known as "David"), which wrought two thirds of its damage in Germany. Other significant losses were triggered by a combination of a series of heavy storms that caused flash floods in Central Europe, coupled with a simultaneous drought in some northern and eastern European countries. The financial market situation remained challenging, and was characterised by volatility and persistently low interest rates in the reporting period. The sector is diversifying its assets further, for example by investing in infrastructure.

BUSINESS DEVELOPMENT

PERFORMANCE OF THE GROUP

- Gross premiums up nearly 7%
- Net technical result significantly improved
- Positive growth in operating profit

GROUP KEY FIGURES

EUR MILLION

	6M 2018	6M 2017 ¹⁾	+/- %
Gross written premiums	18,760	17,553	+6.9
Net premiums earned	14,435	13,450	+7.3
Underwriting result	-748	-940	+20.4
Net investment income	2,007	2,085	-3.7
Operating profit/loss (EBIT)	1,212	1,125	+7.7
Combined ratio (net, property/ casualty only) in %	96.7	97.0	-0.3 pt.

¹⁾ Adjusted in accordance with IAS 8.

MANAGEMENT METRICS

%

	6M 2018	6M 2017	+/- %
Gross premium growth (adjusted for currency effects)	11.8	6.5	+5.3 pt.
Group net income in EUR million	437	463	-5.6
Net return on investment ¹⁾	3.5	3.7	-0.2 pt.
Return on equity ²⁾	10.0	10.3	-0.3 pt.

¹⁾ Annualised ratio of net investment income excluding interest income on funds withheld and contract deposits and profit on investment contracts to average assets under own management.

²⁾ Ratio of annualised net income for the reporting period excluding non-controlling interests to average equity excluding non-controlling interests.

PREMIUM VOLUME

In the first half of 2018, the Talanx Group increased its gross written premiums by 6.9% (11.8% adjusted for currency effects) to EUR 18.8 (17.6) billion. The Property/Casualty Reinsurance segment reported significant premium growth in excess of 19%, though Retail International also contributed premium growth of 4.8%, thanks in part to increases at the companies in Poland, Mexico and Italy. Net premiums earned were 7.3% higher year-on-year at EUR 14.4 (13.5) billion. Due in part to a higher retention in the Industrial Lines Division and the Property/Casualty Reinsurance segment, the Group retention ratio increased by 0.9 percentage points to 88.3% (87.4%).

UNDERWRITING RESULT

The underwriting result amounted to EUR -748 (-940) million and thus improved by more than 20%. The large loss burden amounted to EUR 241 (195) million in the first half of the year – as a result in particular of higher fire/property losses in the Industrial Lines Division – though the total figure was significantly less than the budget for the period of EUR 500.5 million. The Group's combined ratio improved marginally to 96.7% (97.0%), with the improved net loss ratio in the Property/Casualty Reinsurance segment more than compensating for the likewise higher net expense ratio.

NET INVESTMENT INCOME

As a result of the decline in extraordinary net investment income, net investment income fell by 3.7% to EUR 2,007 (2,085) million. The Retail Germany Division contributed lower realised gains to the financing of the additional interest reserve; interest income on funds withheld and contract deposits – essentially from the Life/Health Reinsurance segment – was also lower than in the same period of the previous year. The Group's net return on investment was 3.5% (3.7%) in the first half of 2018 and thus slightly lower year-on-year.

OPERATING PROFIT AND GROUP NET INCOME

EBIT climbed to EUR 1,212 (1,125) thousand thanks to a better net technical result. By contrast, Group net income decreased by 5.6% to EUR 437 (463) million owing to significant losses in the Industrial Lines Division. The return on equity was down 0.3 percentage points year-on-year at 10.0% (10.3%).

DEVELOPMENT OF THE DIVISIONS WITHIN THE GROUP

At a strategic level, Talanx divides its business into seven reportable segments: Industrial Lines, Retail Germany – Property/Casualty and Life Insurance –, Retail International, Property/Casualty Reinsurance, Life/Health Reinsurance and Corporate Operations. Please refer to the section entitled “Segment reporting” in the Notes to the Talanx 2017 Group Annual Report for details of these segments’ structure and scope of business.

INDUSTRIAL LINES

- Growth in premiums abroad
- High losses incurred in financial year
- Net investment income squeezed by low interest rates

KEY FIGURES FOR THE INDUSTRIAL LINES DIVISION

EUR MILLION

	6M 2018	6M 2017	+/- %
Gross written premiums	2,898	2,795	+3.7
Net premiums earned	1,235	1,160	+6.5
Underwriting result	-28	32	-187.5
Net investment income	124	137	-9.5
Operating profit/loss (EBIT)	78	162	-51.9

MANAGEMENT METRICS FOR THE INDUSTRIAL LINES DIVISION

%

	6M 2018	6M 2017 ¹⁾	+/- %
Gross premium growth (adjusted for currency effects)	6.9	2.6	+4.3 pt.
Retention	58.9	54.4	+4.5 pt.
Combined ratio (net) ²⁾	102.3	97.2	+5.1 pt.
EBIT margin ³⁾	6.3	14.0	-7.7 pt.
Return on equity ⁴⁾	4.6	10.2	-5.6 pt.

¹⁾ Adjusted in accordance with IAS 8.

²⁾ Including net interest income on funds withheld and contract deposits.

³⁾ Operating profit (EBIT)/net premiums earned.

⁴⁾ Ratio of annualised net income for the reporting period excluding non-controlling interests to average equity excluding non-controlling interests.

PREMIUM VOLUME

Gross written premiums for the division amounted to EUR 2.9 (2.8) billion as at 30 June 2018, an increase of around 3.7% (6.9% adjusted for currency effects). The international branches of HDI Global SE generated increases in premiums, particularly in Australia, the Netherlands, France and Greece.

The retention ratio in the division was well above the level of the previous year at 58.9% (54.4%), largely due to lower payments to external reinsurers in fire insurance and lower expenses for reinstatement premiums. In line with gross growth, net premiums earned rose by 6.5% year-on-year to EUR 1,235 (1,160) million.

UNDERWRITING RESULT

The division’s net underwriting result deteriorated to EUR -28 (32) million. At 21.0% (21.2%), the net expense ratio was slightly lower year-on-year on account of a higher premium base. The loss ratio (net) deteriorated to 81.3% (76.0%) due to the higher loss expenditure for financial year. The run-off loss of the first quarter was comfortably offset by run-off profits in the second quarter, particularly in fire insurance. The combined ratio for the Industrial Lines Division was 102.3% (97.2%).

NET INVESTMENT INCOME

Net investment income was down 9.5% on the level of the previous year. Higher income from private equity vehicles compensated for the lower interest rates for new and reinvestments. Higher net gains on equity securities and lower write-downs at HDI Global SE contributed to the positive development in the same period of the previous year.

OPERATING PROFIT AND GROUP NET INCOME

As a result of the developments stated above, the division’s operating profit was lower in the first half of 2018 (EUR 78 million) than in the same period of the previous year (EUR 162 million). Group net income amounted to EUR 53 (112) million.

RETAIL GERMANY

PROPERTY/CASUALTY INSURANCE

- Premium growth in third-party liability, accident and property lines
- Good run-off result and profitable growth improve combined ratio
- Rise in operating profit driven by improvement in underwriting

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

EUR MILLION

	6M 2018	6M 2017	+/- %
Gross written premiums	1,022	1,002	+2.0
Net premiums earned	701	688	+1.9
Underwriting result	8	-9	+188.9
Net investment income	44	44	—
Operating profit/loss (EBIT)	40	22	+81.8

MANAGEMENT METRICS FOR THE PROPERTY/CASUALTY INSURANCE SEGMENT

%

	6M 2018	6M 2017	+/- %
Gross premium growth	2.0	2.3	-0.3 pt.
Combined ratio (net) ¹⁾	99.0	101.5	-2.5 pt.
EBIT margin ²⁾	5.6	3.1	+2.5 pt.

¹⁾ Including net interest income on funds withheld and contract deposits.

²⁾ Operating profit (EBIT)/net premiums earned.

PREMIUM VOLUME AND NEW BUSINESS

There was a 2.0% increase in written premium income to EUR 1,022 (1,002) million in the Property/Casualty Insurance segment. The higher premium income was thanks in particular to growth in the multi-risk and fire lines. Overall, the share of the total Retail Germany Division attributable to the property/casualty insurers therefore increased to 31.3% (30.3%).

UNDERWRITING RESULT

The underwriting result improved from EUR -9 million to EUR 8 million in the current financial year on account of a positive run-off result and profitable growth at stable costs, more than compensating for the higher burdens due to natural disasters and large losses. Overall, this positive trend drove down both the loss ratio and the expense ratio, thus improving the combined ratio (net) by 2.5 percentage points from 101.5% to 99.0%.

NET INVESTMENT INCOME

Net investment income was unchanged at EUR 44 (44) million.

OPERATING PROFIT

EBIT was up year-on-year at EUR 40 (22) million thanks to an improved run-off result and profitable growth. This pushed the EBIT margin up by 2.5 percentage points to 5.6%.

LIFE INSURANCE

- Rise in new business APE
- Decline in net investment income as lower gains realised to finance additional interest reserve
- Growth in EBIT thanks to reduced transfer to provision for premium refunds on account of tax refunds in prior year

KEY FIGURES FOR THE RETAIL GERMANY DIVISION – LIFE INSURANCE SEGMENT

EUR MILLION

	6M 2018	6M 2017	+/- %
Gross written premiums	2,240	2,308	-2.9
Net premiums earned	1,653	1,701	-2.8
Underwriting result	-858	-901	+4.8
Net investment income	922	951	-3.0
Operating profit/loss (EBIT)	48	41	+17.1
New business measured in annual premium equivalent	195	194	+0.5
Single premiums	676	705	-4.1
Regular premiums	127	123	+3.3
New business by product in annual premium equivalent	195	194	+0.5
of which capital-efficient products	73	70	+4.3
of which biometric products	66	67	-1.5

MANAGEMENT METRICS FOR THE LIFE INSURANCE SEGMENT

	6M 2018	6M 2017	+/- %
Gross premium growth	-3.0	-2.4	-0.6 pt.
EBIT margin ¹⁾	2.9	2.4	+0.5 pt.

¹⁾ Operating profit (EBIT)/net premiums earned.

PREMIUM VOLUME AND NEW BUSINESS

The Life Insurance segment registered a decline in premiums of 2.9% down to EUR 2.2 (2.3) billion in the first half of the year – including the savings elements of premiums from unit-linked life insurance. In line with expectations, regular premiums fell by EUR 31 million due to an increase in policies maturing, while single premiums declined by EUR 12 million. This includes a premium reduction in residual debt insurance of EUR 25 million. Allowing for the savings elements under our unit-linked products and the change in the unearned premium reserve, the net premiums earned in the Life Insurance segment decreased by 2.8% to EUR 1.7 (1.7) billion. The Life Insurance segment share in the overall Retail Germany Division declined to 68.7% (69.7%).

New business in life insurance products – measured in the internationally applied metric of the annual premium equivalent (APE) – expanded slightly year-on-year from EUR 194 million to EUR 195 million.

UNDERWRITING RESULT

The underwriting result improved to EUR -858 (-901) million in the current financial year, partly due to the unwinding of discounts on 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 contracted by 3.0% to EUR 922 (951) million, owing in particular to the lower realisation of unrealised gains to finance the additional interest reserve, coupled with a lower addition to the additional interest reserve. Extraordinary net investment income declined accordingly by 8.3% to EUR 253 (276) million. The slight fall in ordinary investment income by 0.3% to EUR 727 (729) million was influenced by persistently low interest rates.

OPERATING PROFIT

EBIT in the Life Insurance segment improved to EUR 48 (41) million, in particular on account of the absence of transfers to the provision for premium refunds on account of tax income at HDI Pensionskasse and the bancassurance and life insurance companies, and a higher PVFP as a result of higher reversals of impairment losses together with lower new impairment losses. This pushed up the EBIT margin by 0.5 percentage points to 2.9%.

RETAIL GERMANY DIVISION OVERALL**RETURN ON EQUITY FOR THE RETAIL GERMANY DIVISION OVERALL**

	6M 2018	6M 2017	+/- %
Return on equity ¹⁾	4.0	4.0	—

¹⁾ Ratio of annualised net income for the reporting period excluding non-controlling interests to average equity excluding non-controlling interests.

The burden largely had virtually no impact on net income in the prior year on account of transfers to the provision for premium refunds from the tax income referred to above, while in the current financial year EBIT is subject to normal taxation. As a result, Group net income remained constant at EUR 50 (50) million after adjustment for taxes on income, financing costs and non-controlling interests. The return on equity was unchanged at 4.0%.

RETAIL INTERNATIONAL

- Acquisition and integration of two insurance companies in Colombia and Turkey
- Growth of 9.6% in gross written premiums adjusted for currency effects
- Combined ratio improves to 94.6%

KEY FIGURES FOR THE RETAIL INTERNATIONAL DIVISION

EUR MILLION			
	6M 2018	6M 2017	+/- %
Gross written premiums	2,963	2,828	+4.8
Net premiums earned	2,513	2,358	+6.6
Underwriting result	33	14	+135.7
Net investment income	174	173	+0.6
Operating profit/loss (EBIT)	138	116	+19.0

MANAGEMENT METRICS FOR THE RETAIL INTERNATIONAL DIVISION

%			
	6M 2018	6M 2017 ¹⁾	+/- %
Gross premium growth (adjusted for currency effects)	9.6	11.3	-1.7 pt.
Combined ratio (net, property/casualty only) ²⁾	94.6	96.4	-1.8 pt.
EBIT margin ³⁾	5.5	5.0	+0.5 pt.
Return on equity ⁴⁾	8.3	7.2	+1.1 pt.

¹⁾ Adjusted in accordance with IAS 8.

²⁾ Including net interest income on funds withheld and contract deposits.

³⁾ Operating profit (EBIT)/net premiums earned.

⁴⁾ Ratio of annualised net income for the reporting period excluding non-controlling interests to average equity excluding non-controlling interests.

This division bundles the activities of the international retail business in the Talanx Group and is active in both Europe and Latin America. Talanx International AG expanded its operations in both regions in the second quarter of 2018: The acquisitions of Generali Colombia Seguros Generales S. A. and its subsidiary Generali Colombia Vida Compañía de Seguros S. A., both based in Bogotá, by the Spanish subsidiary Saint Honore Iberia S. L. were completed as at 3 April 2018. The Group holds more than 90% of the shares in each of the companies. Thus, the division is now also represented on the Colombian primary insurance market and is continuing to expand its presence in the strategic Latin America target region. The two companies have both been operating under the HDI brand name since being acquired. Talanx International AG also assumed a majority interest in Liberty Sigorta A. S., Istanbul, on

3 May 2018. This will allow the division to expand its presence on the Turkish market. The merger between the property insurance companies Liberty Sigorta A. S. and HDI Sigorta A. S. is planned for the second half of 2018.

PREMIUM VOLUME

The division's gross written premiums (including premiums from unit-linked life and annuity insurance) increased by 4.8% compared to the first half of 2017 to EUR 3.0 (2.8) billion. Adjusted for currency effects, gross premiums increased by 9.6% on the comparison period. The premium volume increased in both regions in the reporting period. In the Latin America region, the gross written premiums increased by 1.9% compared to the same period of the previous year to EUR 813 million. Adjusted for currency effects, however, the growth amounted to 15.8%, which was essentially due to Mexico and Brazil. The premium volume for the Mexican HDI Seguros S. A. increased, in particular in motor insurance, from bank sales and two new broker programmes, which resulted both from an increased number of insured vehicles and from higher average premiums. 47% of the premium volume generated in the region was accounted for by the Brazilian HDI Seguros S. A. Unadjusted, the company's gross written premiums declined by 8.9% to EUR 383 million. However, adjusted for currency effects, they rose by 8.5%, primarily on account of ongoing price increases in motor insurance. The newly acquired Colombian companies were included for the first time for three full months at EUR 20 million.

In the Europe region, gross written premiums rose by 6.0% to EUR 2.1 billion (7.3% adjusted for currency effects), driven primarily by a 14.9% increase in premiums to EUR 682 million at the Polish property insurer TUiR WARTA S. A. In addition to the growth in new business in property insurance as a result of a new bank sales channel, the positive performance was driven in particular by the increase in insured vehicles to 5.2 (4.6) million with stable average premiums in motor insurance. The rise in gross written premiums at the Italian HDI Assicurazioni S. p. A. amounted to 5.2%, resulting largely from the positive development in life single premium business from the bank sales channel. HDI Sigorta A. S. in Turkey also reported positive effects on gross written premiums for the region, with the premium volume up 13.0% adjusted for currency effects, thanks mainly to motor insurance. The newly acquired Liberty Sigorta A. S. was included for the first time for two months at EUR 6 million.

UNDERWRITING RESULT

The combined ratio for property insurance companies improved by 1.8 percentage points as against the first half of 2017 to 94.6%. The expense ratio for the division was 1.3 percentage points lower than the previous year at 28.3% (29.6%). This resulted from a decline in both the acquisition expense ratio and the administrative expense ratio (by 0.2 percentage points to 5.6%) due to cost optimisation measures, primarily at Poland's TUIR WARTA S. A. and the Brazilian HDI Seguros S. A. The loss ratio was reduced by 0.5 percentage points as against the same period of the previous year to 66.2%, primarily on account of ongoing price increases in Brazil and the streamlining of the motor insurance portfolio in Italy.

Overall, the underwriting result in this division was EUR 33 million, well above the previous year's level (EUR 14 million).

NET INVESTMENT INCOME

The division's net investment income in the first half of 2018 amounted to EUR 174 million, a year-on-year rise of 0.6%. Despite higher investments, the division's ordinary net investment income declined by 5.1%, due largely to the significantly lower interest rate overall compared to the prior-year period, especially in Brazil and Italy. By contrast, the reporting period was positively influenced by growth in extraordinary net investment income in Italy. Owing to the higher level of investments and persistently low interest rates, the average return on assets under own management fell by 0.3 percentage points to 3.4%.

OPERATING PROFIT AND GROUP NET INCOME

In the first half of 2018, operating profit (EBIT) in the Retail International Division rose by 19.0%, compared with the same period of the previous year, to EUR 138 million. The EBIT contributed by the Europe region was 30.0% higher as against the same period of the previous year at EUR 117 (90) million, essentially as a result of Poland's TUIR WARTA S. A. and Italy's HDI Assicurazioni S. p. A. By contrast, EBIT of EUR 29 (30) million was generated in the Latin America region, where the decline was mainly due to currency effects in Brazil. Taking non-controlling interests into account, Group net income rose by 12.2% to EUR 83 (74) million. The return on equity rose by 1.1 percentage points to 8.3% compared to the same period in the previous year.

