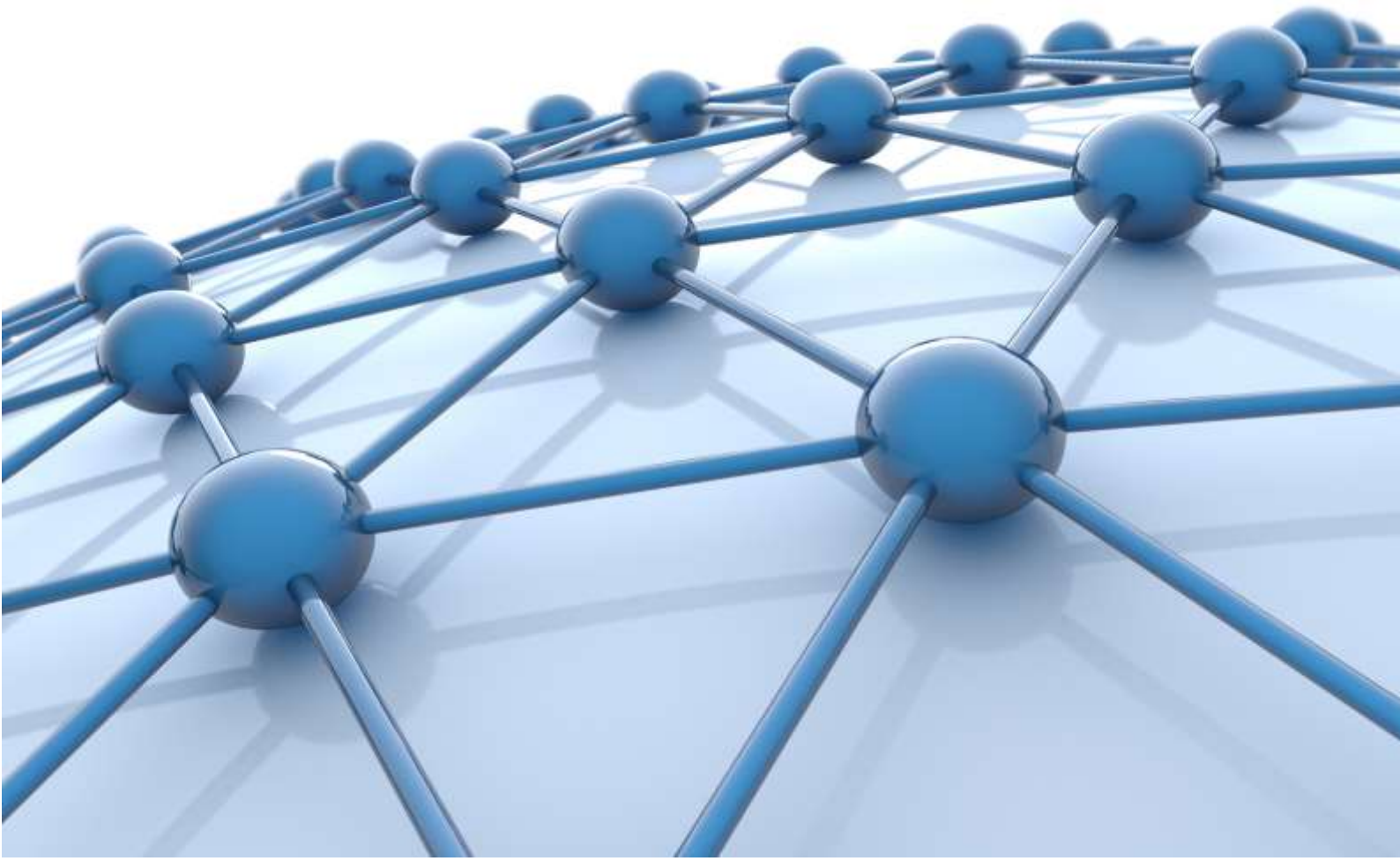


Talanx Reinsurance (Ireland) SE
Solvency and Financial Condition Report (SFCR) 2017

talanx.
Reinsurance

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Executive summary

Talanx Reinsurance (Ireland) SE (Talanx Re or the Company) is a wholly owned subsidiary of Talanx AG Germany (Talanx AG) with a detailed organisational chart shown under the business objectives section of this report.

This report covers the business and performance of the Company, its system of governance, risk profile, valuation for solvency purposes and capital management. The ultimate responsibility for all of these matters is the Company's Board of Directors, with the help of various governance and control functions that it has put in place to monitor and manage the business.

Business and performance

The principal activity of the Company consists of the transaction of reinsurance business with Talanx Primary Group. The Company has a 31 December year end and for the year ended 31 December 2017 the Company reported a Net Profit after tax of €10.615 Mio (2016 : €16.909 Mio). The result was mainly driven by return on assets under own management. The underwriting result was impacted by large losses stemming from the natural catastrophe event during the year. The total Shareholder Equity including capital contribution stood at €210.626 Mio (2016 €196.787 Mio). The total eligible own funds to meet the Solvency Capital Requirement is €311.681 Mio (2016: €275.931 Mio). In 2017, the Company did not pay a dividend in respect of financial year 2016. Based on net income of €10.615 Mio in March the Company declared to pay a dividend in respect of financial year 2017 of €7.5 Mio.

System of governance

The Company has continuously complied with all aspects of the Solvency II regulations from the date of first implementation on 1 January 2016. Over the past few years, the Board of Talanx Re put in place significant measures to strengthen the corporate governance framework in line with the 2015 Corporate Governance Requirements for Re/Insurance Undertakings, including but not limited to the compliance, risk management, actuarial and internal audit functions. The latter three key functions are outsourced within the HDI / Talanx Group as per Solvency II requirements.

The Company's organisational structure operates on a "three-line defence" detailed in its organisation chart shown further in the report. The Company ensures that all persons, who effectively run the Company or have other key functions, are fit to provide sound and prudent management through their professional qualifications, knowledge and experience and are proper by being of good repute and integrity.

An Internal Control System policy is in place in line with the Solvency II Directive fully incorporating the three-line defence framework as outlined above whilst also ensuring compliance with legal, regulatory and reporting requirements.

Risk profile

The Company continues to fulfil its objective of maintaining the A rating (per AM Best) with the risk profile stable over the last number of years. Underwriting risk, NatCat and market risk determine the risk profile of Talanx Re. All material risks are covered by the solvency capital requirement (SCR). The risks are quantified by use of a partial internal model (PIM) which was approved by the CBI on 28 March 2017.

As from 30 December 2016 onwards, the SCR and the capital adequacy ratio (CAR) are calculated for regulatory purposes by a partial internal model. Here the operational risk is calculated by the standard formula and aggregated with the internal model results excluding operational risk.

The SCR under PIM increases from Q4 2016 (€107.696 Mio) to Q4 2017 (€134.403 Mio mainly due to increased assets (market risk) and increased reserves (underwriting risk).

The retrocession is bought in line with the General Retrocession Guideline and adjusted to the premium risk portfolio annually.

Valuation for solvency purposes

The valuation for assets and liabilities are carried out according to the Section 3, Article 51 of Solvency II Directive 2009/138/EC, and covered in more detail under chapter D of this report.

Capital management

The Company's policy is to maintain a strong capital base and manages all its available resources as capital which includes the common stock, non-distributable capital contributions, a subordinated loan, retained earnings and fair value reserves. A capital management plan for the mid-term planning of the own funds is prepared over five years to ensure that the regulatory needs are fulfilled at all times. The capital management plan includes the development of the assumed business, the cash flow of technical provisions, planned dividends and an investment strategy. The mid-term plan is approved by the Board.

The Own funds, SCR and CAR according to PIM at end of 2017 were:

	2017	2016
Own funds:	**€311.681 Mio**	**€275.931 Mio**
SCR:	**€134.403 Mio**	**€107.696 Mio**
CAR:	**232%**	**256%**

A. Business and performance

A.1 Business

A.1.1 Business objectives

Talanx Re is part of the HDI Group. The Haftpflichtverband Der Deutschen Industrie V.a.G., Germany, (HDI V.a.G.) is ultimate parent. Talanx Re is wholly owned by Talanx AG Germany (Talanx AG). The organisational chart below shows the position of the Company within the Group. As HDI Group is virtually identical to the Talanx Group in terms of business activities, organisation and structure, the following report refers mainly to Talanx Group.

The Group structure contains six segments. The segments are each responsible for their own business processes. These tasks, which are shared by several organisational units, help to create value in the Group. Talanx Re forms part of the corporate operations of Talanx Group and is servicing as in-house reinsurance company.

The purpose of Talanx Re as the Prime Group Reinsurer of the Talanx Group is to:

- Decrease the risk based capital charge by utilising the diversification effect
- Act as a tool to manage the retention of Talanx Group by writing group business
- Pool insurance risk together to optimise the purchase of retrocession cover
- Be instrumental in assisting the Talanx Group's ability to pay dividends.

Talanx Re fulfils the role of a capital management tool which decreases the capital requirements of Talanx AG and its three primary insurance divisions and adds flexibility in allocating capital within the group and allows Talanx AG to source capital efficiently.

Talanx Re cedants are solely engaged from Talanx Primary Insurance Group, i.e. from the industrial lines division, the retail Germany division and the retail international division. Talanx Re is a composite reinsurance company and entitled to write life and non-life business. However, since its' founding constitution in 2009, the Company has exclusively written non-life business. The business is diversified worldwide.

The company is domiciled in Ireland and it does not have any branch offices. In 2017, the Company successfully completed the process to convert its legal form to a European public limited company (Societas Europaea, SE). In order to complete the conversion, Talanx Re had undertaken a project to merge Talanx Re and HDI-Gerling Services NV (HDI Services -a wholly owned subsidiary of Talanx Re) and then form a European SE. The project was finalized as planned in the second quarter of 2017 and the transformation had no material impact on the Company's financial result.

Talanx Re has established an organisational structure based on the principles of three lines of defence, the segregation of functions and the delegation of authorities.

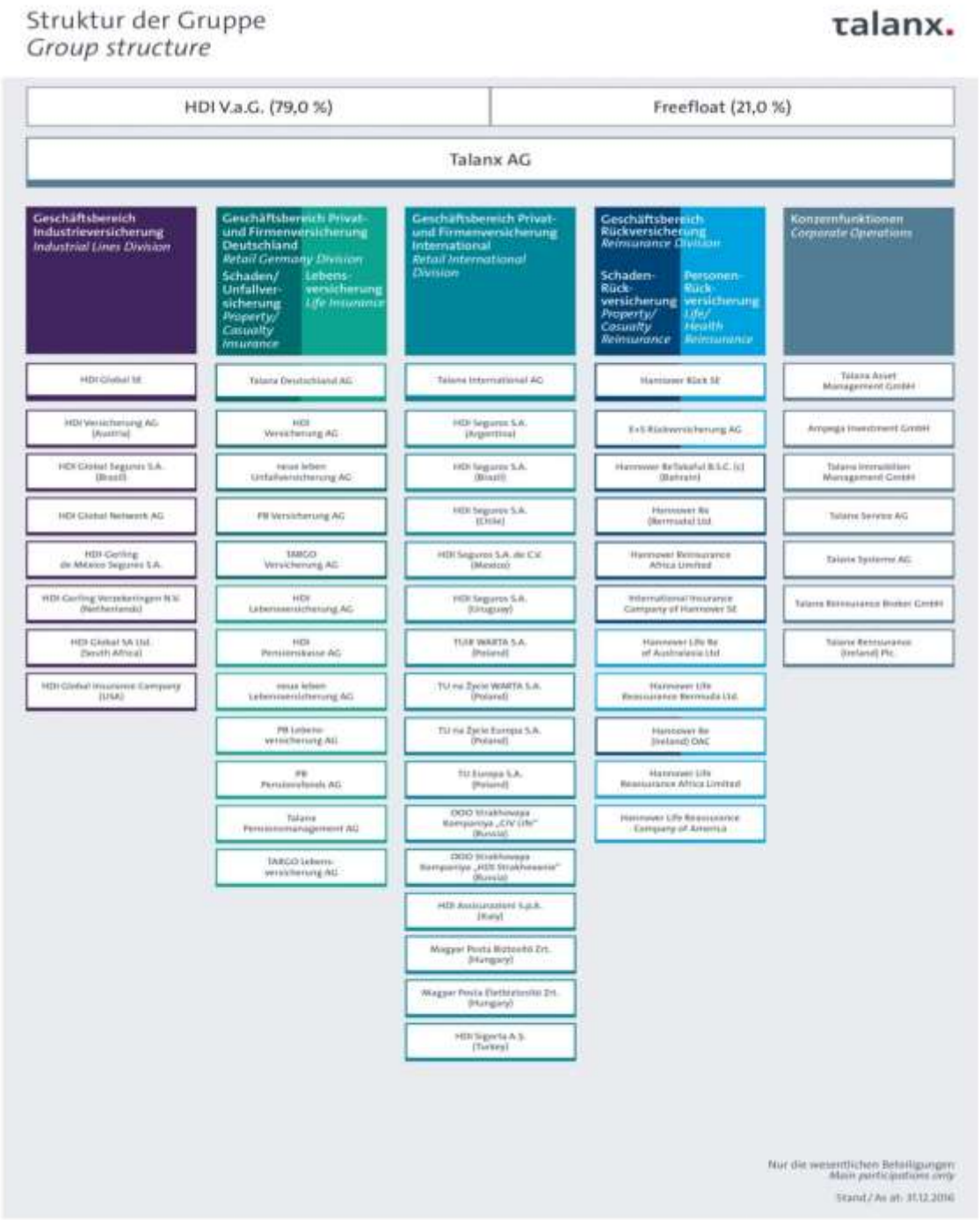
Being a member of one of the leading European insurance groups, Talanx Re utilizes the expertise and knowledge of specialized group entities via service level agreements. As at 31.12.2017, the Talanx Re has ten employees. (For an overview of the organisational chart and details of the governance structure, key functions and outsourcing please refer to chapter B. System of governance).

Talanx Re is a registered company under Irish law. The Company is supervised by the CBI (Central Bank of Ireland, New Wapping Street, North Wall Quay, Dublin 1) and is assessed as "medium-low" according to the local PRISM[1] ranking. The CBI PRISM ranking structure is outlined in their February 2016 document PRISM Explained, How the Central Bank of Ireland is Implementing Risk Based Regulation.

[1] Probability Risk and Impact SysteM

Talanx AG is supervised by the German supervisory authority for insurance companies BaFin (Bundesanstalt fuer Finanzdienstleistungsaufsicht, Graurheindorfer Str. 108, 53117 Bonn).

KPMG Ireland, 1 Harbourmaster Place, IFSC, Dublin 1 is the appointed statutory auditor of the Company for the year end 2017 including the Solvency II audit as per the regulations. From 2018 onwards, and as per the SI 312 of 2016, PWC Ireland, 1 Spencer Dock, North Wall Quay, Dublin 1 are the new appointed statutory auditors of Talanx Re.



A.1.2 Significant events

In March 2017, Talanx Re received the approval to use the partial internal Group model for regulatory purposes on solo level. Talanx Re's Partial Internal Model is effective from 30 December 2016 onwards. Following the successful application the Company reported a strong capitalisation with a regulatory capital adequacy ratio of 232% (2016: 256%) at year-end. The comfortable capitalisation has placed Talanx Re in a good position to explore additional business opportunities from Talanx cedants and has strengthened its strategic role as the prime reinsurer of the Group and further business growth is expected in the mid-term while ensuring an appropriate level of capitalisation at all time.

A.2 Underwriting performance

Talanx Re prepares its financial statements in accordance with International Financial Reporting Standards (IFRS). The Company writes both proportional and non-proportional business exclusively within the Talanx Group. The business written is a diversified mix, distributed across multiple business lines and geographical areas.

Figures in € thousands	2017 Actual	2016 Actual	2017 Plan
Gross Written Premium	339,437	311,920	320,540
Ceded Written Premium	7,474	7,530	6,892
Net Written Premium	331,964	304,390	313,648
Net Earned Premium	315,858	325,485	310,420
Incurred Claims	243,506	238,204	230,640
Commission Expense	70,097	73,084	67,210
Administration Expenses	3,263	3,530	3,700
Net Underwriting	**(1,008)**	**10,668**	**8,870**

The net underwriting loss for the period ending 31 December 2017 was €1.008 Mio (2016: €10,666 Mio).

Gross written premium for the current period amounted to €339.437 Mio, an increase on the previous period of €27.517 (8.8%). The main factors attributing to the premium growth stems from increased participation on the industrial line GTPL proportional program and new contracts from Cedants in the Netherlands and Germany. The increase was partial offset with the non- renewal of motor proportional program from the industrial lines segment of Talanx Group

Incurred claims are significantly impacted by major losses on natural catastrophes during the year. German Industrial lines property excess of loss program contributed €28.500 Mio of claims stemming from the autumn hurricanes Harvey and Maria.

Commission expense percentage is down by 4% on the previous year due to non-renewal of Industrial line motor proportional programme, and the reducing of profit commission on the Italian bouquet treaties.

The company's retrocession structure was reviewed, slightly adjusted to take into account lower estimated earned premium on the casualty portfolio. Ceded premium decreased by 1% from €7.530 Mio in 2016 to €7.474 Mio.

The panel of retrocessionaires remained unchanged from the previous year and each carry an AM Best credit rating level of at least "A".

Administration expenses are down with the previous year

A.2.1 Material lines of business

Talanx Re portfolio mix by material line of business is outlined below:

2017

		non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)					accepted non-proportional reinsurance		
Figures in € thousand	All Classes	Motor vehicle liability	Other motor insurance	Marine, aviation and transport	Fire and other damage to property insurance	General liability insurance	Casualty	Property	Other Classes
Gross Written Premium	**339,437**	26,204	24,381	35,904	9,201	179,866	24,837	18,904	20,140
Ceded Written Premium	**7,474**	0	193	0	0	0	1,558	5,723	0
Net Written Premium	**331,964**	26,204	24,188	35,904	9,201	179,866	23,279	13,181	20,140
Net Earned Premium	**315,858**	26,011	24,381	35,951	8,654	179,856	23,279	13,190	4,536
Incurred Claims	**243,506**	14,642	15,889	26,020	526	125,644	27,146	32,876	764
Commission Expense	**70,097**	6,405	5,753	8,000	2,323	46,831	-938	106	1,617
Administration Expenses	**3,263**	241	226	333	85	1,668	216	122	371
Net Underwriting	**-1,008**	**4,723**	**2,513**	**1,598**	**5,719**	**5,713**	**-3,145**	**-19,914**	**1,785**

2016

		non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)					accepted non-proportional reinsurance		
Figures in € thousand	All Classes	Motor vehicle liability	Other motor insurance	Marine, aviation and transport	Fire and other damage to property insurance	General liability insurance	Casualty	Property	Other Classes
Gross Written Premium	**311,920**	45,292	43,444	25,282	11,954	133,279	26,897	22,011	3,761
Ceded Written Premium	**7,530**	0	362	0	0	0	2,454	4,714	0
Net Written Premium	**304,391**	45,292	43,082	25,282	11,954	133,279	24,443	17,297	3,761
Net Earned Premium	**325,485**	45,385	44,283	25,553	12,371	152,635	24,370	17,396	3,492
Incurred Claims	**238,204**	28,123	36,930	21,279	-894	111,311	23,982	6,481	10,990
Commission Expense	**73,084**	10,740	10,316	7,316	3,219	39,219	1,061	-14	1,227
*Administration Expenses	**3,530**	522	506	294	139	1,551	281	194	44
Net Underwriting	**10,668**	**6,000**	**-3,468**	**-3,336**	**9,907**	**554**	**-954**	**10,735**	**-8,769**

*Administration expenses are allocated in proportion to the gross written premium.

Motor vehicle liability (proportional)

As a result of the non-renewal of German industrial motor program, premium has decreased by 42% year on year. The portfolio now covers just the retail business and generated €26.204 Mio gross written premium in the period. Claims incurred and commission expenses also reduced as a result of non- participation on the industrial programme. Loss ratio has decreased from 61% to 56% while commission ratio remained relatively unchanged at 24%.

Other motor insurance (proportional)

Likewise gross written premium relating Other motor insurance (proportional) decrease as a result of non-renewing Industrial motor proportional program. The majority of the business stems from the German retail line. This line of business provided an underwriting profit of €2.513 Mio on net earned premium of €24.381 Mio. Incurred claims amounts to €15.889 Mio and resulted in 65% loss ratio for the current year down from 83% for the previous year. Commissions costs also fell in line with reduced business.

Marine, aviation and transport (proportional)

Premium increased by 42% year on year. The increase can be attributed to participation on a new runoff treaty. This increase is partial offset with our reduced share on indirect marine proportional program of the industrial line. Total claims incurred of €26.020 Mio in the period, for the most part can also be attributed to marine runoff and the 2017 indirect marine proportional program . Commission percentage for the year is down from 26% to 23% as a result of lower commissions applicable to the runoff treaty.

Fire and other damage to property (proportional)

The portfolio seen favourable result of €5.719 Mio. Premium from the industrial property and engineering quota shares contributed to the bulk of the written premium. No large losses were reported in the period, while German Industrial property proportional accounts seen large loss ratio improvements during the period. Commission expenses of €2.323 Mio can also be attributed to the industrial quota shares.

General liability insurance (proportional)

This line of business predominately relates to the general third party liability programme of industrial lines cedants of Talanx group. Talanx Re's share in the programme increased in 2017 to 25%. Gross written premium with regards to the 2017 underwriting year was €181.250 Mio in line with expectations. As at 31st December no large claim were reported. Claims incurred and Commission expenses of €125.644 Mio and €46.831 Mio are also in line with expectations.

Casualty (non-proportional)

Gross written premium booked in the period amounted to €25.951 Mio which was slightly down on previous year. Majority of the premium can be attributed to General Liability and Motor classes of business. Talanx Re 50% participation in an industrial lines general liability XL programme contributes €16.900 Mio to the top line.

Property (non-proportional)

Premium generated in the period total €17.790 Mio, a decrease year on year of 23%. The reduced premium income is a result of reduced written line on Industrial lines natural catastrophe XL programme This programme was impacted by natural catastrophe events during the year in the North America and the Caribbean. The loss reserves at year end included €28.500 Mio for hurricane losses Harvey and Maria. The set amount equals two events exceeding the coverage limit after the deduction of annual aggregate deductible and associated reinstatement premiums.

Other Classes (proportional and non-proportional)

This category includes income protection, bond & suretyship, and marine excess of loss programs. Written premium in 2017 is substantially higher than the previous year. The increase can be directly attributed to Talanx Re's participation on a new income protection treaty ceded from retail Germany.

