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Talanx AG Annual Report 2011

Talanx AG at a glance

	2011	2010	2009
Figures in EUR thousand			
Income from participating interests	247,005	360,231	397,564
Net interest income	–144,476	–109,414	–66,029
Other operating income	102,661	87,069	18,660
Other operating expenses and write-downs	103,172	358,484	80,522
Result from ordinary activities	102,018	–20,599	269,673
Extraordinary profit or loss	–14,009	–14,161	—
Tax expense/income (–)	12,101	–44,524	57,020
Net income for the financial year	75,907	9,764	212,654
Allocation to other retained earnings	—	—	106,327
Profit carried forward from the previous year	300,691	290,927	184,600
Disposable profit	376,599	300,691	290,927
Financial assets	6,331,574	6,003,032	5,752,932
Equity			
Subscribed capital	260,000	260,000	260,000
Capital reserve	629,529	629,529	629,529
Revenue reserves	2,902,758	2,902,758	2,986,528
Net retained profits	376,599	300,691	290,927
Total	4,168,886	4,092,978	4,166,984
Borrowed funds with a term in excess of 1 year	1,274,637	1,876,285	1,600,438

For mathematical reasons rounding differences of ± one unit may occur in the tables.

Contents

Report of the Supervisory Board

In the 2011 financial year the Supervisory Board performed the duties incumbent upon it at all times in accordance with statutory requirements, the Articles of Association and the Rules of Procedure. We considered at length the economic situation, risk position and strategic development of Talanx AG and its major subsidiaries. We advised the Board of Management on the direction of the company, monitored the management of business and were directly involved in decisions of fundamental importance.

In the year under review we came together for four ordinary meetings of the Supervisory Board, which were held on 25 March, 17 May, 12 August and 18 November 2011. The Supervisory Board also held one extraordinary meeting on 13 December 2011. As in the previous year, the Federal Financial Supervisory Authority (BaFin) exercised its legal powers and sent two representatives to attend one of these meetings. The Finance and Audit Committee and the Personnel Committee of the Supervisory Board each met on four occasions, the Nomination Committee met once. The Standing Committee formed in accordance with the requirements of the Co-Determination Act again had no reason to meet in 2011. The full Supervisory Board was briefed on the work of the various committees. In addition, we received quarterly written reports from the Board of Management on the course of business and the position of the company and the Group. At no point in the year under review did we consider it necessary to conduct audit measures pursuant to § 111 Para. 2 Sentence 1 German Stock Corporation Act (AktG). Insofar as transactions requiring approval arose between meetings, the Board of Management submitted these to us for a written resolution. The Chairman of the Supervisory Board also remained in constant contact with the Chairman of the Board of Management and was regularly advised of all important business transactions within the company and the Talanx Group. All in all, within the scope of our statutory responsibilities and those prescribed by the Articles of Association we assured ourselves of the lawfulness, expediency, regularity and efficiency of the actions of the Board of Management.

The Board of Management provided us with regular, timely and comprehensive information about the business and financial situation – including the risk situation and risk management –, about major capital expenditure projects and fundamental issues of corporate policy as well as about transactions that – while not subject to the approval of the Supervisory Board – nevertheless need to be reported in accordance with the requirements of the Rules of Procedure. Further key areas of the reporting covered fundamental issues of Group strategy, the implications of the financial crisis and high indebtedness of certain EU countries as well as the earthquake and tsunami in Japan and subsequent reactor disaster in Fukushima. At our meetings we considered at length the reports provided by the Board of Management and put forward suggestions and proposals for optimisation.

Key areas of discussion for the full Supervisory Board

The business development of the company and the individual Group segments, the optimisation of the Group structures, the reorientation of the Retail Germany division, the bringing together of IT and other services in two service companies, acquisitions and acquisition projects in foreign markets as well as the planning for 2012 formed the primary focus of the reporting and were discussed in detail at our meetings. The reasons for divergences between the business experience and the relevant plans and targets in the financial year just-ended were explained to us, and we were able to satisfy ourselves accordingly with the explanations provided.