ADDITIONAL KEY FIGURES

RETAIL INTERNATIONAL DIVISION BY LINE OF BUSINESS AT A GLANCE

EUR MILLION	6M 2018	6M 2017	+/- %
Gross written premiums	2,963	2,828	+4.8
Property/Casualty	1,923	1,831	+5.0
Life	1,040	997	+4.3
Net premiums earned	2,513	2,358	+6.6
Property/Casualty	1,608	1,526	+5.4
Life	905	832	+8.8
Underwriting result	33	14	+135.7
Property/Casualty	87	54	+61.1
Life	-54	-40	-35.0
Others	—	—	—
Net investment income	174	173	+0.6
Property/Casualty	89	100	-11.0
Life	86	75	+14.7
Others	-1	-2	+50.0
New business by product in annual premium equivalent (life)	125	116	+7.8
Single premiums	912	833	+9.5
Regular premiums	34	33	+3.0
New business by product in annual premium equivalent (life)	125	116	+7.8
of which capital-efficient products	50	47	+6.4
of which biometric products	32	30	+6.7

RETAIL INTERNATIONAL DIVISION BY REGION AT A GLANCE

EUR MILLION	6M 2018	6M 2017	+/- %
Gross written premiums	2,963	2,828	+4.8
of which Europe	2,140	2,019	+6.0
of which Latin America	813	798	+1.9
Net premiums earned	2,513	2,358	+6.6
of which Europe	1,829	1,653	+10.6
of which Latin America	683	704	-3.0
Underwriting result	33	14	+135.7
of which Europe	4	-5	+180.0
of which Latin America	29	12	+141.7
Net investment income	174	173	+0.6
of which Europe	145	127	+14.2
of which Latin America	31	49	-36.7
Operating profit/loss (EBIT)	138	116	+19.0
of which Europe	117	90	+30.0
of which Latin America	29	30	-3.3

REINSURANCE

PROPERTY/CASUALTY REINSURANCE

- Growth in income and premiums in consistently intensive competitive environment
- Large-loss burden down on already low figure for prior year
- Significant increase in net technical result

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

EUR MILLION

	6M 2018	6M 2017	+/- %
Gross written premiums	6,467	5,428	+19.1
Net premiums earned	5,175	4,313	+20.0
Underwriting result	206	149	+38.3
Net investment income	517	490	+5.5
Operating profit/loss (EBIT)	704	644	+9.3

MANAGEMENT METRICS FOR THE PROPERTY/CASUALTY REINSURANCE SEGMENT

%

	6M 2018	6M 2017	+/- %
Gross premium growth (adjusted for currency effects)	27.6	16.9	+10.7 pt.
Combined ratio (net) ¹⁾	95.7	96.5	-0.8 pt.
EBIT margin ²⁾	13.6	14.9	-1.3 pt.

¹⁾ Including net interest income on funds withheld and contract deposits.

²⁾ Operating profit (EBIT)/net premiums earned.

BUSINESS DEVELOPMENT

Even after the severe storm damage in the prior year, the intensive competition in global property/casualty reinsurance is still ongoing; the supply of reinsurance cover continues to far exceed demand. Even if the business performance of primary insurers has come under pressure in some cases, the capital resources of most companies are still sufficient. Nevertheless, we are witnessing rising demand for reinsurance as primary insurers are increasingly using reinsurance to contain the volatility in their results.

Another factor behind the sustained pressure on prices and conditions, particularly in the US natural disasters business, is the additional capacity from the market for insurance-linked securities (ILS). Following recent large losses, it was seen that most investors remained loyal to the ILS market in order to benefit from rising prices as a consequence of the high loss burden. However, as a result

of the additional capacity, the price increases did not materialise to the expected extent. These general conditions defined treaty renewal rounds in the first half of the year. The renewal for Japan and smaller volumes of treaty renewals for the Australian, New Zealand, Korean and North American markets were pending as at 1 April. The total premium volume from this treaty renewal round increased by 10.3%. We were able to reach an agreement on the portion of North American business pending for treaty renewal at a reasonable price. We slightly expanded our property business thanks to advantageous conditions, particularly in programmes that have been affected by losses.

Rates for third-party liability business in Japan have improved following prior losses. However, the premium was down slightly on account of a planned reduction in a large-volume contract. In South Korea as well, there were portions of business that we did not renew; the prices and conditions were not attractive enough owing to local competition. On the other hand, we secured encouraging gains in agricultural risks.

PREMIUM DEVELOPMENT

Gross written premiums for the entire portfolio in the Property/Casualty Reinsurance segment increased by 19.1% to EUR 6.5 (5.4) billion as at 30 June 2018. This again reflected the ongoing increase in demand for solvency-easing reinsurance solutions both in Europe and North America. This was able to more than compensate for declining premiums in other areas. At constant exchange rates, the growth in gross written premiums in Property/Casualty Reinsurance would even have amounted to 27.6%. Retention increased to 91.4% (89.4%) year-on-year. Net premiums earned increased by 20% to EUR 5.2 (4.3) billion, or by 28.4% adjusted for currency effects.

UNDERWRITING RESULT

At EUR 93 million, the net large loss burden was down on the already low figure for prior year as at 30 June 2018 (EUR 123 million). The largest losses due to natural catastrophes included the European Storm "Friederike" (also known as "David") and an earthquake in Papua New Guinea. In total, the large loss burden was well below our forecast of EUR 351 million for the first half of the year. The technical result for the Property/Casualty Reinsurance segment improved by 38.3% to EUR 206 (149) million. The combined ratio of 95.7% (96.5%) is still in line with our planning for a target of 96% or less for the year as a whole.

NET INVESTMENT INCOME

At EUR 517 (490) million, our investment income was very encouraging. In light of slightly higher gains, the income from assets under own management increased by 2.7% to EUR 501 (488) million. Net income from investments held by cedants climbed to EUR 16 (2) million.

OPERATING PROFIT

In total, the operating profit (EBIT) for the Property/Casualty Reinsurance segment increased by 9.3% to EUR 704 (644) million as at 30 June 2018. Again, the EBIT margin far exceeded our target level of at least 10%, at 13.6% (14.9%).

LIFE/HEALTH REINSURANCE

- Consistently positive developments on international markets
- Development in us financial solutions business solid as expected
- Increase in operating profit with stable premiums

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

EUR MILLION

	6M 2018	6M 2017 ¹⁾	+/- %
Gross written premiums	3,518	3,570	-1.5
Net premiums earned	3,171	3,220	-1.5
Underwriting result	-108	-229	+52.8
Net investment income	239	300	-20.3
Operating profit/loss (EBIT)	213	156	+36.5

¹⁾ Adjusted in accordance with IAS 8.

MANAGEMENT METRICS

%

	6M 2018	6M 2017	+/- %
Gross premium growth (adjusted for currency effects) ¹⁾	3.7	-1.5	+5.2 pt.
EBIT growth ²⁾	35.9	-9.8	+45.7 pt.

¹⁾ Compared with the previous year.

²⁾ Change in operating profit (EBIT) compared with the previous year in percent.

BUSINESS DEVELOPMENT

Life/Health Reinsurance business slightly outperformed our expectations in the first half of 2018.

The situation on the German market hardly changed. The Solvency and Financial Condition Reports published in May showed a trend towards a further year-on-year improvement in primary insurers' Solvency II cover ratio as at the end of 2017. As the insurance industry is still hoping for regulatory relief from political circles, there was only modest interest in buying financial solutions reinsurance solutions, which reduce the additional interest reserve or even help to ease solvency requirements.

Our business developed promisingly in the rest of Europe. Looking at Western European markets, there is a clear trend among new and existing customers to expand product portfolios, particularly in the field of risk cover. The UK is still dominated by strong competition, which was further exacerbated by the price pressure on the market and squeezed profitability.

The markets in Central Europe mostly continued their positive development and are characterised by growth, which generated profitable new business in our portfolio.

The performance of the markets in Eastern Europe, including in particular Ukraine, Bulgaria, Azerbaijan and Russia, was as expected, and we were able to build on the positive developments of the prior year.

Interest in financial solutions was again extremely high in Asian countries. In addition, it was observed that primary insurers' attention was increasingly shifting to health insurance products. In China in particular, the development of the economy was extremely dynamic, and stamped by rising demand for insurance – all of which means extremely positive potential for new business for us. In Japan and Korea, too, we reported new business in term life insurance and financial solutions.

There was a change in retirement provision regulations in Australia, which will presumably require action by primary and reinsurers regarding the insurance products affected. The primary insurance market continued to be characterised by consolidation efforts by major banks and the resulting sales of life insurance portfolios in the interests of consolidation. This dynamic upheaval will entail promising business potential for our Australian subsidiary.

We see the Latin American market as a growing insurance market, but one which is nevertheless dominated by strong competitive pressure. We were able to revamp our existing portfolio, and also to generate new business, which allowed us to keep our market position consistently stable at a high level.

As anticipated, the financial solutions business of our US subsidiary developed very positively. In order to improve the results of our US mortality business of older underwriting years, we initiated rate increases which will reduce earnings in the short term but lead to positive earnings effects in the long term. Gratifyingly, mortality fell short of the updated projections in the reporting period. The impact on earnings from this business therefore significantly decreased as against the prior year. Thus, mortality solutions and health and special risk performed better than expected overall.

In automated underwriting, primary insurers around the world are reporting strong and ever-increasing interest. Lifestyle insurance products with integrated wellness components for customers who value healthy living are gaining in significance. All over the world, insurers are increasingly recognising this demand and thus the need for such holistic solutions.

PREMIUM DEVELOPMENT

The gross premium volume in the Life/Health Reinsurance segment decreased slightly by 1.5% to EUR 3.5 (3.6) billion as at 30 June 2018. At constant exchange rates, the growth would have amounted to 3.7%. Retention remained virtually stable at 91.2% (91.6%). Net premiums earned were unchanged at EUR 3.2 (3.2) billion. At constant exchange rates, the growth would have amounted to 3.8%.

NET INVESTMENT INCOME

Against the backdrop of the low interest rate climate, we are very pleased with our net investment income of EUR 239 (300) million. While ordinary investment income was stable, contributions from realised gains and losses were softer. Accordingly, the income from assets under own management decreased to EUR 141 (179) million. Net income from funds withheld by our ceding companies fell to EUR 98 (121) million.

OPERATING PROFIT

The operating profit (EBIT) was EUR 213 (156) million at the end of the first half of the year, up 36.5% on the prior-year figure.

REINSURANCE DIVISION OVERALL

RETURN ON EQUITY FOR THE REINSURANCE DIVISION OVERALL

	6M 2018	6M 2017	+/- %
Return on equity ¹⁾	13.9	12.6	+1.3 pt.

¹⁾ Ratio of annualised net income for the reporting period excluding non-controlling interests to average equity excluding non-controlling interests.

Group net income in the Reinsurance Division climbed by 5.6% to EUR 281 (266) million in the first half of 2018, while the return on equity improved to 13.9% (12.6%).

CORPORATE OPERATIONS

- Group assets under own management climb by 3%
- First structured financing by institutional investors for German railway passenger transport
- Positive development in operating profit

Berenberg, MEAG and Talanx have together structured the first financing solution by institutional investors for German regional railway passenger transport using a lease structure with DAL Deutsche Anlagen-Leasing. Clients of MEAG and Talanx have provided capital to finance new trains for regional railway transport in the Ulm area. The private bank Berenberg assumed the role of coordinator and arranger, thereby bringing its many years of experience on the market for infrastructure projects to bear.

THE GROUP'S REINSURANCE SPECIALISTS

Underwriting business written via our Irish subsidiary has been reported in the Corporate Operations segment since 2013. Previously known as Talanx Reinsurance (Ireland) Public Limited Company, the Group's in-house reinsurer took the name Talanx Reinsurance (Ireland) SE on 16 May 2017. Its aim is to increase retention and optimise capital utilisation. The in-house business written by Talanx Re (Ireland) is partly reallocated to the ceding segments in order to leverage diversification benefits there. Business including additional cross-segment diversification benefits is also reported in the Corporate Operations segment. Gross written premiums in this business amounted to EUR 39 (23) million in the first half of 2018. They resulted from reinsurance cessions in the Industrial Lines, Retail Germany and Retail International Divisions. Talanx Re (Ireland) posted an operating profit of EUR -1 (0) million for this business in the Corporate Operations segment due a natural disaster.

THE GROUP'S INVESTMENT SPECIALISTS

In cooperation with its subsidiary Ampega Investment GmbH, Talanx Asset Management GmbH is chiefly responsible for handling the management and administration of the Group companies' investments and provides related services such as investment accounting and reporting. The Group's assets under own management have climbed to EUR 111 (108) billion since the beginning of the year. The total contribution to the segment's operating profit made by the two companies and Talanx Immobilien Management GmbH amounted to EUR 29 (24) million in the first half of 2018.

As an investment company, Ampega Investment GmbH (AIG) manages retail and special funds and provides financial portfolio management services for institutional clients. It focuses on portfolio management and the administration of investments. Cash inflows from investments did not match the good prior-year level in the first half of 2018. Greater fluctuation on the international financial markets, triggered by geopolitical risks and a looming trade war, sparked significant reluctance among investors in fund unit acquisitions compared to 2017. Thus, net inflows across all fund categories were significantly weaker as against the same period of 2017 by the end of June 2018. Investor uncertainty hit bond funds especially hard, resulting in unusually high cash outflows. In this somewhat trying market environment, Ampega Investment GmbH reported a stable net cash inflow.

The total volume of assets managed by Ampega declined by 6.5% to EUR 22.9 (24.5) billion in the first half of 2018. This was mainly on account of the loss of an institutional non-listed assets client in the amount of EUR 1.6 billion. At EUR 11.6 (11.6) billion, half the total volume is managed on behalf of Group companies using special funds and direct investment mandates. Of the remainder, EUR 5.7 (7.2) billion was attributable to institutional third-party clients and EUR 5.6 (5.7) billion to retail business. The latter is offered both through the Group's own distribution channels and products such as unit-linked life insurance and through external asset managers and banks.

OPERATING PROFIT

The operating profit in the Corporate Operations segment increased to EUR 4 (0) million in the first half of 2018, essentially as a result of a bonus fee for the placement of a bond of EUR 832 million to finance the "Borkum Riffgrund 2" offshore wind farm in December 2017. Group net income attributable to shareholders of Talanx AG for this segment amounted to EUR -37 (-42) million in the first half of 2018.

NET ASSETS AND FINANCIAL POSITION

NET ASSETS

- Total assets up EUR 4.9 billion to EUR 163.3 billion
- Investments account for 75% of total assets

SIGNIFICANT CHANGES IN THE ASSET STRUCTURE

The EUR 4.9 billion increase in our total assets to EUR 163.3 billion is primarily attributable to the growth in investments of EUR 3.2 billion and the EUR 1.1 billion increase in accounts receivable on insurance business.

CHANGES IN INVESTMENTS

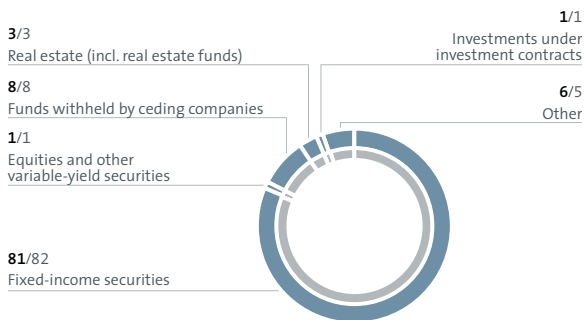
The total investment portfolio rose by 2.7% over the course of the first half of 2018 and amounted to EUR 121.8 (118.7) billion. The portfolio of assets under own management climbed by 2.7% to EUR 110.8 (107.9) billion. The rise in the portfolio of assets under own management is predominantly market-driven, with the strengthening of the euro against the US dollar also having an impact. The cash inflows from underwriting business were reinvested in accordance with the respective corporate guidelines, while the portfolio of investment contracts remains constant at EUR 1.1 billion. Funds withheld by ceding companies expanded slightly by 3.4% to EUR 10.0 (9.7) billion.

Fixed-income investments were again the most significant asset class in the first half of 2018. Most reinvestments were made in this class, reflecting the existing investment structure. This asset class contributed EUR 1.3 (1.4) billion to earnings, which was reinvested as far as possible in the year under review.

The equity allocation ratio after derivatives (equity ratio of listed securities) was 1.0% (1.0%) at the end of the six-month period.

BREAKDOWN OF THE INVESTMENT PORTFOLIO

%



30.6.2018
 31.12.2017

BREAKDOWN OF ASSETS UNDER OWN MANAGEMENT BY ASSET CLASS

EUR MILLION

	30.6.2018		31.12.2017	
Investment property	2,854	3%	2,799	3%
Shares in affiliated companies and participating interests	181	< 1%	178	< 1%
Investments in associates and joint ventures	276	< 1%	242	< 1%
Loans and receivables				
Loans incl. mortgage loans	467	< 1%	481	< 1%
Loans and receivables due from government or quasi-governmental entities, together with fixed-income securities	28,712	26%	28,412	26%
Financial assets held to maturity	458	< 1%	554	< 1%
Financial assets available for sale				
Fixed-income securities	68,155	62%	66,682	62%
Variable-yield securities	1,847	2%	1,773	2%
Financial assets at fair value through profit or loss				
Financial liabilities classified at fair value through profit or loss				
Fixed-income securities	1,239	1%	1,072	1%
Variable-yield securities	116	< 1%	65	< 1%
Financial assets held for trading				
Fixed-income securities	—	< 1%	—	< 1%
Variable-yield securities	136	< 1%	148	< 1%
Derivatives ¹⁾	189	< 1%	149	< 1%
Other investments	6,126	6%	5,326	5%
Assets under own management	110,756	100%	107,881	100%

¹⁾ Only derivatives with positive fair values.

FIXED-INCOME SECURITIES

The portfolio of fixed-income investments (excluding mortgage and policy loans) was up by EUR 1.8 billion in the first half of 2018 to total EUR 98.6 (96.7) billion at the end of the six-month period. At 81% (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 investment categories of “Loans and receivables” and “Financial assets available for sale”.

“Fixed-income securities available for sale”, whose volatility impacts equity and which total EUR 68.2 (66.7) billion, or an unchanged 69% of total investments in the fixed-income portfolio, account for the largest share and increased by approximately EUR 1.5 billion in the first half of the year. In this segment, German covered bonds (Pfandbriefe) and corporate bonds accounted for the majority of the investments. Valuation reserves, i.e. the balance of unrealised gains and losses, have also declined from EUR 3.3 billion to EUR 2.2 billion since the end of 2017 with lower interest rates but higher spreads for long terms.

In the “Loans and receivables” category, investments are primarily held in government securities or securities with a similar level of security. German covered bonds (Pfandbriefe) are still the largest item in the portfolio. Total holdings in fixed-income securities within the category “Loans and receivables” amounted to EUR 29.2 (28.9) billion at the end of the six-month period and thus represent 29% of total holdings in the asset class of fixed-income investments. Off-balance-sheet valuation reserves of “Loans and receivables” (including mortgage and policy loans) decreased from EUR 4.3 billion to EUR 4.1 billion.

Investments in fixed-income securities continue to focus in 2018 on government bonds with good ratings or securities from issuers with a similar credit quality. Holdings of AAA-rated bonds amounted to EUR 42.0 (39.0) billion as at the reporting date. This represents 42% (40%) of the total portfolio of fixed-income securities and loans.