A.2.2 Regions

All Talanx Re cedants are situated in Europe. A breakdown of underwriting performance by the five largest geographical areas by gross written premium is as follows:

2017

Figures in € thousands	All Regions	Germany	Austria	Poland	Italy	Netherlands	Other Regions
Gross Written Premium	**339,437**	291,675	10,552	5,668	5,693	23,838	2,010
Ceded Written Premium	**7,474**	3,992	60	2,191	650	0	581
Net Written Premium	**331,964**	287,683	10,492	3,477	5,043	23,838	1,429
Net Earned Premium	**315,858**	271,814	10,492	3,533	4,759	23,838	1,421
Incurred Claims	**243,507**	218,526	7,264	2,684	3,188	14,608	-2,763
Expenses incurred	**73,360**	64,151	3,050	65	249	5,728	118
Net Underwriting Result	**-1,008**	**-10,862**	**179**	**785**	**1,322**	**3,502**	**4,066**

2016

Figures in € thousands	All Regions	Germany	Austria	Poland	Italy	Netherlands	Other Regions
Gross Written Premium	**311,920**	285,948	7,121	5,092	5,014	3,565	5,180
Ceded Written Premium	**7,530**	3,312	380	2,267	708	0	863
Net Written Premium	**304,391**	282,636	6,740	2,826	4,306	3,565	4,317
Net Earned Premium	**325,485**	300,373	8,593	2,733	4,099	3,565	6,122
Incurred Claims	**238,204**	214,507	4,879	2,370	3,327	13,020	101
Expenses incurred	**76,614**	70,626	2,626	157	1,413	439	1,353
Net Underwriting Result	**10,668**	**15,240**	**1,088**	**206**	**-641**	**-9,893**	**4,668**

Germany

The major portion of the underwriting business as outlined above can be attributed to the German region, via large industrial lines contracts proportional contracts (GTPL QS, marine QS, motor QS and property QS) and German retail motor business. Gross written premium is stemming from Germany accounts for 85% of the total premium written in the period. The business from German cedants was impacted by natural catastrophe events (Hurricane Harvey and Maria) during the year and was the main contributing factor to the overall negative underwriting result.

Austria

The nature of the business written in Austria is both proportional and non-proportional and across various lines of business and compasses both Industrial and retail business. The written premium increase of 48% year on year can be attributed to Talanx Re's participation on GTPL, Marine and Property engineering Quota shares for the first time. Motor business both from retail and Industrial segments drives the region written premium. The majority of the claims incurred and commission costs

for the reported period also stems from the motor contracts. Reported underwriting profit for the region was €0.179 Mio.

Poland

This region contributed €5.668 Mio premium in the period 10% increase on 2016. Premium is predominately driven from the various excess of loss programmes (liability, marine, property risk, property event and MTPL). The major contributor was the property Cat XL with an amount of €3.172 Mio. Large loss reported on 2015 motor liability program €1.739 Mio contributed to overall incurred loss total of €2.684 Mio. All commission expenses can be attributed to aviation quota share.

Italy

Business from Italy is across multiple lines of business and for the most part non-proportional in nature, with the exception of one bonds quota share contract. The reported written premium was €5.693 Mio an increase 13.5% on previous underwriting year. The bond quota share, various motor XL programs and general third party liability XL program, provides the bulk of the written premium. Total incurred claims of €3.188 Mio was reported in the year, slightly better than the previous year. Of the total of incurred claims, €1.624 Mio can be attributed to various 2017 underwriting years XL programs and a further €1.566 Mio can be attributed to the bond quota shares (all underwriting years).Profit commissions accruals processed on various non-proportional contracts last year were released this year, and is the main factor why expense incurred is substantially down this year.

Netherlands

Two programs were ceded directly to Talanx Re in 2017, marine runoff quota share and property event XL. Of the total of written premium (€23.838 Mio) the majority €22.600 Mio stems from participation on the marine runoff quota share. The incurred loss and expenses shown under the Netherlands region is also driven by the marine runoff treaty .

A.3 Investment performance

A.3.1 Asset classes performance

In 2017 (2016) the total investment income of the Company according to IFRS amounts to €14.310 Mio. (€11.124 Mio.) This corresponds to a net return of 2.0% (1.8%) and includes a management fee amounting to €0.659 Mio. (€0.644 Mio.)

Income, broken down to the different asset classes is shown in the table below. The management fee cannot be assigned to a specific asset class and will therefore not be further specified in the following annotation.

TALANX RE	31.12.2017									
Figures in € thousand	IFRS value	ordinary Income	Appreciation	Impairm./ deprec.	Realized Gains	Realized Losses	Unreal. Gains	Unreal. losses	Expenses	Total Inv. Income
Government bonds	82,570	1,641			288	-1				1,928
Corporate bonds	518,600	8,560			369	-62				8,867
Equities - listed										
Equities - unlisted										
Holdings/Participations										
Collective Inv. Undertakings	63,821	662			1,208					1,870
Structured notes										
Collateralised securities	90,584	2,027			10	-1				2,036
Cash and cash equivalents*										
Deposits other than cash eq.	1,255	15								15
Loans/mortgages (w/o policy loans)	10,678	239								239
Loans on policies										
Property (other than own use)										
Derivatives										
Mgmt. Expenses (not assigned)									-644	-644
Total:	**767,507**	**13,144**			**1,875**	**-64**			**-644**	**14,310**

The ordinary income, resulting predominantly from coupon payments of corporate bonds, collateralized securities and government bonds, amounts to €13.144 Mio (€12.256 Mio.) as opposed to ordinary expenses of €0.644 Mio. (€0.659).

Other comprehensive income (OCI) amounts to €25.008 Mio. (€21.319 Mio.), mainly driven by fixed income securities €20.962 Mio(€19.487 Mio.) such as corporate bonds and government bonds. The OCI of the equity positions (collective investments undertakings) amounts to €2.219 Mio. (€1.575 Mio.) Compared to year end 2016 the total OCI increased by €3.698 Mio. (€13.253 Mio.)

There were no appreciations and no impairments amounts in 2017. The net result from gains and losses on disposals amounting to €1.811 Mio. (€-0.472 Mio.) is based on effects from normal business activity.

The mentioned management fee of €0.644 Mio. (€0.659 Mio.) is the result of a basis point related remuneration model in the amount of 12 basis points, applied to the respective assets under management. The management fee shall be seen as mixed pricing which allocates the same fee to all asset classes from the least complex to very complex.

The allocation of the portfolio always complies with the requirements regarding a sufficient diversification and liquidity of the portfolio. The optimization of the portfolio in the conflict of low interest rate environment and the given risk budget is the most demanding challenge for managing the portfolio.

Under compliance of the given risk budget and duration from the liabilities side, an average reinvestment yield of 1.95% (1.7%) was generated in the fixed income segment in 2017.

A.4 Performance of other activities

A.4.1 Other activities

The Company entered into a subordinated loan agreement with Targo Lebensversicherung during 2014, a related group company for the amount of €30.000 Mio. The loan forms part of the eligible own funds of the Company and is classified as Tier 2 capital. The subordinated loan is dated thirty years (up to 14th January 2045) and non-cancellable prior to ten years (up to 14th January 2025) and placed on arm's length basis with a fixed interest rate of 4.08% for the period of ten years and thereafter with a market dependable rate. The interest amount as payable in respect of 2017 was €1.174 Mio which was settled to Targo Lebensversicherung during January 2018.

The fair value revaluations of available-for-sale securities are recognised by the Company in the statement of profit or loss and other comprehensive income, as other comprehensive income. The total other comprehensive income net of tax was €13.863 Mio (2016: € 28.485 Mio).

A.4.2 Leasing arrangements

The Company has lease commitments for its office space under an operating lease cancellable within one year of €0.093 Mio exclusive of VAT. There are no other significant leasing arrangements in place for Talanx Re.

A.5 Any other information

The net profit before taxes was €12.131 Mio (2016: €19.325 Mio) and the corporation tax charge for the year 2017 amounts to €1.516 Mio (2016: €2.416 Mio). There was no dividend paid by the Company in respect of the financial year 2016 during 2016. In March 2018 the Company declared to pay a dividend in respect of financial year 2017 of €7.5 Mio to Talanx AG.

B. System of governance

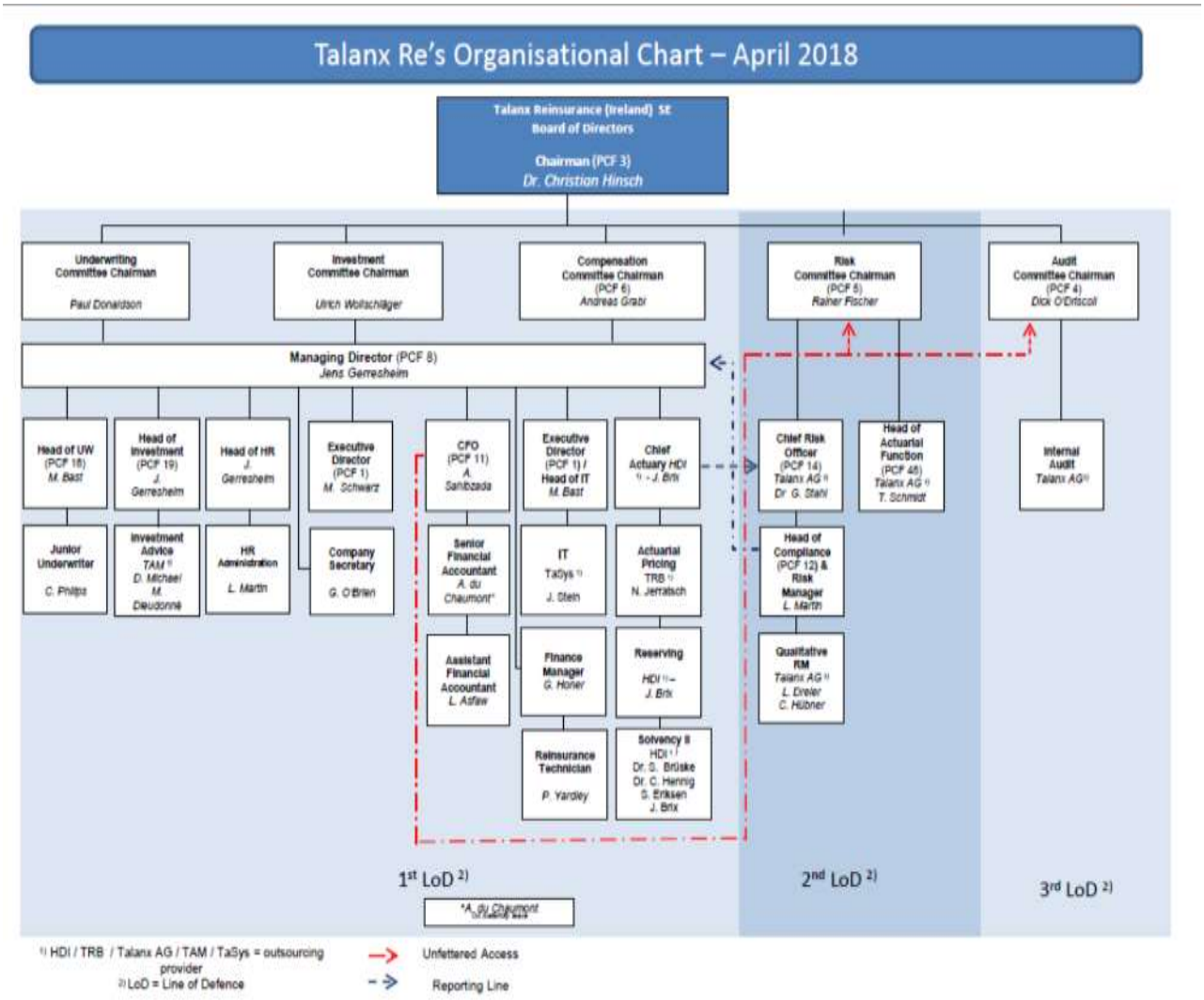
B.1 General information on the system of governance

Talanx Re is part of HDI Group. As the HDI Group is virtually identical to the Talanx Group in terms of business activities, organisation and structure, the report refers mainly to Talanx Group (for the Group structure please refer to chapter A1).

The Group structure contains six segments. The segments are each responsible for their own business processes. These tasks, which are shared by several organisational units, help to create value in the Group. Talanx Re forms part of the corporate operations of Talanx Group and is servicing as in-house reinsurance company.

At the core of our corporate governance principles is integrity in Talanx Re's dealings with our business partners, employees, shareholders and other stakeholders. Talanx Re complies with all statutory and regulatory requirements and applies them in a proportionate way appropriate to its business model. Talanx Re has established an organisational structure based on the principle of three lines of defence.

Below is Talanx Re's organisational chart as at April 2018:



The first line of defence comprises of the operational processes of the company. Clear roles and responsibilities are allocated to the front-line employees to process the day-to-day transactions appropriately. Talanx Re has documented processes and written policies in place to ensure a secure handling of the operation.

Within the second line of defence Talanx Re has established the risk management function, the compliance function and the actuarial function according to the Solvency II Directive (Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) and the Irish regulatory requirements. The second line of defence ensures an independent oversight over Talanx Re's operations especially with regard to risk management and actuarial tasks. The Chief Risk Officer and the Head of Actuarial Function have direct reporting lines to the Management Board or respective senior committees (for further information on Solvency II key functions please refer to CBI's Policy Notice-October 2015-Fitness and Probity for Reinsurance Undertakings under Solvency II - see chapter B.2).

The third line of defence refers to the independent audit by external and internal auditors. The internal audit function forms part of the Solvency II key functions. The internal and external auditors report directly to the Talanx Re's audit committee.

Being a member of one of the leading European insurance groups Talanx Re utilizes the expertise and knowhow of specialized Group entities. Main outsourcing agreements are established with Talanx AG (risk management), HDI Global (actuarial services), TAM (asset management) and TRB (operational and actuarial support). Talanx Re has outsourced the risk management, internal audit and actuarial function according to the Solvency II Directive to Talanx Group entities. For each outsourcing arrangement the Company has established service level agreements (SLAs). The Head of Compliance is at the same time responsible for Talanx Re's outsourcing agreements and the outsourced services are assessed annually based on existing performance indicators.

B.1.1 Roles and responsibilities

Board of Directors (BoD)

Talanx Re is Talanx Group's primary reinsurer and is registered in Ireland with the Irish financial regulator CBI as a Composite Reinsurer.

Talanx Re's governance structure has been approved by the Board of Directors and is in line with the 2015 Corporate Governance Requirements for Re/Insurance Undertakings. The Company complied with all reporting requirements as required by the Code in 2017.

Talanx Re's Board of Directors charter sets out its approved principles of composition and role, delegation of authorities, possible conflicts of interest to consider, matters reserved for board decisions and its diversity policy. In addition Talanx Re's governance process is characterized by the segregation of function, which is achieved by assigning specific business review information/documentation to Board of Directors committees. The detailed responsibilities are outlined in the individual committee's charter and summarised below.

The Board of Directors meetings are held quarterly and the Board of Directors is responsible for:

- determining the overall business strategic objectives of the Company
- monitoring the performance of the Company and its management against the strategic objectives
- to oversee an adequate and effective internal control framework that includes well-functioning risk management, compliance and internal audit functions as well as an appropriate financial reporting and accounting framework
- ensuring that the risk management and internal controls reflect Talanx Re's risk appetite and that there are adequate arrangements in place to ensure that there is regular reporting to the Board on compliance with the risk appetite

- overseeing the strategy for on-going management of material risks, including liquidity risk, and has established procedures to maintain an appropriate relationship with external auditors.

The Board of Directors as a whole is collectively responsible for promoting Talanx Re's success by directing and supervising its business affairs. In addition to the responsibilities common to all Board of Directors, non-executive directors exercise their independence of judgement by:

- Challenging constructively and contributing to the development of Talanx Re's strategy
- Scrutinising the performance of Talanx Re's management in meeting agreed goals and objectives and monitoring the reporting of performance
- Satisfying themselves that financial information is accurate and that financial controls and systems of risk management are robust and defensible
- Reviewing the reports and recommendations of the delegated committees.

Currently Talanx Re has ten directors and the Chairman is proposed for election in the first quarter of each year. The 2017 board members were:

- Dr Christian Hinsch (Chairman) German
- Mr Michael Bast (Executive Director) German.
- Mr Paul Donaldson (Independent Non-Executive Director)
- Mr Rainer Fischer (Non-Executive Director) German
- Mr Jens Gerresheim (Chief Executive Officer) German
- Mr Andreas Grabi (Non-Executive Director) German
- Mr Richard O'Driscoll (Independent Non-Executive Director)
- Dr Immo Querner (Non-Executive Director) German
- Mr Oliver Schmid (Non-Executive Director) German
- Mr Ulrich Wollschläger (Non-Executive Director) German.

Board of Directors reporting responsibilities

During 2017, Talanx Re's Board of Directors and delegated committees have upheld their charters' roles and responsibilities and all local and group reporting deadlines have been observed.

Talanx Re's committees

Talanx Re has five committees and the Board of Directors are responsible for the oversight of each committee:

- Risk (meetings held quarterly)
- Audit (meetings held quarterly)
- Underwriting (meetings held quarterly)
- Investment (meetings held quarterly)
- Compensation (one meeting annually in Q4).

a) Risk Committee (RC)

Talanx Re's RC currently has five members and is composed of non-executive and independent non-executive directors. Their charter is reviewed annually and the committee's 2017 responsibilities and duties include:

- **CRO function** - by regular liaison to ensure the effectiveness of the current RC organisation and ensure the development and on-going maintenance of an effective risk management

system within Talanx Re that is effective and proportionate to the nature, scale and complexity of the risks inherent in the business;

- **Quantitative and qualitative risk management requirements** - by the monitoring of the risk management requirements including Talanx Re's risk strategy, risk appetite, the current financial position;
- **Risk management function** oversight (the risk management function is managed on a day to day basis by the CRO);
- **Risk framework** - by ensuring the framework is aligned with the Group's risk framework;
- **Guidelines and policies** - by reviewing and approving all Talanx Re's guidelines and policies updates as prepared by the Managing Director and/or CRO;
- **Effectiveness of strategies and policies** - by advising the BoDs with respect to maintaining, on an on-going basis, amounts, types and distribution of both internal capital and own funds adequate to cover its risks;
- **Compliance function** - by ensuring that the department is adequately resourced and has the tools, rights and authorities required to carry out its work and also by reviewing the compliance function's annual report.

b) Audit Committee (AC)

Talanx Re's AC currently has three members and is composed of non-executive and independent non-executive directors. Their charter is reviewed annually and the committee's 2017 responsibilities and the duties include:

- **Financial reporting -** by monitoring the integrity of Talanx Re's data for the financial statements, including any significant returns to be made to CBI and any financial results or any formal announcements relating to its results (either interim or final);
- **Whistle blowing -** by reviewing Talanx Re's arrangements for its employees to raise concerns in confidence about possible wrongdoing in financial reporting or other matters. The AC ensures that these arrangements allow investigation of such matters and appropriate follow up action;
- **Internal audit** - by monitoring and reviewing the effectiveness of Talanx Re's internal audit function in the context of its overall risk management system, assessing the proposed internal audit plan, reviewing all internal auditor reports on Talanx Re to ensure management's responsiveness to the findings and recommendations are adequate. The AC Chairman meets the head of internal audit at regular intervals, without management being present, to discuss their remit and any issues arising from the internal audits carried out;
- **External audit** - by considering and making recommendations to the Board of Directors, in relation to the appointment, re-appointment and removal of Talanx Re's external auditor. The AC oversees the selection process for new auditors and oversees the relationship with the external auditor including (but not limited to) approval of their remuneration, whether fees for audit or non-audit services and that the level of fees is appropriate. The AC Chairman meets the external auditor regularly (including one at the planning stage and once after the audit) to discuss any issues arising from the audit.

The Audit Committee's charter was updated at their December 2016 meeting to ensure compliance with all Solvency II regulatory and that statutory requirements are upheld from January 1, 2017.

c) Underwriting Committee (UC)

Talanx Re's UC currently has seven members and is composed of executive, non-executive and independent non-executive directors. Their charter is reviewed annually and the committee's 2076 responsibilities and the duties include:

- **Underwriting** - by overseeing and advising the board on all underwriting related matters. The UC monitors the integrity of the underwriting business data and ensures that appropriate underwriting standards, estimates and judgements are undertaken by the underwriting unit

(UU), including external advisors opinions. Regular UU reports are presented to ensure full transparency of the underwriting and reinsurance processes and the agreed underwriting limits and thresholds are being maintained;

- **General Underwriting Guidelines and Retrocession Guidelines -** by reviewing, steering, controlling and approving Talanx Re's UU in accordance with the documents authorized limits and approving any guidelines updates;
- **Renewal/new business proposals -** by reviewing each new or renewal business proposal to ensure compliance with the aforementioned guidelines and including the treaty level authority requirements.

d) Investment Committee (IC)

Talanx Re's IC currently has four members and is composed of executive, non-executive and independent non-executive directors. Their charter is reviewed annually and the committee's 2017 responsibilities and the duties include:

- **Investment strategy and risk exposure** - by advising the Board of Directors on the investment strategy, especially the strategic asset allocation and its implementation and informing the Board of Directors on the applied limits and thresholds for market risk. The IC monitor and review current risk exposure of market risk and ensure that the investment follows the Talanx Re Investment Guidelines;
- **Governance and investment management -** by making recommendations on the appointment of the asset management provider, investment manager and investment advisors. The IC makes recommendations on the investment policy which includes giving appropriate consideration to the market risks, asset diversification risks, credit and liquidity risks faced by Talanx Re. The committee reviews the investment managers' regular reports and their performance against the market benchmarks as well as the Company's Investment Guidelines and also reviews the asset management provider's compliance with legal requirements as well as the Company's Investment Guidelines;
- **Internal model -** by reviewing the annual validation report especially with regard to market risk and sub-categories, the regular risk reporting on market risk and to advise the board on conclusions from the risk reporting (i.e. ORSA report, internal risk report, reports on the adherence to limits and thresholds). The IC advise on model changes with regard to investments and market risk (in accordance with the current Model Change Policy);
- **Risk management culture -** by reviewing and monitoring the executive management's responsiveness to the findings and recommendations of the IC.

e) Compensation Committee (CC)

Talanx Re's CC currently has three members and is composed of executive, non-executive and independent non-executive directors.

The CC meets annually to assess their current charter, proposals for employee performance related bonus and annual salary increases and also to ensure that all provisions regarding disclosure of remuneration, including pensions, are fulfilled.

Talanx Re's Committee's reporting responsibilities

Each Committee's Chairman reports to the Board of Directors on its committees meetings proceedings on all matters within its duties and responsibilities. The committee's chairman is responsible for determining the form and nature of the information delivered to the Board of Directors and also confirms that its committee members have carried out their duties as outlined above.

All committee's recommendation proposals, as outlined in the committee chairman's report, are discussed at the Board of Directors meeting to obtain their final approval.