A further focus of our deliberations was risk management within the Group. The risk reporting by the Board of Management was a matter for discussion at each meeting of the Supervisory Board. In addition, we considered a number of acquisition, disposal and cooperation projects, which the Board of Management presented to us for discussion and adoption of a resolution. Specifically, reference may be made here to the purchase of two insurance companies in Poland (TU Europa and Warta), the acquisition of three insurance companies in Latin America, the sale of HDI-Gerling Rechtsschutz Versicherung AG and Clarus AG and the acquisition of a minority interest in a Vietnamese insurer. Not only that, the strategic orientation of the Retail Germany division and the growth strategy pursued in the Retail International division were considered by the Supervisory Board. In this connection various acquisition projects were explored in 2011, including in Israel, Turkey and South America; we were kept informed of the status of these deliberations and discussions.

With an eye to § 87 Para. 1 Stock Corporation Act (AktG) as amended by the Act on the Adequacy of Management Board Remuneration (VorstAG), the full Supervisory Board considered the specification of the bonuses for the members of the Board of Management and in this context drew inter alia on horizontal and vertical remuneration aspects and concepts as a means of comparison and orientation. In addition, at its meeting on 18 November 2011 the Supervisory Board was informed about the structure of the remuneration systems within the Group as required by § 3 Para. 5 of the Regulation on the Supervisory Law Requirements for Remuneration Schemes in the Insurance Sector (Versicherungs-Vergütungsverordnung). The question of the adequacy of the remuneration system for managing directors within the Group was linked to the question of the adequacy of the amount of remuneration and examined in connection with the establishment of the bonuses at the Supervisory Board meeting on 20 March 2012.

The transactions and measures subject to approval in accordance with legal requirements, the company's Articles of Association and its Rules of Procedure were agreed with the Board of Management following examination and discussion. The Supervisory Board gave the necessary consent to the formation, amendment and termination of control and profit transfer agreements within the Group on the basis of the written and verbal explanations provided by the Board of Management.

Work of the Committees

Along with preparations for discussion and adoption of resolutions by the full Supervisory Board, the Finance and Audit Committee of the Supervisory Board considered at length the company's quarterly financial statements compiled on a voluntary basis, which have also been published since Q3/2011. Furthermore, the Finance and Audit Committee discussed the findings of an actuarial audit of the net loss reserves for non-life insurance business within the Talanx Group as well as the profitability trend at the individual Group companies as at 31 December 2010 and considered the internal control system, the risk reports, the work of risk management and the internal audit function as well as the annual report submitted by the Chief Compliance Officer.

The Personnel Committee deliberated at length on the succession planning for the Board of Management and defined the targets for the individual members of the Board of Management in the 2012 financial year. Furthermore, in the context of the setting of bonuses for the members of the Board of Management on the basis of the reorganised remuneration system, recommendations were made to the full Supervisory Board.

The Nomination Committee came together for a meeting on 21 July 2011 and made a recommendation for an election proposal by the Supervisory Board to the General Meeting with an eye to ensuring a balanced composition of the Supervisory Board guided by the principle of diversity.

Corporate Governance

The Supervisory Board again devoted special attention to the issue of Corporate Governance. The Articles of Association and the Rules of Procedure of the company were adjusted in accordance with the provisions of the German Corporate Governance Code, with allowance also being made – insofar as this was found to be appropriate for a company that is not yet listed – for the other recommendations of the Code. This includes, not least, the individualised disclosure for the first time of the remuneration received by the Board of Management and Supervisory Board in the remuneration report contained in the 2011 Annual Report.

Audit of the annual and consolidated financial statements

The annual financial statements of Talanx AG submitted by the Board of Management, the financial statements of the Talanx Group – drawn up in accordance with International Financial Reporting Standards (IFRS) – as well as the corresponding management reports and the bookkeeping system were audited by KPMG AG, Wirtschaftsprüfungsgesellschaft, Hannover. The General Meeting appointed the auditors; the Finance and Audit Committee awarded the concrete audit mandate. In addition to the usual audit tasks, the audit focused particularly – in the case of the annual financial statements – on the scrutiny of the provisions for taxes and pensions and – with respect to the consolidated financial statements – on the examination of the measurement of level 2 and 3 assets, the intercompany true-up process with the entities abroad, the implementation of the Improvements to IFRSs 2010 and the audit of the cash flow statement. The audit concentrations of the Financial Reporting Enforcement Panel (FREP) were also the subject of the audit procedures carried out by the auditors.

The audits conducted by the auditors gave no grounds for objection. The unqualified audit certificates that were issued state that the accounting, annual financial statements and consolidated financial statements give a true and fair view of the net assets, financial position and results of operations and that the management reports suitably reflect the annual and consolidated financial statements.