The Group pursues a conservative investment policy. As a result, 79% (76%) of securities in the fixed-income securities asset category have a minimum A rating.

The Group has only a small portfolio of investments in government bonds from countries with a rating lower than A-. On a fair value basis, this portfolio amounts to EUR 3.8 (4.7) billion and therefore corresponds to a share of 3.4% (4.4%) of the assets under own management.

The Macaulay duration of the Talanx Group’s total fixed-income securities investment portfolio was 8.3 (8.1) years as at 30 June 2018.

As far as matching currency cover is concerned, us dollar-denominated investments continue to account for the largest share 19% (18%) of the Talanx Group’s foreign currency portfolio. Sizeable positions are also held in pound sterling and Australian dollars, totalling 5% (5%) of all investments. The total share of assets under own management in foreign currencies was 32% (32%) as at 30 June 2018.

EQUITIES AND EQUITY FUNDS

Net unrealised gains and losses on equity holdings within the Group (excluding “Other investments”) decreased by EUR 29 million to EUR 126 (155) million.

REAL ESTATE INCLUDING SHARES IN REAL ESTATE FUNDS

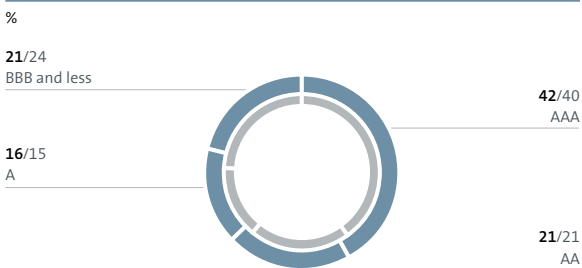
Investment property totalled EUR 2.9 (2.8) billion at the reporting date. An additional EUR 882 (841) million is held in real estate funds, which are recognised as “Financial assets available for sale”.

Depreciation of EUR 28 (25) million was recognised on investment property in the period under review. There were no significant impairment losses. Depreciation on real estate funds stood at EUR 6 (6) million. These depreciations were offset by negligible reversals of impairment losses.

INFRASTRUCTURE INVESTMENTS

Talanx again stepped up its direct investment in infrastructure in the period under review. The portfolio comprises both equity and debt investments in wind farms, electricity grids, hospitals, solar parks and public-private partnership projects (PPP) in Germany and the rest of Europe. Talanx currently has a total of around EUR 2.0 (1.9) billion invested in infrastructure projects. A further expansion of these activities is planned in 2018, including in the form of sector diversification.

RATING STRUCTURE OF FIXED-INCOME SECURITIES



○ 30.6.2018 ○ 31.12.2017

NET INVESTMENT INCOME

CHANGES IN NET INVESTMENT INCOME

EUR MILLION

	6M 2018	6M 2017
Ordinary investment income	1,687	1,683
of which current income from interest	1,329	1,359
of which attributable to profit/loss from investments in associates	4	7
Realised net gains on disposal of investments	419	466
Write-downs/reversals of write-downs of investments	-79	-95
Unrealised net gains from investments	-6	30
Other investment expenses	-120	-113
Income from assets under own management	1,901	1,971
Net interest income from funds withheld and contract deposits	106	116
Net income from investment contracts	—	-2
Total	2,007	2,085

The net investment income in the first half of the year was EUR 2,007 (2,085) million, and so was slightly below the previous year's level. The annualised net return on investment for the assets under own management fell to 3.5% (3.7%).

Ordinary investment income amounted to EUR 1,687 (1,683) million at the end of the first half of the year, with slight growth in income from private equity. Persistently low interest rates on the capital

markets led to an average coupon in the fixed-income securities portfolio of 2.9% (3.1%). The current interest income included in the investment income amounts to EUR 1.3 (1.4) billion.

Overall, realised net gains on the disposal of investments were below the prior-year figure, at EUR 419 (466) million. The positive net gains resulted from regular portfolio turnover in all segments, as well as from the requirement to realise unrealised gains in order to finance the additional interest reserve for life insurance and occupational pension plans required by the HGB. The latter were down as against the previous year.

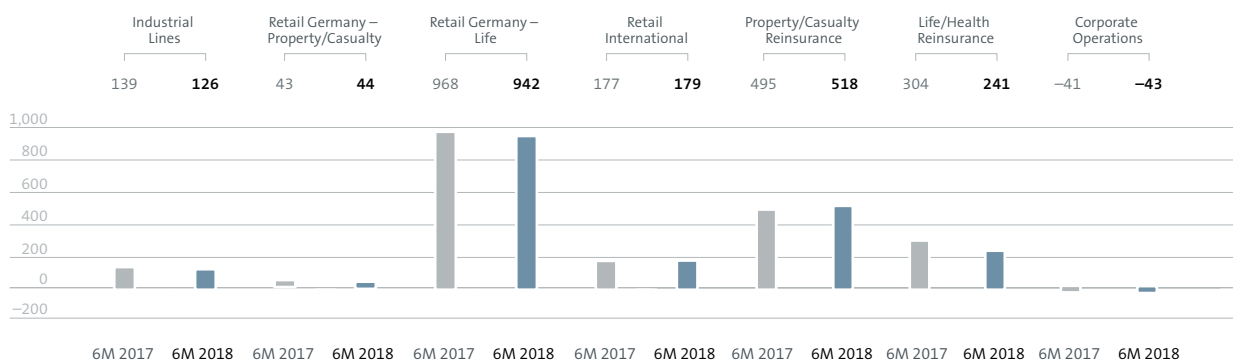
At EUR 79 (95) million, lower depreciation and amortisation was required overall in the first half of this year compared to the prior year. This year, equities accounted for EUR 10 (6) million of this figure, fixed-income securities for EUR 7 (34) million and other investments for EUR 34 (31) million in total. Depreciation on directly held property amounted to EUR 28 (25) million.

There was a slight decline in unrealised net gains on balance from EUR 30 million to EUR -6 million, which related to changes in assets held at fair value through profit or loss.

Net interest income from funds withheld and contract deposits fell to EUR 106 (116) million.

BREAKDOWN OF NET INVESTMENT INCOME BY GROUP SEGMENT¹⁾

EUR MILLION



¹⁾ After elimination of intragroup cross-segment transactions.

FINANCIAL POSITION

ANALYSIS OF CAPITAL STRUCTURE

- Equity is down year-on-year at EUR 13.9 (14.2) billion
- Technical provisions climbed EUR 4.3 billion to EUR 116.2 billion

SIGNIFICANT CHANGES IN THE CAPITAL STRUCTURE

Overall, net technical provisions rose by 3.8% or EUR 4.0 billion year-on-year to EUR 108.5 (104.5) billion. This increase essentially related to the unearned premium reserve (up EUR 1.6 billion) and the loss and loss adjustment expense reserve (up EUR 1.4 billion).

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 89.8% (88.9%) at the reporting date. Investments thus exceed provisions by EUR 12.3 (13.0) billion.

CHANGES IN EQUITY

CHANGES IN EQUITY

EUR MILLION

	30.6.2018	31.12.2017	Change	+/- %
Subscribed capital	316	316	—	—
Capital reserve	1,373	1,373	—	—
Retained earnings	7,043	6,960	83	+1.2
Accumulated other comprehensive income and other reserves	-140	186	-326	-175.3
Group equity	8,592	8,835	-243	-2.8
Non-controlling interests in equity	5,261	5,411	-150	-2.9
Total equity	13,853	14,246	-393	-2.8

EQUITY

CHANGES IN EQUITY

The reduction in accumulated other comprehensive income and other reserves by EUR 326 million as against 31 December 2017 to EUR -140 million and the dividend payment of EUR 354 (341) million to shareholders of Talanx AG in May of the period under review were not fully absorbed by the net income for the reporting period, EUR 437 (463) million of which is attributable to our shareholders and was allocated in full to retained earnings, leading to a slight reduction of EUR 243 million (2.8%) in the Group's equity.

The decline in other reserves of EUR 326 million is due in particular to the negative development of unrealised gains on investments of EUR 680 million – primarily caused by higher credit spreads and despite lower interest rates for long terms – and in the measurement of cash flow hedges of EUR 115 million, which were only partially compensated for by the positive development of policyholder participations/shadow accounting (up by EUR 456 million).

EQUITY BY DIVISION¹⁾ INCLUDING NON-CONTROLLING INTERESTS

EUR MILLION

	30.6.2018	31.12.2017
Industrial Lines	2,339	2,306
of which non-controlling interests	—	—
Retail Germany	2,520	2,508
of which non-controlling interests	58	59
Retail International	2,154	2,276
of which non-controlling interests	210	230
Reinsurance	8,996	9,229
of which non-controlling interests	5,500	5,123
Corporate Operations	-2,209	-2,119
of which non-controlling interests	—	—
Consolidation	53	46
of which non-controlling interests	-507	-1
Total equity	13,853	14,246
Group equity	8,592	8,835
Non-controlling interests in equity	5,261	5,411

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

As at 30 June 2018, the Group had two syndicated variable-rate credit lines with a total nominal value of EUR 500 million. As in the prior year, these were not drawn down as at the reporting date. The existing syndicated credit lines can be terminated by the lenders if there is a change of control, i.e. if a person or persons acting in concert, other than HDI Haftpflichtverband der Deutschen Industrie V.a.G., gains direct or indirect control over more than 50% of the voting rights or share capital of Talanx AG.

Further information can be found in the Notes to the consolidated balance sheet, Note 10 "Notes payable and loans".

In addition, a cooperation agreement with HDI V.a.G. allows the Group to offer HDI subordinated bonds with a maturity of five years and a volume of up to EUR 500 million on a revolving basis. Further information can be found in the Notes to the consolidated balance sheet in the section "Other disclosures" – "Related party disclosures".

ANALYSIS OF DEBT

Subordinated liabilities remained at EUR 2.7 billion as at the reporting date. Further information can be found in the Notes to the consolidated balance sheet, Note 8 "Subordinated liabilities".

In order to take advantage of consistently low interest rates in Europe and to increase the flexibility of investment management, the Hannover Re subgroup issued bonds amounting to EUR 750 million with a term of ten years in April 2018.

OTHER REPORTS AND DECLARATIONS

RISK REPORT

In our 2017 annual report, we described our risk profile and the various risk types and potential risks that could have a detrimental effect on the development of the business and the risk profile of the Group. A detailed description of the various types of risks is not provided here; these are disclosed in the 2017 annual report on page 112ff. Risk reporting in this half-yearly financial report focuses on relevant changes to the risk position that have occurred since Talanx's 2017 Group Annual Report was prepared.

The summary of the overall risk position remains unchanged in this respect; there continues to be no discernible concrete risks that could have a material adverse effect on the Group's net assets, financial position or results of operations. The Talanx Group has established a functioning system of risk management that is continuously refined and corresponds to demanding quality requirements and standards. We are therefore able to identify our risks in a timely manner, and manage them effectively.

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

Interest rates and their development are a key issue defining the current risk situation. For example, a prolonged period of low interest rates could have a material adverse effect on earnings and solvency in parts of the life insurance business due to increased interest guarantee and reinvestment risk. Life insurers and pension funds especially are countering the risks arising from low interest rates with extensive measures that improve their ability to satisfy their obligations to policyholders moving ahead.

Systemic risks, especially to the stability of the financial market, can affect the Group directly as an actor in the financial market and can also affect it indirectly due to potentially negative consequences for its customers.

Likewise, political and macroeconomic uncertainty, on both existing core markets and our target and future markets, pose risks to our net assets, financial position and results of operations. In particular, these include Brexit and the uncertainty of the macroeconomic impact of US trade strategies.

Furthermore, there is uncertainty regarding the development of the legal framework for our business activities in all the countries in which the Group operates.

This poses specific legal risks for our German life insurance companies. This also includes tax risks relating to the handling of certain capital investment instruments in the course of company audits. As these have not been recognised as liabilities due to a probability of less than 50%, they have been incorporated in the contingent liabilities disclosed in the Notes.

Another specific risk is the political-economic crisis in Italy, as the Group also holds directly investments in Italian securities that could be vulnerable to impairment. Overall, however, these risks are very limited.

OUTLOOK

ECONOMIC ENVIRONMENT

At the beginning of the second half of the year, there are signs that the global upswing will continue. Leading indicators are signalling a growth level similar to that of 2017. The recovery is being shouldered by a wide range of growth drivers. In addition to consistently positive labour market and thus consumer spending momentum, rising global capacity utilisation in particular is sustaining the investment outlook. An annual growth rate of around 4% is anticipated for the global economy in 2018.

Economic divergence in the industrialised nations is increasingly reaching its zenith. While the us is clearly benefiting from pro-cyclical fiscal stimulus, growth momentum in the rest of the developed world is suffering under high political and economic uncertainty – primarily stemming from the escalation of the trade dispute between the us and its trading partners. In future, however, we expect that growth paths will gradually converge.

The emerging markets are continuing their economic expansion as well – in spite of (geo)political conflicts and considerable problems facing the individual economies. In the light of the negative impact of the trade conflict with the us, the Chinese government increasingly appears to be relying on economic policy to support growth. Global economic growth as a whole should benefit from the anticipated stabilisation of growth.

Global inflation continues to be dominated by the price of oil. Predominantly supply-driven factors have led to a significant rise in the price of oil since the start of the year, and thus to an acceleration in global inflation as well. While this effect is likely to lessen, it is assumed that rising global capacity utilisation and the introduction of tariffs will generally cause rising inflation rates and thus a further normalisation of monetary policy.

CAPITAL MARKETS

The rise in interest rates for 2018 expected at the beginning of the year has not yet materialised. Despite this, at the current low level, the risk of rising interest rates over the next few months remains elevated. Thanks to the positive macroeconomic environment and the resulting positive development in corporate earnings, the response to the steadily escalating trade conflict between the us and its trading partners on the stock markets has so far been restrained. Prices setbacks and greater volatility must be anticipated in the near term given the unpredictable news flow. Developments in the medium and long term will depend on how the trade conflict progresses. There are limited chances of further gains in the us, while in Europe and Germany the potential is relatively higher.

ANTICIPATED FINANCIAL DEVELOPMENT OF THE GROUP

We are making the following assumptions:

- moderate global economic growth
- steady inflation rates
- continuing very low interest rates
- no sudden upheavals on the capital markets
- no significant fiscal or regulatory changes
- a large-loss burden in line with expectations

We provide forecast figures at year-end for the key figures at the Talanx Group and its divisions that the Group uses to control its business operations.

TALANX GROUP

MANAGEMENT METRICS

%

	Outlook for 2018 on the basis of 6M 2018	Outlook for 2018 on the basis of Q1 2018	Forecast for 2018 from the 2017 Annual Report
Gross premium growth (adjusted for currency effects)	> 5	> 5	> 2
Net return on investment	≥ 3	≥ 3	≥ 3
Group net income in EUR million	approx. 850	approx. 850	approx. 850
Return on equity	~ 9	~ 9	~ 9
Payout ratio	35–45	35–45	35–45

INDUSTRIAL LINES

In the forecast for 2018 in the 2017 Annual Report, we forecast a combined ratio of around 99% in the Industrial Lines Division. We are now assuming a combined ratio of around 100% for our Industrial Lines Division. This is on account of claims experience in the first half of the year, particularly in the fire line. Initial remediation measures have been put in place, but their effects will not be felt until after a delay.

MANAGEMENT METRICS FOR THE INDUSTRIAL LINES DIVISION

	Outlook for 2018 on the basis of 6M 2018	Outlook for 2018 on the basis of Q1 2018	Forecast for 2018 from the 2017 Annual Report
Gross premium growth (adjusted for currency effects)	≥ 2	≥ 2	≥ 2
Retention	> 55	> 55	> 55
Combined ratio (net)	~ 100	~ 99	~ 99
EBIT margin	~ 8	~ 8	~ 8
Return on equity	~ 5	~ 5	~ 5

RETAIL GERMANY

PROPERTY/CASUALTY INSURANCE

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

	Outlook for 2018 on the basis of 6M 2018	Outlook for 2018 on the basis of Q1 2018	Forecast for 2018 from the 2017 Annual Report
Gross premium growth	≥ 2	≥ 2	≥ 2
Combined ratio (net)	~ 100	~ 100	~ 100
EBIT margin	≥ 3	≥ 3	≥ 3

LIFE INSURANCE

MANAGEMENT METRICS FOR THE RETAIL GERMANY DIVISION – LIFE INSURANCE SEGMENT

	Outlook for 2018 on the basis of 6M 2018	Outlook for 2018 on the basis of Q1 2018	Forecast for 2018 from the 2017 Annual Report
Gross premium growth	slight decline	slight decline	slight decline
EBIT margin	2–3	2–3	2–3

RETAIL GERMANY OVERALL

RETURN ON EQUITY MANAGEMENT METRIC FOR THE RETAIL GERMANY DIVISION OVERALL

	Outlook for 2018 on the basis of 6M 2018	Outlook for 2018 on the basis of Q1 2018	Forecast for 2018 from the 2017 Annual Report
Return on equity	3–4	3–4	3–4

RETAIL INTERNATIONAL

MANAGEMENT METRICS FOR THE RETAIL INTERNATIONAL DIVISION

	Outlook for 2018 on the basis of 6M 2018	Outlook for 2018 on the basis of Q1 2018	Forecast for 2018 from the 2017 Annual Report
Gross premium growth (adjusted for currency effects)	5–10	5–10	5–10
Growth in value of new business (life) ⁴⁾	5–10	5–10	5–10
Combined ratio (net, property/casualty)	~ 95	~ 95	~ 95
EBIT margin	~ 5	~ 5	~ 5
Return on equity	~ 7	~ 7	~ 7

⁴⁾ Excluding non-controlling interests.

REINSURANCE

PROPERTY/CASUALTY REINSURANCE

In the forecast for 2018 in the 2017 Annual Report, we expected good growth in gross premiums in the Property/Casualty Reinsurance segment. On the basis of unchanging exchange rates and in light of our positive renewal results in the first half of the year, we are forecasting low double-digit growth for our Property/Casualty Reinsurance business as a whole. In renewing our reinsurance treaties in Florida that cover natural disaster risks such as severe weather in particular, some of which were hit by substantial prior-year claims, we continued our profit-oriented underwriting policy. As a result, our exposure to natural disaster risks was comfortably within our risk appetite, which is unchanged from the previous year. On the other hand, we were able to significantly improve our position in some major customer relationships, particularly in North America and Europe. The premium volume of the portfolio due for renewal on 1 June and 1 July thus increased by 16%.