Talanx Re's standard of business conduct and ethical behaviour guidelines

Talanx Re is fully committed to uphold its Standard of Business Conduct and Ethical Behaviour Guidelines. All personnel, upon arrival to the company, must review the document and agree to abide to its contents as part of their HR welcome pack.
Integrity guides Talanx Re personnel's conduct towards our business partners, colleagues, shareholders and stakeholders and this concept is at the very heart of its corporate governance principles and forms the basis of Talanx Re's corporate strategy. Both Talanx Re's strategic considerations and its day-to-day business activities are based on high ethical and legal standards. The Business Conduct Guidelines are binding rules applicable to every employee within the Company and are intended to assist each individual confidentially handle all ethical and legal challenges that may arise in their daily business activities.

B.1.2 Remuneration and system of governance

Compensation principles

The compensation strategy of Talanx Re is based on the objective of sustainable ongoing development of the company and group. Talanx Re's compensation structure and the compensation rules are intended to be compliant with the Irish market and to be competitive. The business development of the company is built taking account of sustainability and the competitive environment.

The compensation structure is directed towards attracting high-calibre employees to the management and senior personnel and to retaining their loyalty. The system is also intended to guarantee sustainable and value-based corporate governance.

The compensation system is based on the business and risk management strategy, the internal organisational structure and the risk profile of the company.

The compensation structures are generally arranged so as to avoid an inappropriate readiness to take risks. The selection of target criteria for the variable compensation system and for restricting the upper limit of variable compensation elements is ensured such that no inappropriate performance incentives are offered which could persuade employees to enter into risks with incalculable consequences.

Compensation components for the Board of Directors

The non-executive directors are reimbursed for their expenses only, while the independent non-executive directors also receive a fixed annual compensation. The executive directors are reimbursed in accordance with their individually agreed contracts of employment.

Compensation components for employees

The compensation for Talanx Re's employees comprises of a range of different components. It guarantees an appropriate and balanced compensation package which takes account the level of responsibility and function inherent in the position, and the conditions prevailing within the Irish marketplace.

The compensation generally comprises the following components:

- Annual fixed compensation - the fixed compensation is specifically based on the spectrum of functions, the level of responsibility and the career experience.
- Variable compensation - the level of the compensation is linked to attaining annually agreed individual targets.

- Retirement provision – the fundamental commitments are guaranteed within the framework of retirement provision which is based on a defined contribution model and are generous in Irish market conditions.
- Other fringe benefits independent of performance (e.g. health insurance, death in service benefit, accommodation allowance etc). Fringe benefits vary according to individual circumstances and depend on contracts of employment.

Compensation reporting

Talanx Re has a compensation committee and the committee meets annually to assess the proposed employee performance related bonus, proposed annual salary increases and ensure that all provisions regarding disclosure of remuneration including pensions, are fulfilled (for details on the compensation committee please refer to chapter B.1.1).

B.1.3 Material changes

During the reporting period, no major change in Talanx Re's governance system was observed.

B.2 Fit and proper requirements

According to the requirements of the Solvency II framework directive, all senior management or individuals holding other key functions have to satisfy the requirements regarding:

- their technical and professional qualification (fitness) and
- their personal reliability (propriety).

B.2.1 Policies and processes

The Solvency II fit and proper requirements are currently outlined in the following CBI guidelines: Guidance on Fitness and Probity Standards 2016, Guidance for Reinsurance Undertakings on the Fitness and Probity Amendments 2015, Domestic Actuarial Regime and Related Governance Requirements under Solvency II 2015, Guidance for Reinsurance Undertakings on the Head of Actuarial Function Role 2015. Talanx Re adheres to the aforementioned guidelines and required reporting was upheld in 2017.

B.2.2 Persons in key functions

Persons with key functions can be distinguished as follows:

- Persons actually leading the company (Board of Directors members)
- Persons holding other key functions (key functions according to the Solvency II Directive, functions requiring pre-approval according to the local fitness and probity regime).

The following roles are classified by CBI (Guidance for Reinsurance Undertakings on the Fitness and Probity Amendments guidelines 2015) as the four key functions of the system of governance under Solvency II:

- PCF 12 - Head of Compliance
- PCF 13 – Head of Internal Audit
- PCF 14 – Chief Risk Officer
- PCF 48 – Head of Actuarial Function.

Under Solvency II where key functions are outsourced, the entity must designate an individual within the company with overall responsibility for the key function. The designed local individual must be a current CBI PCF holder within the company and possess sufficient knowledge and experience regarding the outsourced key function to enable change of the performance and results of the outsourced service provider.

B.3 Risk management system including the own risk and solvency assessment

B 3.1 Risk strategy

The main objective is to achieve an A rating according to the standards of AM Best. This in turn implies a capital adequacy ratio with respect to the internal model TERM of at least 150% with an associated threshold of 170%. Furthermore, full compliance with the regulatory requirements under Solvency II is a prerequisite. Talanx Re has a fully-fledged limit and threshold system in place that allows control of the risks taken, in order to achieve the profit targets. Talanx Re outsourced many aspects of the risk management process, in particular the calculations under Pillar 1, parts of the reporting (ORSA) and the CRO function. These outsourcing activities allow at one hand to be cost-efficient and effective on the other hand, this approach allows Talanx Re to interact with the holding (HDI Group) in a very smooth manner. Of course, the local management ensures that the interests of Talanx Re are adequately represented in committees and considered appropriately. The Pillar 1 calculations are based on the internal model TERM which yields the row data for the various reporting formats.

B.3.2 Risk profile

The risk profile of Talanx Re is consistently stable since inception of the company as the business model remains unchanged. Talanx Re's risk categories are:

- Premium and reserve risk
- NatCat
- Market risk

The contribution from other risk categories is of minor importance. Note that TERM is only a partial internal model and the standard model is applied for operational risk.

B.3.3 Material risks not included in the SCR

There are no material risks that are not fully included in the calculated SCR.

B.3.4 Investment risk and Prudent Person Principle

The investment decisions are worked out by the investment committee and decided by the board. The execution of the related deals are realized by TAM , an asset manager which has approximately € 118.000 bn assets under its management and keeps high standards in their processing both for internal and external clients as well. Within this environment a number of policies and related governance structures ensure that the requirements of the prudent person principles are fulfilled.

For Talanx Re the feasible investment universe applies as for the whole Talanx group. Therefore, Talanx Re has access to systems and knowledge that enable the identification, measurement, monitoring, controlling and reporting of all the risks related to their investments or investment strategies.

In that respect a number of additional risk management systems beyond TERM are in place and related reports are delivered. The most prominent ones are the Credit Value-at-Risk Report and the so-called Asset Liability Management Report. These reports are produced on a high frequency basis.

B.3.5 Appropriateness of credit assessments from external credit assessments institutions

This chapter is not applicable for the Company.

B.3.6 Extrapolation of the risk-free rate

According to the standards for internal models, the EIOPA curve is applied within very tight boundaries of few basis points. This curve is applied for the evaluation of Talanx Re's assets and liabilities.

B.3.7 Own risk and solvency assessment

The ORSA is provided by the CRO. It is based on the one hand, on the quantitative output of our internal model TERM. On the other hand the available qualitative information is also included as well as the main focus of a risk analysis and a risk assessment. Furthermore, according to the five-year-planning process the forward-looking perspective is considered.

The results of the ORSA process is discussed in-depth and challenged by means of workshops with the Managing Director and INEDs of the Company. Furthermore, the results of the ORSA are discussed in the risk committee and related board meetings.

The main application from the ORSA is the revision and updating of the limit and threshold system which include of course the general strategy of the company.

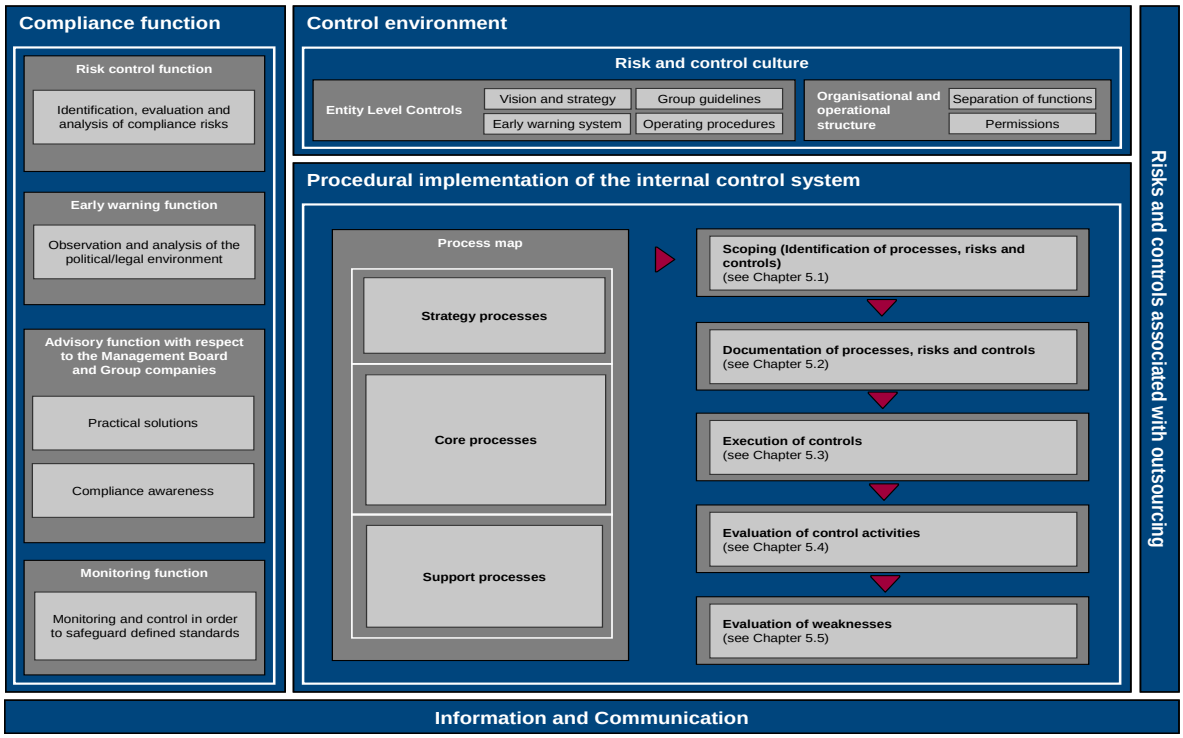
The ORSA is reviewed by Internal Audit according to the audit plan.

B.4 Internal control system

B.4.1 Key procedures

In line with Solvency II requirements (articles 46 and 47 of 2009/138/EC Directive) Talanx Re has an Internal Control System (ICS) Policy. The policy sets minimum requirements for the design of the ICS within the company. The ICS is an aggregation of all integrated and process independent monitoring measures (internal controls and organisational measures) which ensure that Talanx Re's organisation and processes function satisfactorily. It applies to all levels and focuses on process risk and the controls implemented for their monitoring.

The elements of Talanx Re's Internal Control System are shown below:



The Internal Control System is an integral part of business administration. It serves to reach business goals efficiently, with regard to compliance with regulations and the avoidance of risks.

The processes and measures of the ICS have the following objectives:

- Compliance with legal requirements and with further regulation, contracts and internal rules,
- Adequate execution of business activity,
- Protection of assets,
- Protection of an adequate and reliable accounting,
- Prevention and exposure of asset misappropriation,
- Focus and special regard on material risks,
- Effectiveness and efficiency of risk monitoring and avoidance in business processes,
- Correctness of the display of the assets, financial and earnings position and the risk situation.

Integration of the ICS into the "three lines of defence" concept

The three lines of defence concept describes a framework for a functional control and monitoring system. It outlines three fundamental areas of responsibility, the so called "lines of defence":

- The first “line of defence” is the responsibility of the operative departments for ensuring risk identification, evaluation and monitoring of risks at operational levels. Thereby they bear the responsibility for an adequate design of ICS in the respective department.
- The second “line of defence” consists of functions, which ensure an adequate design of ICS at a superior level and assist the operative departments. This includes the risk committee, the risk management, compliance and actuarial functions and the officers for data security, money laundering, outsourcing etc. The risk management function is also responsible especially for identification, evaluation, analysis, monitoring and reporting of risks at company level
- As independent and objective function and as third “line of defence” internal auditing observes the effectiveness and efficiency of the entire ICS, the risk management system and the risk management process, using the respective audit activities.

Roles and responsibilities within the Internal Control System

The most important roles and responsibilities in the ICS framework with relevant tasks are:

Role	Tasks & responsibilities
Board of Directors of Talanx Re	▪ Implementation and adequate design of an effective ICS ▪ Adoption of an ICS guideline ▪ Monitoring and ensuring of the effectiveness of the ICS
Risk and process responsible persons in Talanx Re	Operative implementation of the ICS (for further information see chapter 4 of the guideline): ▪ Scoping phase: Identification of material processes and IT-systems within the ICS framework ▪ Documentation of the processes and IT-systems identified as material, their inherent risks and belonging controls ▪ Execution of controls and creation of a control record ▪ Ongoing evaluation of control activities regarding their adequacy and functionality ▪ Assessment of control weaknesses
Group Business Organization	▪ Support with the documentation and design of processes and IT-systems regarded as material, their inherent process risks and belonging controls
Risk committee, the risk management function, compliance function and actuarial function, officers for data security, money laundering, outsourcing etc.	▪ Risk identification, evaluation, analysis, Talanx Re, monitoring and reporting on overall corporate level.
Group Auditing	▪ Evaluation of control activities regarding their adequacy and functionality during the regular audits ▪ Assessment of control weaknesses during the regular audits ▪ Reporting taking into account the results of the audits of adequacy and functionality of the ICS

Execution of key controls

The execution of the control and the record of key controls outline the key factors of the ICS operative implementation. Key controls have to be executed in their documented form and a record of execution has to be created. This record should ensure that the risk and process responsible person and/or a qualified third party can adequately review the effectiveness of the key control.

Evaluation of key controls

Any implemented and documented key controls have to be effective, i.e. that the key control is appropriate and functional.

A control is appropriate if the type and design of the control is suitable to reduce the risk, i.e. to reduce the occurrence probability and/or the impact in the case of occurrence.

The functionality of a control describes whether the control is executed in accordance with its design. In addition to the ongoing evaluation of control activities by the process responsible persons in the specialist areas, internal audit assesses the control activities, identifies potential weaknesses and documents these weaknesses during their regular audits. The functions of the second line of defence are available to assist.

Evaluation of weaknesses of key controls

The identified and documented control weaknesses within the evaluation of control activities have to be assessed regarding possible damages and risks by the respective responsible persons within the scope of their operational activities and by internal audit during their regular audits. Appropriate action plans for the elimination of these control weaknesses have to be defined. The documentation is created by the respective responsible person and/or internal audit within their reports.

ICS reporting

The ICS reporting contains the following reports of the second and third line of defence, which include the appropriateness and functionality of the ICS:

- Reports of the risk management function,
- Reports of the actuarial function,
- Reports of the compliance function,
- Audit and activity reports of Internal Audit.

The Talanx Re Head of Compliance produces an annual ICS report for board review/approval as part of the compliance report.

B.4.2 Compliance function

As outlined in CBI's Corporate Governance Code for Insurance Undertakings 2015 (the Code), Talanx Re's Board has the ultimate responsibility for ensuring that the risk and compliance functions are properly managed within the company.

Talanx Re's compliance function has the responsibility for advising the Board on compliance with regard to the relevant laws, regulations and administrative provisions and includes an assessment of the possible compliance risk impact of any changes in the legal environment of Talanx Re's operations.

Compliance function tasks, authorities & responsibilities

Role	Tasks and Responsibilities
Board	• Set Talanx Re's business strategy and approve its corporate governance arrangements, including clear lines of responsibility, adequate internal control mechanisms and key control functions • Set the 'tone at the top' in terms of compliance and other responsibilities • Ensure that the compliance function has adequate resources required to effectively undertake the work involved • Delegate oversight of the compliance function and its work to the risk committee (including the review and recommendation to approve the annual compliance plan)
Risk Committee	• Review of annual compliance plan prepared by the compliance function and submit to the Board for final approval • Provide oversight of the compliance function, including ensuring that an adequate compliance framework is in place • Receive and approve compliance policies • Ensure the compliance function is adequately resourced and has the tools, rights and authorities required to do its work
Compliance Function	• Ensure a fit for purpose compliance framework is in place for the management of compliance risks • Act as the primary contact for financial regulators • Own board approved compliance policies and review regularly. Recommend to the risk committee and/or Board approval for any proposed recommended changes as may be necessary from time to time • Provides an ICS report to the Board annually in Q1
Management and Employees	• Provide any assistance and explanations as may be necessary to the compliance function • Ensure the business is run in compliance with relevant statutory and regulatory requirements, formalised policies and procedures • Report all compliance breaches promptly to the compliance function, proposing and implementing remedial action where agreed and required. Furthermore, compliance breaches can be reported anonymously via an electronic whistleblowing system accessible on Talanx' internet website

Compliance risk

Compliance risk is defined as the risk Talanx Re may suffer as a result of its failure to comply with applicable law, regulation, codes of conduct and standards of good practice and includes:

- statutory and regulatory risk
- reputation risk
- litigation risk
- risk of regulatory sanction
- risk of financial loss.

Talanx Re manages its compliance risks using three lines of defence (see chapter B4 Internal Control System).

The compliance function is part of the second line of defence and

- translates laws into compliance obligations and assists management to identify its compliance risks
- assists management in identifying activities to mitigate risks, monitors control of compliance risks and advises Management on compliance risk management matters.

The compliance function works with other second lines of defence functions (risk management, actuarial function) to provide objective challenge and support. The function also serves in an advisory role as it implements and embeds procedures (via risk committee) and executes other compliance framework activities (internal audit reports). The work and performance of the compliance function shall be subject to periodic review by internal audit.

Independence of the compliance function

The Head of Compliance (HoC) is independent from any commercial, administrative or control function within Talanx Re in order to allow the individual to carry out compliance tasks/reviews with absolute impartiality. The HoC has a formal regular reporting line to the Managing Director and the CRO and together with the CRO reports to the risk committee on a quarterly basis and to the Board as a whole as necessary.

Compliance framework

The compliance function maintains a fit for purpose compliance framework in order to meet its objectives. The HoC produces an annual compliance report which is reported to the risk committee.

The annual compliance report contains the following topics:

1. Compliance Management Framework
2. Recipients of Report
3. Regulatory Background
4. Head of Compliance Tasks, Authorities & Responsibilities during 2016
5. Compliance risk
6. Independence of the Compliance Function
7. Relationship with other business & operational functions
8. EU, Irish & Central Bank Compliance Watch lists
9. 2016 Compliance Breaches
10. Internal Control System Reports 2016
11. SLA assessment 2016
12. 2017 Annual Compliance Plan.

B.5 Internal audit function

B.5.1 Policy

Talanx Re's internal audit function is outsourced to the holding company Talanx AG and carried out by Group Auditing. The Talanx Re internal audit function reports their findings and communicates updates directly with the management of Talanx Re as well as the Chairman of the audit committee at least on a quarterly basis.

The basic standards upheld by Group Auditing are outlined in a document called Guidelines Group Auditing and it has been approved by the Board of Directors of Talanx AG. The charter facilitates the evaluation of the structure and tasks of Group Auditing and describes the tasks, rights and responsibilities in respect of the supervisory authorities, the employees and any third parties transparently. Talanx Re's senior management regulates the requirements of the internal audit function as part of the overall governance system via this policy. The charter is based on international best practice regulations that derive from the legal requirements, the Solvency II regulations as well as the professional auditing standards. It defines the general basics including tasks, standards, rights and obligations of Group Auditing and its integration into the organization. In addition the charter regulates the basic internal auditing processes, the reporting, the quality assurance and the document management. The charter is reviewed and adjusted as necessary (at least on an annual basis) by the Head of Group Auditing. Changes might be necessary due to changes of the internal and external requirements or because of relevant structural changes (e.g. changes of the Group or corporate structure). All changes of the charter are approved by the Board of Talanx AG. In 2015 the charter was re-written to incorporate relevant Solvency II requirements.

B.5.2 Planning

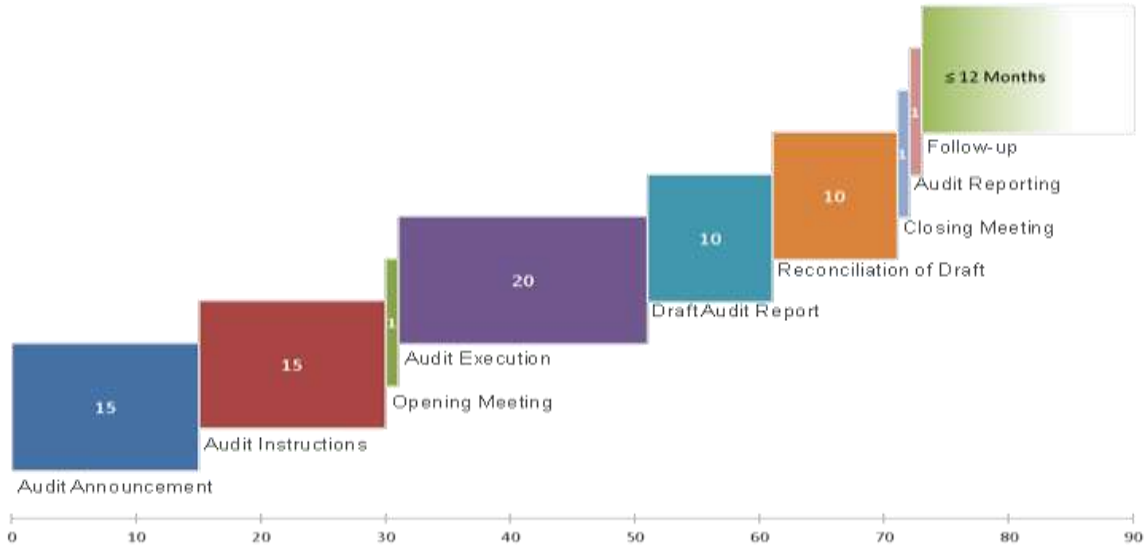
The auditing activities are based on the internal audit plan prepared by Group Auditing and approved by the Board. Group Auditing's role is carried out autonomously and includes unscheduled audits being undertaken if a major weakness is discovered. In order to exercise its monitoring function systematically, target oriented and efficiently for all relevant corporate areas, a comprehensive risk-oriented internal audit plan is prepared.

The audit universe is a basic tool which is reviewed at least annually with regard to its completeness or its representative status. All business processes as well as major participations are reviewed at least once within a 5 year period. Particular external requirements in respect of the auditing frequency (e.g. compulsory audits based on the anti-money laundering law) are also taken into account.

The following risk influencing factors are reflected:

- Inherent risk of the audit field
- Results from the last audit
- Legal and organizational changes regarding the audit field and
- Insights from the participation in committees and regular internal meetings with other governance functions.
- On average the annual Talanx Re's internal audit takes up to 90 audit process days as outlined below:

Internal Audit Function
Audit process in days



B.6 Actuarial Function

The Actuarial Function of Talanx Re is outsourced via service level agreement, to the Risk Management of HDI Global SE. The Board of Directors have appointed and approved Mr Thomas Adrian Schmidt to fulfil the Head of Actuarial Function (HoAF) at Talanx Re.