The financial statements and the audit reports of KPMG were distributed to all the members of the Supervisory Board in due time. They were examined in detail at a meeting of the Finance and Audit Committee on 19 March 2012 and at a meeting of the Supervisory Board on 20 March 2012. The auditor took part in the deliberations of the Finance and Audit Committee and of the full Supervisory Board regarding the annual and consolidated financial statements, reported on the conduct of the audits and was available to provide the Supervisory Board with additional information. In accordance with the final outcome of our own examination of the annual financial statements, the consolidated financial statements, the corresponding management reports and the audit reports, we concurred with the opinion of the auditors and approved the annual and consolidated financial statements drawn up by the Board of Management.

The annual financial statements are thus adopted. We approve of the statements made in the management reports regarding the further development of the company. After examination of all relevant considerations we agree with the Board of Management's proposal for the appropriation of the disposable profit.

The report on the company's relations with affiliated companies drawn up by the Board of Management in accordance with § 312 German Stock Corporation Act (AktG) has likewise been examined by KPMG Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Hannover, and given the following unqualified audit certificate:

"Having audited the report in accordance with our professional duties, we confirm that
1. its factual details are correct,
2. in the case of the transactions detailed in the report, the expenditure of the company was not unreasonably high."

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

Changes on the Board of Management and Supervisory Board

With effect from the end of 31 January 2011 Mr. Hans-Ulrich Hanke stepped down from the company's Supervisory Board as a representative of the employees owing to his entry into the passive phase of partial retirement. With effect from 1 February 2011 Ms. Jutta Hammer succeeded him as a member of the Supervisory Board for the remainder of the current term of office. In addition, with effect from the end of 31 August 2011 Mr. Bodo Uebber stepped down from the company's Supervisory Board. On 22 August 2011 the General Meeting elected Ms. Antonia Aschendorf to the Supervisory Board with effect from 1 September 2011 for the remainder of the current term of office. The Supervisory Board expressed its appreciation and recognition to Mr. Hanke and Mr. Uebber for their constructive and dedicated contribution.

Word of thanks to the Board of Management and staff

The Board of Management and staff worked and acted with considerable dedication in the financial year just-ended. The Supervisory Board would like to express its special appreciation of their efforts.

Hannover, 20 March 2012

For the Supervisory Board

Wolf-Dieter Baumgartl
(Chairman)

Boards and officers

Supervisory Board

Wolf-Dieter Baumgartl
Chairman
Former Chairman of the Board of Management of Talanx AG,
Berg

Ralf Rieger
Deputy Chairman
Employee,
HDI-Gerling Vertrieb Firmen und Privat AG,
Raesfeld

Prof. Dr. Eckhard Rohkamm
Deputy Chairman
Former Chairman of the Board of Management of ThyssenKrupp Technologies AG,
Hamburg

Antonia Aschendorf
(from 1 September 2011)
Attorney,
Hamburg

Karsten Faber
Managing Director,
Hannover Rückversicherung AG,
E+S Rückversicherung AG,
Hannover

Jutta Hammer
(from 1 February 2011)
Employee, HDI-Gerling Leben Betriebsservice GmbH,
Bergisch Gladbach

Hans-Ulrich Hanke
(until 31 January 2011)
Employee, HDI-Gerling Leben Betriebsservice GmbH,
Brühl

Gerald Herrmann
Trade union secretary,
Norderstedt

Dr. Thomas Lindner
Chairman of the Board of Management of Groz-Beckert KG,
Albstadt

Jutta Mück
Employee, HDI-Gerling Industrie Versicherung AG,
Oberhausen

Otto Müller
Employee,
Hannover Rückversicherung AG,
Hannover

Dr. Hans-Dieter Petram
Former Member of the Board of Management of Deutsche Post AG,
Inning

Dr. Michael Rogowski
Chairman of the Foundation Council of Hanns-Voith-Stiftung,
Heidenheim

Katja Sachtleben-Reimann
Employee, Talanx Service AG,
Hannover

Dr. Erhard Schipporeit
Former Member of the Board of Management of E.ON AG,
Hannover

Bodo Uebber
(until 31 August 2011)
Member of the Board of Management of Daimler AG,
Stuttgart

Prof. Dr. Ulrike Wendeling-Schröder
Professor at Leibniz University,
Hannover

Werner Wenning
Former Chairman of the Board of Management of Bayer AG,
Leverkusen