**MANAGEMENT METRICS FOR THE PROPERTY/
CASUALTY REINSURANCE SEGMENT**

	Outlook for 2018 on the basis of 6M 2018	Outlook for 2018 on the basis of Q1 2018	Forecast for 2018 from the 2017 Annual Report
%			
Gross premium growth (adjusted for currency effects)	low double-digit growth	> 5	good growth
Combined ratio (net)	< 96	< 96	< 96
EBIT margin	≥ 10	≥ 10	≥ 10

LIFE/HEALTH REINSURANCE

In Life/Health Reinsurance, we anticipate a significant decline in our earnings in the second half of the year as a result of the anticipated treaty recaptures in US mortality business. The reason for this is the very poor performance of a large block of business that we acquired at the start of 2009 and had already reported on regularly in the past. In the second quarter of 2018, we exercised our right to increase reinsurance rates for all contracts of this type for this business. In this context, the cedants have the right to recapture the contracts. Nonetheless, these recaptures will have a positive effect in the long term, as they allow us to avoid future losses that would have occurred without raising premiums.

At present, since the reporting date, we have already been advised of contract recaptures that will lead to a pre-tax burden of USD 264 million. However, it must be assumed that this amount will rise further over the second half of the year. In the unlikely event of all contracts being recaptured, this could result in a burden of USD 500 million to USD 600 million. Were this to occur, it would no longer be possible to achieve the EBIT forecast in the Life/Health Reinsurance segment for 2018 of around EUR 200 million. On the other hand, however, earnings would no longer be reduced by US mortality business in the years ahead, hence we would be able to expect a substantial increase in EBIT.

In Life/Health Reinsurance business not including US mortality business, we anticipate that the positive development in the first half of the year will continue in the second, particularly with regard to the earnings figures. Furthermore, we are also envisaging good potential here for the ongoing profitable expansion of our portfolio. On the Scandinavian markets, for example, we are experiencing increased demand for risk products and bespoke financial solutions. We are also seeing increased demand for reinsurance solutions in the area of longevity risks. In light of the changing regulatory framework, we are conducting promising talks with several Australian business partners, for instance.

MANAGEMENT METRICS FOR THE LIFE/HEALTH REINSURANCE SEGMENT

	Outlook for 2018 on the basis of 6M 2018	Outlook for 2018 on the basis of Q1 2018	Forecast for 2018 from the 2017 Annual Report
%			
Gross premium growth (adjusted for currency effects) ¹⁾	slight growth	3–5	3–5
Value of new business ²⁾ in EUR million	≥ 110	≥ 110	≥ 110
EBIT growth ³⁾	—	> 5	> 5

¹⁾ Average over a three-year period.

²⁾ Excluding non-controlling interests.

³⁾ No outlook is provided for EBIT growth on account of the anticipated decline in earnings as a result of the treaty recaptures in US mortality business.

REINSURANCE DIVISION OVERALL**RETURN ON EQUITY MANAGEMENT METRIC
FOR THE REINSURANCE DIVISION OVERALL**

	Outlook for 2018 on the basis of 6M 2018	Outlook for 2018 on the basis of Q1 2018	Forecast for 2018 from the 2017 Annual Report
%			
Return on equity	~ 11	~ 11	~ 11

**ASSESSMENT OF FUTURE
OPPORTUNITIES AND CHALLENGES**

Opportunities have not changed significantly compared with the 2017 reporting period. For further information, please refer to Talanx's 2017 Group Annual Report.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET OF TALANX AG AS AT 30 JUNE 2018

CONSOLIDATED BALANCE SHEET – ASSETS

EUR MILLION

	Notes	30.6.2018	31.12.2017
A. Intangible assets	1		
a. Goodwill		1,061	1,058
b. Other intangible assets		967	937
		2,028	1,995
B. Investments			
a. Investment property		2,854	2,799
b. Shares in affiliated companies and participating interests		181	178
c. Shares in associates and joint ventures		276	242
d. Loans and receivables	2	29,179	28,893
e. Other financial instruments			
i. Financial assets held to maturity	3	458	554
ii. Financial assets available for sale	4/6	70,002	68,455
iii. Financial assets at fair value through profit or loss	5/6	1,680	1,434
f. Other investments		6,126	5,326
Assets under own management		110,756	107,881
g. Investments under investment contracts		1,078	1,113
h. Funds withheld by ceding companies		10,010	9,679
Investments		121,844	118,673
C. Investments for the benefit of life insurance policyholders who bear the investment risk		11,047	11,133
D. Reinsurance recoverables on technical provisions		8,060	7,697
E. Accounts receivable on insurance business		7,724	6,626
F. Deferred acquisition costs		5,679	5,332
G. Cash at banks, cheques and cash-in-hand		3,029	3,138
H. Deferred tax assets		625	592
I. Other assets		2,867	2,782
J. Non-current assets and assets of disposal groups classified as held for sale ¹⁾		385	418
Total assets		163,288	158,386

¹⁾ For further information see "Non-current assets held for sale and disposal groups" in the Notes.

CONSOLIDATED BALANCE SHEET – EQUITY AND LIABILITIES

EUR MILLION

	Notes	30.6.2018	31.12.2017
A. Equity	7		
a. Subscribed capital		316	316
Nominal value: 316 (previous year: 316)			
Contingent capital: 158 (previous year: 158)			
b. Reserves		8,276	8,519
Equity excluding non-controlling interests		8,592	8,835
c. Non-controlling interests		5,261	5,411
Total equity		13,853	14,246
B. Subordinated liabilities	8	2,737	2,737
C. Technical provisions	9		
a. Unearned premium reserve		10,086	8,116
b. Benefit reserve		55,703	54,596
c. Loss and loss adjustment expense reserve		43,937	42,537
d. Provision for premium refunds		5,967	6,199
e. Other technical provisions		514	449
		116,207	111,897
D. Technical provisions for life insurance policies where the investment risk is borne by the policyholders		11,047	11,133
E. Other provisions			
a. Provisions for pensions and other post-employment benefits		2,140	2,115
b. Provisions for taxes		654	762
c. Miscellaneous other provisions		754	907
		3,548	3,784
F. Liabilities			
a. Notes payable and loans	10	2,249	1,431
b. Funds withheld under reinsurance treaties		4,527	4,546
c. Other liabilities	6	6,743	6,152
		13,519	12,129
G. Deferred tax liabilities		2,055	2,117
H. Liabilities included in disposal groups classified as held for sale		322	343
Total liabilities/provisions		149,435	144,140
Total equity and liabilities		163,288	158,386

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

CONSOLIDATED STATEMENT OF INCOME OF TALANX AG FOR THE PERIOD FROM 1 JANUARY TO 30 JUNE 2018

CONSOLIDATED STATEMENT OF INCOME

EUR MILLION

	Notes	6M 2018	6M 2017 ¹⁾	Q2 2018	Q2 2017 ¹⁾
1. Gross written premiums including premiums from unit-linked life and annuity insurance		18,760	17,553	8,200	7,801
2. Savings elements of premiums from unit-linked life and annuity insurance		548	593	279	312
3. Ceded written premiums		2,127	2,138	827	772
4. Change in gross unearned premiums		-1,981	-1,738	426	139
5. Change in ceded unearned premiums		-331	-366	74	104
Net premiums earned	11	14,435	13,450	7,446	6,752
6. Claims and claims expenses (gross)		12,770	12,123	6,482	6,151
Reinsurers' share		1,190	1,056	564	570
Claims and claims expenses (net)	14	11,580	11,067	5,918	5,581
7. Acquisition costs and administrative expenses (gross)		3,875	3,598	1,960	1,806
Reinsurers' share		301	290	121	117
Net acquisition and administrative expenses	15	3,574	3,308	1,839	1,689
8. Other technical income		30	33	16	8
Other technical expenses		59	48	23	15
Other technical result		-29	-15	-7	-7
Net technical result		-748	-940	-318	-525
9. a. Investment income		2,347	2,323	1,146	1,212
b. Investment expenses		446	352	253	184
Net income from assets under own management		1,901	1,971	893	1,028
Net income from investment contracts		—	-2	—	-1
Net interest income from funds withheld and contract deposits		106	116	51	47
Net investment income	12/13	2,007	2,085	944	1,074
of which share of profit or loss of equity-accounted associates and joint ventures		4	7	1	2
10. a. Other income		738	824	398	428
b. Other expenses		785	844	404	428
Other income/expenses	16	-47	-20	-6	—
Profit before goodwill impairments		1,212	1,125	620	549
11. Goodwill impairments		—	—	—	—
Operating profit/loss (EBIT)		1,212	1,125	620	549
12. Financing costs		84	74	43	38
13. Taxes on income		357	267	194	125
Net income		771	784	383	386
of which attributable to non-controlling interests		334	321	164	161
of which attributable to shareholders of Talanx AG		437	463	219	225
Earnings per share					
Basic earnings per share (in EUR)		1.73	1.83	0.87	0.89
Diluted earnings per share (in EUR)		1.73	1.83	0.87	0.89

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF TALANX AG FOR THE PERIOD FROM 1 JANUARY TO 30 JUNE 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR MILLION

	6M 2018	6M 2017	Q2 2018	Q2 2017
Net income	771	784	383	386
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	-8	86	-9	65
Tax income (expense)	2	-26	2	-19
	-6	60	-7	46
Changes in policyholder participation/shadow accounting				
Gains (losses) recognised in other comprehensive income for the period	-	-4	-	-3
Tax income (expense)	-	-	-	-
	-	-4	-	-3
Total items that will not be reclassified to profit or loss, net of tax	-6	56	-7	43
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	-934	-210	-330	-15
Reclassified to profit or loss	-189	-282	-36	-112
Tax income (expense)	217	36	90	2
	-906	-456	-276	-125
Exchange differences on translating foreign operations				
Gains (losses) recognised in other comprehensive income for the period	104	-560	297	-562
Reclassified to profit or loss	-	-	-	-
Tax income (expense)	-1	34	-16	34
	103	-526	281	-528
Changes in policyholder participation/shadow accounting				
Gains (losses) recognised in other comprehensive income for the period	534	617	239	152
Tax income (expense)	-40	-11	-40	-
	494	606	199	152
Changes from cash flow hedges				
Gains (losses) recognised in other comprehensive income for the period	5	-14	71	12
Reclassified to profit or loss	-130	-67	-104	-42
Tax income (expense)	4	3	2	2
	-121	-78	-31	-28
Changes from equity method measurement				
Gains (losses) recognised in other comprehensive income for the period	1	-11	7	-13
Reclassified to profit or loss	-	-	-	-
Tax income (expense)	-	-	-	-
	1	-11	7	-13
Total items that may be reclassified subsequently to profit or loss, net of tax	-429	-465	180	-542
Other comprehensive income for the period, net of tax	-435	-409	173	-499
Total comprehensive income for the period	336	375	556	-113
of which attributable to non-controlling interests	225	144	298	-54
of which attributable to shareholders of Talanx AG	111	231	258	-59

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

CHANGES IN EQUITY

EUR MILLION

	Subscribed capital	Capital reserves	Retained earnings
2017			
Balance at 1.1.2017 ¹⁾	316	1,373	6,630
Changes in ownership interest without a change in control	—	—	—
Other changes in basis of consolidation	—	—	—
Net income	—	—	463
Other comprehensive income	—	—	—
of which not eligible for reclassification	—	—	—
of which actuarial gains or losses on pension provisions	—	—	—
of which changes in policyholder participation/shadow accounting	—	—	—
of which eligible for reclassification	—	—	—
of which unrealised gains and losses on investments	—	—	—
of which currency translation	—	—	—
of which change from cash flow hedges	—	—	—
of which change from equity method measurement	—	—	—
of which other changes ²⁾	—	—	—
Total comprehensive income	—	—	463
Dividends to shareholders	—	—	–341
Other changes outside profit or loss	—	—	—
Balance at 30.6.2017	316	1,373	6,752
2018			
Balance at 1.1.2018	316	1,373	6,960
Changes in ownership interest without a change in control	—	—	—
Other changes in basis of consolidation	—	—	—
Net income	—	—	437
Other comprehensive income	—	—	—
of which not eligible for reclassification	—	—	—
of which actuarial gains or losses on pension provisions	—	—	—
of which changes in policyholder participation/shadow accounting	—	—	—
of which eligible for reclassification	—	—	—
of which unrealised gains and losses on investments	—	—	—
of which currency translation	—	—	—
of which change from cash flow hedges	—	—	—
of which change from equity method measurement	—	—	—
of which other changes ²⁾	—	—	—
Total comprehensive income	—	—	437
Dividends to shareholders	—	—	–354
Other changes outside profit or loss	—	—	—
Balance at 30.6.2018	316	1,373	7,043

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

²⁾ "Other changes" consist of policyholder participation/shadow accounting as well as miscellaneous other changes.

Other reserves							
Unrealised gains/losses on investments	Currency translation gains/losses	Other changes in equity	Measurement gains/losses on cash flow hedges	Equity attributable to shareholders of Talanx AG	Non-controlling interests	Total equity	
3,278	184	-3,191	448	9,038	5,610	14,648	
—	—	—	—	—	—	—	
—	—	—	—	—	—	—	
—	—	—	—	463	321	784	
-477	-285	592	-62	-232	-177	-409	
—	—	55	—	55	1	56	
—	—	59	—	59	1	60	
—	—	-4	—	-4	—	-4	
-477	-285	537	-62	-287	-178	-465	
-477	—	—	—	-477	21	-456	
—	-285	—	—	-285	-241	-526	
—	—	—	-62	-62	-16	-78	
—	—	-11	—	-11	—	-11	
—	—	548	—	548	58	606	
-477	-285	592	-62	231	144	375	
—	—	—	—	-341	-364	-705	
—	—	—	—	—	—	—	
2,801	-101	-2,599	386	8,928	5,390	14,318	
2,842	-274	-2,772	390	8,835	5,411	14,246	
—	—	—	—	—	—	—	
—	—	—	—	—	-1	-1	
—	—	—	—	437	334	771	
-680	18	451	-115	-326	-109	-435	
—	—	-6	—	-6	—	-6	
—	—	-6	—	-6	—	-6	
—	—	—	—	—	—	—	
-680	18	457	-115	-320	-109	-429	
-680	—	—	—	-680	-226	-906	
—	18	—	—	18	85	103	
—	—	—	-115	-115	-6	-121	
—	—	1	—	1	—	1	
—	—	456	—	456	38	494	
-680	18	451	-115	111	225	336	
—	—	—	—	-354	-374	-728	
—	—	—	—	—	—	—	
2,162	-256	-2,321	275	8,592	5,261	13,853	

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

CONSOLIDATED CASH FLOW STATEMENT OF TALANX AG FOR THE PERIOD FROM 1 JANUARY TO 30 JUNE 2018

CONSOLIDATED CASH FLOW STATEMENT

EUR MILLION

	6M 2018	6M 2017
I. 1. Net income	771	784
I. 2. Changes in technical provisions	4,236	3,518
I. 3. Changes in deferred acquisition costs	-348	-107
I. 4. Changes in funds withheld and in accounts receivable and payable	-1,075	-1,040
I. 5. Changes in other receivables and liabilities	292	299
I. 6. Changes in investments and liabilities under investment contracts	12	7
I. 7. Changes in financial assets held for trading	125	-6
I. 8. Gains/losses on disposal of investments and property, plant and equipment	-418	-476
I. 9. Change in technical provisions for life insurance policies where the investment risk is borne by the policyholders	-76	424
I. 10. Other non-cash expenses and income (including income tax expense/income)	-176	96
I. Cash flows from operating activities ^{1), 2)}	3,343	3,499
II. 1. Cash inflow from the sale of consolidated companies	3	2
II. 2. Cash outflow from the purchase of consolidated companies	-34	—
II. 3. Cash inflow from the sale of real estate	7	106
II. 4. Cash outflow from the purchase of real estate	-71	-121
II. 5. Cash inflow from the sale and maturity of financial instruments	16,382	11,869
II. 6. Cash outflow from the purchase of financial instruments	-19,058	-12,795
II. 7. Changes in investments for the benefit of life insurance policyholders who bear the investment risk	76	-424
II. 8. Changes in other investments	-719	-610
II. 9. Cash outflows from the acquisition of tangible and intangible assets	-120	-55
II. 10. Cash inflows from the sale of tangible and intangible assets	68	13
II. Cash flows from investing activities	-3,466	-2,015
III. 1. Cash inflow from capital increases	—	—
III. 2. Cash outflow from capital reductions	—	—
III. 3. Dividends paid	-728	-705
III. 4. Net changes attributable to other financing activities	736	-148
III. Cash flows from financing activities ²⁾	8	-853
Net change in cash and cash equivalents (I. + II. + III.)	-115	631
Cash and cash equivalents at the beginning of the reporting period	3,159	2,589
Effect of exchange rate changes on cash and cash equivalents	6	-42
Effect of changes in the basis of consolidation on cash and cash equivalents ³⁾	—	—
Cash and cash equivalents at the end of the reporting period ⁴⁾	3,050	3,178

¹⁾ EUR 376 (115) million of "Income taxes paid", EUR 192 (158) million of "Dividends received" and EUR 1.893 (1.862) million of "Interest received" are allocated to "Cash flows from operating activities". Dividends received also comprise dividend-equivalent distributions from investment funds and private equity companies.

²⁾ EUR 252 (239) million of "Interest paid" is attributable to EUR 78 (104) million to "Cash flows from financing activities" and EUR 174 (135) million to "Cash flows from operating activities".

³⁾ This item relates primarily to changes in the basis of consolidation, excluding disposals and acquisitions.

⁴⁾ "Cash and cash equivalents at the end of the reporting period" also include changes in the portfolio of disclosed disposal groups in the amount of EUR 21 (0) million.

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

RECONCILIATION OF DEBTS FROM FINANCING ACTIVITIES AT THE BEGINNING OF THE REPORTING PERIOD TO CARRYING AMOUNTS AS AT 30 JUNE 2018

EUR MILLION

	1.1.2018	Cash flows from financing activities	Non-cash items			30.6.2018
			Acquisition/ disposal of subsidiaries	Exchange rate changes	Other changes (mainly amortisation)	
Subordinated liabilities	2,737	—	—	—	—	2,737
Notes payable and loans	1,431	814	—	4	—	2,249
Total debts from financing activities	4,168	814	—	4	—	4,986
Interest paid from financing activities		—78				
Total cash flows from other financing activities		736				

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

I. BASIS OF PREPARATION AND APPLICATION OF IFRSS

BASIS OF PREPARATION

The consolidated half-yearly financial report as at 30 June 2018 was prepared in accordance with International Financial Reporting Standards (IFRSs), as adopted by the European Union. The condensed consolidated financial statements, consisting of the consolidated balance sheet, consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated cash flow statement and selected explanatory notes, also complies with the requirements of IAS 34 "Interim Financial Reporting".

The accounting policies applied are the same as in the previous annual report and the associated interim reporting period, except for the first-time application of new and amended standards, as explained below.

As allowed by IAS 34.41, we make greater use of estimation methods and assumptions in preparing the interim consolidated financial statements than we do in preparing the annual financial reports. There were no changes in estimates during the interim reporting period with a material effect on the Group's net assets, financial position and results of operations. The tax expense (income taxes in Germany, comparable income taxes at foreign subsidiaries and changes in deferred taxes) is calculated for interim reporting periods by applying the effective tax rate expected for the full year to net income for the period. Pension provisions are extrapolated for interim reporting periods by recognising the actuarially estimated effect of interest rate changes on pension liabilities at the end of the interim reporting period in other comprehensive income ("Other reserves"). Other actuarial assumptions are not updated for interim reporting periods.