The HoAF organized a supporting team consisting of the following members of HDI Global SE's Risk Management department:

Ann-Kathrin Blessau	Service Centre Non-Life
Svenja Eriksen	Service Centre Non-Life
Adrian Schneider	Service Centre Non-Life
Dr Ralf Liebscher	Reserving team
Reinhard Lintermann	Reserving team

Within Talanx Re the HoAF and his team are referred to as the Actuarial Function (AF).

In accordance with the Solvency II-Directive (Article 48, clause 2) and the implementation to national law via European Union (Insurance and Reinsurance) Regulations 2015 – hereafter called "the 2015 Regulations" – (Regulation 50, clause 2) the Actuarial Function shall be carried out by persons who:

- have knowledge of actuarial and financial mathematics, commensurate with the nature, scale and complexity of the risks inherent in the business of the insurance or reinsurance undertaking, and
- are able to demonstrate their relevant experience with applicable professional and other standards.

Mr Thomas Adrian Schmidt fulfils all fit and proper requirements as he has comprehensive actuarial qualifications and extensive actuarial experience within the industry. Furthermore, he has been a member of the German association of actuaries for many years ("Deutsche Aktuarvereinigung").

Segregation of existing actuarial functions

Talanx Re's Chief Actuary (CA) is responsible for calculating the booked reserves and Technical Provisions with regard to Solvency II. The CA and the Actuarial Team review the pricing of incoming business and are involved in the Solvency II Internal Model (IM) process.

The Actuarial Function reviews the appropriateness of the methods and models used for calculating the Technical Provisions according to Solvency II. The AF supports the CA by highlighting quality issues (data, processes, assumptions, methods).

The following topics are not tasks of the HoAF:

- Calculation of Technical Provisions regarding Solvency II or IFRS
- Validation of data quality, assumptions, methods and results regarding IFRS
- Implementation or operation of the Internal Model.

Additional actuarial roles with Talanx Re are:

- **Reviewing Actuary**, who performs a peer review of the "Actuarial Opinion of Technical Provisions" and "Actuarial Report of Technical Provisions" every 5 years,
- the **Service Centre Non-Life,** who administer the IM,
- the **Pricing Team**, who price incoming business and
- the **Validation Team**, who validate Talanx Re's IM.

The responsibility for the risk management is with the risk committee and the Board of Directors. In particular the Board of Directors decides about the composition of this function, ascertains the suitability of the respective qualifications of the person appointed, taking the Actuarial Function's reporting requirements into account.

Independence of the Actuarial Function

In accordance with regulatory requirements, the HoAF is independent of Talanx Re's additional actuarial roles. The HoAF, the CA with the Actuarial Team and the Service Centre Non-Life are outsourced via service level agreements to HDI Global SE. As the HoAF and the CA are members of separate departments, there are no inter dependencies between these roles or reporting lines.

In order to highlight the HoAF's independence, the following measures are established:

- Talanx Re's HoAF reports directly to its BoDs
- the HoAF does not carry out any operational tasks at Talanx Re
- the HoAF has no participation with regard to underwriting or reinsurance arrangements within Talanx Re.

Tasks of the Actuarial Function

The tasks of the AF are regulated and outlined in several supervisory requirements (e.g. Article 48 of Solvency II-Directive, Article 272 of Delegated Acts, Guidelines on the System of Governance, Guidelines on Valuation of Technical Provisions). CBI published two papers ("Guidance for (Re)Insurance Undertakings on the Head of Actuarial Function Role" and "Domestic Actuarial Regime and Related Governance Requirements under Solvency II"), which assist undertakings to comprehend certain tasks outlined in Regulations 50 of the 2015 regulations. The regulations outlined above are the basis for the HoAF to produce the Report of the Actuarial Function.

The core tasks according to Regulation 50 of the 2015 Regulations are listed below:

Insurance and reinsurance undertakings shall provide for an effective Actuarial Function to:

a) coordinate the calculation of Technical Provisions;
b) ensure the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of Technical Provisions;
c) assess the sufficiency and quality of the data used in the calculation of Technical Provisions;
d) compare best estimates against experience;
e) inform the administrative, management or supervisory body of the reliability and adequacy of the calculation of Technical Provisions;
f) oversee the calculation of Technical Provisions in the case set out in Article 82 of Solvency II-Directive and Regulation 95 of the 2015 Regulations;
g) express an opinion on the overall underwriting policy;
h) express an opinion on the adequacy of reinsurance arrangements; and
i) contribute to the effective implementation of the risk-management system referred to in Regulation 46 of the 2015 Regulations in particular with respect to the risk modelling underlying the calculation of the capital requirements set out in Regulations 113 to 140 of the 2015 Regulations, and with respect to the assessment referred to in Regulation 47 of the 2015 Regulations.

In Article 272 of Delegated Act task a) is explained in more detail. The term "coordinate" is an assessment of the calculation of Technical Provisions (including assumptions, methods and quality of data).

The Actuarial Function produces an annual Actuarial Function report for the Talanx Re Board of Directors. The Actuarial Function report outlines the tasks, results and recommendations of the

Actuarial Function. If significant weaknesses are ascertained in the Actuarial Function, the Board of Talanx Re is to be informed directly.

Regarding his opinion on the calculation of Technical Provisions according to Solvency II the HoAF informs the Board of Directors via the Actuarial Report on Technical Provisions (ARTP) within two months after the submission date of the QRTs to which the report relates. The HoAF presents the ARTP to the Board of Directors. Within the scope of the aforementioned tasks, the HoAF is supported by the employees of Talanx Re, and the Actuarial Function team.

Opinion on retrocession

The AF listed the treaties that are subject to retrocession and considered the impact of retrocession according to Talanx Re's internal model. Furthermore, existing guidelines were taken into account to form an opinion on Talanx Re's retrocession arrangements in 2017.

The HoAF confirms, that there are no indications, that the existing guidelines do not represent an appropriate framework for retrocession underwriting policy. The comparison of the gross and net results of Talanx Re's IM indicate a favourable effect of the retrocession in place. The limits and thresholds of the existing retrocession are well within the parameters of the underlying protected treaties.

Opinion on underwriting

The AF described and assessed Talanx Re's pricing and underwriting processes. The following opinion refers to the underwriting arrangements of 2017.

There are no indications that the existing guidelines are not an appropriate framework for the underwriting policy. The HoAF confirms that Talanx Re complies with the existing guidelines in all material respects. In cooperation with Talanx Re's pricing actuary it was determined that with respect to one aspect the pricing guideline is not up to date, which led to the following recommendation:

(R8) It is recommended to adjust the description in the Actuarial Pricing Guideline that relates to the data handling in case of insufficient data.

The data used for the pricing is transparently depicted in the premium risk parametrization report. In 2016 there was no official document or clearly standardized check list, which lists plausibility checks that are performed on the data of the cedant. Therefore the following recommendation has been formulated:

(R9) Talanx Re specified quality checks, which are to be performed on cedants' data within the next renewal. It is recommended to document the planned quality checks for each programme.
The actual vs expected analysis, which was provided by Talanx Re, is a useful tool to review and to validate the pricing practise.

Opinion on Technical Provisions

In the opinion of the HoAF there are no material limitations on the sufficiency, appropriateness, completeness and accuracy of data or the appropriateness of the methodologies, models and assumptions used in the calculation of the Technical Provisions as at 31.12.2017.

To form this opinion and the recommendations the Actuarial Function performed an independent calculation of the Best Estimate for Claims Provisions for proportional treaties. The results were compared with the reserves of Talanx Re. Furthermore the transparency of Talanx Re's calculation steps was examined. The Actuarial Function analysed the calculations performed by the Chief Actuary regarding inconsistencies in itself or to the Special Reserving Guideline of Talanx Re. Furthermore the underlying data basis was assessed.

Within the ARTP 2018 the AF made Talanx Re the following recommendations:

(R1 2018) It is recommended to ensure that the AF is provided with data of the same date as is used for the reserving calculation in order to avoid data inconsistencies and misjudgements. The transfer from ResQ to the booked reserves would be more transparent if the overview per treaty is extended by an additional column of the ResQ loss ratios.

(R2 2018) It is recommended to perform further analyses regarding the procedure to close the time gap between loss triangle data and year-end – currently this is done by RESQ using a Cubic Spline function.

(R3 2018) It is recommended to propose the topic “Data Quality in the reserving process” for one of the next Internal Audit reviews.

(R4 2018) It is recommended to extend the existing reserving process documentation, task “Verify Data” in more detail and to illustrate the process steps of the used data from its source to the application.

(R5 2018) It is recommended to show the ENID loadings per treaty within the Actuarial Reserving report more clearly, for instance as absolute numbers in a tabular form.

(R6 2018) It is recommended to perform an “Actual versus Expected” analysis that compares the reported payments with the expected ones of the reserving calculations.

(R7 2018) It is recommended to continue to build up a sufficient own data history. This recommendation will remain until Talanx Re has several more years of claims experience.

Opinion on Risk Management

The Internal Model approach of calculating premium risk, counterparty default risk and reserving risk reflects the actual risk positions of Talanx Re almost perfectly. The used simplifications are few and immaterial. A direct link to the underwriting is established via the usage of the pricing results. Thus, the premium risk calculation is consistent with underwriting and pricing policies.

B.7 Outsourcing

B.7.1 Outsourcing policy

Talanx Re's Outsourcing Policy ensures that the decision to outsource activities is taken in a rigorous, transparent and consultative manner serving the best interests of Talanx Re. Robust and effective systems and controls over outsourced activities are an integral element of Talanx Re's control over the outsourced provider and the management of outsourcing risk, whilst also ensuring compliance with regulatory obligations.

Effective controls are also a key element in ensuring outsourced activities deliver the required level of service, at the agreed costs, and minimise any potential reputational damage whilst complying with all regulatory and legislative obligations.

The key to outsourcing is ensuring the Company's senior management team retains ultimate responsibility for the discharge of its obligations.

Any Talanx Re company activity may be outsourced under Solvency II, including all activities in relation to the key functions. Any material development to an outsourcing arrangement (including commencement or change of any outsourcing arrangements of critical or important functions of outsourcing functions) must be reported to CBI giving at least 6 weeks' notice to the proposed change.

B.7.2 Outsourcing activities

The Outsourcing guidelines outline Talanx Re's outsourcing processes and strategies throughout the lifecycle of the outsourced activity. These processes include:

- Selecting an outsourced provider
- Requirement content of a Service Level Agreements (SLA)
- Responsibilities of SLA owners
- Management and monitoring of SLAs
- Breaches reporting.

Talanx Re conducts an annual audit of its major outsourced service level agreements. Below is a list of Talanx Re's most significant SLA's (all service providers are domiciled in Germany):

#	Talanx Re Outsourced Service	Talanx Group SLA Provider
1	Risk Management	Talanx AG
2	TRB Non-Life Actuarial Services	Talanx Reinsurance Broker GmbH
3	HDI Non-Life Actuarial Services	HDI Global SE
4	Investment	Talanx Asset Management GmbH
5	IT Services	Talanx Systeme AG
6	Retrocession	Talanx Reinsurance Broker GmbH
7	Internal Audit	Talanx AG

Outsourcing reporting responsibilities

During the 2017, Talanx Re's outsourcing activities have upheld all solvency II requirements in line with 2009/138/EU Solvency II Directive and CBI's 2016 Notification Process for Re/insurance Undertakings when Outsourcing Critical or Important Functions or Activities under Solvency II.

B.8 Any other information

All material and relevant information about the system of governance are included in the sections of chapter B.

C. Risk profile

Talanx Re quantifies its risks with a partial internal model. The partial internal model was approved by the supervising authorities on 28 March 2017. It quantifies the required risk capital according to the 99.5% Value at Risk (VaR) within a one year time horizon.

Within the partial internal model the operational risk is calculated by the standard formula and aggregated with the internal model results of all other risk categories. The following table shows the major risk categories and the differences between the last annual model run and the annual model run before that for each risk categories.

Partial Internal Model		
Figure in € thousand	Q4 2017	Q4 2016
Market risk	74,114	67,946
Counterparty default risk	3,158	2,530
Underwriting risk	122,113	92,322
Operational risk	16,943	15,743
Solvency Capital Requirement	134,403	107,696
Diversification	81,925	70,845

Table: Comparison SCR

The SCR increases mainly due to increased assets (market risk) and increased reserves (underwriting risk).

C.1 Underwriting risk

Underwriting risk for property / casualty lines consist of premium risk and of reserve risk. It describes a change in value caused by ultimate loss costs for full contractual obligations varying from those assumed when these obligations were estimated.

The underwriting risk of Talanx Re is subject to the General Underwriting Guideline and the General Retrocession Guideline. The framework for the Talanx Re's underwriting risk is given by the risk strategy and the risk appetite statement.

Talanx Re's underwriting risk originates almost exclusively from cedants being entities of Talanx Group. The only exceptions are cedants in Bulgaria, Luxembourg and the Ukraine. These companies were sold to third parties. All three were Talanx entities at the time the respective reinsurance contracts were signed. The nominal technical provisions according to Solvency II of these three entities as at 31 December 2016 are comparably small:

	Technical Provisions
Talanx Entities	99.92%
non-Talanx Entities	0.08%

Table: Talanx vs non Talanx TP

No collateral in terms of Article 214 of the Commission Delegated Regulation (EU) 2015/35 has been given by or to Talanx Re.

Underwriting risks property / casualty

a) Premium risk

Premium risk describes the risk that future losses are larger than expected, either through higher than expected individual loss events or higher loss frequencies.

The premium risk within the internal model of Talanx Re is estimated by a simulation approach at treaty level. The simulations per treaty are taken from the actuarial pricing process carried out per treaty before writing any share as governed by the General Underwriting Guidelines and the Actuarial Pricing Guideline. The simulations of the single treaties are combined using a copula with dedicated dependencies between the treaties.

The simulations are, subject to the underlying risk, split into attritional losses, large losses and natural perils losses. For a consistent view on natural perils Talanx Re applies external models (Applied Insurance Research, Risk Management Solutions, Impact Forecasting). The simulations, input data, output data and methodologies, are subject to a validation process which is independent of any risk taking activity.

The most material premium risk exposures currently held by Talanx Re are:

- German industrial GTPL
- Worldwide natural perils event risk.

Total Premium Risk, Diversified			77,962
ThereOf	Natural Perils Total, diversified		46,132
	Non Natural Perils Total, diversified		70,267
	ThereOf	Industrial GTPL, diversified	58,846
		ThereOf Industrial GTPL Prop	44,996
		ThereOf Industrial GTPL Non-Prop	22,795
		all remaining, diversified	52,567

Table: Premium Risk overview

The premium risk portfolio is protected for Talanx Re's standard business by non-proportional retrocession covering third party liability and natural perils events. In addition some proportional retrocession is in place. This retrocession reduces the premium risk:

Figures in € thousand	Premium Risk
Gross	137,956
Net	77,962
Risk Mitigation	-59,995

Table: Premium Risk, Retrocession

Compared to previous year the premium risk is higher now. This is mainly due to newly signed.

The potential default of retrocession reinsurers for premium risk is captured within the counterparty default risk of the internal model (for details please refer to chapter C.3 of this document). The retrocession is bought in line with the General Retrocession Guideline and adjusted to the premium risk portfolio annually.

From a cedant point of view a high concentration of assumed reinsurance treaties is with HDI Global SE. In terms of earned premium, the following table shows the most material cedants:

	Share in volume, 2016
HDI Global	64.3%
HDI Germany (HV)	16.9%
HDI Austria	7.0%
All Remaining	11.84%
Total	100.00%

Table: Concentration by Cedant

To define the risk sensitivity of the premium risk stress tests are carried out. Stress tests are carried out by changing the input data of the internal model and performing a full model run.

Stress 1: The dependency structure between the individual treaties is stressed by changing the underlying dependencies of the applied copula:

Figures in € thousand	Premium Risk	Underwriting Risk	SCR before tax
Original structure	77,962	122,113	139,481
+10%	84,313	125,447	141,859
-10%, >0%	73,860	118,087	138,436

Table: Stress dependencies

Stress 2: The copula chosen to reflect the dependency structure is stressed:

Figures in € thousand	Premium Risk	Underwriting Risk	SCR before tax
Original structure	77,962	122,113	139,481
t-Copula 5 d.o.f.	87,275	139,519	153,930
t-Copula 10 d.o.f.	82,302	126,830	146,374

Table: Stress Copula

Stress 3: for the largest premium risk segment, German industrial GTPL, the probability distribution parameter is stressed:

LL= Large Loss distribution, AL=Atrittional Loss Distribution, std= standard deviation

Figures in € thousand		Premium Risk	SCR before tax
Original values	Original values	77,962	139,481
AL	mean and std + 10%	79,835	142,035
AL	mean and std -10%	75,427	138,396
LL, severity	mean and std + 10%	78,125	140,260
LL, frequency	mean +10%	77,385	140,808

Table: Stress Industrial GTPL

b) Reserve risk

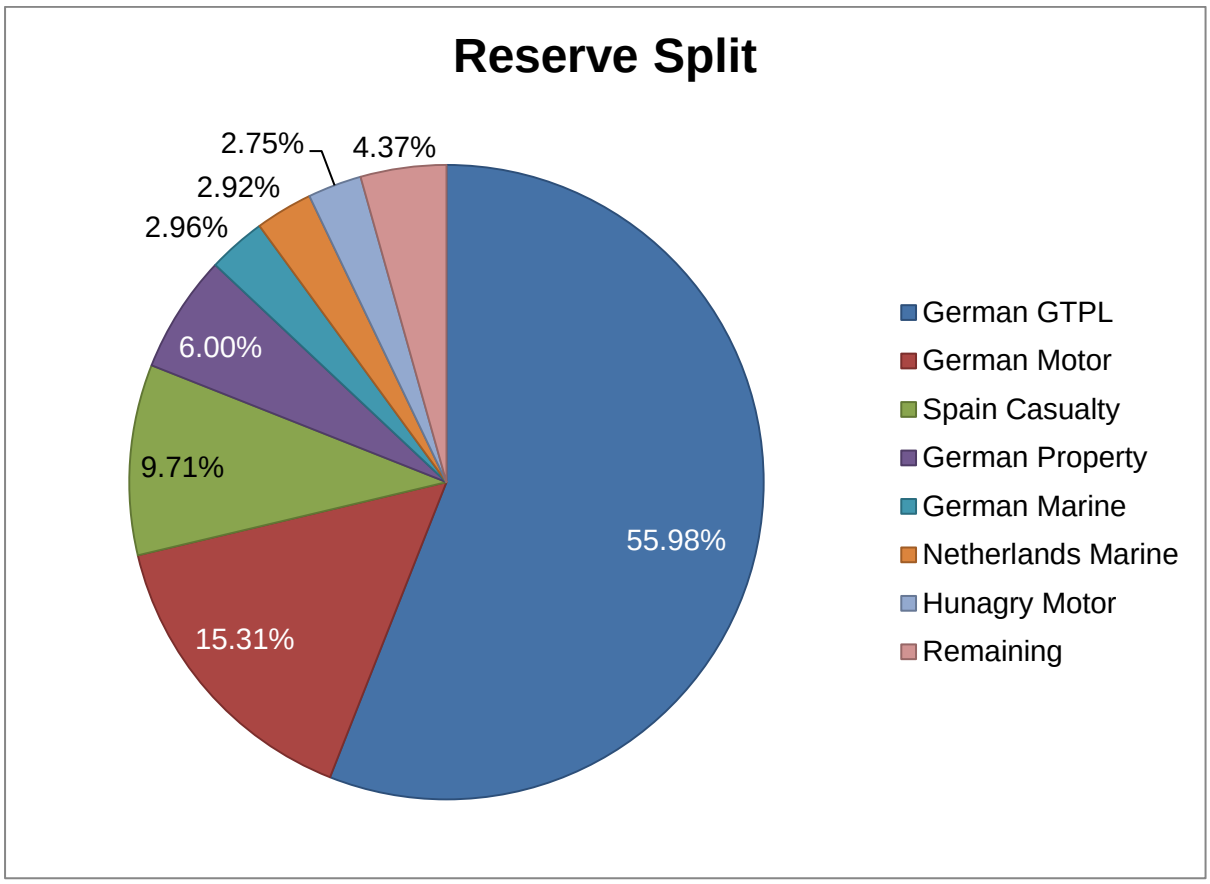
Reserve risk relates to already incurred claims, i.e. existing claims including IBNR and IBNER and originates from claim sizes being greater than expected, differences in timing of claims payments from those expected and differences in claims frequency from those expected.

The reserve risk within the internal model of Talanx Re is based on actuarial methods and on data, widely identical to the data applied in the actuarial reserving process of Talanx Re.

The technical provisions are subject to an annual independent review by the actuarial function of Talanx Re. The outcome of this review is presented to and discussed in the Board of Directors meeting. One outcome controlled by this review is the relation of booked IFRS reserves to best estimate technical provisions. Within the context of the limit and threshold system the best estimate technical provisions

have to be at 102% (threshold) respectively 100% (limit) of the booked IFRS reserves. Currently this reserve ratio is well above the threshold.

The following graph gives a split of the volumes, by nominal best estimate reserves, by segments.



Graph: Split of nominal reserves

The single reserve segments are combined within the internal model using a copula with dedicated dependencies among the segments.

A large part of the reserves are protected by inuring reinsurance of the cedants which limits the maximum single loss. The largest single reserve risk segment originates from a GTPL quota share from the industrial lines business. The maximum single loss for Talanx Re for this business is limited to €5,000 Mio. The counterparty default risk of this inuring reinsurance is typically not part of Talanx Re's risk. An exception is the Spanish Third Party Liability portfolio which is not just protected by inuring reinsurance, Talanx Re also carries the risk of default of the inuring reinsurers for this portfolio as well as any reinstatement premium to be paid to any of the inuring reinsurers. The technical provisions take account of these risks. For a discussion of the default of these inuring reinsurers please compare chapter C.3 of this document.

As the reinsurance recoverables of the retrocessions in place for past accident years are zero, risk mitigation, though in place, has no effect on the reserve risk.

For underwriting years 2013 to 2016 the MTPL as well as parts of the GTPL business are reinsured by non-proportional reinsurance. The retention levels for these accident years are between € 5,000 Mio and € 12,750 Mio. No further risk mitigation instruments are planned for the time being.

The reserve risks from the internal model of the most relevant segments are (Figures in € thousand)

Segment	Amount
Industrial Property	29,656
Industrial GTPL Proportional	52,107
Industrial GTPL Non-Proportional	6,580
Industrial Motor Third Party Liability	3,076
Hungarian Motor Third Party Liability	1,463
Spanish Third Party Liability	19,849
Industrial Marine	39,988
Total Diversified	97,547

Table: Reserve Risk by segment

Compared to previous year the reserve risk is higher now. This is mainly due to the longtail treaties, where the payments are lower than the reserve added.