Supervisory Board Committees

Finance and Audit Committee
- Wolf-Dieter Baumgartl, *Chairman*
- Dr. Thomas Lindner
- Ralf Rieger
- Prof. Dr. Eckhard Rohkamm
- Dr. Erhard Schipporeit

Personnel Committee
- Wolf-Dieter Baumgartl, *Chairman*
- Prof. Dr. Eckhard Rohkamm
- Dr. Michael Rogowski
- Prof. Dr. Ulrike Wendeling-Schröder

Standing Committee
- Wolf-Dieter Baumgartl, *Chairman*
- Ralf Rieger
- Prof. Dr. Eckhard Rohkamm
- Katja Sachtleben-Reimann

Nomination Committee
- Wolf-Dieter Baumgartl, *Chairman*
- Dr. Thomas Lindner
- Dr. Michael Rogowski

The Supervisory Board has formed four committees from among its ranks. They support the full Supervisory Board in the performance of its tasks.

Tasks of the Committees

Finance and Audit Committee
- Preparation of financial decisions for the full Supervisory Board
- Decisions in lieu of the full Supervisory Board on certain financial matters, including the establishment of companies, acquisition of participations and capital increases at subsidiaries within defined value limits

Personnel Committee
- Preparation of personnel matters for the full Supervisory Board
- Decisions in lieu of the full Supervisory Board on certain personnel matters for which the full Supervisory Board is not required to bear sole responsibility

Standing Committee
- Proposal for the appointment of a Board member if the necessary two-thirds majority is not achieved in the first ballot (§ 31 Para. 3 Co-Determination Act)

Nomination Committee
- Proposal of suitable candidates for the Supervisory Board's nominations to the General Meeting

Board of Management

Herbert K. Haas
Chairman
Burgwedel
Chairman of the Board of Management
HDI Haftpflichtverband der Deutschen Industrie V. a. G., Hannover

Responsible on the Talanx Board of Management for:
- Corporate Development
- Group Project Management
- Investor Relations
- Public Relations
- Legal Affairs
- Internal Auditing
- Executive Staff Functions/Compliance

Dr. Christian Hinsch
Deputy Chairman
Burgwedel
Deputy Chairman of the Board of Management
HDI Haftpflichtverband der Deutschen Industrie V. a. G.,
Chairman of the Management Board
HDI-Gerling Industrie Versicherung AG, Hannover

Responsible on the Talanx Board of Management for:
- Division: Industrial Lines
- Facility Management
- Human Resources
- Procurement
- Reinsurance Purchasing

Torsten Leue
Hannover
Chairman of the Board of Management
Talanx International AG, Hannover

Responsible on the Talanx Board of Management for:
- Division: Retail International

Dr. Thomas Noth
Hannover
Chairman of the Board of Management
Talanx Systeme AG, Hannover

Responsible on the Talanx Board of Management for:
- Information Services

Dr. Immo Querner
Celle
Member of the Board of Management
HDI Haftpflichtverband der Deutschen Industrie V. a. G., Hannover

Responsible on the Talanx Board of Management for:
- Finance/Participating Interests/Real Estate
- Investments
- Controlling
- Collections
- Risk Management
- Accounting/Taxes

Dr. Heinz-Peter Roß
Gräfelfing
Chairman of the Board of Management
Talanx Deutschland AG, Hannover

Responsible on the Talanx Board of Management for:
- Division: Retail Germany
- Business Organisation

Ulrich Wallin
Hannover
Chairman of the Board of Management
Hannover Rückversicherung AG, Hannover

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

Management report.

Business overview and general climate

In its function as the financial and management holding company of the Talanx Group, Talanx AG is active worldwide with its companies, branches and cooperative ventures. The companies belonging to the Talanx Group operate chiefly in the areas of primary insurance and reinsurance, but are also engaged – principally in Germany – in the financial services sector.

The primary task of Talanx AG is to lead and steer the Group. The Board of Management of Talanx AG defines the Group strategy and decides on the Group's business-policy objectives. Goal accomplishment is monitored by Talanx AG and steered by means of capital allocation, set targets, performance measurement and appropriate incentive schemes. At the same time Talanx AG bears responsibility for optimising equity and debt capital in the interests of the Group.

With the restructuring implemented in the year under review the Group completed its transition in primary insurance business from a line-of-business organisation to a customer-oriented organisation; its operations are now conducted in the divisions of Industrial Lines, Retail Germany, Retail International and Reinsurance. Information on the individual divisions and the companies operating in them is provided under "Development of the major participations".