The interim financial statements were prepared in euro (EUR). The amounts shown have been rounded to millions of euro (EUR million). This may give rise to rounding differences in the tables presented in this report. As a rule, amounts in brackets refer to the prior year.

APPLICATION OF NEW AND REVISED STANDARDS/ INTERPRETATIONS

The Group applied the following revised IFRSs as at 1 January 2018:

The IASB has issued amendments to IFRS 4 “Application of IFRS 9 and IFRS 4”, which allow certain insurance companies to postpone the obligatory application of IFRS 9 until 2021. The Talanx Group fulfils the relevant necessary prerequisites (the proportion of the Group’s insurance activities is over 90%) and has therefore exercised the option to postpone. The new deferral approach disclosures in the Notes, which are intended to provide a certain degree of comparability with companies already applying IFRS 9, will be presented for the first time in the Notes to the Annual Report as at 31 December 2018.

The new provisions on revenue recognition of IFRS 15 “Revenue from Contracts with Customers” replace the existing guidance on revenue recognition, including IAS 18 “Revenue”, IAS 11 “Construction Contracts” and IFRIC 13 “Customer Loyalty Programmes”. IFRS 15 establishes a comprehensive framework to determine how, how much and when revenue is recognised. Financial instruments and other contractual rights and obligations that need to be accounted for using separate standards and (re)insurance contracts in the area of application of IFRS 4 (core business activity of the Group) are explicitly excluded from the area of applicability of this standard. In applying IFRS 15, the Group has selected the modified retrospective approach, whereby the cumulative effect from the initial application is recognised in retained earnings as at 1 January 2018. There were no significant transition effects from first-time adoption, hence the Group elected not to recognise the transition effect in line with the materiality concept. Disclosures on revenue in accordance with IFRS 15 can be found under “Other disclosures” in the Notes.

Furthermore, several other amendments of Standards and Interpretations were introduced that had no material impact on the consolidated financial statements:

- IFRS 2 “Share-based Payment”: “Classification and measurement of share-based payment transactions”;
- IFRS 15 “Revenue from Contracts with Customers”: “Clarifications to IFRS 15”;
- Amendments to IAS 40 “Investment Property”: “Transfers of Investment Property”;
- Amendments as part of the “Annual Improvements to IFRSs (2014 to 2016 Cycle)” affecting IAS 28 “Investments in Associates and Joint Ventures” and IFRS 1 “First-time Adoption of International Financial Reporting Standards”;
- IFRIC 22 “Foreign Currency Transactions and Advance Consideration”.

IMPACT OF ISSUED STANDARDS, INTERPRETATIONS AND REVISIONS THAT HAVE NOT YET BEEN APPLIED BY THE GROUP IN 2018

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 will not be applied by the Talanx Group until financial years from 1 January 2021 on account of the amendments to IFRS 4 “Application of IFRS 9 and IFRS 4”. The Group set up a project to examine the impact of the standard on the consolidated financial statements and to take the necessary steps towards implementation. It is anticipated that the new classification requirements and the new impairment model will have a significant impact on accounting for financial assets and liabilities in the Group. An initial analysis of the cash flow criterion found that approximately 91% of investments exclusively generate cash flows that are payments of principal and interest.

The IASB issued new requirements governing lease accounting in IFRS 16 “Leases” on 13 January 2016. IFRS 16 introduces a standardised accounting model, whereby leases must be recognised in the balance sheet of the lessee. A lessee recognises a right-of-use asset that represents their right to use the underlying asset and a liability arising from the lease, representing their obligation to make lease payments. There are exceptional regulations for short-term leases and leases concerning low-value assets. The accounting at the lessor is comparable to the current standard – which means that lessors must continue to classify leases as financing or operating leases. IFRS 16 supersedes the existing guidelines on leases, including IAS 17 “Leases”, IFRIC 4 “Determining Whether an Arrangement Contains a Lease”, SIC 15 “Operating Leases – Incentives” and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard must be applied for the first time in the reporting period of a financial year beginning on or after 1 January 2019. Early application is permissible for companies that are applying IFRS 15 before or at the time of the first application of IFRS 16. The Group intends to apply the Standard using the modified retrospective approach. The cumulative effect of the initial application of IFRS 16 – insofar as it is material – will therefore be recognised as an adjustment of the opening balance of retained earnings as at 1 January 2019, without any adjustment of the comparative period. For leases classified to date as operating leases in accordance with IAS 17, the lease liability is measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate at the date of initial application. The right-of-use asset is measured at the amount of the lease liability

plus initial direct costs. Prepayments and liabilities relating to the past financial year are also taken into account. In a Group-wide analysis of the potential impact of the application of IFRS 16, the Group has identified an immaterial impact on its consolidated financial statements. The analysis found that lease liabilities and right-of-use assets of around EUR 0.4 billion are expected to be recognised in the balance sheet as at 1 January 2019. The change in the reporting of lease expenses from operating leases will increase the cash flow from operating activities and reduce the cash flow from financing activities accordingly.

On 18 May 2017, the IASB published the IFRS 17 “Insurance Contracts” which, subject to being endorsed in EU law, will be effective for financial years beginning on or after 1 January 2021. IFRS 17 supersedes IFRS 4 and, for the first time, will stipulate uniform requirements for the recognition, measurement and presentation of notes on insurance contracts, reinsurance contracts and investment contracts with discretionary surplus participation. 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 and to take the necessary steps towards implementation. At present, the technical accounting principles are being developed so that the extensive requirements can then begin to be implemented into the Group’s processes and systems.

II. ACCOUNTING POLICIES

CHANGES IN ACCOUNTING POLICIES AND ERRORS

Please see the 2017 Annual Report (page 165f.), “Accounting policies”, “Changes in accounting policies and errors” for information on the retrospective adjustments made in the 2017 financial year.

The retrospective adjustments in the Life/Health Reinsurance segment described there under a) resulted in the following adjustments to the comparative amounts in the statement of income. This had no effect on profit or loss.

IMPACT ON THE 2017 CONSOLIDATED STATEMENT OF INCOME

EUR MILLION

	1.1. – 30.6.2017 as reported	Changes from adjustments in accordance with IAS 8	
		Adjustment to a)	1.1. – 30.6.2017
4. Change in gross unearned premiums	-1,748	10	-1,738
6. Claims and claims expenses (gross)	12,111	12	12,123
7. Acquisition costs and administrative expenses (gross)	3,600	-2	3,598

III. SEGMENT REPORTING

The description of the business activities, the divisions and the reportable segments of the Talanx Group in the 2017 Annual Report, as well as the products and services with which these earnings are generated, is still accurate as at the end of the reporting period. The

general specifications about segment reporting given there and the statements about the measurement basis for the performance of the reportable segments are still applicable.

CONSOLIDATED BALANCE SHEET BY DIVISION AS AT 30 JUNE 2018

EUR MILLION

Assets	Industrial Lines		Retail Germany	
	30.6.2018	31.12.2017	30.6.2018	31.12.2017
A. Intangible assets				
a. Goodwill	154	154	248	248
b. Other intangible assets	8	8	509	481
	162	162	757	729
B. Investments				
a. Investment property	151	125	1,075	1,075
b. Shares in affiliated companies and participating interests	13	12	41	41
c. Shares in associates and joint ventures	163	120	—	—
d. Loans and receivables	1,004	973	25,131	24,844
e. Other financial instruments				
i. Financial assets held to maturity	71	73	166	170
ii. Financial assets available for sale	5,735	5,524	22,888	22,794
iii. Financial assets at fair value through profit or loss	150	136	351	358
f. Other investments	1,374	779	1,839	1,495
Assets under own management	8,661	7,742	51,491	50,777
g. Investments under investment contracts	—	—	—	—
h. Funds withheld by ceding companies	15	18	4	4
Investments	8,676	7,760	51,495	50,781
C. Investments for the benefit of life insurance policyholders who bear the investment risk	—	—	10,444	10,485
D. Reinsurance recoverables on technical provisions	5,197	4,844	2,116	2,131
E. Accounts receivable on insurance business	1,469	1,484	339	304
F. Deferred acquisition costs	85	51	2,305	2,232
G. Cash at banks, cheques and cash-in-hand	607	630	635	638
H. Deferred tax assets	48	46	79	72
I. Other assets	586	795	792	959
J. Non-current assets and assets of disposal groups classified as held for sale	46	18	—	43
Total assets	16,876	15,790	68,962	68,374

Retail International		Reinsurance		Corporate Operations		Consolidation		Total	
30.6.2018	31.12.2017	30.6.2018	31.12.2017	30.6.2018	31.12.2017	30.6.2018	31.12.2017	30.6.2018	31.12.2017
624	623	35	33	—	—	—	—	1,061	1,058
149	150	197	197	104	101	—	—	967	937
773	773	232	230	104	101	—	—	2,028	1,995
11	15	1,617	1,584	—	—	—	—	2,854	2,799
—	—	110	108	17	17	—	—	181	178
—	—	113	122	—	—	—	—	276	242
528	604	2,501	2,455	15	17	—	—	29,179	28,893
214	268	296	336	—	1	-289	-294	458	554
8,475	8,245	32,828	31,705	76	187	—	—	70,002	68,455
488	639	691	301	—	—	—	—	1,680	1,434
417	392	3,093	3,266	909	679	-1,506	-1,285	6,126	5,326
10,133	10,163	41,249	39,877	1,017	901	-1,795	-1,579	110,756	107,881
1,078	1,113	—	—	—	—	—	—	1,078	1,113
—	—	11,205	10,903	—	—	-1,214	-1,246	10,010	9,679
11,211	11,276	52,454	50,780	1,017	901	-3,009	-2,825	121,844	118,673
603	648	—	—	—	—	—	—	11,047	11,133
694	668	2,737	2,714	13	—	-2,697	-2,660	8,060	7,697
1,203	1,156	4,795	3,822	21	2	-103	-142	7,724	6,626
592	588	2,436	2,229	1	—	260	232	5,679	5,332
737	598	823	820	227	452	—	—	3,029	3,138
82	61	119	118	297	295	—	—	625	592
446	412	3,024	1,429	450	731	-2,431	-1,544	2,867	2,782
404	427	—	—	—	—	-65	-70	385	418
16,745	16,607	66,620	62,142	2,130	2,482	-8,045	-7,009	163,288	158,386

CONSOLIDATED BALANCE SHEET BY DIVISION AS AT 30 JUNE 2018

EUR MILLION

Equity and liabilities	Industrial Lines		Retail Germany	
	30.6.2018	31.12.2017	30.6.2018	31.12.2017
B. Subordinated liabilities	200	200	162	162
C. Technical provisions				
a. Unearned premium reserve	1,810	1,082	1,617	1,307
b. Benefit reserve	—	—	40,950	40,205
c. Loss and loss adjustment expense reserve	9,775	9,376	3,308	3,258
d. Provision for premium refunds	24	16	5,746	5,848
e. Other technical provisions	49	48	2	2
	11,658	10,522	51,623	50,620
D. Technical provisions for life insurance policies where the investment risk is borne by the policyholders	—	—	10,444	10,485
E. Other provisions				
a. Provisions for pensions and other post-employment benefits	588	593	147	143
b. Provisions for taxes	80	118	85	108
c. Miscellaneous other provisions	68	81	299	362
	736	792	531	613
F. Liabilities				
a. Notes payable and loans	15	15	92	96
b. Funds withheld under reinsurance treaties	57	55	1,713	1,754
c. Other liabilities	1,616	1,627	1,646	1,887
	1,688	1,697	3,451	3,737
G. Deferred tax liabilities	255	272	231	247
H. Liabilities included in disposal groups classified as held for sale	—	1	—	2
Total liabilities/provisions	14,537	13,484	66,442	65,866

Retail International		Reinsurance		Corporate Operations		Consolidation		Total		
30.6.2018	31.12.2017	30.6.2018	31.12.2017	30.6.2018	31.12.2017	30.6.2018	31.12.2017	30.6.2018	31.12.2017	
42	42	1,870	1,661	1,280	1,280	-817	-608	2,737	2,737	
2,392	2,332	4,431	3,541	15	1	-179	-147	10,086	8,116	
5,876	5,577	9,038	8,978	—	—	-161	-164	55,703	54,596	
2,816	2,724	29,240	28,379	57	45	-1,259	-1,245	43,937	42,537	
197	335	—	—	—	—	—	—	5,967	6,199	
13	13	462	394	—	—	-12	-8	514	449	
11,294	10,981	43,171	41,292	72	46	-1,611	-1,564	116,207	111,897	
603	648	—	—	—	—	—	—	11,047	11,133	
49	22	181	178	1,175	1,179	—	—	2,140	2,115	
143	130	288	320	58	86	—	—	654	762	
103	94	159	182	125	189	—	-1	754	907	
295	246	628	680	1,358	1,454	—	-1	3,548	3,784	
79	70	1,530	712	1,483	1,482	-950	-944	2,249	1,431	
45	39	4,874	4,924	—	—	-2,162	-2,226	4,527	4,546	
1,736	1,794	4,116	2,172	147	336	-2,518	-1,664	6,743	6,152	
1,860	1,903	10,520	7,808	1,630	1,818	-5,630	-4,834	13,519	12,129	
106	101	1,435	1,472	3	3	25	22	2,055	2,117	
387	410	—	—	—	—	-65	-70	322	343	
14,587	14,331	57,624	52,913	4,343	4,601	-8,098	-7,055	149,435	144,140	
								Equity¹⁾	13,853	14,246
								Total equity and liabilities	163,288	158,386

¹⁾ Equity attributable to Group shareholders and non-controlling interests.

**CONSOLIDATED STATEMENT OF INCOME BY DIVISION/REPORTABLE SEGMENT
FOR THE PERIOD FROM 1 JANUARY TO 30 JUNE 2018¹⁾**

EUR MILLION

	Industrial Lines		Retail Germany	
	6M 2018	6M 2017	6M 2018	6M 2017
1. Gross written premiums including premiums from unit-linked life and annuity insurance	2,898	2,795	3,262	3,310
of which attributable to other divisions/segments	32	37	28	34
with third parties	2,866	2,758	3,234	3,276
2. Savings elements of premiums from unit-linked life and annuity insurance	—	—	431	445
3. Ceded written premiums	1,191	1,276	178	137
4. Change in gross unearned premiums	-726	-663	-310	-354
5. Change in ceded unearned premiums	-254	-304	-11	-15
Net premiums earned	1,235	1,160	2,354	2,389
6. Claims and claims expenses (gross)	1,667	1,507	2,778	2,702
Reinsurers' share	671	627	86	43
Claims and claims expenses (net)	996	880	2,692	2,659
7. Acquisition costs and administrative expenses (gross)	441	437	569	686
Reinsurers' share	182	191	43	39
Net acquisition and administrative expenses	259	246	526	647
8. Other technical income	2	4	17	13
Other technical expenses	10	6	3	6
Other technical result	-8	-2	14	7
Net technical result	-28	32	-850	-910
9. a. Investment income	193	161	1,131	1,169
b. Investment expenses	69	24	158	167
Net income from assets under own management	124	137	973	1,002
Net income from investment contracts	—	—	—	—
Net interest income from funds withheld and contract deposits	—	—	-7	-7
Net investment income	124	137	966	995
of which share of profit or loss of equity-accounted associates and joint ventures	2	1	—	1
10. a. Other income	53	78	129	99
b. Other expenses	71	85	157	121
Other income/expenses	-18	-7	-28	-22
Profit before goodwill impairments	78	162	88	63
11. Goodwill impairments	—	—	—	—
Operating profit/loss (EBIT)	78	162	88	63
12. Financing costs	4	4	4	5
13. Taxes on income	21	46	32	4
Net income	53	112	52	54
of which attributable to non-controlling interests	—	—	2	4
attributable to shareholders of Talanx AG	53	112	50	50

¹⁾ With the exception of the Retail Germany Division and the Reinsurance Division, the statements of income of the other divisions are the same as those of the reportable segments.

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

Retail International		Reinsurance		Corporate Operations		Consolidation		Total	
6M 2018	6M 2017	6M 2018	6M 2017 ²⁾	6M 2018	6M 2017	6M 2018	6M 2017	6M 2018	6M 2017 ²⁾
2,963	2,828	9,985	8,998	39	23	-387	-401	18,760	17,553
—	—	288	307	39	23	-387	-401	—	—
2,963	2,828	9,697	8,691	—	—	—	—	18,760	17,553
117	148	—	—	—	—	—	—	548	593
236	244	864	875	16	6	-358	-400	2,127	2,138
-123	-117	-838	-635	-15	-8	31	39	-1,981	-1,738
-26	-39	-63	-45	-11	-3	34	40	-331	-366
2,513	2,358	8,346	7,533	19	12	-32	-2	14,435	13,450
2,046	1,922	6,506	6,194	18	5	-245	-207	12,770	12,123
127	139	545	463	2	—	-241	-216	1,190	1,056
1,919	1,783	5,961	5,731	16	5	-4	9	11,580	11,067
583	584	2,379	1,992	4	2	-101	-103	3,875	3,598
44	40	96	112	—	—	-64	-92	301	290
539	544	2,283	1,880	4	2	-37	-11	3,574	3,308
15	15	—	1	—	—	-4	—	30	33
37	32	4	3	—	—	5	1	59	48
-22	-17	-4	-2	—	—	-9	-1	-29	-15
33	14	98	-80	-1	5	—	-1	-748	-940
200	210	846	805	6	6	-29	-28	2,347	2,323
25	35	204	138	44	42	-54	-54	446	352
175	175	642	667	-38	-36	25	26	1,901	1,971
—	-2	—	—	—	—	—	—	—	-2
-1	—	114	123	—	—	—	—	106	116
174	173	756	790	-38	-36	25	26	2,007	2,085
—	—	2	5	—	—	—	—	4	7
80	65	450	558	388	368	-362	-344	738	824
149	136	387	468	345	337	-324	-303	785	844
-69	-71	63	90	43	31	-38	-41	-47	-20
138	116	917	800	4	—	-13	-16	1,212	1,125
—	—	—	—	—	—	—	—	—	—
138	116	917	800	4	—	-13	-16	1,212	1,125
3	3	44	40	51	42	-22	-20	84	74
37	27	275	189	-10	—	2	1	357	267
98	86	598	571	-37	-42	7	3	771	784
15	12	317	305	—	—	—	—	334	321
83	74	281	266	-37	-42	7	3	437	463

**CONSOLIDATED STATEMENT OF INCOME BY DIVISION/REPORTABLE SEGMENT
FOR THE PERIOD FROM 1 APRIL TO 30 JUNE 2018¹⁾**

EUR MILLION

	Industrial Lines		Retail Germany	
	Q2 2018	Q2 2017	Q2 2018	Q2 2017
1. Gross written premiums including premiums from unit-linked life and annuity insurance	849	791	1,394	1,404
of which attributable to other divisions/segments	11	10	15	23
with third parties	838	781	1,379	1,381
2. Savings elements of premiums from unit-linked life and annuity insurance	—	—	231	242
3. Ceded written premiums	378	401	75	56
4. Change in gross unearned premiums	279	295	121	102
5. Change in ceded unearned premiums	98	77	7	3
Net premiums earned	652	608	1,202	1,205
6. Claims and claims expenses (gross)	906	804	1,443	1,380
Reinsurers' share	376	348	48	26
Claims and claims expenses (net)	530	456	1,395	1,354
7. Acquisition costs and administrative expenses (gross)	203	197	206	359
Reinsurers' share	62	65	2	13
Net acquisition and administrative expenses	141	132	204	346
8. Other technical income	1	-7	6	5
Other technical expenses	-3	—	-5	-2
Other technical result	4	-7	11	7
Net technical result	-15	13	-386	-488
9. a. Investment income	90	82	532	625
b. Investment expenses	34	14	73	87
Net income from assets under own management	56	68	459	538
Net income from investment contracts	—	—	—	—
Net interest income from funds withheld and contract deposits	—	—	-3	-3
Net investment income	56	68	456	535
of which share of profit or loss of equity-accounted associates and joint ventures	—	1	—	—
10. a. Other income	9	49	65	45
b. Other expenses	23	48	85	63
Other income/expenses	-14	1	-20	-18
Profit before goodwill impairments	27	82	50	29
11. Goodwill impairments	—	—	—	—
Operating profit/loss (EBIT)	27	82	50	29
12. Financing costs	2	2	2	3
13. Taxes on income	3	27	19	-9
Net income	22	53	29	35
of which attributable to non-controlling interests	—	—	1	4
attributable to shareholders of Talanx AG	22	53	28	31

¹⁾ With the exception of the Retail Germany Division and the Reinsurance Division, the statements of income of the other divisions are the same as those of the reportable segments.