Reserve volume and reserve risk concentrations are reviewed on a quarterly level and discussed in the Board of Directors meetings.

To define the risk sensitivity of the reserve risk stress tests are carried out. Stress tests are carried out by changing the input data of the internal model and performing a full model run.

Stress 1: The dependency structure between the individual segments is stressed by changing the underlying dependencies of the applied copula:

Figures in € thousand	Reserve Risk	Underwriting Risk	SCR before tax
Original structure	97,547	122,113	139,481
Original structure +10%	109,395	130,956	151,528
Original structure -10% but >0%	86,279	113,567	132,030

Table: Stress reserve dependencies

Stress 2: The copula chosen to reflect the dependency structure is stressed:

Figures in € thousand EUR	Reserve Risk
Original structure	97,547
t-Copula 5 d.o.f.	108,324
t-Copula 10 d.o.f.	97,973

Table: Stress reserve Copula

Stress 3: The largest reserving segment, German industrial proportional GTPL is stressed in volume:

Figures in €thousand	Reserve Risk	Underwriting Risk	SCR before tax
Original structure	97,547	122,113	139,481
Increase by 20%.	99,651	122,815	140,088
Increase by 30%.	101,596	123,513	140,603

Table: Stress GTPL

C.2 Market risk

Investment portfolio by asset class

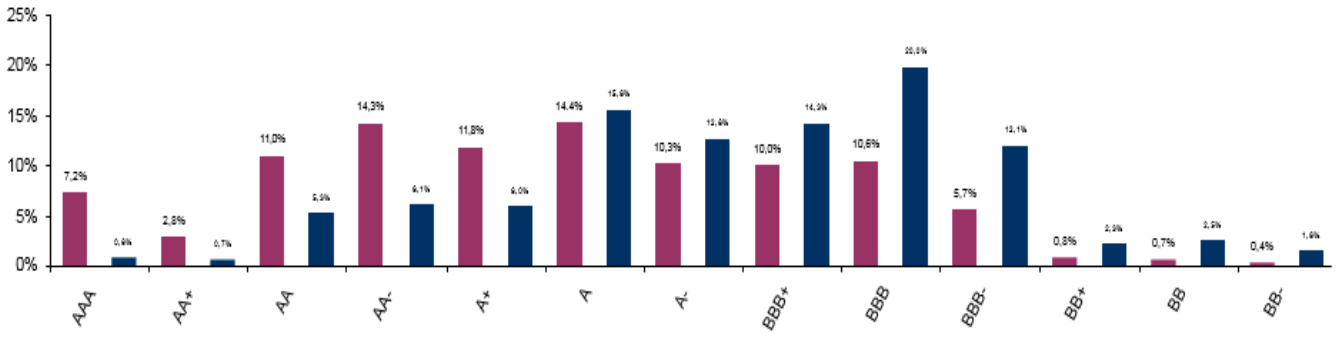
The following table contains the total Talanx Re assets under management to the key date 31 December 2017. Furthermore, the main asset classes and the related market values are depicted:

Talanx Re (Ireland)- Asset under management (figures in € thousands)	2016	2017
Governments	74,245	81,097
Semi Governments	17,834	20,525
Cover Bonds	181,993	201,647
ABS/MBS	78,787	90,108
Corporates	274,225	293,751
Other Fixed Income	5,644	5,889
Total Fixed Income	632,728	693,017
Equites	22,359	25,725
Times Deposits	2,309	1,254
Other Investments	19,026	41,325
Cash	15,174	12,209
Total AuM	691,596	773,530

From the composition of the investment portfolio it can be concluded that Talanx Re follows a conservative investment strategy.

Credit VaR

The following histogram shows the ratings of Talanx Re's bonds. The distribution makes the conservative investment strategy evident. For the purposes of operational steering the asset portfolio in addition to TERM further credit risk models are applied. The dark bars show the credit risk derived from Moody's risk calculation system. The red ones show the market values per rating category:



The next table summarizes the main parameters of the profile of Talanx Re's credit risk.

Business Unit	Market Value	Expected Loss	Credit VaR	CVaR Ratio	PD	LGD	Maturity
Talanx Reinsurance (Ireland) SE	757.910,8	411,8	38.561,7	5,1%	0,115%	48,8%	6,2

Source: CVaR-Report (31.12.2017) *(in € thousand)*

Sensitivities

The table with stress tests related to interest rate risk highlight Talanx Re's sensitivity with respect to this risk factor:

Stress Test analyses of different assets

	AuM* (€ Mio)	Change in interest rate				Equity (without alternative investments)			
Stress Factor		**-100bps**	**-50bps**	**+50bps**	**+100bps**	**-20%**	**-10%**	**10%**	**20%**
Fixed Income	693,239	4,3%	2,1%	-2,2%	-4,2%				
Equity	25,725					-20%	-10%	10%	20%
Alternative Investments	27,362	1,2%	0,6%	-0,6%	-1,1%				
other	23,152	3,5%	1,7%	-1,6%	-3,1%				
Talanx Reinsurance (Ireland) SE	**769,478**	**4,0%**	**2,0%**	**-2,0%**	**-3,9%**	**-0.7%**	**-0.3%**	**0.3%**	**0.7%**

Source: Investment report TAM 31/12/2017

**AuM = Assets under management*

The stress tests provide information on the sensitivity of the investments to different risk factors. If the interest rate changes by 100 basis points, the value of the total assets is recording a 4.4% to 4.3% move in either direction. And similarly if the value of equity prices changes by 20% the value of the total assets moves by 0.7% in either direction.

Conclusion: the symmetry of the table above indicates that the portfolio is dominated by so-called quasi linear instruments, i.e. the proportion of options and complex derivatives in Talanx Re's portfolio is of minor importance.

C.3 Credit risk

Credit risk is the risk of a change in value due to actual credit losses deviating from expected credit losses due to the failure to meet contractual debt obligations.

Credit risk in terms of the internal model of Talanx Re is limited to reinsurance counterparty default risk. The default risk of assets as bonds and other investments is part of the market risk, and here especially the credit and spread risk of investments and liabilities.

No collateral in terms of Article 214 of the Commission Delegated Regulation (EU) 2015/35 has been given by or to Talanx Re in respect of credit risk.

The reinsurance default risk of Talanx Re is comparably small with less than 5% of SCR before tax of the full internal model.

The reinsurance recoverables of Talanx Re are zero, i.e. the reinsurance default risk stems from only two sources. The first source is the default of reinsurers participating in cessions of the current year out of premium risk. The other source stems from the default of the inuring reinsurers for the Spanish reserves portfolio. Talanx Re took over this default risk – as part of the underwriting risk – in 2013.

To model the default risk appropriately the default risk of the inuring reinsurance is modelled within the reinsurance default risk. The following table shows the volume of this ceded inuring reinsurance in terms of nominal best estimate reserves. Of this value the largest part is allocated to HDI V.a.G. as ultimate counterpart and thus this company, at the same time the ultimate owner of Talanx Re, forms the highest concentration risk.

Figures in € thousand		Technical provisions
Talanx Re		47,181
Ceded to inuring reinsurance		51,808
thereof	HDI V.A.G	29,058
	Partner Re	7,734

Table: Spanish book

The concentration is monitored regularly. The second largest concentration is Partner Reinsurance Europe Ltd. Both groups also play an important role as retrocession partners of the retrocession for the current underwriting year.

The total reinsurance default risk can be split into the part stemming from the 2017 treaties and the part stemming from the Spanish treaty:

	Figures in € thousand
2018 Treaties	1,747
Spanish Treaty	1,885
Total (diversified)	3,158

Table: Counterparty risk

In the standard formula the reinsurance default risk is substantially smaller. In the standard formula reinsurance default risk only reflects the part stemming from the Spanish treaty, the premium risk part is not included.

In the planning of future periods it is not intended to change the quantity or the quality of the retrocession contracts. The volume of the best estimate technical provisions of the inuring reinsurance of the Spanish portfolio will decrease with the development of the underlying losses.

Credit risk in terms of failure of receivables from cedants is not reflected in the internal model. With almost all premiums being 12 month accident year treaties this risk is assumed to be very remote.

To define the risk sensitivity of the credit risk stress tests are carried out. Stress tests are carried out by changing the input data of the internal model and performing a full model run.

Stress 1: the volume of the largest single retrocessionaire, Hannover Re, is increased by 50%

Figures in € thousand	Reinsurance Default Risk	SCR before tax
Original structure	3,158	139,481
Stress	3,207	139,354

Table: Stress credit volume

Stress 2: the rating of the largest single retrocessionaire, Hannover Re, is decreased by 2 notches

Figures in € thousand	Reinsurance Default Risk	SCR before tax
Original structure	3,158	139,481
Stress	3,655	139,474

Table: Stress credit rating

C.4 Liquidity risk

For Talanx Re liquidity risk is the risk, that assets cannot be sold timely at reasonable price levels to fulfil Talanx Re's financial obligations in time.

Talanx Re's liquidity position is typically very good due to the fact that premiums are paid before claims payments or other obligations are due. At the same time Talanx Re showed a positive technical cash flow for the past years.

The liquidity risk is hedged at Talanx Re through a high diversification and fungibility of the invested assets. By matching assets and liabilities with respect to currencies and expected terms and through cash flow planning, Talanx Re ensures sufficient liquidity at all times.

To control the liquidity risk each asset class has a liquidity code which gives a rating towards the possibility to sell the asset at a reasonable (market) price at short notice. The liquidity codes are regularly verified by the risk control department of TAM, the asset managers of Talanx Re. Additionally Talanx Re's Investment Guidelines define a minimum quota to be invested in highly liquid assets and a maximum quota to be invested in illiquid asset classes.

The liquidity, that is needed to balance the current accounts, is given for the following 12 months according to the liquidity planning. The aforementioned checks and controls do not show any liquidity issue.

The largest asset classes, representing about 90% of the assets are:

Asset Class	Market Value Figures in € thousand
Corporate Bonds	297,182
Covered Bonds	203,582
Funds Withheld	77,954
ABS/MBS	90,584
Government Bonds	81,974
Remaining	99,707

Table: Asset volume

In terms of liquidity risk, the position funds withheld bears no liquidity risk as these assets are already on the cedants accounts.

The invested assets excluding funds withheld are split into many 100 individual investments (including equity funds, which split into hundreds of individual assets) creating a well-diversified portfolio.

Other risk concentrations are not anticipated over the business planning time period.

For liquidity risk, no risk mitigation technique other than asset liability matching is in place. The expected profit included in future premiums (EPIFP) is regularly not included in the liquidity planning. The EPIFP are calculated by applying the results from the actuarial pricing (basically mean loss ratio and mean commission) to the expected premium, then the expected retrocession losses are deducted, the expected retrocession premium are added and the expected administrative expenses are added. The result is the EPIFP:

Figure in € thousand	
Gross Value	19,351
Expected Retrocession Premiums	15,820
Expected Retrocession Recoverables	14,239
Expected Counterparty Default	188
Net Value	10,510

C.5 Operational risk

Operational Risk (along with other risk management topics) is outlined in Talanx Re's risk report which is produced in Q2 and Q4 annually. The risk report monitors the overall risk situation comprising of information from the quantitative and qualitative risk management systems. The coverage of own funds according to the current regulatory regime and the internal model is presented as well as breaches originating from the system of limits and thresholds and the risk appetite statement. In addition, results from further risk relevant analyses are provided in order to outline a holistic view of the risk situation.

The risk identification process is undertaken by a customised IT system / database called Talanx Tagetik SIIP2.

Operational risk, by definition, is a risk of a change in value caused by the fact that actual losses, incurred for inadequate or failed internal processes, people and systems or from external events (including legal risk), differ from the expected losses.

Within the internal model TERM Talanx Re's operational risks are quantified. The following table outlines the results of the SCR calculations: **Risk appetite - operational risk**

Risk appetite - operational risk

Risk measure	Limit	Threshold	TERM 2016	Last Report
Share of operational risk in % of aggregated undiversified SCR	Max. 20.00%		9.99%	10.00%

Source: Internal model as at Q4 2016 (after retrocession, after tax)

For regulatory purposes the Company calculates the operational risk on the Solvency II standard formula.

C.6 Other material risk

C.6.1 Further information regarding other material risk

Group transactions

Talanx Re, being the prime reinsurer of the Talanx primary group, underwrites only group internal reinsurance contracts and almost all of the technical provisions are stemming from group cedants. Only those cedants which are sold after the respective reinsurance contracts were signed do not belong to the Talanx group (compare chapter C1 Underwriting Risk). In turn also almost all of the insurance receivables of Talanx Re are from within the Talanx group.

All reinsurance contracts are signed with arm's length conditions. For most contracts the arm's length conditions are proved via third party comparison (third parties participate on the original contract with relevant shares) and for a few treaties via a hypothetical third party comparison. The arm's length documentation is discussed within the Board of Directors meetings at least annually.

On retrocession, group participations are limited to Hannover Re group.

Within Talanx Re's asset portfolio one bond, market value of €11.603 Mio, is issued by Talanx group.

C.7 Any other information

There are no further material topics to be disclosed under this section.

D. Valuation for solvency purposes

D.1 Assets

Goodwill

Goodwill from acquisitions is valued at zero in Solvency II balance sheet as this is not applicable.

Figures in € thousands	Solvency II value		Statutory accounts value	
	2017	2016	2017	2016
Goodwill	0	0	0	0

Deferred acquisition costs

The deferred acquisition costs (DAC) do not represent a recognisable asset, as acquisition costs are dealt with via the best estimate calculation of technical provisions.

Figures in € thousands	Solvency II value		Statutory accounts value	
	2017	2016	2017	2016
Deferred acquisition costs	0	0	11,091	2,385

Intangible assets

Intangible assets are valuated in the Solvency II balance sheet with zero unless they can be sold separately and there is a quoted market price in an active market for the same or similar intangible assets. According to the Solvency II requirements the definitions in IAS 38 Intangible Assets, including the definition of active markets, are applicable in Solvency II

The intangible assets shown under the statutory accounts represent bespoke software developmental and associated costs including licence fee etc. As no active quoted prices in an active market can be observed this amount is valued at zero in the solvency II balance sheet.

Figures in € thousands	Solvency II value		Statutory accounts value	
	2017	2016	2017	2016
Intangible assets	0	0	447	571

Deferred tax asset

IAS 12 Income Taxes applies for Solvency II. Deferred taxes are recognised for the revaluation differences between the local (tax) IFRS balance sheet and the Solvency II balance sheet. IAS 12 requires deferred tax assets be established if assets have to be recognised in a lower amount or liabilities in a higher amount in the consolidated balance sheet than in the tax balance sheet and if these temporary differences will lead to reduced tax burdens in the future.

Deferred tax assets are also recognised on tax loss carry-forwards and tax credits. Value adjustments are taken on deferred tax assets as soon as realisation of the net value of deferred tax assets and deferred tax liabilities no longer appears likely. Deferred taxes are measured at 12.5% according to the tax regulations in the Republic of Ireland adopted as at the closing date.

Deferred tax assets may only be netted with deferred tax liabilities if an enforceable right exists to net actual tax refund claims with actual taxes owing. A precondition here is that the deferred tax assets and deferred tax liabilities refer to income taxes that are levied by the tax authority.

Under IFRS deferred tax assets and liabilities are measured at the tax rates that are expected to apply for the period in which an asset is realised or a liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax assets and liabilities reflect the tax consequences that would follow, as of the balance sheet date, from the expected manner of the reversal of temporary differences.

Figures in € thousands	Solvency II value		Statutory accounts value	
	2017	2016	2017	2016
Deferred tax assets	11,981	1,318	0	0

The balance of deferred tax assets (€11.981 Mio) and deferred tax liabilities (€ 25.014 Mio) results in a net deferred tax liability for Solvency II to IFRS in the amount of €13.033 Mio which is caused by valuations of assets and liabilities according to Solvency II framework compared to IFRS valuation.

Pension benefit surplus

There was no pension benefit surplus to report as this is not applicable.

Figures in € thousands	Solvency II value		Statutory accounts value	
	2017	2016	2017	2016
Pension benefit surplus	0	0	0	0

Property, plant & equipment held for own use

Assets under property, plant and equipment held for own use are measured at cost less accumulated depreciation in the statutory accounts under IFRS and comprising mainly of equipment.

In arriving at the Solvency II fair value the Company believes in the absence of an existing active market the fair value is close to book value.

Figures in € thousands	Solvency II value		Statutory accounts value	
	2017	2016	2017	2016
Property, plant & equipment held for own use	18	27	18	27

Property (other than own use)

There are no valuation differences as this is not applicable.

Figures in € thousands	Solvency II value		Statutory accounts value	
	2017	2016	2017	2016
Property (other than for own use)	0	0	0	0

Holdings in related undertakings, including participations

Figures in € thousands	Solvency II value		Statutory accounts value	
	2017	2016	2017	2016
Holdings in related undertakings, including participations	0	0	11,604	4,723

Methods: none

Main assumptions: none

Difference: The difference between the Solvency II value and the Statutory Accounts value to the amount of €-11.604 Mio is mainly due to private equity investments - which are recognised as collective investment undertakings according to Solvency II whereas in the statutory accounts they are all classified as Holdings in rel. Und., incl. participations

Quoted and non-quoted stocks

Figures in € thousands	Solvency II value		Statutory accounts value	
	2017	2016	2017	2016
Total Equities	0	0	0	224
Equities - listed	0	0	0	0
Equities - unlisted	0	0	0	224

Basis: In general listed stocks are priced with their publicly available price as published by their respective exchange. Non-listed stocks are prices via alternative valuation models. Especially investment vehicles for alternative investments (e. g. private equity investments), which are equity investments due to business-policy considerations, are subject to a mark-to-model valuation and are not treated like listed equity investments.

A financial market is regarded as active market if quoted prices for traded items are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis. An active market is a market where all the following requirements are met:

- The items traded within the market are homogeneous;
- Willing buyers and sellers can normally be found at any time; and
- Prices are available to the public.

An active market becomes an inactive market if market liquidity is no longer given due to a complete and enduring retreat from market participants (buy- and/or sell-side). A further indication of an inactive market is if transactions demonstrably only occur due to forced sales or liquidations.

A judgement whether a market is active or inactive is always a discretionary decision to a certain extent. An evaluation can be performed more easily for exchange traded instruments. This evaluation becomes more complex for markets (e.g. Bond market), where transactions are mainly conducted via brokers (OTC transactions) since these markets are typically less transparent than markets for exchange traded instruments.

The classification of market prices according to the explanatory text of guideline 7, EIOPA Guidelines SFCR BoS. 15/105, item 2.22 is defined as follows:

a) “Quoted prices in active markets for identical assets”:
Assets measured at (unadjusted) prices quoted directly in active markets.

b) “Quoted prices in active markets for similar assets”:
None
c) “Inputs other than quoted prices in active markets for identical or similar assets, that are observable for the asset directly (i.e. as prices) or indirectly (i.e. derived from prices)”:
Assets which are measured using observable market data and are not allocable to Level a). Their Measurement is based, in particular, on prices for comparable assets that are traded on active markets, prices on markets that are not considered active as well as inputs derived from such prices or market data.
d) “Inputs not based on observable market data“:
Assets that cannot be measured or can only partially be measured using observable market inputs. The measurement of such instruments is principally based on valuation models and methods.

A significant input is defined as an input parameter or an adjustment to an input parameter that affects the fair value measurement of an instrument in its entirety by more than 10 percent (i.e. up or down by more than 10 percent).

Methods: Listed instruments are priced on instrument-level. Quotes from the domestic stock exchange are applied as default-valuation. If reasonable (e. g. because of liquidity considerations) the quotation form another exchange may be applied.

A hierarchy of the available quote types is used independently from the trading venue. Highest priority is attached to quote type “bid” (i.e. the quote applicable for a sale). If not available the price types "traded" (i.e. the last traded price of the day) and "Close" (i.e. the officially published quote for the day as published by the exchange on the following business day) used in second and third place.

The aforementioned alternative investment vehicles are valued via the net asset value method. The net asset value is calculated as the sum of all assets (in this case mainly target investments and current accounts and bank deposits) less any liabilities. The target investments (in this case, the actual "alternative investments" such as "private equity" investments) usually are single-member companies which provide audited annual or quarterly financial statements to the investor. The target investments are therefore equity investments (typically only a portion of the whole transaction is owned). Their values, as derived from the audited financial statements, are the basis of the valuation of the (alternative) investment vehicle.

All methods and parameter-definitions applied are validated at least annually (for timeliness and / or adequacy) and adjusted if necessary.

Main assumptions: none

Difference: There were no positions to report under this heading as at year end.

Treasury and corporate bonds

Figures in € thousands	Solvency II value		Statutory accounts value	
	2017	2016	2017	2016
Bonds	**601,395**	**563,757**	**610,049**	**561,048**
Government Bonds	82,579	93,123	102,682	93,061
Corporate Bonds	518,816	470,634	507,367	467,987

Basis: Government and corporate bonds prices are mainly based on quoted prices from active markets. If there are no publicly available quoted prices or the respective markets are not classified as active markets, the positions are marked-to-model.

A financial market is regarded as an active market if quoted prices for traded items are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis. An active market is a market where all of the following requirements are met:

- The items traded within the market are homogeneous;
- Willing buyers and sellers can normally be found at any time; and
- Prices are available to the public.

An active market becomes an inactive market if market liquidity is no longer given due to a complete and enduring retreat from market participants (buy- and/or sell-side). A further indication for an inactive market is if transactions demonstrably only occur due to forced sales or liquidations.
A judgement whether a market is active or inactive is always a discretionary decision to a certain extent. An evaluation can be performed more easily for exchange traded instruments. This evaluation becomes more complex for markets (e.g. Bond market), where transactions are mainly conducted via brokers (OTC transactions) since these markets are typically less transparent than markets for exchange traded instruments.

The classification of market prices according to the explanatory text of guideline 7, EIOPA Guidelines SFCR BoS. 15/105, item 2.22 is defined as follows:

a) “Quoted prices in active markets for identical assets“:
   Assets measured at (unadjusted) prices quoted directly in active markets.
b) “Quoted prices in active markets for similar assets“:
   None
c) “Inputs other than quoted prices in active markets for identical or similar assets, that are observable for the asset directly (i.e. as prices) or indirectly (i.e. derived from prices)”:
   Assets which are measured using observable market data and are not allocable to Level a). Their Measurement is based, in particular, on prices for comparable assets that are traded on active markets, prices on markets that are not considered active as well as inputs derived from such prices or market data.
d) “Inputs not based on observable market data“:
   Assets that cannot be measured or can only partially be measured using observable market inputs. The measurement of such instruments is principally based on valuation models and methods.

A significant input is defined as an input parameter or an adjustment to an input parameter that affects the fair value measurement of an instrument in its entirety by more than 10 percent (i.e. up or down by more than 10 percent).

Methods: Market quotations come from selected pricing services, trade information systems or intermediaries (brokers) considered as reliable. The available potential pricing sources are placed in a ranking based on a hierarchy. In general prices of pricing services have the highest priority the ones from intermediaries is the lowest. Exceptions may be made e. g. for selected market segments-/ currency-combinations.