Macroeconomic environment and industry-specific conditions

Macroeconomic developments

The dominant issue in the year under review was the further intensification of the European sovereign debt crisis and its implications for the financial sector and especially banks. The resulting global economic trend was characterised by a general cooldown, which could be felt most appreciably in the Eurozone. Countries on the Eurozone periphery, some of which are having to brace against massive austerity measures, suffered sharp growth setbacks. In the context of this critical mix of factors, sometimes significant rating downgrades were handed down. The United States, for example, lost its top rating from Standard & Poor's, while several European countries also suffered deteriorations in their credit status – special mention should be made here of Italy and Spain, where interest rate spreads consequently surged to record highs.

In response to the sovereign debt crisis a whole range of measures were approved at recent EU summits. Nevertheless, neither the initiative of a voluntary Greek debt write-off by the private sector nor the call for recapitalisation of European banks nor the desired expansion of the EFSF rescue fund have hitherto been able to soothe market jitters. In this respect, many consider the agreement reached by European heads of government to conclude a separate pact on greater budgetary discipline to be an absolutely indispensable step.

The relatively robust data coming out of the United States had a stabilising effect in the fourth quarter of the year under review. According to figures released by Bloomberg, the US economy grew by an annualised rate of 2.8% in the fourth quarter relative to the previous quarter, while the jobless rate retreated to a three-year low of 8.5% in December 2011. Eurozone GDP contracted by 0.3% in the fourth quarter relative to the previous quarter, thus showing an increase of just 0.7% compared to the corresponding quarter of the previous year. Within the Eurozone Germany most recently generated growth of 1.5% compared to the corresponding quarter of the previous year.

The monetary policy of the major central banks remained expansionary over the course of the year under review. Responding to the strained situation on money markets, the world's central banks took concerted action to cut the interest rate at which financial institutions can borrow dollars against collateral. Following Mario Draghi taking office as the new President of the European Central Bank, the ECB reduced the interest rate on the main refinancing operations in two steps to 1.0% and, for the first time, announced a three-year tender (LTRO) in December. The ECB moved back into crisis mode when it began purchasing European government bonds again.

Inflation rates in the Eurozone moved sharply higher over the year and exceeded the declared ECB target at year-end 2011. The annual inflation rate published by the ECB for December 2011, for example, climbed to 2.7%; inflation in the United States stood at 3.0% in December 2011. In the United Kingdom the rate of inflation settled in at levels in excess of 4.0% as the year progressed.

While the euro was still able to profit from the somewhat more restrictive monetary policy of the ECB in the first half of the year – at times the euro surpassed a level of USD 1.45 per EUR 1.00 – it lost value heavily in the final quarter on the back of the protracted euro debt crisis and slipped below USD 1.30 at year-end 2011. The movement of the euro against the pound sterling was similar: after beginning the year at an exchange rate of around GBP 0.86 per EUR 1.00, the euro had climbed to GBP 0.90 per EUR 1.00 by the middle of the year, only to fall back to GBP 0.83 per EUR 1.00 at year-and 2011. In the context of the euro weakness, which also made itself felt against the Swiss franc, the Swiss central bank announced in September 2011 that it would no longer tolerate an exchange rate of less than CHF 1.20 per EUR 1.00. The euro gained some 13% in value over the year against the Polish zloty.

Capital markets

Equity markets were extremely volatile throughout 2011. In the first quarter the tsunami disaster in Japan and its devastating consequences plunged markets into a global tailspin over the short term. Re-energised by a healthy earnings season, markets nevertheless rallied in the first half of the year. With the escalation of the European sovereign debt and banking crisis, the third quarter brought further substantial losses on equity markets around the world. The German DAX stock index slumped by almost 2500 points within just a few weeks, thereby giving up around one third of its value; the EURO STOXX 50 experienced a similarly sharp fall. Some of the losses were recouped in the final quarter. On balance, though, the year in Europe closed deeply in the red: the DAX lost almost 15% of its value and the EURO STOXX 50 a good 17%. US indices performed appreciably better: the Dow Jones gained roughly 5% over the year, while the S&P 500 closed the year virtually unchanged.