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

Retail International		Reinsurance		Corporate Operations		Consolidation		Total	
Q2 2018	Q2 2017	Q2 2018	Q2 2017 ²⁾	Q2 2018	Q2 2017	Q2 2018	Q2 2017	Q2 2018	Q2 2017 ²⁾
1,467	1,345	4,640	4,451	9	3	-159	-193	8,200	7,801
—	—	124	157	9	3	-159	-193	—	—
1,467	1,345	4,516	4,294	—	—	—	—	8,200	7,801
48	70	—	—	—	—	—	—	279	312
112	103	398	404	-2	—	-134	-192	827	772
-49	-29	103	-241	2	4	-30	8	426	139
-4	2	-2	12	3	2	-28	8	74	104
1,262	1,141	4,347	3,794	10	5	-27	-1	7,446	6,752
1,016	911	3,262	3,176	6	3	-151	-123	6,482	6,151
61	61	231	270	1	—	-153	-135	564	570
955	850	3,031	2,906	5	3	2	12	5,918	5,581
301	296	1,297	1,001	2	1	-49	-48	1,960	1,806
22	20	45	57	—	—	-10	-38	121	117
279	276	1,252	944	2	1	-39	-10	1,839	1,689
9	10	—	—	—	—	—	—	16	8
19	18	2	1	—	—	10	-2	23	15
-10	-8	-2	-1	—	—	-10	2	-7	-7
18	7	62	-57	3	1	—	-1	-318	-525
95	106	442	411	3	3	-16	-15	1,146	1,212
12	19	138	69	24	22	-28	-27	253	184
83	87	304	342	-21	-19	12	12	893	1,028
—	-1	—	—	—	—	—	—	—	-1
-1	—	55	50	—	—	—	—	51	47
82	86	359	392	-21	-19	12	12	944	1,074
—	—	1	1	—	—	—	—	1	2
78	25	240	297	184	184	-178	-172	398	428
110	65	180	233	166	171	-160	-152	404	428
-32	-40	60	64	18	13	-18	-20	-6	—
68	53	481	399	—	-5	-6	-9	620	549
—	—	—	—	—	—	—	—	—	—
68	53	481	399	—	-5	-6	-9	620	549
1	2	24	20	26	22	-12	-11	43	38
18	11	159	94	-6	1	1	1	194	125
49	40	298	285	-20	-28	5	1	383	386
7	6	156	151	—	—	—	—	164	161
42	34	142	134	-20	-28	5	1	219	225

CONDENSED CONSOLIDATED STATEMENT OF INCOME FOR THE RETAIL GERMANY DIVISION – REPORTABLE SEGMENTS PROPERTY/CASUALTY AND LIFE – AS WELL AS THE PROPERTY/CASUALTY REINSURANCE AND LIFE/HEALTH REINSURANCE SEGMENTS, FOR THE PERIOD FROM 1 JANUARY TO 30 JUNE 2018 AND 1 APRIL TO 30 JUNE 2018

EUR MILLION

	Retail Germany – Property/Casualty				Retail Germany – Life			
	6M 2018	6M 2017	Q2 2018	Q2 2017	6M 2018	6M 2017	Q2 2018	Q2 2017
1. Gross written premiums including premiums from unit-linked life and annuity insurance	1,022	1,002	242	243	2,240	2,308	1,152	1,161
of which attributable to other segments	—	—	—	—	28	34	15	23
with third parties	1,022	1,002	242	243	2,212	2,274	1,137	1,138
2. Savings elements of premiums from unit-linked life and annuity insurance	—	—	—	—	431	445	231	242
3. Ceded written premiums	58	52	15	14	120	85	60	42
4. Change in gross unearned premiums	–275	–278	134	122	–35	–76	–13	–20
5. Change in ceded unearned premiums	–12	–16	5	3	1	1	2	—
Net premiums earned	701	688	356	348	1,653	1,701	846	857
6. Claims and claims expenses (gross)	465	452	225	229	2,313	2,250	1,218	1,151
Reinsurers' share	25	9	2	5	61	34	46	21
Claims and claims expenses (net)	440	443	223	224	2,252	2,216	1,172	1,130
7. Acquisition costs and administrative expenses (gross)	262	260	133	131	307	426	73	228
Reinsurers' share	12	9	6	5	31	30	–4	8
Net acquisition and administrative expenses	250	251	127	126	276	396	77	220
8. Other technical income	1	1	—	—	16	12	6	5
Other technical expenses	4	4	1	1	–1	2	–6	–3
Other technical result	–3	–3	–1	–1	17	10	12	8
Net technical result	8	–9	5	–3	–858	–901	–391	–485
9. a. Investment income	55	54	29	26	1,076	1,115	503	599
b. Investment expenses	11	10	6	7	147	157	67	80
Net income from assets under own management	44	44	23	19	929	958	436	519
Net income from investment contracts	—	—	—	—	—	—	—	—
Net interest income from funds withheld and contract deposits	—	—	—	—	–7	–7	–3	–3
Net investment income	44	44	23	19	922	951	433	516
of which share of profit or loss of equity-accounted associates and joint ventures	—	—	—	—	—	1	—	—
10. a. Other income	30	25	15	10	99	74	50	35
b. Other expenses	42	38	21	17	115	83	64	46
Other income/expenses	–12	–13	–6	–7	–16	–9	–14	–11
Profit before goodwill impairments	40	22	22	9	48	41	28	20
11. Goodwill impairments	—	—	—	—	—	—	—	—
Operating profit/loss (EBIT)	40	22	22	9	48	41	28	20

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

Property/Casualty Reinsurance				Life/Health Reinsurance			
6M 2018	6M 2017	Q2 2018	Q2 2017	6M 2018	6M 2017 ¹⁾	Q2 2018	Q2 2017 ¹⁾
6,467	5,428	2,888	2,613	3,518	3,570	1,752	1,838
215	235	88	121	73	72	36	36
6,252	5,193	2,800	2,492	3,445	3,498	1,716	1,802
—	—	—	—	—	—	—	—
554	574	253	254	310	301	145	150
-801	-587	113	-201	-37	-48	-10	-40
-63	-46	-2	11	—	1	—	1
5,175	4,313	2,750	2,147	3,171	3,220	1,597	1,647
3,575	3,112	1,779	1,588	2,931	3,082	1,483	1,588
228	185	88	134	317	278	143	136
3,347	2,927	1,691	1,454	2,614	2,804	1,340	1,452
1,698	1,326	983	680	681	666	314	321
76	89	38	45	20	23	7	12
1,622	1,237	945	635	661	643	307	309
—	1	—	—	—	—	—	—
—	1	-1	—	4	2	3	1
—	—	1	—	-4	-2	-3	-1
206	149	115	58	-108	-229	-53	-115
658	582	343	288	188	223	99	123
157	94	108	45	47	44	30	24
501	488	235	243	141	179	69	99
—	—	—	—	—	—	—	—
16	2	8	-3	98	121	47	53
517	490	243	240	239	300	116	152
2	5	1	1	—	—	—	—
157	172	67	131	293	386	173	166
176	167	65	100	211	301	115	133
-19	5	2	31	82	85	58	33
704	644	360	329	213	156	121	70
—	—	—	—	—	—	—	—
704	644	360	329	213	156	121	70

IV. CONSOLIDATION

BASIS OF CONSOLIDATION

As at the reporting date, 149 (136) individual companies, 27 (26) investment funds, two (two) structured entities and six subgroups (including five foreign subgroups) were consolidated as a group (including associates) in Talanx's consolidated financial statements, and six (seven) companies were included using the equity method.

Significant changes in the basis of consolidation compared with year-end 2017 are presented in the following.

SIGNIFICANT ADDITIONS AND DISPOSALS OF CONSOLIDATED SUBSIDIARIES

Effective 11 January 2018, the Hannover Re subgroup acquired all shares in The Omaha Indemnity Company, Madison, USA, through its wholly owned subsidiary Hannover Finance, Inc., Wilmington, USA. The company has since been renamed Glencar Insurance Company, Orlando, USA. The purchase price of the shares was EUR 21 million.

Its operations were included in the consolidated financial statements in the first quarter. In the context of purchase price allocation, goodwill of EUR 2 million arose from the calculation of the fair value of the assets acquired and liabilities assumed for first-time consolidation.

By way of purchase agreement dated 27 June 2017, Saint Honore Iberia S.L., Madrid, Spain (Retail International segment), acquired 91.34% of the shares in the insurance company Generali Colombia Generales S.A., Bogota, Colombia, and 99.88% of the shares in Generali Colombia Vida Compañía de Seguros S.A., Bogota, Colombia. Based on the agreements entered into, the Group has recognised the acquisition as at 3 April 2018 (date of initial consolidation). On being acquired, the companies were renamed HDI Seguros Generales S.A. and HDI Seguros de Vida S.A. The purchase price (EUR 27 million) was settled entirely in cash, with EUR 22 million relating to the acquisition of HDI Generales S.A. and EUR 5 million to HDI Seguros de Vida S.A.

Goodwill of EUR 10 million arose from the transaction. This goodwill essentially reflects the growth potential of entering the Colombian market. This transaction does not result in any tax-deductible goodwill in the tax accounts (share deal).

Acquisition-related costs (EUR 0.7 million) are reported in "Other income/expenses".

The amount reported for accounts receivable corresponds to their fair value. Further credit losses are not expected. The acquired intangible assets essentially include distribution networks, customer relationships and operating licences. No material contingent

liabilities were identified that would have to be recognised under IFRS 3.23. In addition, no contingent liabilities were identified that were not recognised because their fair value could not be measured reliably. No contingent consideration, indemnification assets or separate transactions within the meaning of IFRS 3 were recognised.

ACQUIRED ASSETS AND ASSUMED LIABILITIES OF HDI SEGUROS GENERALES S.A. AND HDI SEGUROS DE VIDA S.A. AS AT 3 APRIL 2018 (IFRS)

EUR MILLION	HDI Seguros Generales S.A.	HDI Seguros de Vida S.A.
Intangible assets	6	1
Investments	39 ¹⁾	6
Reinsurance recoverables on technical provisions	18	2
Accounts receivable on insurance business ²⁾	10	3
Cash at banks, cheques and cash-in-hand	3	1
Deferred tax assets	1	—
Other assets	7	5
Total assets	84	18
Technical provisions	50	8
Other provisions	4	1
Other liabilities	13	4
of which tax liabilities	—	—
of which insurance-related	8	2
Total liabilities	67	13
Acquired net assets (before consolidation)	17	5

¹⁾ Also includes the carrying amounts for the participating interest in HDI Seguros de Vida S.A. of EUR 4 million.

²⁾ Gross accounts receivable on insurance business before impairment losses amount to EUR 14 million.

The companies' gross premiums of EUR 20 million and net income of EUR 395 thousand were included in the financial statements. If the group had already been acquired as at 1 January 2018, the gross premiums and net income for the period to be included would have amounted to EUR 40 million and EUR 142 thousand respectively.

By way of purchase agreement dated 22 January 2018, Talanx International AG, Hannover, Germany (Retail International Segment), acquired 99.44% of the shares in the property insurer Liberty Sigorta A.Ş., Istanbul, Turkey. Based on the agreements entered into, the Group has recognised the acquisition as at 3 May 2018 (date of initial consolidation). The purchase price (EUR 4 million) was settled entirely in cash. It is intended to merge Liberty Sigorta A.Ş. with HDI Sigorta A.Ş., Istanbul, Turkey, in the second half of 2018.

Goodwill of EUR 18 million arose from the transaction. This goodwill reflects the anticipated synergies from the planned merger of the company with our existing unit and thus the potential for the future use of tax loss carryforwards as well. This transaction does not result in any tax-deductible goodwill in the tax accounts (share deal).

Acquisition-related costs (< EUR 0.5 million) are reported in "Other income/expenses".

**ACQUIRED ASSETS AND ASSUMED LIABILITIES OF
LIBERTY SIGORTA A.Ş. AS AT 3 MAY 2018 (IFRS)**

EUR MILLION

	Liberty Sigorta A.Ş.
Intangible assets	2
Investments	36
Reinsurance recoverables on technical provisions	5
Accounts receivable on insurance business ¹⁾	15
Cash at banks, cheques and cash-in-hand	1
Other assets	4
Total assets	63
Technical provisions	44
Other provisions	29
Other liabilities	4
of which tax liabilities	—
of which insurance-related	3
Total liabilities	77
Acquired net assets (before consolidation)	-14

¹⁾ Gross accounts receivable on insurance business before impairment losses amount to EUR 16 million.

The amount reported for accounts receivable corresponds to their fair value. Further credit losses are not expected. The acquired intangible assets include distribution networks and customer relationships. No material contingent liabilities were identified that would have to be recognised under IFRS 3.23. In addition, no contingent liabilities were identified that were not recognised because their fair value could not be measured reliably. No contingent consideration, indemnification assets or separate transactions within the meaning of IFRS 3 were recognised.

The company's gross premiums of EUR 6 million and net income of EUR -2 million were included in the financial statements. If the group had already been acquired as at 1 January 2018, the gross premiums and net income for the period to be included would have amounted to EUR 20 million and EUR -7 million respectively.

V. NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS

ASPECTA ASSURANCE INTERNATIONAL LUXEMBOURG S. A., LUXEMBOURG, LUXEMBOURG (RETAIL INTERNATIONAL SEGMENT)

On 26 January 2018, the Group signed an agreement to sell its 100% interest in ASPECTA Assurance International Luxembourg S. A., Luxembourg, Luxembourg, through Talanx International AG, Hannover, for a price in the low eight-figure range. The disposal group contains assets of EUR 339 (357) million and liabilities of EUR 322 (340) million. The main carrying amounts for the disposal group relate to investments for the benefit of life insurance policyholders who bear the investment risk and technical provisions in the area of life insurance where the investment risk is borne by policyholders (each EUR 243 [258] million), reinsurance recoverables on technical provisions (EUR 44 [47] million) and liabilities of EUR 45 (48) million. The transaction is expected to close in the second half of 2018. A small gain on disposal is expected.

INDAQUA INDÚSTRIA E GESTÃO DE ÁGUAS S. A., MATOSINHOS, PORTUGAL (PRO RATA: RETAIL GERMANY – PROPERTY/CASUALTY AND LIFE, INDUSTRIAL LINES SEGMENT)

As at 31 December 2017, the Group reported its associate, INDAQUA Indústria e Gestão de Águas S. A., Matosinhos, Portugal, and shareholder loans to be repaid, as a disposal group with a carrying amount of EUR 61 million. The transaction closed on 22 February 2018 with a low, seven-figure gain on disposal after taxes, which has been recognised under "Other income/expenses".

REAL ESTATE

HDI Global SE is planning to sell real estate holdings in Hannover to HDI V.a.G., Hannover, at arm's-length prices in the second half of 2018. On account of this planned disposal, we have reported these property holdings as held for sale in the amount of EUR 46 (0) million as at 30 June 2018. They relate entirely to the Industrial Lines segment. The portfolio as a whole has a fair value of EUR 83 million. Fair values are largely determined internally within the Group using discounted cash flow methods and, in individual cases, on the basis of external expert opinions. The purchase price is used in cases where a binding sale agreement has been entered into. Intentions to sell depended on specific factors associated with the real estate market and the properties themselves, taking into account current and future opportunity and risk profiles.

VI. NOTES TO INDIVIDUAL ITEMS OF THE CONSOLIDATED BALANCE SHEET

The principal items of the consolidated balance sheet are as follows:

(1) INTANGIBLE ASSETS

INTANGIBLE ASSETS		
EUR MILLION		
	30.6.2018	31.12.2017
a. Goodwill	1,061	1,058
b. Other intangible assets	967	937
of which		
Insurance-related intangible assets	593	569
Software	175	176
Other		
Acquired distribution networks and customer relationships	40	42
Other	123	113
Acquired brand names	36	37
Total	2,028	1,995

(2) LOANS AND RECEIVABLES

LOANS AND RECEIVABLES						
EUR MILLION						
	Amortised cost		Unrealised gains/losses		Fair value	
	30.6.2018	31.12.2017	30.6.2018	31.12.2017	30.6.2018	31.12.2017
Mortgage loans	333	347	23	25	356	372
Loans and prepayments on insurance policies	134	134	—	—	134	134
Loans and receivables due from government or quasi-governmental entities ¹⁾	10,914	10,880	1,188	1,170	12,102	12,050
Corporate bonds	4,431	4,596	433	493	4,864	5,089
Covered bonds/asset-backed securities	13,367	12,936	2,441	2,572	15,808	15,508
Total	29,179	28,893	4,085	4,260	33,264	33,153

¹⁾ Loans and receivables due from government or quasi-governmental entities include securities of EUR 3,324 (3,372) million that are guaranteed by the Federal Republic of Germany, other EU states or German federal states.

The "Covered bonds/asset-backed securities" item includes German covered bonds (Pfandbriefe) with a carrying amount of EUR 13,363 (12,930) million; these correspond to 99% (99%) of the total amount.