A hierarchy of the available quote types is used independently from the trading venue. Highest priority is attached to quote type “bid” (i. e. the quote applicable for a sale). If not available the price types "traded" (i.e. the last traded price of the day) and "Close" (i.e. the officially published quote for the day as published by the exchange on the following business day) used in second and third place.

If there are no publicly available quoted prices or the respective markets are not classified as active as active markets, the bonds are marked-to-model taking into account the creditworthiness of the issuer, using parameters derived from observable market data (yield and spread curves) and applying

appropriate valuation models. For non-structured bonds the mark-to-model approach is the net present value method which discounts the future payments of the instruments to the valuation date. The rate applied for discounting consists of a term-linked base component (derived from the risk-free rate) and an issuer-/ emission-specific risk premium covering spread, migration and default risks.

All methods and parameter-definitions applied are validated at least annually (for timeliness and/ or adequacy) and adjusted if necessary.

Main assumptions: Applying a mark-to-model approach using parameters derived from observable market data for bonds without publicly available quotation the main assumption is that a difference in pricing for comparable listed bonds (transparent market) with the same risk, term and creditworthiness is mainly due to emissions specific features and less liquidity.

Difference: The main difference is arising due to a Talanx AG issued bond which under IFRS is classified as corporate bond but upon advise of the BaFin it was reclassified under Solvency II as Other loans and mortgages (11.618 Mio).

Structured products

The Company has no investments in any structured products.

Figures in € thousands	Solvency II value		Statutory accounts value	
	2017	2016	2017	2016
Structured notes	0	0	0	0

Covered bonds

Figures in € thousands	Solvency II value		Statutory accounts value	
	2017	2016	2017	2016
Collateralised securities	90,584	79,319	90,584	79,319

Basis: Covered bonds (e. g. “Pfandbriefe”) prices are mainly based on quoted prices from active markets. If there are no publicly available quoted prices or the respective markets are not classified as active as active markets, the positions are marked-to-model.

A financial market is regarded as active market if quoted prices for traded items are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis. An active market is a market where all of the following requirements are met:

- The items traded within the market are homogeneous,
- Willing buyers and sellers can normally be found at any time and
- Prices are available to the public

An active market becomes an inactive market if market liquidity is no longer given due to a complete and enduring retreat from market participants (buy- and/or sell-side). A further indication for an inactive market is if transactions demonstrably only occur due to forced sales or liquidations.

A judgement whether a market is active or inactive is always a discretionary decision to a certain extent. An evaluation can be performed more easily for exchange traded instruments. This evaluation becomes more complex for markets (e.g. Bond market), where transactions are mainly conducted via brokers

(OTC transactions) since these markets are typically less transparent than markets for exchange traded instruments.

The classification of market prices according to the explanatory text of guideline 7, EIOPA Guidelines SFCR BoS. 15/105, item 2.22 is defined as follows:

a) “Quoted prices in active markets for identical assets”:
Assets measured at (unadjusted) prices quoted directly in active markets.
b) “Quoted prices in active markets for similar assets”:
None
c) “Inputs other than quoted prices in active markets for identical or similar assets, that are observable for the asset directly (i.e. as prices) or indirectly (i.e. derived from prices)”:
Assets which are measured using observable market data and are not allocable to Level a). Their Measurement is based, in particular, on prices for comparable assets that are traded on active markets, prices on markets that are not considered active as well as inputs derived from such prices or market data.
d) “Inputs not based on observable market data”:
Assets that cannot be measured or can only partially be measured using observable market inputs. The measurement of such instruments is principally based on valuation models and methods.

A significant input is defined as an input parameter or an adjustment to an input parameter that affects the fair value measurement of an instrument in its entirety by more than 10 percent (i.e. up or down by more than 10 percent).

Methods: Market quotations come from selected pricing services, trade information systems or intermediaries (brokers) considered as reliable. The available potential pricing sources are placed in a ranking based on a hierarchy. In general prices of pricing services have the highest priority the ones from intermediaries is the lowest. Exceptions may be made e.g. for selected market segments-/ currency-combinations.

A hierarchy of the available quote types is used independently from the trading venue. Highest priority is attached to quote type “bid” (i. e. the quote applicable for a sale). If not available the price types "traded" (i.e. the last traded price of the day) and "Close" (i.e. the officially published quote for the day as published by the exchange on the following business day) used in second and third place.

Specific types of covered bonds such as CDOs / CLOs are priced externally by special service providers. Since for these positions there are usually no quoted market prices available, the market value is calculated via a mark-to-model approach. This is done using the valuation model "Intex" (industry-wide standard) parameterised based on market observable inputs.

If there are no publicly available quoted prices or the respective markets are not classified as active as active markets, the Bonds are marked-to-model taking into account the creditworthiness of the issuer, using parameters derived from observable market data (yield and spread curves) and applying appropriate valuation models. For non-structured bonds the mark-to-model approach is the net present value method which discounts the future payments of the instruments to the valuation date. The rate applied for discounting consists of a term-linked base component (derived from the risk-free rate) and an issuer-/ emission-specific risk premium covering spread, migration and default risks.

The collateral of the covered position is treated as a risk mitigating factor. However spread, migration and default risk are still accounted for when performing the mark-to-model calculation.

All methods and parameter-definitions applied are validated at least annually (for timeliness and/ or adequacy) and adjusted if necessary.

Main assumptions: For special forms of covered bonds like CDOs/CLOs, assumptions are made concerning prepayment and loss rates.

Difference: There are no material difference between Solvency II v IFRS valuation.

Mutual funds

Figures in € thousands	Solvency II value		Statutory accounts value	
	2017	2016	2017	2016
Collective Investments Undertakings	63,821	37,662	52,218	33,614

Basis: Mutual funds are priced with their official redemption price.

Methods: The redemption price is regularly calculated and published by the investment company according to contractual and supervisory compliant aspects. Typically, these prices are automatically available via price service providers. Alternatively, the net asset value method is used. The net asset value is calculated from the sum of all assets (in-case, mainly the investments and bank balances and deposits) less potential obligations.

All methods and parameter-definitions applied are validated at least annually (for timeliness and/ or adequacy) and adjusted if necessary.

Main assumptions: none

Difference: Please refer to comment on Holdings in related undertakings, including participations.

Derivatives

There are currently no investments in derivatives.

Figures in € thousands	Solvency II value		Statutory accounts value	
	2017	2016	2017	2016
Derivatives	0	0	0	0

Deposits (excluding cash equivalent item)

Figures in € thousands	Solvency II value		Statutory accounts value	
	2017	2016	2017	2016
Deposits other than cash equivalents	1,255	2,308	1,255	2,308

Basis: Deposits are priced at their redemption value.

Methods: none

Main assumptions: none

Difference: No differences to report.

Other investments

There are no valuation differences as this is not applicable.

Assets held for index-linked and unit-linked contracts

There are no valuation differences as this is not applicable.

Figures in € thousands	Solvency II value		Statutory accounts value	
	2017	2016	2017	2016
Assets held for index-linked and unit-linked contracts	0	0	0	0

Loans and mortgages (excluding loans on policies)

Figures in € thousands	Solvency II value		Statutory accounts value	
	2017	2016	2017	2016
Loans and mortgages	**11,618**	**0**	**1,799**	**1,208**
Loans and mortgages to individuals	0	0	0	0
Other loans and mortgages	11,618	0	1,799	1,208

Basis: Loans and mortgages are marked-to-model.

Methods: Loans are marked-to-model taking into account the creditworthiness of the issuer, using parameters derived from observable market data (yield and spread curves) and applying appropriate valuation models. For non-structured bonds the mark-to-model approach is the net present value method which discounts the future payments of the instruments to the valuation date. The rate applied for discounting consists of a term-linked base component (derived from the risk-free rate) and an issuer- / emission-specific risk premium covering spread, migration and default risks.

Mortgages are priced applying a net asset value calculation without consideration of individual credit risk premiums.

All methods and parameter-definitions applied are validated at least annually (for timeliness and/ or adequacy) and adjusted if necessary.

Main assumptions: When marking-to-model mortgages, optional features like early termination are considered via a lump-sum approach.

Difference: Please refer to comments on Treasury and corporate bonds**.**

Reinsurance recoverables from:

Under IFRS there are no recoverables to report. However, under Solvency II valuation the reinsurance recoverables are present value of future recoveries based on treaties in place as at end of December

Figures in € thousands	Solvency II value		Statutory accounts value	
	2017	2016	2017	2016
Reinsurance recoverables from:	**14,239**	**0**	**0**	**0**
Non-life excluding health	12,489	0	0	0
Health similar to non-life	1,750	0	0	0

Deposits to cedants

These assets primarily consist of funds held on certain contracts representing the collateral contractually withheld by our cedants to cover the technical liabilities Talanx Re has reinsured. The cedants invest these deposits within the criteria of the Talanx Group "Limit and Threshold" system of governance. These assets are initially recognised at cost under IFRS accounting and valued at face value. There are no differences between statutory accounts versus solvency II.

Figures in € thousands	Solvency II value		Statutory accounts value	
	2017	2016	2017	2016
Deposits to cedants	77,954	96,872	77,954	96,872

Insurance and intermediaries receivables

The carrying amount of insurance and intermediary receivables is deemed to be a reasonable approximation of fair value. Balances receivable include actual account balances due plus an estimate of the amount due for the period for which accounts have not yet been received.

The receivable balance is diversified among a range of cedants. The risk of non-payment by cedants is mitigated by the use of offset clauses in the underlying contract. Following our review of the receivable balances, no impairment was necessary.

The amounts shown under Solvency II are the netted amounts with corresponding payables. Please refer to further details under section Insurance and intermediaries payables.

Figures in € thousands	Solvency II value		Statutory accounts value	
	2017	2016	2017	2016
Insurance and intermediaries receivables	79,349	46,222	106,925	46,222

Reinsurance receivables

There are no valuation differences as this is not applicable.

Figures in € thousands	Solvency II value		Statutory accounts value	
	2017	2016	2017	2016
Reinsurance receivables	0	0	0	0

Receivables (trade, not insurance)

Receivables here represent mainly tax rebate on corporation tax over payment in respect of 2016 tax liability and are valued at the expected present value of future cash flows, i.e. discounted with the Solvency II valuation interest rate. In addition, receivables are adjusted for the expected counterparty default. The Solvency II value is held to be identical with the IFRS fair value. No revaluation is applied by Talanx Re due to materiality reasons.

Figures in € thousands	Solvency II value		Statutory accounts value	
	2017	2016	2017	2016
Receivables (trade, not insurance)	1,220	107	1,220	107

Own shares (held directly)

There are no valuation differences as this is not applicable.

Figures in € thousands	Solvency II value		Statutory accounts value	
	2017	2016	2017	2016
Own shares (held directly)	0	0	0	0

Amounts due in respect of own fund items or initial fund called up but not yet paid in

There are no valuation differences as this is not applicable.

Figures in € thousands	Solvency II value		Statutory accounts value	
	2017	2016	2017	2016
Amounts due in respect of own fund items or initial fund called up but not yet paid in	0	0	0	0

Cash and cash equivalents

Cash and cash equivalents are carried at their face value. No revaluation is applied by Talanx Re due to materiality reasons.

Figures in € thousands	Solvency II value		Statutory accounts value	
	2017	2016	2017	2016
Cash and cash equivalents	12,209	15,174	12,209	15,174

Any other assets, not elsewhere shown

The assets here represent a small balance of accrued interest adjustment accounted for at fair value under Solvency II. They are accounted for at amortised costs according to IFRS.

Figures in € thousands	Solvency II value		Statutory accounts value	
	2017	2016	2017	2016
Any other assets, not elsewhere shown	2	2	2	2

The Solvency II values are held to be identical with the IFRS fair value. No revaluation is applied by Talanx Re due to materiality reasons.

D.2 Technical Provisions

D.2.1 Non-life techniques

The Technical Provisions (TP) of Talanx Re are determined by revaluation of the IFRS underwriting provisions as disclosed in the consolidated financial statements of Talanx Re. This is done in three main steps.

In the first step, the IFRS loss reserves are revalued. This includes the elimination of prudence and Unearned Premium Reserves (UPR) and other valuation adjustments. Furthermore the discounting is adjusted. It results in the Best Estimate for Claims Provisions (BECP).

In the second step, the Best Estimate for Premium Provisions (BEPP) are established as provisions for future coverage.

Lastly, a risk margin (RM) is calculated for the present loss portfolio in net terms due to the inherent uncertainty in this portfolio, and is added to the BECP and BEPP. This results in the TP according to Solvency II.

Below the individual steps are discussed in more detail (details to determine the IFRS provisions are listed in chapter D.2.1.5). Talanx Re's numbers for the TP under Solvency and the provisions under IFRS are shown in D.2.1.4.

D.2.1.1 Best Estimate for Claims Provisions

BECP relate to claims events occurring before the valuation date. All future cash flows resulting from those losses which occurred up to the valuation date are taken into account. The BECP shall not include any implicit or explicit redundancy or deficiency of calculated reserves.

In order to take the time value of these future cash flows into consideration, they are discounted. The yield curve for discounting has been initially calibrated on swap market data and adjusted by a Credit-Risk-Adjustment in accordance with EIOPA methods. The pay-out pattern is derived from actuarial analyses.

An adjustment due to expected reinsurance losses has not been necessary so far as no reinsurance recoverables are expected. A special case is the Spanish Loss Portfolio Transfer. For the Spanish LPT Talanx Re projects ultimate losses on a gross basis and net down IBNR for inuring reinsurance based on gross to net outstanding loss reserves

The calculation methods for the BECP are analogous to these for the IFRS reserves (see chapter D.2.1.5).

D.2.1.2 Best estimate for premium provisions

Best estimate for premium provisions (BEPP) relate to claims events occurring after the valuation date and during the remaining in-force coverage period of policies. Hence, the Best Estimate for premium provisions shall include the valuation of all recognised obligations within the boundary of (re)insurance contracts, for all exposure to future claims events, where:

- Cover has incepted prior to the valuation date;
- Cover has not incepted prior to the valuation date, but the insurance or reinsurance undertaking has become party to the insurance contract providing cover.

The calculation of the (gross) BEPP at Talanx Re is based on an approximation as set out in the EIOPA "Guidelines on valuation of TP".

Talanx Re uses the following formula to determine the Best Estimate for Premium Provisions per SII segment:

$$BEPP_{seg} := UPR_{seg} \cdot LR_{seg,UPR} + InvExpenses_{seg} - (Premium - Loss - Commission - Expenses)_{seg},$$

,

- $\boldsymbol{UPR_{seg}}$= Unearned Premium Reserves according to IFRS per segment. To be precise this UPR are not the ones from local financial statements but the ones delivered by cedants. Discounting effects are taken into consideration.
- $\boldsymbol{LR_{seg,UPR}}$= expected Loss Ratio (claims/earned premium gross of acquisition expenses) per SII segment derived from Talanx Re's pricings
- $\boldsymbol{InvExpenses_{seg}}$ = Future investment expenses per SII segment
- $(\boldsymbol{Premium - Loss - Commission - Expenses})_{\boldsymbol{seg}}$ = expected Present value of future profits per SII segment, the expected Premium, the expected gross Loss and the commission is derived from Talanx Re's input for the internal model, the Expenses are estimated to be 1% of the earned premium plus investment expenses

The left hand part in the above formula describes the present value of future claims payments resulting from the unearned premiums (UPR). The right hand part describes the present value of the profit (<0) or loss (>0), which results from underwriting business already signed but not incepted.

D.2.1.3 Risk margin

The risk margin is calculated in a way that the value of the TP, including the risk margin, corresponds to the value which an insurance or reinsurance company would require being able to take over to meet the obligations of the entity. This is achieved by determining the costs of providing an amount of eligible own funds that meets the Solvency Capital Requirement, which in turn is necessary to cover the insurance and reinsurance liabilities during their term.

The risk margin is calculated by Talanx Re's partial internal model (internal model without OpRisk, which is calculated by the standard formula approach).
Following the requirements of Delegated Acts, the risk margin (RM) for the entire portfolio of insurance and reinsurance liabilities is calculated as follows:

$$\mathrm{RM} := \mathrm{CoC} * \sum_{t \geq 0} \frac{\mathrm{SCR}_t}{(1 + r_{t+1})^{t+1}} \quad , \quad t \in \mathbb{N}_0$$

with

CoC = Cost of Capital
SCR_t = Solvency Capital Requirement for non-hedgeable risks after t years and
r_{t+1} = risk-free interest rate for the term of t+1.

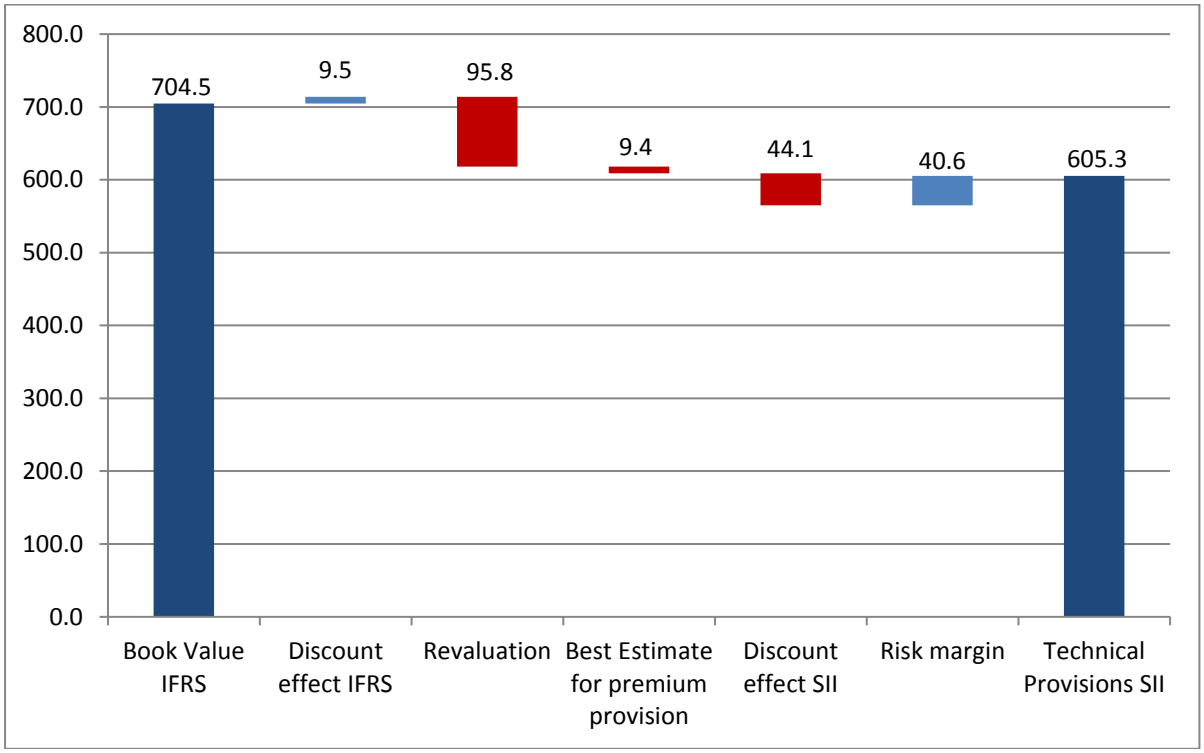
The risk margin calculation in Talanx Re's IM follows the simplification method level (2) as presented in the EIOPA Guidelines on the valuation of TP. For the calculation of SCR_o the Internal Model SCR (comprising of underwriting risk, reinsurance default risk and operational risk (regulatory view)) is utilised. For the calculation of SCR_t,t>0 the Internal Model SCR comprising reserve risk, reinsurance default risk and operational risk (regulatory view) is utilised. Market risk is not considered in the above calculation. The future cash flows per IM segment are derived from current claim data. The Cost of Capital for the calculation of the risk margin amounts 6%.

D.2.1.4. Comparison of TP with local reporting provisions

When comparing local balance sheet values and those from the solvency balance sheet regarding TP, three components - the BECP, the BEPP, and the RM - have to be taken into consideration.

Below a comparison between Technical Provisions according to IFRS and to Solvency II is shown.

Figure 1: Comparison between booked reserves and Solvency II Technical Provisions (Gross, in € Mio as of 31.12.2017)



As shown in Figure 7 the transition from TP according to IFRS in comparison to Solvency II can be described in 5 steps. The first step includes the elimination of the effect of discounting under IFRS (€ 9.5 mio). Under IFRS the two business segments German Motor from the LPT 2009 and the casualty part of LPT Spain are discounted.

As a second step the TP are revaluated. In particular, this includes an elimination of UPR (€ 23.9 mio) and prudence (€ 76 mio) included in the IFRS amounts, but not in the calculation of best estimates, as well as other valuation adjustments. These contain the Investment Management Expenses (€ 4.1 mio) taken into account under Solvency II, but not under IFRS.

When referring to BECP within this document the undiscounted reserves under Solvency II (without Investment Management Expenses) are implied.
In a third step the Best Estimate for premium provisions (BEPP) (€ -9.4 mio) is added. The Best Estimate for premium provisions (BEPP) includes all recognised obligations for all exposure to future claims events, where:

(i) cover has incepted prior to the valuation date
(ii) cover has not incepted prior to the valuation date, but Talanx Re has become party to the insurance contract providing cover.

The negative BEPP results from the expected (positive) result of the contracts, which incept on 1 January 2018 (part (ii)).

The next step considers the effect of discounting under Solvency II (€ 44.1 mio). In the fourth and final step the risk margin is added (€ 40.6 mio).

The following table shows this reconciliation split in the Solvency II-Lines of Business. The PVFP part of the Premium Provisions (column 9) includes expenses. After the derivation of the Gross Technical Provisions the Net Technical Provisions are calculated by adding the (negative) Reinsurance Recoverables. The future retrocession premium is not considered in the table below.

Table 1: IFRS reserves and SII Technical Provisions in € 1,000

Line of Business of Business	Gross Technical Reserve	Gross Best Estimate	Risk Margin	Gross Technical Provisions
	IFRS	SII basis	SII basis	SII basis
Proportional medical expense reinsurance	0	0	0	0
Proportional income protection reinsurance	18,703	9,749	223	9,972
Proportional workers' compensation reinsurance	0	0	0	0
Proportional motor vehicle liability reinsurance	77,519	55,424	4,412	59,836
Proportional other motor reinsurance	18,029	16,491	1,094	17,586
Proportional marine, aviation and transport reinsurance	29,490	29,171	1,936	31,107
Proportional fire and other damage to property reinsurance	56,848	44,347	2,665	47,012
Proportional general liability reinsurance	356,724	307,648	21,652	329,301
Proportional credit and suretyship reinsurance	5,567	2,579	117	2,696
Proportional legal expenses reinsurance	0	0	0	0
Proportional assistance reinsurance	0	0	0	0
Proportional miscellaneous financial loss reinsurance	0	0	0	0
Non-proportional health reinsurance	1,208	1,189	80	1,269
Non-proportional casualty reinsurance	102,361	70,755	5,876	76,630
Non-proportional marine, aviation and transport reinsurance	565	-243	37	-206
Non-proportional property reinsurance	37,533	27,636	2,467	30,102
Total TP for all line of business	704,546	564,747	40,558	605,305

D.2.1.5 Claims provision IFRS

General information on the business

Talanx Re writes only business of Talanx Group companies and up to now has only written non-life business. The most material sectors in terms of reserving volume are general liability, property (non-catastrophe) and motor insurance.