Bond markets in 2011 were dominated primarily by the unresolved debt and credit crisis affecting the GIIPS countries (Greece, Ireland, Italy, Portugal and Spain). Numerous rating downgrades were issued, both with respect to the affected government bonds and in the downstream asset classes of covered bonds as well as bank and corporate bonds. The fourth quarter did not bring any easing in the situation despite two major EU summits. Along with a progressively worsening sentiment towards the "large" GIIPS countries, especially Italy, a looming banking crisis has come back into an increasingly sharp market focus. In our opinion, it is often the case that banks are no longer living up to their intermediary function, and interbank trading has virtually ceased. The discrepancy between secured and unsecured money market trading points, in our assessment, to a renewed crisis scenario. Liquidity is supplied primarily through extended central bank lines, such as the three-year tender at 1%, which has been utilised in a volume of EUR 489 billion. The ECB remained active on the secondary market with purchases of government bonds issued by countries on the Eurozone periphery, and it launched a new programme to buy covered bonds. The need to foster confidence in the banking sector also became an increasingly central preoccupation for politicians.

Positive sentiment at the turn of the year caused yields to move slightly higher in the early months of the year under review: 10-year German government bonds listed at almost 3.5% at the beginning of April. From April onwards, however, the mood darkened appreciably as a consequence of the unresolved debt crisis; yields also fell back sharply. This trend accelerated in the third quarter – with yields well below 2% – before the market turned around in the middle of the fourth quarter; in November it was once again possible to obtain yields of around 2.3%. Towards year-end, though, yields again plunged sharply in the expectation of very substantial refinancing needs at the start of 2012. Two-year German government bonds listed at 0.14% at 31 December 2011, five-year bonds at 0.76% and 10-year bonds at 1.83%. At times even negative yields were recorded for maturities of less than one year. This is also a reflection of central bank policy. Following the interest rate hike in July the ECB adopted a significantly more cautious posture. The interest rate on the main refinancing operations was cut on two occasions in November and December by 0.25 percentage points to its current level of 1.00%.

In the area of government bonds the trend towards preferred investment in the few remaining "safe haven markets" was sustained. Bonds issued by banks, on the other hand, remained very stable until the end of July. It was only as the banking crisis came into focus that bank issues also saw sharp falls, especially with respect to subordinated loans.

New issue activity in the first three months of 2011 was particularly brisk for covered bonds. Roughly 50% of issues in the entire year under review were made in the first quarter. As the crisis intensified, however, the market for new issues generally came almost to a standstill; capital market experts assess the looming refinancing requirement as very high.

Insurance industry
2011 was the fourth year in succession to be overshadowed by a financial and debt crisis. Thanks to its broadly diversified, long-term investment portfolios and a merely minimal exposure to bonds issued by the so-called GIIPS countries, the German insurance industry was able in large measure to absorb adverse effects on its business and its customers. Despite the crisis and an economic recovery that began to flag again as the year progressed, the industry's business development in the year under review was satisfactory from our perspective. The modest premium contraction observed across the various lines of insurance can be attributed above all to the normalisation of single premium business in life insurance – which in the previous two years had enjoyed a significant surge. Overall, the German Insurance Association (GDV) recorded its second-highest premium volume of all time in 2011 at EUR 176.7 billion. The insurance benefits paid by insurers in the year under review rose; a growing number of regular contract maturities in life insurance as well as rising loss expenditures in property/casualty insurance were contributory factors here.

German property/casualty insurers grew their premium income by around 2.5% in the year under review – the strongest increase since 2003 – and thereby sustained the upbeat trend of the previous year. This can be attributed principally to premium growth in motor insurance, the volume of which surged in 2011. In this business it was possible to obtain premium increases both for new policies and the existing portfolio.

A favourable trend is also anticipated in all other lines, with marine insurance and credit insurance showing particularly solid growth. On the claims side the industry recorded only a minimal percentage increase in the 2011 financial year, although in absolute terms it was faced with the second-highest burden since the Elbe flooding in 2002. Key loss events that had an impact here were the long period of frost at the turn of the year as well as extreme weather fronts in August and September. Despite the restricted regional scope of these events, they resulted in very heavy loss expenditure. From an overall perspective, the positive effects of the premium growth outweighed the increased claims payments, and the underwriting profit booked by property/casualty insurers in 2011 therefore rose again for the first time in two years. The GDV therefore expects the combined ratio to improve by probably one percentage point.