(3) FINANCIAL ASSETS HELD TO MATURITY**FINANCIAL ASSETS HELD TO MATURITY**

EUR MILLION

	Amortised cost		Unrealised gains/losses		Fair value	
	30.6.2018	31.12.2017	30.6.2018	31.12.2017	30.6.2018	31.12.2017
Government debt securities of EU member states	150	163	12	12	162	175
Other foreign government debt securities	65	84	1	3	66	87
Debt securities issued by quasi-governmental entities ¹⁾	40	47	2	3	42	50
Corporate bonds	36	69	1	2	37	71
Covered bonds/asset-backed securities	167	191	16	20	183	211
Total	458	554	32	40	490	594

¹⁾ Debt securities issued by quasi-governmental entities include securities of EUR 16 (16) million that are guaranteed by the Federal Republic of Germany, other EU states or German federal states.

The “Covered bonds/asset-backed securities” item includes German covered bonds (Pfandbriefe) with a carrying amount of EUR 166 (191) million; these correspond to 99% (99%) of the total amount.

(4) FINANCIAL ASSETS AVAILABLE FOR SALE**FINANCIAL ASSETS AVAILABLE FOR SALE**

EUR MILLION

	Amortised cost		Unrealised gains/losses		Fair value	
	30.6.2018	31.12.2017	30.6.2018	31.12.2017	30.6.2018	31.12.2017
Fixed-income securities						
Government debt securities of EU member states	10,588	9,796	839	1,005	11,427	10,801
US treasury notes	8,255	7,064	-104	-79	8,151	6,985
Other foreign government debt securities	2,465	2,290	-16	15	2,449	2,305
Debt securities issued by quasi-governmental entities ¹⁾	10,454	10,328	615	686	11,069	11,014
Corporate bonds	22,278	22,509	501	1,107	22,779	23,616
Investment funds	1,677	1,610	43	97	1,720	1,707
Covered bonds/asset-backed securities	10,145	9,763	329	437	10,474	10,200
Profit participation certificates	87	54	-2	—	85	54
Other	1	—	—	—	1	—
Total fixed-income securities	65,950	63,414	2,205	3,268	68,155	66,682
Variable-yield securities						
Equities	430	384	74	100	504	484
Investment funds	1,121	1,072	152	147	1,273	1,219
Profit participation certificates	70	70	—	—	70	70
Total variable-yield securities	1,621	1,526	226	247	1,847	1,773
Total securities	67,571	64,940	2,431	3,515	70,002	68,455

¹⁾ Debt securities issued by quasi-governmental entities include securities of EUR 3,230 (3,377) million that are guaranteed by the Federal Republic of Germany, other EU states or German federal states.

The “Covered bonds/asset-backed securities” item includes German covered bonds (Pfandbriefe) with a carrying amount of EUR 8,971 (8,679) million; these correspond to 86% (85%) of the total amount.

(5) FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

EUR MILLION

	Fair value	
	30.6.2018	31.12.2017
Fixed-income securities		
Government debt securities of EU member states	68	46
Other foreign government debt securities	386	199
Debt securities issued by quasi-governmental entities ¹⁾	2	1
Corporate bonds	538	544
Investment funds	175	211
Covered bonds/asset-backed securities	4	4
Profit participation certificates	66	67
Total fixed-income securities	1,239	1,072
Investment funds (variable-yield securities)	46	14
Other variable-yield securities	70	51
Total financial assets classified at fair value through profit or loss	1,355	1,137
Investment funds (variable-yield securities)	136	148
Derivatives	189	149
Total financial assets held for trading	325	297
Total	1,680	1,434

¹⁾ Debt securities issued by quasi-governmental entities include securities of EUR 1 (1) million that are guaranteed by the Federal Republic of Germany, other EU states or German federal states.

(6) DISCLOSURES ON FAIR VALUE AND THE FAIR VALUE HIERARCHY**FAIR VALUE HIERARCHY**

The disclosures in accordance with IFRS 13 “Fair Value Measurement” require financial instruments measured at fair value to be allocated to a three-level fair value hierarchy. One goal of this requirement is to reveal the link between market inputs and the data used in determining fair value. The following classes of financial instruments are affected: available-for-sale financial instruments, financial instruments at fair value through profit or loss, other investments and investment contracts (financial assets and liabilities) that are measured at fair value, other liabilities (negative fair values of derivative financial instruments) and hedging instruments (derivatives used in hedge accounting).

The guideline for the allocation to the individual levels of the valuation hierarchy and of the valuation process, the valuation models for measuring fair value, the essential input factors, the essential level 3 portfolios and the statements on the sensitivity analysis have not materially changed compared to the description in the 2017 Annual Report. The fair value of level 3 financial instruments at which the use of reasonable alternative inputs leads to a material change in fair value is EUR 97 (100) million and, at 2.2% (2.3%) of the carrying amount of financial instruments assigned to level 3, is immaterial.

As at the reporting date, we allocate around 6% (5%) of the financial investments at fair value at level 1 of the fair value hierarchy, 88% (89%) at level 2 and 6% (6%) at level 3.

There were no material transfers between levels 1 and 2 in the reporting period.

There are no liabilities (31 December 2017: none) issued with an inseparable third-party credit enhancement within the meaning of IFRS 13.98 as at the reporting date.

FAIR VALUE HIERARCHY – FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

EUR MILLION

Carrying amount of financial instruments recognised at fair value by class	Level 1	Level 2	Level 3 ¹⁾	Carrying amount
30.6.2018				
Financial assets measured at fair value				
Financial assets available for sale				
Fixed-income securities	79	68,072	4	68,155
Variable-yield securities	780	71	996	1,847
Financial assets at fair value through profit or loss				
Financial liabilities classified at fair value through profit or loss	120	1,165	70	1,355
Financial assets held for trading	161	97	67	325
Other investments	2,785	8	2,660	5,453
Other assets, derivative financial instruments (hedging instruments)	—	116	—	116
Investment contracts				
Financial liabilities classified at fair value through profit or loss	830	2	195	1,027
Derivatives	—	—	3	3
Total amount of financial assets measured at fair value	4,755	69,531	3,995	78,281
Financial liabilities measured at fair value				
Other liabilities (negative fair values from derivative financial instruments)				
Negative fair values from derivatives	11	76	239	326
Negative fair values under derivatives	—	1	—	1
Other liabilities (investment contracts)				
Financial liabilities classified at fair value through profit or loss	265	568	195	1,028
Derivatives	—	—	3	3
Total amount of financial liabilities measured at fair value	276	645	437	1,358
31.12.2017				
Financial assets measured at fair value				
Financial assets available for sale				
Fixed-income securities	78	66,600	4	66,682
Variable-yield securities	742	68	963	1,773
Financial assets at fair value through profit or loss				
Financial liabilities classified at fair value through profit or loss	65	1,000	72	1,137
Financial assets held for trading	175	73	49	297
Other investments	2,013	24	2,615	4,652
Other assets, derivative financial instruments (hedging instruments)	—	198	—	198
Investment contracts				
Financial liabilities classified at fair value through profit or loss	848	2	206	1,056
Derivatives	—	—	4	4
Total amount of financial assets measured at fair value	3,921	67,965	3,913	75,799
Financial liabilities measured at fair value				
Other liabilities (negative fair values from derivative financial instruments)				
Negative fair values from derivatives	4	79	244	327
Negative fair values under derivatives	—	8	—	8
Other liabilities (investment contracts)				
Financial liabilities classified at fair value through profit or loss	257	594	206	1,057
Derivatives	—	—	4	4
Total amount of financial liabilities measured at fair value	261	681	454	1,396

¹⁾ Categorisation in level 3 does not represent any indication of quality. No conclusions may be drawn as to the credit quality of the issuers.

ANALYSIS OF FINANCIAL INSTRUMENTS FOR WHICH SIGNIFICANT INPUTS ARE NOT BASED ON OBSERVABLE MARKET DATA (LEVEL 3)

The following table shows a reconciliation of the financial instruments (abbreviated in the following to FI) included in level 3 at the beginning of the reporting period to the carrying amounts as at the reporting date.

RECONCILIATION OF FINANCIAL INSTRUMENTS¹⁾ (FINANCIAL ASSETS) INCLUDED IN LEVEL 3 AT THE BEGINNING OF THE REPORTING PERIOD TO CARRYING AMOUNTS AS AT 30 JUNE

EUR MILLION

	Available-for-sale FI/ fixed-income securities	Available-for-sale FI/ variable-yield securities	FI classified at fair value through profit or loss	FI held for trading	Other investments	Investment contracts/FI classified at fair value through profit or loss	Investment contracts/derivatives	Total amount of financial assets measured at fair value
2018								
Opening balance at 1.1.2018	4	963	72	49	2.615	206	4	3.913
Income and expenses								
recognised in the statement of income	—	–6	4	1	–11	2	–1	–11
recognised in other comprehensive income	—	5	—	—	–40	—	—	–35
Transfers into level 3	—	—	—	—	—	—	—	—
Transfers out of level 3	—	—	—	—	—	—	—	—
Additions								
Purchases	—	98	—	24	316	—	—	438
Disposals								
Sales	—	64	—	7	259	5	—	335
Repayments/redemptions	—	—	6	—	5	—	—	11
Exchange rate changes	—	—	—	—	44	–8	—	36
Ending balance at 30.6.2018	4	996	70	67	2.660	195	3	3.995

¹⁾ The term “financial instruments” is abbreviated to “FI” in the following.

RECONCILIATION OF FINANCIAL INSTRUMENTS¹⁾ (FINANCIAL LIABILITIES) INCLUDED IN LEVEL 3 AT THE BEGINNING OF THE REPORTING PERIOD TO CARRYING AMOUNTS AS AT 30 JUNE

EUR MILLION

	Other liabilities/negative fair values from derivatives	Investment contracts/FI at fair value through profit or loss	Investment contracts/derivatives	Total amount of financial liabilities measured at fair value
2018				
Opening balance at 1.1.2018	244	206	4	454
Income and expenses				
recognised in the statement of income	14	–2	1	13
recognised in other comprehensive income	—	—	—	—
Transfers into level 3	—	—	—	—
Transfers out of level 3	—	—	—	—
Additions				
Purchases	7	—	—	7
Disposals				
Sales	—	5	—	5
Exchange rate changes	2	–8	—	–6
Ending balance at 30.6.2018	239	195	3	437

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 INSTRUMENTS¹⁾ (FINANCIAL ASSETS) MEASURED AT FAIR VALUE

EUR MILLION

	Available-for-sale FI/ variable-yield securities	FI classified at fair value through profit or loss	FI held for trading	Other investments	Investment contracts/FI classified at fair value through profit or loss	Investment contracts/derivatives	Total amount of financial assets measured at fair value
2018							
Gains and losses in financial year 2018 until 30.6.2018							
Investment income	—	4	1	1	13	1	20
Investment expenses	-6	—	—	-12	-11	-2	-31
of which attributable to financial instruments included in the portfolio as at 30.6.2018							
Investment income ²⁾	—	3	1	1	13	1	19
Investment expenses ³⁾	-6	—	—	-12	-11	-2	-31

¹⁾ The term "financial instruments" is abbreviated to "FI" in the following.

²⁾ Of which EUR 19 million attributable to unrealised gains.

³⁾ Of which EUR -13 million attributable to unrealised losses.

EFFECT ON PROFIT OR LOSS OF LEVEL 3 FINANCIAL INSTRUMENTS¹⁾ (FINANCIAL LIABILITIES) MEASURED AT FAIR VALUE

EUR MILLION

	Other liabilities/negative fair values from derivatives	Investment contracts/FI classified at fair value through profit or loss	Investment contracts/derivatives	Total amount of financial liabilities measured at fair value
2018				
Gains and losses in financial year 2018 until 30.6.2018				
Investment income	16	11	2	29
Investment expenses	—	-13	-1	-14
Financing costs	-2	—	—	-2
of which attributable to financial instruments included in the portfolio as at 30.6.2018				
Investment income ²⁾	16	11	2	29
Investment expenses ³⁾	—	-13	-1	-14
Financing costs ⁴⁾	-2	—	—	-2

¹⁾ The term "financial instruments" is abbreviated to "FI" in the following.

²⁾ Of which EUR 29 million attributable to unrealised gains.

³⁾ Of which EUR -14 million attributable to unrealised losses.

⁴⁾ Of which EUR -2 million attributable to unrealised losses.

(7) EQUITY**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. For details of equity, please see the “Consolidated statement of changes in equity”.

There were no changes in the composition of contingent and authorised capital in the reporting period. Please also see the comments in the 2017 consolidated financial statements (page 231ff.).

NON-CONTROLLING INTERESTS**NON-CONTROLLING INTERESTS IN EQUITY**

EUR MILLION	30.6.2018	31.12.2017
Unrealised gains and losses on investments	438	664
Share of net income	334	598
Other equity	4,489	4,149
Total	5,261	5,411

“Non-controlling interests in equity” refers principally to shares held by non-Group shareholders in the equity of the Hannover RE subgroup.

(8) SUBORDINATED LIABILITIES**COMPOSITION OF LONG-TERM SUBORDINATED DEBT**

EUR MILLION

	Nominal amount	Coupon	Maturity	Rating ²⁾	Issue	30.06.2018	31.12.2017
Talanx AG	750	Fixed (2.25%)	2017/2047	(–; BBB)	These subordinated bonds were issued in 2017 on the European capital market. They can be called for the first time in 2027 under normal conditions.	750	750
Hannover Finance (Luxembourg) S. A.	500	Fixed (5.75%), then floating rate	2010/2040	(aa–; A)	These guaranteed subordinated bonds were issued in 2010 on the European capital market. They can be called for the first time after ten years under normal conditions.	499	499
Hannover Finance (Luxembourg) S. A.	500	Fixed (5.0%), then floating rate	2012/2043	(aa–; A)	These guaranteed subordinated bonds in the amount of EUR 500 million were issued in 2012 on the European capital market. They can be called for the first time after ten years under normal conditions.	498	498
Hannover Rück SE ¹⁾	450	Fixed (3.375%), then floating rate	2014/ no final maturity	(a+; A)	These guaranteed subordinated bonds were issued in 2014 on the European capital market. They can be called for the first time in 2025 under normal conditions.	445	445
Talanx Finanz (Luxembourg) S. A.	500	Fixed (8.37%), then floating rate	2012/2042	(bbb+; BBB)	These guaranteed subordinated bonds in the amount of EUR 500 million were issued in 2012 on the European capital market. They can be called for the first time after ten years under normal conditions.	500	500
HDI Assicurazioni S. p. A.	27	Fixed (5.5%)	2026	(–; –)	Subordinated loans	27	27
HDI Assicurazioni S. p. A. (formerly CBA Vita S. p. A.)	14	Fixed (4.15%)	2020	(–; –)	These subordinated bonds in the amount of EUR 15 million were issued in 2010 on the European capital market; securities with a nominal value of EUR 1.5 million have already been repurchased.	14	14
HDI Global SE	3	Fixed (4.25%), then floating rate	no final maturity	(–; –)	Subordinated loans The loan can be called annually from 12.08.2021.	3	3
Magyar Posta Életbiztosító Zrt.	1	Fixed (7.57%)	2025	(–; –)	Subordinated loans	1	1
Total						2,737	2,737

¹⁾ At the reporting date, Group companies additionally held bonds with a nominal value of EUR 50 million (consolidated in the consolidated financial statements).

²⁾ (Debt rating A. M. Best; debt rating S&P).

For additional information on the features of the bonds, please refer to the published 2017 Annual Report, page 232f.

The fair value of the subordinated liabilities amounted to EUR 2,929 (3,118) million at the reporting date.

(9) TECHNICAL PROVISIONS

TECHNICAL PROVISIONS						
EUR MILLION						
	Gross	Re	Net	Gross	Re	Net
	30.6.2018			31.12.2017		
a. Unearned premium reserve	10,086	998	9,088	8,116	664	7,452
b. Benefit reserve	55,703	1,290	54,413	54,596	1,291	53,305
c. Loss and loss adjustment expense reserve	43,937	5,415	38,522	42,537	5,384	37,153
d. Provision for premium refunds	5,967	3	5,964	6,199	2	6,197
e. Other technical provisions	514	15	499	449	12	437
Total	116,207	7,721	108,486	111,897	7,353	104,544

Technical provisions where the investment risk is borne by the policyholders amounted to EUR 11,047 (11,133) million; the reinsurers' share of this total amounts to EUR 339 (344) million.

(10) NOTES PAYABLE AND LOANS

The following items were reported under this heading at the reporting date:

NOTES PAYABLE AND LOANS		
EUR MILLION		
	30.6.2018	31.12.2017
Talanx AG notes payable	1,065	1,065
Hannover Rück SE	742	—
Mortgage loans of Hannover Re Real Estate Holdings, Inc.	96	94
Mortgage loans of HR GLL Central Europe GmbH & Co. KG	170	102
Loans from infrastructure investments	107	110
Mortgage loans of Real Estate Asia Select Fund Limited	56	55
Inversiones HDI Limitada	13	5
Total	2,249	1,431

As at 30 June 2018, the Group had two syndicated variable-rate credit lines with a total nominal value of EUR 500 million. They had not been drawn down at the reporting date.

The fair value of notes payable and loans amounted to EUR 2,375 (1,575) million at the reporting date.

NOTES PAYABLE

EUR MILLION

	Nominal amount	Coupon	Maturity	Rating ¹⁾	Issue	30.6.2018	31.12.2017
Talanx AG ²⁾	565	Fixed (3.125%)	2013/2023	(–; A–)	These senior unsecured bonds have a fixed term and may 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 may only be called for extraordinary reasons.	500	500
Hannover Rück SE	750	Fixed (1.125%)	2018/2028	(–; AA–)	These senior unsecured bonds have a fixed term.	742	–
Total						1,807	1,065

¹⁾ (Debt rating A. M. Best; debt rating S&P).²⁾ At the reporting date, Group companies additionally held bonds with a nominal value of EUR 185 million.

On 18 April 2018, Hannover Rück SE placed on the capital market a non-collateralised and non-subordinated bond with a nominal value of EUR 750 million. The bond has a term of ten years and carries a fixed annual coupon of 1.125%.

VII. NOTES TO INDIVIDUAL ITEMS OF THE CONSOLIDATED STATEMENT OF INCOME

(11) NET PREMIUMS EARNED

NET PREMIUMS EARNED

EUR MILLION

	Industrial Lines	Retail Germany	Retail International	Reinsurance	Corporate Operations	Total ¹⁾		
		Property/Casualty	Life	Property/Casualty Reinsurance	Life/Health Reinsurance ¹⁾			
6M 2018 ²⁾								
Gross written premiums, including premiums from unit-linked life and annuity insurance	2,866	1,022	2,212	2,962	6,253	3,445	—	18,760
Savings elements of premiums from unit-linked life and annuity insurance	—	—	431	117	—	—	—	548
Ceded written premiums	1,027	29	63	157	555	282	14	2,127
Change in gross unearned premiums	-718	-275	-35	-123	-792	-38	—	-1,981
Change in ceded unearned premiums	-245	-7	1	-3	-67	—	-10	-331
Net premiums earned	1,366	725	1,682	2,568	4,973	3,125	-4	14,435

6M 2017 ²⁾

Gross written premiums, including premiums from unit-linked life and annuity insurance	2,758	1,002	2,273	2,828	5,193	3,499	—	17,553
Savings elements of premiums from unit-linked life and annuity insurance	—	—	444	149	—	—	—	593
Ceded written premiums	1,068	26	29	174	569	267	5	2,138
Change in gross unearned premiums	-652	-278	-76	-116	-567	-49	—	-1,738
Change in ceded unearned premiums	-287	-11	1	-21	-46	1	-3	-366
Net premiums earned	1,325	709	1,723	2,410	4,103	3,182	-2	13,450

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

²⁾ After elimination of intragroup cross-segment transactions.