Lines of business

As the number of Talanx Re's programmes is small (59 programmes consisting of 139 treaties in underwriting year 2018), the Technical Provisions are calculated separately for each programme. This is an appropriate way to ensure that the Technical Provisions are calculated with a homogenous risk group segmentation. For reporting purposes these programmes are allocated to the different Solvency II lines of business.

Estimation of claims reserves

Decisions result from the application of appropriate methods and assumptions, therefore the conclusions seem realistic based on the available information. However, it should be kept in mind that the future settlement of claims - also materially - may differ from these estimates. Estimates are always connected to uncertainties. In addition new relevant facts, which were not or insufficiently known at the time of analysis, can arise and lead to changes.

The loss reserves are estimated by applying a wide range of methods. As a general principle, the result for each treaty and each underwriting/accident year is a loss ratio which, by multiplying with Talanx Re's accounted earned premium and deducting the accounted paid to date losses gives the reserve estimate by treaty and underwriting/accident year.

If reliable loss triangles, fulfilling necessary data quality standards are available, the reserving actuary applies generally accepted actuarial reserving techniques. Any such analysis is carried out in Willis Towers Watson's software tool ResQ. The underlying triangles usually represent 100% of the cedants gross business.

The result per treaty and underwriting/accident year is always reviewed in the light of the respective pricing loss ratio, reported losses to date and the development over time. The finally applied loss ratio, taking into account all aspects, is documented and the methodology used is briefly described. The resulting loss reserves include loadings for events not in data.

Assessment approaches for gross claims reserves

The paid and incurred triangles in ResQ are analysed applying the Chain-Ladder method and (for some triangles also) Bornhuetter-Ferguson. This includes estimations for the tail-factors for long-term business. The final decision regarding the expected loss ratio is made per treaty and accident/underwriting year taking into account all available information. These include not only the general character of the treaty, but also the individual claim information, the usable length of the triangle and the level of development of the respective accident/underwriting years.

Available data

Considering the available own data of Talanx Re the exclusive use of own data of Talanx Re is not sufficient for reliable actuarial analyses. The usage of third party data is necessary; besides, it is common for reinsurance companies.

Talanx Re uses third party data from cedants supplemented by own accounted data. The third party data consists of paid and incurred loss triangles as well as respective premium information which are provided by the cedant during renewal of the programme and on request. Besides further information from the renewal package, which is required for the pricing process, can be the basis for the reserving.

Quality of data

There are several plausibility checks which are performed with the data of the cedant (e.g. comparison to the own accounted data, consistency checks over years). Any inconsistencies are directly approached and openly discussed between accounting and actuarial staff. If necessary the cedant is approached to clarify any anomaly detection which cannot be explained.

Inflation

Currently, inflation impacting claims settlement has been considered implicitly. Via a Chain Ladder the historically observed inflation is taken into account. The inflation is taken into account in the pricing process and thus in the priced loss ratios which are used in case no reliable loss triangles are available.

An explicit treatment of inflation indices would only be reasonable for very small subsections of the analysis segments, and even so a pure index analysis is not sufficient, since opposing effects because of possible cappings should be analysed individually due to existing coverage levels.

Currency

Currency exchange rates were provided by Talanx Asset Management and correspond to the ones used for the Talanx financial statement.

Valuation approach reinsurance

The reinsurance recoverables in Talanx Re's balance sheet relate to Talanx Re's Premium Provisions. There are no reinsurance recoverables relating to the Claims Provisions. The reinsurance recoverables include the expected relief through retrocession and the expected default of retrocession. The expected default is estimated by the partial internal model. The future retrocession premium is included in the balance sheet position "Reinsurance payables".

Details notes per line of business

a) Income protection insurance

The uncertainty of this segment is mainly attributable to changes in the jurisdiction that could have an impact on loss adjustments. Uncertainties from biometric risks in the area of pensions are adequately represented. For the non-material sub-segments, the provisions according to local accounting are adopted for reasons of simplification. In our opinion this approach is appropriate due to the lack of materiality.

b) Motor vehicle liability insurance

The uncertainty of the dominant segment is mainly attributable to the development of personal injuries, which are heavily influenced by medical advances and the associated increase in costs. For the non-material sub-segments, provisions according to local accounting are adopted for reasons of simplification. In our opinion, this approach is appropriate due to the lack of materiality.

c) Other motor insurance

The uncertainty of this segment is mainly attributable to the assessment of the processing status of the current accident year. For the non-material sub-segments, provisions according to local accounting standards are adopted for reasons of simplification. In our opinion, this approach is appropriate due to the lack of materiality.

d) Marine, aviation and transport insurance

The uncertainty of this segment is mainly attributable to changes in loss adjustments and the volatility of long-term losses. For the non-material sub-segments, provisions according to local accounting standards are adopted for reasons of simplification. In our opinion, this approach is appropriate due to the lack of materiality. Aviation is also included in this Solvency II - Line of business. The uncertainty of this segment is mainly attributable to the very heterogeneous portfolio structure over various accident years. For the non-material sub-segments, provisions according to local accounting standards are adopted for reasons of simplification. In our opinion, this approach is appropriate due to the lack of materiality.

e) Fire and other damage to property insurance

The uncertainty of this segment is mainly attributable to the assessment of future settlement gains on already known losses, i.e. to the assessment of the current processing status. For the non-material sub-segments, provisions according to local accounting standards are adopted for reasons of simplification. In our opinion, this approach is appropriate due to the lack of materiality.

f) General liability insurance

The uncertainty of this segment is mainly attributable to changes in jurisdiction, partly specific litigation risks in the United States and the large share of major long-term losses. For the non-material sub-segments, provisions according to local accounting standards are adopted for reasons of simplification. In our opinion, this approach is appropriate due to the lack of materiality.

g) Legal expenses insurance

The uncertainty of this segment is mainly attributable to losses, where the accident date has to be adjusted retrospectively. Due to the rather small portfolio, this turns out to be the crucial driver of volatility. For the non-material sub-segments, provisions according to local accounting are adopted for reasons of simplification. In our opinion, this approach is appropriate due to the lack of materiality.

D.2.2 Life techniques (with MCEV)

The chapter is not applicable as Talanx Re writes only non-life business.

D.3 Other liabilities

D.3.1 Valuation of other liabilities

Contingent liabilities

There are no valuation differences as this is not applicable

Figures in € thousands	Solvency II value		Statutory accounts value	
	2017	2016	2017	2016
Contingent liabilities	0	0	0	0

Provisions other than Technical Provisions

The following liabilities are included in “Provisions other than technical provisions” in the Solvency II balance sheet:

- partial retirement
- holiday and overtime pay
- bonuses and anniversary benefits
- interest for tax payment delay
- outstanding invoices
- remuneration of administrative, management and supervisory body
- anticipated losses
- integration costs or restructuring

Generally, the miscellaneous other provisions include all provisions which:

- are not underwriting provisions (insurance technical provisions)
- are not provisions for pensions and similar obligations
- are not tax provisions
- fulfil the general requirements for the creation of provisions under IAS 37.
- Provisions have to satisfy the definition of liabilities and can therefore only be recognised for potential uncertain obligations towards third parties.

The IFRS recognition and measurement principles in IAS 37 are considered to be consistent with Article 75 of Directive 2009/138/EC (Solvency II). The Solvency II value of the other provisions is held to be identical with the IFRS value.

Figures in € thousands	Solvency II value		Statutory accounts value	
	2017	2016	2017	2016
Provisions other than technical provisions	152	223	152	223

Pension benefit obligations

There are no valuation differences as this is not applicable.

Figures in € thousands	Solvency II value		Statutory accounts value	
	2017	2016	2017	2016
Pension benefit obligations	0	0	0	0

Deposits from reinsurers

There are no valuation differences as this is not applicable.

Figures in € thousands	Solvency II value		Statutory accounts value	
	2017	2016	2017	2016
Deposits from reinsurers	0	0	0	0

Derivatives

There are no valuation differences as this is not applicable.

Figures in € thousands	Solvency II value		Statutory accounts value	
	2017	2016	2017	2016
Derivatives	0	0	0	0

Financial liabilities other than debts owed to credit institutions

There are no valuation differences as this is not applicable.

Figures in € thousands	Solvency II value		Statutory accounts value	
	2017	2016	2017	2016
Financial liabilities other than debts owed to credit institutions	0	0	0	0

Insurance and intermediaries payable

These are amounts due to cedants but not yet settled as at year end. The amounts so outstanding are netted off against any corresponding receivables and the net amount shown under Insurance and intermediaries receivables. There are no valuation differences between IFRS and Solvency II amounts.

Figures in € thousands	Solvency II value		Statutory accounts value	
	2017	2016	2017	2016
Insurance & intermediaries payables	0	0	27,576	0

Reinsurance payables

These are present value of future cash outflows in respect of reinsurance contracts in place as at end of December. No such recognition is made under IFRS.

Figures in € thousands	Solvency II value		Statutory accounts value	
	2017	2016	2017	2016
Reinsurance payables	15,820	0	0	0

Payables (trade, not insurance)

There are no valuation differences as such except under SII any dividend payments which are certain but not declared as at year end can be recognised in the balance sheet, whereas under IAS 10 such recognition is not allowed. The Company declared and paid a dividend to Talanx AG of €7.500 Mio in March 2018.

Figures in € thousands	Solvency II value		Statutory accounts value	
	2017	2016	2017	2016
Payables (trade, not insurance)	7,674		174	

Deferred tax liabilities

Please refer to chapter D.1 “Deferred Tax Assets” for valuation principles.

Figures in € thousands	Solvency II value		Statutory accounts value	
	2017	2016	2017	2016
Deferred tax liabilities	23,814	10,710	3,126	2,665

The difference between the Solvency II value and the statutory accounts value to the amount of €21.888 Mio resulting from hidden reserves which were discovered when measuring the assets and liabilities at fair value.

Debts owed to credit institutions

The position “debts owed to credit institutions” contains mortgages and loans. Excluded are bonds being held by credit institutions and subordinated liabilities as they are shown in separate positions in the Solvency II balance sheet.

Under IFRS mortgage and loans are measured at amortised costs using the effective interest rate method for amortisation. Accrued interests are presented within the investment value using the dirty price method.

The economic valuation of financial liabilities in the Solvency II balance sheet should follow the fair value measurement approach in IAS 39. However, in some cases no revaluation is applied by Talanx Re during

the Preparatory Phase due to materiality reasons. Adjustments, if any, to identify the own credit standing under IFRS had been reversed for Solvency II purposes.

The amount as stated in the Statutory accounts represent accrued interest in respect of subordinate loan agreement with Targo Lebensversicherung, a Talanx group entity. Under the Solvency II balance sheet accrued interest is shown within position Subordinated liabilities in BOF. Details of the loan in chapter E 1.

Subordinated liabilities in / not in basic own funds

Subordinated liabilities are loans which are reimbursed in the event of insolvency or liquidation only after serving the claims of other creditors; they have various characteristics of equity (IFRS) in economic terms. Subordinated liabilities, where these are included as own funds, are reported under the solvency position "Subordinated liabilities included in the basic liabilities". "Subordinated liabilities not included in the basic assets" cannot be considered as own funds. Under Solvency II, subordinated liabilities may be classified as equity if the conditions set out in Article 69 (b), 72 (b) or 76 (b) of the Delegated Regulation (EU) 2015/35 are met.

The subordinate liability in basic own funds (BOF) so shown is a subordinate loan with another group entity, Targo Lebensversicherung, issued in December 2014 for a term of 30 years.

For the economic valuation, the economic value of the instrument determined at the time of the issue is adjusted by means of the solvency balance of the instrument by changes in value which are exclusively attributable to a changed market situation. In contrast to the fair value approach pursuant to IAS 39, value changes resulting from changes in own credit spread (OCS) are not adjusted after issuance. The OCS is therefore kept constant for subsequent evaluations. The subordinate loan is valuated with the assumption that the maturity equals the 1st call date. The valuation under Solvency II is uniformly applied to the first due date ("1st call") in HDI Group.

Figures in € thousands	Solvency II value		Statutory accounts value	
	2017	2016	2017	2016
Subordinated liabilities in BOF	31,710	32,047	30,000	30,000

A difference between the Solvency II value and the IFRS value of the amount of € 1,710 Mio is a result of the valuation of the subordinate bonds and loans at market value.

Any other liabilities not elsewhere shown

There are no valuation differences as this is not applicable.

Figures in € thousands	Solvency II value		Statutory accounts value	
	2017	2016	2017	2016
Any other liabilities not elsewhere shown	0	0	0	0

Figures in € thousand	Solvency II value	Statutory accounts value
Any other liabilities not elsewhere shown	0	0

D.4 Alternative methods for valuation

The positions of the balance sheet, for which an alternative valuation method according to article 236 and article 10 (5) of the Delegated Regulation is applied, have been described in chapter D.1 to D.3.

D.5 Any other information

There is no other material information to disclose.

E. Capital management

E.1 Own funds

Talanx Re is integrated in the strategic and operational steering and planning processes of the Talanx Group. As part of the regular process Talanx Re prepares a capital management plan for a mid-term period of five years. The Company projects the own funds and the SCR to ensure that the regulatory needs are fulfilled at all times.

Talanx Re has a Capital Management Guideline in place, which governs the roles and responsibilities in the planning process, the tiering of capital and the Company's SCR requirements within the limit and threshold system. The capital management plan takes account of the development of the assumed business, the cash flow of technical provisions, planned dividends and an investment strategy.

If the mid-term planning process shows capital need, there are basically four management options:

- Revise the dividend policy and retain more profits
- A capital increase by the owner
- Implement alternative capital measures (e.g. issuance of a subordinated loan), which fulfil the requirements to become own funds
- Ultimately, revise the mid-term business plan to reduce the capital need.

Besides the fulfilment of regulatory requirements, Talanx Re aims to show an adequate capitalisation according to the following requirements:

- Strategic risk appetite given through the limits and threshold for the overall SCR
- Required rating capital to achieve the Company's rating objective
- Sufficient buffer for movements of capital markets and / or insurance market
- Strategic goals
- Capital costs.

The results of the capital management plan include feedback from risk management and feeds in to the ORSA process and report.

E.1.1 Terms and conditions of the main items in the own funds

Talanx Re's own funds consist of

Figures in € thousand	Tier 1	Tier 2	Total
Paid in	131,000		131,000
Dated subordinated liabilities		31,710	31,710
Reconciliation reserve	148,971		148,971
Total	279,971	31,710	311,681

Table: basic own funds

The basic own funds shown above can be used to support the SCR and the MCR. The "paid in" is equal to the paid in capital according to Talanx Re's IFRS financial statement as of 31 December 2017. For more information regarding "dated subordinated liabilities" reference is made to the detailed description in chapter D.3. The reconciliation reserve consists of the "retained earnings" comprised of the cumulative profit for the

year and brought forward, which have not been distributed to the shareholders and the “difference in valuation”, representing the cumulative difference between the local Irish balance sheet value and the economic fair value according to Solvency II for all balance sheet positions of Talanx Re.

For details on the valuation according to Solvency II and valuation differences compared to IFRS please refer to chapter D of this report.

E.1.2 Basic own funds due to transitional arrangements

Talanx Re does not have transitional arrangements in place according to Article 308b (9) and (10) of Directive 2009/138/EC.

E.1.3 Distribution to shareholders

In 2017, the Company did not pay any dividends in respect of financial year 2016. As at the balance sheet date there are no plans to pay a dividend in respect of financial year 2017. In March 2018, a dividend was declared and paid to parent company in respect of the 2017 financial year.

E.2 Solvency capital requirement and minimum capital requirement

E.2.1 Solvency capital requirement

Talanx Re calculated the SCR as well as the CAR for regulatory purposes during the year 2017 by the approved partial internal model. For the partial internal model, the operational risk is calculated by the standard formula and aggregated with the internal model results excluding operational risk. The business strategy is fully included into the SCR.

For premium risk the SCR is estimated using the planned assumed business of Talanx Re for the full year 2018. This includes the assumed business of underwriting year 2018 that has already been signed, all assumed treaties of prior underwriting years that may produce premium risk in 2018 as well as all assumed treaties that are likely to be signed during the year 2018. For reserve risk the business strategy is to carry the run-off of the existing technical provisions.

Risk mitigation techniques are included on the premium risk side at treaty and peril level by taking into account the retrocession contracts in force for the underwriting year 2018. At the same time this retrocession as well as the inuring reinsurance of the business from Spain (compare chapter C.3) are subject to default risk.

For market risk the internal model assumes a stable asset allocation, in line with the business strategy.

No future management actions are included in the internal model.

Current solvency capital requirement

The SCR and the MCR according to regulatory requirements and the capital adequacy ratios as relation of the basic own funds to SCR and MCR are:

	Figures in € thousand
Available and eligible own funds	
Total available own funds to meet the SCR	311,681
Total available own funds to meet the MCR	311,681
Total eligible own funds to meet the SCR	311,681
Total eligible own funds to meet the MCR	279,971
SCR	134,403
MCR	60,481
Ratio of Eligible own funds to SCR	232%
Ratio of Eligible own funds to MCR	463%

Table: SCR MCR

The following table gives a split of the SCR into the risk categories of the applied partial internal model:

Figure in € thousand	Partial Internal Model
Market risk	74,114
Counterparty default risk	3,158
Underwriting risk	122,113
Operational risk	16,943
Solvency Capital Requirement	**134,403**
Diversification	81,925

Table: Risk categories

Solvency capital requirements using standard formula due to requirement of the supervisory authority

According to the standard formula the SCR as of 31 December 2017 would have had been as follows:

	Figures in € thousand
SCR according to Standard Formula	**373,694**

Table: SCR Standard Formula

This calculation has been carried out without simplifications.

E.2.2 Minimum capital requirement

The MCR is calculated as the minimum of a linear function of earned premiums and technical provisions and a percentage of the SCR. For Talanx Re the calculation gives an MCR of 45% of the regulatory view SCR as MCR. Please refer to the table under section E.2.1 for details.

E.3 Use of the duration-based equity risk sub-module in the calculation of the solvency capital requirement

This sub-module is not used by Talanx Re.

E.4 Differences between the standard formula and any internal model used

E.4.1 Specification of the internal model

Talanx Re uses a partial internal model for the calculation of the regulatory SCR. The internal model covers underwriting risk, market risk and reinsurance default risk while operational risk is calculated with the standard formula. The partial internal model quantifies the required risk capital according to the 99.5% Value at Risk (VaR) within a one year time horizon in an economic view. This is in line with the respective regulation.

Talanx Re is part of the partial internal model of HDI V.A.G., embedded in the processes and standards at group level. It is ensured that Talanx Re is included in the decision making process with respect to the partial internal model at group level via committees. Roles and responsibilities of Talanx Re's partial internal model are set in accordance with group wide guidelines.

The partial internal model of Talanx Re measures the value of the Solvency II own funds on the basis of economic market values per cut-off date as well as the development of these own funds over a one year time horizon. The prognosis of the own funds is carried out using Monte Carlo simulation techniques with a sufficient number of simulations.

From the distribution of the prognosis of the own funds the solvency capital required is calculated as the difference between the value at risk at the regulatory given probability (0.5%) and the mean of all simulations. In other words, the SCR estimates the loss of own funds, relative to the mean, that will not be exceeded with a likelihood of 0.5%.

To arrive at the partial internal model results, all risk categories, with the exception of operational risk are combined within the internal model of Talanx Re. After deducting the loss absorbing capacity of deferred taxes from the result, the operational risk calculated with the standard formula is added to form the SCR regulatory view.

The risk profile of Talanx Re is in line with the assumptions underlying the internal model.
No future management actions are included in the internal model.

Not taken into account in the internal model is non-life lapse risk. As none of the treaties signed by Talanx Re gives the cedant the right to terminate the contract before 12 months, this risk is immaterial to Talanx Re.

Risk categories, assumptions and used data for the internal model

The risk modules examined in the partial internal model of Talanx Re are underwriting risk, market risk, reinsurance default risk and operational risk.

The main assumption of the internal models of the Talanx group is that the major risk categories are given by negative developments of the capital market, by the occurrence of large natural perils losses and by the default of counterparties which are possibly linked to the first two assumptions. Based on this assumption the risk scenarios for the risk categories natural perils events, economic scenarios and reinsurance default are group wide identical and pre-defined. This assumption especially defines the dependencies between these three risk categories: that natural perils events have no substantial impact on the world wide economy and that reinsurance default is induced through very large natural perils losses and negative developments in the economy.

Thus, the partial internal model of Talanx Re uses the group wide identical scenarios for a real world economy, for natural perils losses and for reinsurance default. All of these scenarios are calibrated to fit Talanx Re's underlying risk profile. Underwriting risk is estimated individually, making use of the regular actuarial pricing of assumed business - each treaty undergoes such a pricing before it is signed – as well as the quarterly actuarial reserving process. The simulation of the risks is carried out modularly at a reasonable granular and adequate level. . Within each risk module, the granularity is reduced step by step until the prognosis at a risk module level is available. For underwriting risk, firstly a gross view is integrated before retrocession reduces the gross risk to net risk.

The partial internal model of Talanx Re is based on a high number of internal data, especially the individual assets, past and current retrocession contracts and contract partners and past loss developments. Wherever beneficial in terms of data quality and data quantity Talanx Re also implements external data sources. External data sources are regularly assessed and validated for its appropriateness for Talanx Re.

Underwriting risk

Underwriting risk is split into premium risk and reserve risk, with premium risk being further split into natural perils risk and manmade (or other) risk.

The premium risk measures deviations from the final losses to be settled from contracts currently in force to the estimated loss potential when pricing the contracts. The premium risk is estimated by looking at loss frequency and severity distributions, for natural catastrophes by applying the group wide defined scenarios whenever possible. The premium risk is assessed at treaty level before being aggregated to segments and includes all relevant programme conditions, i.e. loss influencing clauses and treaty details.
The natural perils risk is simulated overwhelmingly in licensed software models like AIR or RMS based on the input data provided by the cedants. As a result these licensed models provide gross event losses from the cedants point of view which after application of the reinsurance treaty parameters and the signed share of Talanx Re represent the gross loss for Talanx Re.

The reserve risk measures deviations of future loss increases from the estimated best estimate claims provisions. The starting point of the reserve risk calculation are loss triangles and current best estimate claims provisions. The loss triangles are stochastically expanded for one year, resulting in scenarios for the one year reserve development.