All in all, the business development in German life insurance normalised in the year under review. Against the backdrop of the financial and economic crisis, 2009 and 2010 had been dominated by an extreme trend towards single premium business. This expansive growth was not sustained in 2011; instead, and in our opinion as anticipated, it contracted appreciably. In contrast to single premium business, new business with a regular premium payment – which is more important for the sustainable development of the industry – grew by 8.1% in 2011 to EUR 6.1 billion after declines in the previous two years. Measured by total premiums paid – under which contracts with a regular premium are weighted according to their policy period – the year under review therefore produced overall growth of 5.5% in new business. Total gross written premium in life insurance, on the other hand, contracted by 4.8% in the year under review owing to the development of single premiums. The number of policy cancellations again fell slightly despite the ongoing financial crisis.

The low interest rate environment continues to pose a growing challenge for German life insurers that must be taken seriously. While the industry was still able to generate an adequate net return on its investments in 2011, the industry-wide announcements of cuts in surplus participations indicate that – in the absence of a trend reversal going forward – this climate is likely to impact the benefits paid by life insurers.

Overview of the business development

The general economic climate was a challenging one for the insurance industry in the year under review. In the first place the burden of major losses was exceptionally high in 2011, while at the same time the sovereign debt crisis and its repercussions on the capital market gave rise to a special strain. Despite this difficult environment, the result posted by Talanx AG in the year under review was higher than in the previous year. The profits transferred from the primary insurers were significantly higher in total year-on-year, while the dividend paid by the reinsurance subsidiary Hannover Rückversicherung AG also improved on the previous year, which had been overshadowed by special charges associated with the Group restructuring and the merger of Aspecta Lebensversicherung AG into HDI-Gerling Lebensversicherung AG. The restructuring of the Group continued and is still ongoing in the Retail Germany division. The goal is to align the business processes and organisation with the needs of customers and sales partners in order to create a particularly efficient insurer in Germany with a heavy focus on its customers. The year under review took a charge from considerable restructuring costs associated with the reorganisation of the Retail Germany division.

Working in concert with our strategic partner Meiji Yasuda, we are striving to make the most of opportunities abroad in order to grow together in foreign markets. In particular, the central focus here is on investments in Central and Eastern Europe as well as Turkey and Latin America. The acquisitions made in Poland with the Europa Group and Warta, which we expect to close in the course of 2012, are being carried out jointly with Meiji Yasuda.

We also pressing forward with our increasingly international orientation through the expansion of HDI Seguros Madrid (Spain) into a hub for industrial insurance solutions in Latin America as well as the stepping up of our strategic partnership with PVI – the leading insurer of industrial lines in Vietnam – and through the acquisition of the Dutch company Nassau Verzekering Maatschappij N.V., Rotterdam, which was included in our financial statements for the first time in the second quarter of 2011.

Results of operations, financial position and net assets

Results of operations

The profitability of our company improved significantly on the previous year with a profit for the year of EUR 76 (10) million. The previous year had been influenced by non-recurring special factors that had differing impacts on various items of the income statement. In order to facilitate a better understanding, therefore, we are explaining the business result in a summary presentation that does justice to our company's holding function (cf. inside cover "Talanx AG at a glance").

The income from participating interests, which consists of income from long-term equity investments as well as income and expenditures from profit and loss transfers from our subsidiaries, amounted to EUR 247 (360) million in the 2011 financial year.

Income from long-term equity investments was sharply lower at EUR 147 (591) million. A primary reason here was recognition only in the previous year of receipt of a dividend from Talanx Deutschland AG amounting to EUR 460 million, which was paid out of the increased capital reserve resulting from merger transactions. However, loss assumptions of EUR 431 million from subsidiaries were also necessary in the previous year, of which EUR 428 million was attributable purely to the loss assumed from Talanx Deutschland AG. In the 2011 financial year expenses of altogether EUR 89 million were recognised from loss assumptions, most notably with respect to Talanx Deutschland AG (due to restructuring costs) and Talanx International Holding AG, both of which were impacted by write-downs on the book values of participating interests. This was opposed by an increase in the dividend recognised from Hannover Re, which rose to EUR 139 (127) million; this is equivalent to EUR 2.30 (2.10) per share.

Distributions made by other companies with which a profit transfer agreement does not exist were higher than in the previous year: this was true of Talanx Finanz (Luxemburg) S.A. with EUR 2 (0) million on account of gains from the repurchase of its own subordinated debt as well as Alstertor Erste Beteiligungs- und Investitionssteuerungs-GmbH & Co. KG with EUR 2 (0) million from recognition of the dividend from the years 2009 to 2011. The distribution from the directly held interest in TARGO Lebensversicherung AG (5%) remained stable at EUR 2 million.