(12) NET INVESTMENT INCOME**NET INVESTMENT INCOME IN THE REPORTING PERIOD**

EUR MILLION

	Industrial Lines	Retail Germany		Retail International	Reinsurance		Corporate Operations	Total
		Property/ Casualty	Life		Property/ Casualty Reinsurance	Life/Health Reinsurance		
6M 2018¹⁾								
Income from real estate	9	1	39	1	82	—	—	132
Dividends ²⁾	12	4	8	1	3	—	1	29
Current interest income	71	38	621	141	323	135	—	1,329
Other income	46	8	52	1	89	1	—	197
Ordinary investment income	138	51	720	144	497	136	1	1,687
Income from reversal of impairment losses	—	—	—	—	—	—	—	—
Realised gains on disposal of investments	50	2	340	49	146	18	—	605
Unrealised gains on investments	4	—	10	6	1	34	—	55
Investment income	192	53	1,070	199	644	188	1	2,347
Realised losses on disposal of investments	27	1	39	9	88	22	—	186
Unrealised losses on investments	9	2	28	6	—	16	—	61
Total	36	3	67	15	88	38	—	247
Depreciation of/impairment losses on investment property								
Amortisation	2	—	9	—	17	—	—	28
Impairment losses on equity securities	6	—	3	1	—	—	—	10
Impairment losses on fixed-income securities	6	—	—	—	—	—	1	7
Amortisation of/impairment losses on other investments								
Amortisation	3	2	11	—	—	—	—	16
Impairment losses	6	1	7	—	4	—	—	18
Investment management expenses	3	1	8	2	13	2	42	71
Other expenses	4	2	18	2	20	2	1	49
Other investment expenses/ impairment losses	30	6	56	5	54	4	44	199
Investment expenses	66	9	123	20	142	42	44	446
Net income from assets under own management	126	44	947	179	502	146	-43	1,901
Net income from investment contracts	—	—	—	—	—	—	—	—
Interest income from funds withheld and contract deposits	—	—	—	—	17	145	—	162
Interest expense from funds withheld and contract deposits	—	—	5	—	1	50	—	56
Net interest income from funds withheld and contract deposits	—	—	-5	—	16	95	—	106
Net investment income	126	44	942	179	518	241	-43	2,007

¹⁾ After elimination of intragroup cross-segment transactions.²⁾ Income from investments in associates and joint ventures amounted to EUR 4 (7) million and is reported in "Dividends".

NET INVESTMENT INCOME IN THE PREVIOUS PERIOD

EUR MILLION

	Industrial Lines	Retail Germany		Retail International	Reinsurance		Corporate Operations	Total
		Property/ Casualty	Life		Property/ Casualty Reinsurance	Life/Health Reinsurance		
6M 2017 ¹⁾								
Income from real estate	7	1	43	1	81	—	—	133
Dividends ²⁾	9	—	7	—	22	—	—	38
Current interest income	82	38	637	150	323	130	-1	1,359
Other income	24	7	37	1	81	3	—	153
Ordinary investment income	122	46	724	152	507	133	-1	1,683
Income from reversal of impairment losses	—	—	1	—	—	—	—	1
Realised gains on disposal of investments	31	4	365	40	62	55	2	559
Unrealised gains on investments	7	1	19	16	2	35	—	80
Investment income	160	51	1,109	208	571	223	1	2,323
Realised losses on disposal of investments	8	—	41	10	25	9	—	93
Unrealised losses on investments	2	—	11	11	—	26	—	50
Total	10	—	52	21	25	35	—	143
Depreciation of/impairment losses on investment property								
Amortisation	1	—	9	—	15	—	—	25
Impairment losses on equity securities	1	—	—	1	4	—	—	6
Impairment losses on fixed-income securities	—	—	33	1	—	—	—	34
Amortisation of/impairment losses on other investments								
Amortisation	3	2	11	—	—	—	—	16
Impairment losses	1	4	6	—	4	—	—	15
Investment management expenses	2	—	7	3	11	3	42	68
Other expenses	3	2	17	3	18	2	—	45
Other investment expenses/ impairment losses	11	8	83	8	52	5	42	209
Investment expenses	21	8	135	29	77	40	42	352
Net income from assets under own management	139	43	974	179	494	183	-41	1,971
Net income from investment contracts	—	—	—	-2	—	—	—	-2
Interest income from funds withheld and contract deposits	—	—	—	—	2	183	—	185
Interest expense from funds withheld and contract deposits	—	—	6	—	1	62	—	69
Net interest income from funds withheld and contract deposits	—	—	-6	—	1	121	—	116
Net investment income	139	43	968	177	495	304	-41	2,085

¹⁾ After elimination of intragroup cross-segment transactions.²⁾ Income from investments in associates and joint ventures amounted to EUR 7 million and is reported in "Dividends".

(13) NET INVESTMENT INCOME BY ASSET CLASS**NET INVESTMENT INCOME BY ASSET CLASS**

EUR MILLION

	6M 2018	6M 2017
Shares in affiliated companies and participating interests	4	—
Loans and receivables	486	589
Financial assets held to maturity	11	15
Financial assets available for sale		
Fixed-income securities	1,030	1,103
Variable-yield securities	43	97
Financial assets at fair value through profit or loss		
Financial assets classified at fair value through profit or loss		
Fixed-income securities	12	53
Variable-yield securities	-2	2
Financial assets held for trading		
Variable-yield securities	—	—
Derivatives	61	-9
Other investments, insofar as they are financial assets	254	142
Other ¹⁾	122	92
Total assets under own management	2,021	2,084
Investment contracts: investments/liabilities ²⁾	—	-2
Funds withheld by ceding companies/funds withheld under reinsurance treaties	106	116
Total	2,127	2,198

¹⁾ For the purposes of reconciliation to the consolidated statement of income, the "Other" item combines the gains on investment property, associates and joint ventures, and derivative financial instruments where the fair values are negative. Derivatives held for hedging purposes included in hedge accounting are not included in the list if they do not relate to hedges of investments.

²⁾ Includes income and expenses (net) from the management of investment contracts amounting to EUR 0 (-1) million. Financial instruments (assets/liabilities) measured at fair value through profit or loss account for income of EUR 52 (32) million and expenses of EUR -50 (-28) million, while loans and receivables and other liabilities account for income of EUR 1 (0) million and expenses of EUR 0 (-2) million. In addition, expenses include amortisation of PVFP amounting to EUR -3 (-3) million.

Including investment management expenses of EUR 71 (68) million and other expenses of EUR 49 (45) million, net investment income at the reporting date totalled EUR 2,007 (2,085) million.

(14) CLAIMS AND CLAIMS EXPENSES**CLAIMS AND CLAIMS EXPENSES**

EUR MILLION

	Industrial Lines	Retail Germany		Retail International	Reinsurance		Corporate Operations	Total ²⁾
		Property/Casualty	Life		Property/Casualty Reinsurance	Life/Health Reinsurance ²⁾		
6M 2018¹⁾								
Gross	1,649	464	2,294	2,047	3,411	2,905	—	12,770
Reinsurers' share	543	16	23	82	225	299	2	1,190
Net	1,106	448	2,271	1,965	3,186	2,606	-2	11,580
6M 2017¹⁾								
Gross	1,510	453	2,224	1,922	2,957	3,057	—	12,123
Reinsurers' share	491	4	10	108	191	252	—	1,056
Net	1,019	449	2,214	1,814	2,766	2,805	—	11,067

¹⁾ After elimination of intragroup cross-segment transactions.²⁾ Adjusted in accordance with IAS 8; see "Accounting policies", "Changes in accounting policies and errors" in the Notes.**(15) ACQUISITION COSTS AND ADMINISTRATIVE EXPENSES****ACQUISITION COSTS AND ADMINISTRATIVE EXPENSES**

EUR MILLION

	Industrial Lines	Retail Germany		Retail International	Reinsurance		Corporate Operations	Total ²⁾
		Property/Casualty	Life		Property/Casualty Reinsurance	Life/Health Reinsurance ²⁾		
6M 2018¹⁾								
Gross total of acquisition costs and administrative expenses	438	263	302	583	1,641	647	1	3,875
Administrative expenses	166	111	41	104	113	106	1	642
Gross total of acquisition costs	272	152	261	479	1,528	541	—	3,233
Reinsurers' share	139	4	32	33	76	16	1	301
Net total of acquisition costs	133	148	229	446	1,452	525	-1	2,932
Net total of acquisition costs and administrative expenses	299	259	270	550	1,565	631	—	3,574
6M 2017¹⁾								
Gross total of acquisition costs and administrative expenses	435	260	421	583	1,266	632	1	3,598
Administrative expenses	166	109	41	103	108	109	1	637
Gross total of acquisition costs	269	151	380	480	1,158	523	—	2,961
Reinsurers' share	141	2	9	30	89	19	—	290
Net total of acquisition costs	128	149	371	450	1,069	504	—	2,671
Net total of acquisition costs and administrative expenses	294	258	412	553	1,177	613	1	3,308

¹⁾ After elimination of intragroup cross-segment transactions.²⁾ Adjusted in accordance with IAS 8; see "Accounting policies", "Changes in accounting policies and errors" in the Notes.

(16) OTHER INCOME/EXPENSES**COMPOSITION OF OTHER INCOME/EXPENSES**

EUR MILLION

	6M 2018	6M 2017
Other income		
Foreign exchange gains	377	453
Income from services, rents and commissions	177	150
Recoveries on receivables previously written off	14	34
Income from contracts recognised in accordance with the deposit accounting method	99	102
Income from the sale of property, plant and equipment	—	8
Income from the reversal of other non-technical provisions	8	8
Interest income	21	27
Miscellaneous income	42	42
Total	738	824
Other expenses		
Foreign exchange losses	370	426
Other interest expenses	31	30
Depreciation, amortisation and impairment losses	41	53
Expenses for the company as a whole	148	119
Personnel expenses	27	26
Expenses for services and commissions	96	82
Expenses from contracts recognised in accordance with the deposit accounting method	4	6
Other taxes	32	31
Miscellaneous other expenses	36	71
Total	785	844
Other income/expenses	-47	-20

VIII. OTHER DISCLOSURES**NUMBER OF EMPLOYEES**

The Talanx Group's total workforce at the reporting date numbered 22,685 (22,059).

RELATED PARTY DISCLOSURES

Related parties in the Talanx Group include HDI Haftpflichtverband der Deutschen Industrie Versicherungsverein auf Gegenseitigkeit (HDI V.a.G.), Hannover, which directly holds the majority of the shares of Talanx AG, all subsidiaries that are not consolidated on the grounds of insignificance, as well as associates and joint ventures. In addition, there are the provident funds that pay benefits in favour of employees of Talanx AG or one of its related parties after termination of their employment. Individuals classed as related parties 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 are eliminated in the course of consolidation and hence not disclosed in the Notes.

There is a cooperation agreement between Talanx AG and HDI V.a.G. which allows Talanx AG to offer subordinated bonds to HDI V.a.G. with a volume of up to EUR 500 million on a revolving basis until 2021. Talanx AG is obliged to convert these bonds into registered shares with voting rights in the event of an increase in capital with pre-emptive rights. With the conversion of these bonds, HDI V.a.G. waives its pre-emptive rights resulting from the capital increase that led to the conversion. It does so for that number of new Talanx shares that corresponds to the number of Talanx shares that HDI V.a.G. will receive in the course of the obligatory conversion of the bond – i.e. only to the extent to which new shares resulting from the capital increase are replaced by shares resulting from the conversion.

Other business relationships with unconsolidated companies, associates or joint ventures are insignificant overall.

In addition, there are contracts for services with a company in which a member of the Supervisory Board is invested. Revenues generated with Group companies under these contracts during the reporting period were well below EUR 0.1 million.

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 of financial assets in the “financial assets available for sale” category on loans in securities lending transactions was EUR 290 million as at the reporting date. The fair value is equivalent to the carrying amount. The components of these transactions recognised as income are shown under “Net investment income”.

LITIGATION

We were not involved in any significant new litigation in the reporting period or at the end of the reporting period in comparison to 31 December 2017.

EARNINGS PER SHARE

Earnings per share are calculated by dividing net income attributable to the shareholders of Talanx AG by the average number of outstanding shares. There were no dilutive effects, which have to be recognised separately when calculating earnings per share, either at the reporting date or in the previous year. In the future, earnings per share may be potentially diluted as a result of the share or rights issues from contingent or authorised capital.

EARNINGS PER SHARE

	6M 2018	6M 2017	Q2 2018	Q2 2017
Net income attributable to shareholders of Talanx AG for calculating earnings per share (in EUR million)	437	463	219	225
Weighted average number of ordinary shares outstanding	252,797,634	252,797,634	252,797,634	252,797,634
Basic earnings per share (in EUR)	1.73	1.83	0.87	0.89
Diluted earnings per share (in EUR)	1.73	1.83	0.87	0.89

DIVIDEND PER SHARE

In the second quarter of 2018, a dividend of EUR 1.40 per share was paid for financial year 2017 (in 2017 for financial year 2016: EUR 1.35), resulting in a total distribution of EUR 354 (341) million.

CONTINGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS

As at 30 June 2018, there were contingent liabilities and other financial commitments in the amount of EUR 14,908 (15,112) million attributable to contracts that had been entered into, memberships and taxes. Essentially, there were reductions in trust accounts of EUR 273 million to EUR 5,461 (5,734) million, for existing service agreements of EUR 160 million to EUR 238 (398) million, and in securities purchase commitments of EUR 97 million to EUR 45 (142) million as at the reporting date. This was offset by the rise in outstanding capital commitments for private equity fund investment of EUR 295 million to EUR 2,348 (2,053) million as at the reporting date and the rise in funding commitments to the Statutory Guarantee Fund for Life Insurance Undertakings of EUR 130 million to EUR 575 (445) million as at the reporting date. There were no other significant changes in contingent liabilities or other financial commitments in the reporting period compared with 31 December 2017.

REVENUE

Revenue from contracts with customers covered by IFRS 15 is predominantly recognised over a period of time and breaks down as follows:

REVENUE CATEGORY	
EUR MILLION	
6M 2018	
Capital management services and commission ¹⁾	103
Other insurance-related services ¹⁾	70
Income from infrastructure investments ²⁾	32
Total revenue ³⁾	205

¹⁾ Revenue predominantly recognised over a period of time.

²⁾ Revenue recognised over a period of time.

³⁾ Revenue recognised in the income statement in the amount of EUR 167 million under "10.a. Other income", in the amount of EUR 32 million under "9. a. Investment income" and in the amount of EUR 6 million under "Net income from investment contracts".

EVENTS AFTER THE END OF THE REPORTING PERIOD

After the reporting date cedants of US life reinsurance treaties announced their intention to recapture these treaties following premium increases by Hannover Re. This will result in a pre-tax charge of USD 264 million in the Life/Health Reinsurance segment. The contracts are part of a US mortality business portfolio that was acquired in 2009, and that has been delivering earnings contributions below expectations since that time. The reduction of earnings results from the commutation of reserves recognised on the basis of biometric assumptions at the time the portfolio was acquired. The corresponding obligation from the cover notes for these treaties is therefore also ending. The commutation of these treaties will reduce Hannover Re's long-term exposure to the risks entailed by them and the resulting capital requirements.

Prepared and hence authorised for publication in Hannover on 2 August 2018.

Board of Management



Torsten Leue,
Chairman



Dr Christian Hinsch,
Deputy Chairman



Sven Fokkema



Dr Immo Querner



Ulrich Wallin



Dr Jan Wicke

REVIEW REPORT

TO TALANX AKTIENGESELLSCHAFT, HANNOVER

We have reviewed the condensed interim consolidated financial statements – comprising the consolidated balance sheet, consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated cash flow statement and selected explanatory notes – and the interim Group management report of Talanx Aktiengesellschaft, for the period from 1 January to 30 June 2018, which are components of the half-yearly financial report in accordance with section 115 of the German Securities Trading Act (WpHG). The preparation of the condensed interim consolidated financial statements in accordance with the IFRSs applicable to interim financial reporting, as adopted by the EU, and of the interim Group management report in accordance with the requirements of the WpHG applicable to interim group management reports, is the responsibility of the Company's Board of Management. Our responsibility is to issue a review report on the condensed interim consolidated financial statements and the interim Group management report based on our review.

We performed our review of the condensed interim consolidated financial statements and the interim Group management report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institute of Public Auditors in Germany (IDW). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with a certain level of assurance, that the condensed

interim consolidated financial statements have not been prepared, in all material respects, in accordance with the IFRSs applicable to interim financial reporting, as adopted by the EU, and that the interim Group management report has not been prepared, in all material respects, in accordance with the requirements of the WpHG applicable to interim group management reports. A review is limited primarily to inquiries of company employees and analytical procedures and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot issue an auditors' report.

Based on our review, no matters have come to our attention that cause us to presume that the condensed interim consolidated financial statements have not been prepared, in all material respects, in accordance with the IFRSs applicable to interim financial reporting, as adopted by the EU, or that the interim group management report has not been prepared, in all material respects, in accordance with the requirements of the WpHG applicable to interim group management reports.

Hannover, 2 August 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Florian Möller
Wirtschaftsprüfer
(German Public Auditor)

ppa. Christoph Czupalla
Wirtschaftsprüfer
(German Public Auditor)

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group, and the interim management report of the Group 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 for the remaining months of the financial year.

Hannover, 2 August 2018

Board of Management



Torsten Leue,
Chairman



Dr Christian Hinsch,
Deputy Chairman



Sven Fokkema



Dr Immo Querner



Ulrich Wallin



Dr Jan Wicke

CONTACT

Talanx AG
HDI-Platz 1
30659 Hannover
Germany
Telephone +49 511 3747-0
Telefax +49 511 3747-2525
www.talanx.com

Group Communications

Andreas Krosta
Telephone +49 511 3747-2020
Telefax +49 511 3747-2025
andreas.krosta@talanx.com

Investor Relations

Carsten Werle
Telephone +49 511 3747-2231
Telefax +49 511 3747-2286
carsten.werle@talanx.com

This is a translation of the original German text;
the German version shall be authoritative in case of
any discrepancies in the translation.

Interim Report online:

www.talanx.com/investor-relations

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FINANCIAL CALENDAR 2018

23 October
Capital Markets Day

12 November
Quarterly Statement as at 30 September

Talanx AG
HDI-Platz 1
30659 Hannover
Germany
Telephone +49 511 3747-0
Telefax +49 511 3747-2525
www.talanx.com

talanx.

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