Based on the underwriting segments a defined dependency structure is applied to the simulated values, resulting into correlated values across the premium and the reserve risk which are also subject to a dependency structure between premium and reserve risk.

Market risk

The market risk captures developments of the assets but also impacts the risk of liabilities through discounting and currency exchange rates of technical provisions. To simulate the assets, the invested individual assets are compressed to homogenous groups (type of asset, rating, currency). The market values of these groups are then mapped to indices stemming from the economic scenario generator respectively asset portfolio individual fixed income indices.

Reinsurance default risk

Reinsurance default risk is estimated through scenarios of the reinsurance default model based on rating migration of the reinsurers. The rating migration is dependent on very large natural perils loss events and the economic environment as both effects possibly reduce the available excess funds of the reinsurance counterparties.

Explanation of significant differences between standard formula and internal model risk modules

Both calculation methods, internal model and standard formula, aim to calculate negative developments from the mean of the own funds on a one-year horizon at a security level of 0.5%. Nevertheless, there are substantial differences between the two methods.

The standard formula and internal model both follow a modular approach where each risk module is firstly calculated on a standalone basis, eventually by sub-modules, and then aggregated assuming a dependency structure. The main difference between the two approaches is that the standard formula calculates the risk of each module based on Europe-wide factors and is ultimately volume driven. In contrast, the internal model is calibrated to the individual risks within Talanx Re's balance sheet.

The largest difference is within the premium risk, where the standard formula bases its results on volume, and the internal model bases its results on an individual assessment of the single treaties and its contractual obligations. This difference in premium risk automatically impacts the own funds through the risk margin, as premium risk (together with reserve risk and reinsurance default risk) is one important part of the risk margin calculation.

The reserve risk calculation differs, as again the standard formula calculation is purely volume based while the internal model estimates the risk within homogenous risk groups based on individual loss triangles.

The underwriting risk of the standard formula is calculated for premium and reserve risk together, only at a later stage catastrophe risk is added. In the internal model catastrophe risk is part of the premium risk which is calculated separately from the reserve risk and later aggregated. Treaties with natural perils risk are separated from the remaining treaties and form – as part of the premium risk – the catastrophe risk.

In the market risk's internal model one main difference is that European government bonds are not subject to default in the standard formula, contrary to the internal model. Another major difference is that within the standard formula the interest rate risk is based solely on changes of the risk free yield curve, while the internal model also takes into account the interest rate volatility.

Contrary to the standard formula, the internal model includes dependencies and thus diversification effects between risk categories through advanced Copula simulations. The standard formula aggregates risk through the "square-root-formula".

E.4.2 Implementation of the internal model

Talanx Re's internal model is embedded in a significant number of management processes, such as risk monitoring and reporting, capital allocation and investment and underwriting decisions. There is no explicit decision to exclude internal model results from a particular management process where the results could be relevant. Consistency across processes is also ensured via direct involvement of the risk management function.

E.5 Non-compliance with the minimum capital requirement and non-compliance with the solvency capital requirement

Talanx Re's capital adequacy ratio is 232% as of 31 December 2017. The Company is sufficiently capitalized.

E.6 Any other information

There are no further material topics to be disclose under this chapter.

GLOSSARY:

Abbreviation	Description
ABS	Asset backed securities
AC	Audit committee
AF	Actuarial function
AIR	Air Worldwide Catastrophe Modelling
ALM	Asset liability management
AM Best	AM Best Company
AOTP	Actuarial Opinion on Technical Provisions
ARTP	Actuarial Report on Technical Provisions
AuM	Assets under management
BaFin	Bundesanstalt fuer Finanzdienstleistungsaufsicht
BECP	Best estimate for claims provisions
BEPP	Best estimate for premium provisions
BoD	Board of Directors
BOF	Basic own funds
BPS	Basis Points
CAR	Capital adequacy ratio
CBI	Central Bank
CC	Compensation committee
CDO	Collateralized debt obligation
CFO	Chief Financial Officer
CLO	Collateralized loan obligation
CR	Combined ratio
CRO	Chief Risk Officer
DAC	Deferred acquisition costs
EBIT	Operating profit
EIOPA	European insurance and occupational pension authority
EPIFP	Expected profit included in future premium
EUR	Euro
FWH	Funds withheld
FX	Foreign Exchange
GTPL	General third party liability
GUG	General Underwriting Guidelines
GWP	Gross written premium
HDI Global	HDI Global SE
HDI V.A.G.	Haftpflichtverband Der Deutschen Industrie V.a.G
HoAF	Head of Actuarial Function
HoC	Head of Compliance

IAS / IFRS	International Accounting Standards / International Financial Reporting Standards
IBNER	Incurred but not enough reported
IBNR	Incurred but not reported
IC	Investment committee
ICS	Internal control system
IM	Internal Model
LoD	Line of defence
LPT	Loss portfolio transfer
LR	Loss ratio
MBS	Market backed securities
MCR	Minimum capital requirement
Mio	Million
MTPL	Motor third party liability
NatCat	Natural Catastrophe
Non Prop	Non-proportional
OCI	Other comprehensive income
OCS	Own credit spread
ORSA	Own risk and solvency assessment
OTC	Over the counter
P&L	Profit and loss
PCF	Pre-approved controlled function
PIM	Partial internal model
PRISM	Probability Risk and Impact System
Prop	Proportional
PVFP	Present value of future premium
QRT	Quantitative Reporting Template
QS	Quota share
RC	Risk committee
ResQ	ResQ reserving software
RM	Risk margin
RMS	Risk Management System
RSR	Regular supervisory report
RUG	Retrocession Underwriting Guidelines
SCR	Solvency capital requirement
SF	Standard formula
SLA	Service level agreement
SLT	System of limits and thresholds
SNA	Shareholder net assets
TAM	Talanx Asset Management GmbH

TERM	Talanx Enterprise Risk Model
TINT	Talanx Retail International
TP	Technical provisions
TRB	Talanx Reinsurance Broker GmbH
TXD	Talanx Retail Germany
TXI	Talanx Industrial segment
UC	Underwriting committee
UPR	Unearned premium reserves
UW	Underwriting
VaR	Value at Risk
XL	Excess of loss

Appendix: Annual QRTs

The following listed QRTs are attached as a reference to this report and as per Article 4 (*Templates for the solvency and financial condition report of individual undertakings)* of the Regulation "….laying down implementing technical standards with regards to procedures, formats and templates of the SFCR in accordance with Directive 2009/138/EC".

Number	Name	Detail
S.02.01.01	BS-C1	Balance Sheet
S.05.01.01	Cover – LOB	P&L per LOB split, total basis
S.05.02.01	Cover - Geo	P&L per geographical split, top 5 regions
S.17.01.01	TP-E1	Non-life Technical provisions
S.19.01.01	Triangles	Non-life insurance claims
S.23.01.01	OF	Own Funds
S.25.02.01	SCR	SCR under PIM
S.28.01.01	MCR	MCR

S.02.01.01: BS-C1

		Solvency II value
		C0010
Assets		
Intangible assets	R0030	0
Deferred tax assets	R0040	11,981
Pension benefit surplus	R0050	0
Property, plant & equipment held for own use	R0060	18
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	**757,055**
Property (other than for own use)	R0080	
Holdings in related undertakings, including participations	R0090	
Equities	*R0100*	
Equities - listed	R0110	
Equities - unlisted	R0120	
Bonds	*R0130*	*691,979*
Government Bonds	R0140	82,579
Corporate Bonds	R0150	518,816
Structured notes	R0160	
Collateralised securities	R0170	90,584
Collective Investments Undertakings	R0180	63,821
Derivatives	R0190	
Deposits other than cash equivalents	R0200	1,255
Other investments	R0210	
Assets held for index-linked and unit-linked contracts	R0220	
Loans and mortgages	**R0230**	**11,618**
Loans on policies	R0240	
Loans and mortgages to individuals	R0250	
Other loans and mortgages	R0260	11,618
Reinsurance recoverables from:	**R0270**	**14,239**
Non-life and health similar to non-life	R0280	14,239
Non-life excluding health	R0290	12,489
Health similar to non-life	R0300	1,750
Life and health similar to life, excluding health and index-	R0310	
Health similar to life	R0320	
Life excluding health and index-linked and unit-linked	R0330	
Life index-linked and unit-linked	R0340	
Deposits to cedants	R0350	77,954
Insurance and intermediaries receivables	R0360	79,349
Reinsurance receivables	R0370	0
Receivables (trade, not insurance)	R0380	1,220
Own shares (held directly)	R0390	0
Amounts due in respect of own fund items or initial fund	R0400	0
Cash and cash equivalents	R0410	12,209
Any other assets, not elsewhere shown	R0420	2
Total assets	**R0500**	**965,645**

S.02.01.01: BS-C1...*continued*

Liabilities		
Technical provisions - non-life	**R0510**	**605,305**
Technical provisions - non-life (excluding health)	**R0520**	**594,064**
TP calculated as a whole	R0530	0
Best estimate	R0540	553,808
Risk margin	R0550	40,256
Technical provisions - health (similar to non-life)	**R0560**	**11,241**
TP calculated as a whole	R0570	0
Best estimate	R0580	10,939
Risk margin	R0590	302
TP - life (excluding index-linked and unit-linked)	**R0600**	
Technical provisions - health (similar to life)	**R0610**	
TP calculated as a whole	R0620	
Best estimate	R0630	
Risk margin	R0640	
TP - life (excluding health and index-linked and unit-linked)	**R0650**	
TP calculated as a whole	R0660	
Best estimate	R0670	
Risk margin	R0680	
TP - index-linked and unit-linked	**R0690**	
TP calculated as a whole	R0700	
Best estimate	R0710	
Risk margin	R0720	
Contingent liabilities	R0740	0
Provisions other than technical provisions	R0750	152
Pension benefit obligations	R0760	-
Deposits from reinsurers	R0770	0
Deferred tax liabilities	R0780	25,014
Derivatives	R0790	0
Debts owed to credit institutions	R0800	
Financial liabilities other than debts owed to credit	R0810	
Insurance & intermediaries payables	R0820	0
Reinsurance payables	R0830	15,820
Payables (trade, not insurance)	R0840	7,674
Subordinated liabilities	**R0850**	31,710
Subordinated liabilities not in BOF	R0860	
Subordinated liabilities in BOF	R0870	31,710
Any other liabilities, not elsewhere shown	R0880	
Total liabilities	**R0900**	**685,675**

Excess of assets over liabilities	**R1000**	**279,971**

S.05.01.01: Cover per LOB split, Non-life obligations

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of Business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport	Fire and other damage to	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
Premiums written																		
Gross - Direct Business	R0110																	0
Gross - Proportional reinsurance accepted	R0120		16,438	0	26,204	24,381	35,904	9,201	179,866	2,811								294,805
Gross - Non-proportional reinsurance accepted	R0130													353	24,837	539	18,904	44,632
Reinsurers' share	R0140	0	0	0	193	0	0	0	0	0	0	0	0	0	1,558	0	5,723	7,474
Net	R0200		16,438		26,011	24,381	35,904	9,201	179,866	2,811				353	23,279	539	13,181	331,964
Premiums earned																		
Gross - Direct Business	R0210																	0
Gross - Proportional reinsurance accepted	R0220	0	1,118	0	26,204	24,381	35,951	8,654	179,856	2,517	0	0	0					278,680
Gross - Non-proportional reinsurance accepted	R0230													353	24,837	549	18,914	44,652
Reinsurers' share	R0240				193										1,558		5,723	7,474
Net	R0300		1,118		26,011	24,381	35,951	8,654	179,856	2,517				353	23,279	549	13,190	315,858
Claims incurred																		
Gross - Direct Business	R0310																	0
Gross - Proportional reinsurance accepted	R0320	0	1,045	0	14,642	15,889	26,020	526	125,644	1,567	0	0	0					185,333
Gross - Non-proportional reinsurance accepted	R0330													51	27,146	-1,899	32,876	58,174
Reinsurers' share	R0340													0	0	0	0	0
Net	R0400		1,045		14,642	15,889	26,020	526	125,644	1,567				51	27,146	-1,899	32,876	243,506
provisions																		
Gross - Direct Business	R0410																	0
Gross - Proportional reinsurance accepted	R0420																	0
Gross - Non-proportional reinsurance accepted	R0430																	0
Reinsurers' share	R0440																	0
Net	R0500																	0
Expenses incurred	R0550		752		6,661	5,992	8,353	2,413	48,599	1,020				27	-709	16	235	73,360
Other expenses	R1200																	
Total expenses	R1300																	73,360

S.05.01.01: Cover per LOB split, Non-life obligations…*continued*

		Line of Business for: life insurance obligations						Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health	Annuities stemming from non-life insurance contracts and relating to insurance	Health reinsurance	Life reinsurance	
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
Premiums written										
Gross	R1410									0
Reinsurers' share	R1420									0
Net	**R1500**									0
Premiums earned										
Gross	R1510									0
Reinsurers' share	R1520									0
Net	**R1600**									0
Claims incurred										
Gross	R1610									0
Reinsurers' share	R1620									0
Net	**R1700**									0
Changes in other technical provisions										
Gross	R1710									0
Reinsurers' share	R1720									0
Net	**R1800**									0
Expenses incurred	**R1900**									0
Other expenses	**R2500**									
Total expenses	**R2600**									

S.05.02.01: Cover – Geographical, top 5 regions

Premiums, claims and expenses by country

		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations					Total Top 5 and home country
		C0010	C0020	C0030	C0040	C0050	C0060	C0070
	R0010		DE	NL	AT	IT	PL	
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
Premium written								
Gross - Direct Business	R0110							0
Gross - Proportional reinsurance accepted	R0120		258,651	22,653	10,346	2,811	5	294,466
Gross - Non-proportional reinsurance accepted	R0130		33,024	1,185	206	2,882	5,663	42,961
Reinsurers' share	R0140		6,422	525	232	125	125	7,430
Net	**R0200**		**285,253**	**23,313**	**10,320**	**5,568**	**5,543**	**329,997**
Premium earned								
Gross - Direct Business	R0210							0
Gross - Proportional reinsurance accepted	R0220		242,782	22,653	10,346	2,517	51	278,349
Gross - Non-proportional reinsurance accepted	R0230		33,024	1,185	206	2,892	5,673	42,981
Reinsurers' share	R0240		6,422	525	232	125	125	7,430
Net	**R0300**		**269,384**	**23,313**	**10,320**	**5,283**	**5,599**	**313,900**
Claims incurred								
Gross - Direct Business	R0310							0
Gross - Proportional reinsurance accepted	R0320		164,567	16,757	6,984	1,567	-403	189,471
Gross - Non-proportional reinsurance accepted	R0330		53,959	-2,149	280	1,621	3,087	56,799
Reinsurers' share	R0340		0	0	0	0	0	0
Net	**R0400**		**218,526**	**14,608**	**7,264**	**3,188**	**2,684**	**246,270**
Changes in other technical provisions								
Gross - Direct Business	R0410							0
Gross - Proportional reinsurance accepted	R0420							0
Gross - Non-proportional reinsurance accepted	R0430							0
Reinsurers' share	R0440							0
Net	**R0500**							**0**
Expenses incurred	**R0550**							0
Other expenses	**R1200**							3,263
Total expenses	**R1300**							**3,263**

S.05.02.01: Cover – Geographical, top 5 regions…*continued*

		Home Country	Top 5 countries (by amount of gross premiums written) - life obligations					Total Top 5 and home country
		C0150	C0160	C0170	C0180	C0190	C0200	C0210
	R01400							
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
Premium written								
Gross	R1410							0
Reinsurers' share	R1420							0
Net	**R1500**							**0**
Premium earned								
Gross	R1510							0
Reinsurers' share	R1520							0
Net	**R1600**							**0**
Claims incurred								
Gross	R1610							0
Reinsurers' share	R1620							0
Net	**R1700**							**0**
Changes in other technical provisions								
Gross	R1710							0
Reinsurers' share	R1720							0
Net	**R1800**							**0**
Expenses incurred	**R1900**							0
Other expenses	**R2500**							
Total expenses	**R2600**							

S.19.01.01 Non-life Insurance Claims Information

Non-life Insurance Claims Information

Gross Claims Paid (non-cumulative)

		Development year (absolute amount)											In Current year	Sum of years (cumulative)
		0	1	2	3	4	5	6	7	8	9	10 & +		
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
Prior	R0100											0	R0100	
2008	R0160												R0160	
2009	R0170	-6,410	7,085	-94	259	79	117	100	47	83			R0170	83	1,265
2010	R0180	-16,853	87,555	-295	5,833	2,202	2,389	203	2,196				R0180	2,196	83,230
2011	R0190	34,798	30,852	4,468	111	329	90	108					R0190	108	70,756
2012	R0200	50,518	22,208	4,279	1,429	63	75						R0200	75	78,573
2013	R0210	68,859	45,766	7,101	9,539	5,320							R0210	5,320	136,584
2014	R0220	68,345	74,501	15,650	14,042								R0220	14,042	172,538
2015	R0230	75,021	57,172	47,395									R0230	47,395	179,588
2016	R0240	33,413	66,146										R0240	66,146	99,558
2017	R0250	20,590											R0250	20,590	20,590
													Total R0260	155,954	842,681

Gross undiscounted Best Estimate Claims Provisions

		Development year (absolute amount)											Year end (discounted data)
		0	1	2	3	4	5	6	7	8	9	10 & +	
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
Prior	R0100												R0100	
2008	R0160												R0160	
2009	R0170							2,143	2,045	1,903			R0170	1,579
2010	R0180						31,499	29,648	27,198				R0180	22,621
2011	R0190					348	256	283					R0190	264
2012	R0200				699	560	471						R0200	446
2013	R0210			99,855	88,052	67,701							R0210	63,414
2014	R0220		113,821	93,191	74,480								R0220	67,612
2015	R0230	210,940	147,744	98,361									R0230	91,645
2016	R0240	194,913	111,646										R0240	103,394
2017	R0250	232,093											R0250	219,123
													Total R0260	570,100

S.23.01.01: Own funds

Own funds

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35						
Ordinary share capital (gross of own shares)	R0010	**5,000**	5,000			
Share premium account related to ordinary share capital	R0030					
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings☐	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	**148,971**	148,971			
Subordinated liabilities	R0140	**31,710**			31,710	
An amount equal to the value of net deferred tax assets	R0160					
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180	**126,000**	126,000			
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
Deductions						
Deductions for participations in financial and credit institutions	R0230					
Total basic own funds after deductions	**R0290**	**311,681**	**279,971**		**31,710**	

Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand☐	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Other ancillary own funds	R0390					
Total ancillary own funds	**R0400**					

Available and eligible own funds						
Total available own funds to meet the SCR	**R0500**	**311,681**	**279,971**		**31,710**	
Total available own funds to meet the MCR	**R0510**	**311,681**	**279,971**		**31,710**	
Total eligible own funds to meet the SCR	**R0540**	**311,681**	**279,971**		**31,710**	
Total eligible own funds to meet the MCR	**R0550**	**292,067**	**279,971**		**12,096**	
SCR	**R0580**	**134,403**				
MCR	**R0600**	**60,481**				
Ratio of Eligible own funds to SCR	**R0620**	**231.90%**				
Ratio of Eligible own funds to MCR	**R0640**	**482.91%**				

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	**279,971**
Own shares (held directly and indirectly)	R0710	
Foreseeable dividends, distributions and charges	R0720	
Other basic own fund items	R0730	**131,000**
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	
Reconciliation reserve	**R0760**	**148,971**
Expected profits		
Expected profits included in future premiums (EPIFP) - Life Business	R0770	
Expected profits included in future premiums (EPIFP) - Non- life business	R0780	
Total Expected profits included in future premiums (EPIFP)	**R0790**	

S.25.02.01: Solvency capital requirement (SCR)

Solvency Capital Requirement - for undertakings using the standard formula and partia

	Unique number of component	Components description	Calculation of the Solvency Capital Requirement	Amount modelled	USP	Simplifications
	C0010	C0020	C0030	C0070	C0090	C0120
A	1	Market Risk	74,114	0		- None
B	2	Counterparty default risk	3,158	0		- None
C	3	Life underwriting risk	0	0		- None
D	5	Non-Life underwriting risk	122,113	0		- None
E	7	Operational risk (Standard Formula approach)	16,943	0		- None
F	9	LAC Deferred Taxes	-19,205	0		- None

Calculation of		C0100
components	R0110	197,123
Diversification	R0060	-62,720
business operated in	R0160	
Requirement	R0200	134,403
Capital add-on	**R0210**	
requirement	R0220	134,403
Other information on		
the overall loss-absorbing capacity	R0300	
Amount/estimate of the overall loss-	R0310	-19,205
Capital requirement for duration-based equity	R0400	
Total amount of Notional Solvency	R0410	
Total amount of Notional Solvency	R0420	
Notional Solvency	R0430	
due to RFF nSCR	R0440	

S.28.01.01: Minimum capital requirement (MCR)

Linear formula component for non-life insurance and reinsurance obligations

MCR calculation Non Life		Non-life activities	
		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
Medical expense insurance and proportional reinsurance	R0020		
Income protection insurance and proportional reinsurance	R0030	7,999	4,800
Workers' compensation insurance and proportional reinsurance	R0040		
Motor vehicle liability insurance and proportional reinsurance	R0050	55,423	37,277
Other motor insurance and proportional reinsurance	R0060	16,491	19,372
Marine, aviation and transport insurance and proportional reinsurance	R0070	28,330	35,904
Fire and other damage to property insurance and proportional reinsurance	R0080	40,103	9,095
General liability insurance and proportional reinsurance	R0090	307,648	177,869
Credit and suretyship insurance and proportional reinsurance	R0100	2,579	2,811
Legal expenses insurance and proportional reinsurance	R0110		
Assistance and proportional reinsurance	R0120		
Miscellaneous financial loss insurance and proportional reinsurance	R0130		
Non-proportional health reinsurance	R0140	1,189	393
Non-proportional casualty reinsurance	R0150	69,838	24,468
Non-proportional marine, aviation and transport reinsurance	R0160		525
Non-proportional property reinsurance	R0170	21,411	18,202

Linear formula component for life insurance and reinsurance obligations

MCR calculation Life		Life activities	
		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
Obligations with profit participation - guaranteed benefits	R0210		
Obligations with profit participation - future discretionary benefits	R0220		
Index-linked and unit-linked insurance obligations	R0230		
Other life (re)insurance and health (re)insurance obligations	R0240		
Total capital at risk for all life (re)insurance obligations	R0250		

		Non-life activities	Life activities
		C0010	C0040
MCRNL Result	R0010	104,644	
MCRL Result	R0200		

Overall MCR calculation		C0070
Linear MCR	R0300	104,644
SCR	R0310	134,403
MCR cap	R0320	60,481
MCR floor	R0330	33,601
Combined MCR	R0340	60,481
Absolute floor of the MCR	R0350	3,200
		C0070
Minimum Capital Requirement	**R0400**	**60,481**