Income from profit transfer agreements contracted to EUR 189 (200) million. Of this, EUR 133 million was attributable to HDI-Gerling Industrie Versicherung AG, EUR 33 million to Talanx Asset Management GmbH, EUR 13 million to Talanx Reinsurance Broker AG and EUR 10 million to Talanx Service AG. A profit was recognised from the latter company owing to the release of a provision for contingent losses that had been constituted for vacancies.

The balance of interest income and expenses deteriorated to –EUR 144 (–109) million. Income from other long-term securities and loans increased by EUR 1 million to EUR 2 million, primarily owing to interest income from the share of the subordinated debt issued by Talanx Finanz (Luxemburg) S. A. Other interest and similar income climbed by EUR 5 million to EUR 21 million. The principal reasons here were the rise in the interest rate level for fixed deposits and overnight money during the year under review, the higher variable interest income from a swap transaction as well as the on-debiting of the reversal of discounting on a pension provision for the pension portfolios that had been added through an assumption of debt.

Interest and similar expenses increased to EUR 168 (126) million. This resulted in particular from the full-year recognition of the hybrid loan from Meiji Yasuda in an amount of EUR 23 (3) million, from the reversal of discounting on a pension provision for the companies whose portfolios had been assumed by Talanx AG (in an amount of EUR 5 [0] million), from increased expenditure associated with the floating-rate lines of credit as well as from interest expenses on tax liabilities in an amount of EUR 10 (0) million – especially for tax risks – and from the separate disclosure for the first time of interest on taxes and taxes.

The other operating income climbed by EUR 16 million in the year under review to EUR 103 million. The increase was driven principally by income from the withdrawal of a block of securities from Talanx Beteiligungs-GmbH & Co. KG with a corresponding reduction of the book value of the participation in an amount of EUR 42 million as well as income from the release of provisions amounting to EUR 29 million. In the previous year the income derived predominantly from disposal gains, chiefly associated with the sale of Euro International Reinsurance S. A. in Luxembourg and HNG Hannover National Grundstücksverwaltung mbH & Co. KG.

The total amount of all other expenditures (personnel expenses, other operating expenses, write-downs on tangible fixed assets) was EUR 103 (354) million in the year under review. Of the total decrease, the lion's share (EUR 297 million) can be attributed to the elimination of income contributions that had been paid in 2010.

The profit from ordinary activities therefore came in at EUR 102 million, after a loss of EUR 21 million in the previous year.

The extraordinary result includes an extraordinary charge of EUR 14 million from the amount allocated to the provision for pensions pursuant to the Act on the Modernisation of Accounting Law (BilMoG). In the year under review, as in the previous year, virtually no taxes on income were incurred from the current year. The tax expenditure in the year under review resulted exclusively from tax provisions constituted for tax risks in prior years. Tax income was recognised in the previous year from the release of tax provisions connected with a favourable decision by the Federal Fiscal Court (BFH) on the taxation of investment income generated by Irish subsidiaries as foreign-sourced investment income.

The net income for the financial year climbed by EUR 66 million year-on-year to EUR 76 (10) million. After addition of the profit carried forward from the previous year of EUR 301 million, the disposable profit amounted to EUR 377 (301) million.

Financial position

The liquidity needed to meet current payment obligations is ensured by means of ongoing cash planning. This cash planning is carried out by Accounting at least once a month, and at shorter intervals if required.

The inflow of funds to Talanx AG derives principally from profit transfer agreements with affiliated companies, dividend income and interest income on loans. As part of the cash planning, the anticipated cash flows from profit transfers are regularly reconciled with Group Controlling within the scope of constantly updated budget accounting. The company has to spend funds principally to service interest payments and repayment of principal in connection with liabilities. On account of its status as a holding company, activities relating to the acquisition or disposal of undertakings may give rise to short-term cash flows in the form of outflows or inflows.

We generate liquidity principally through income from our participations in operational insurance and reinsurance companies, the current return on our investments and from financing measures. Through regular liquidity planning and an investment strategy geared to the liquidity requirements we ensure that Talanx AG is at all times in a position to make the necessary payments.

Talanx AG makes use of off-balance sheet financing instruments and enters into various commitments: of particular relevance to an evaluation of the financial position are outstanding capital contributions due under existing investment commitments (EUR 69 million). In addition, the other commitments as at 31 December 2011 amounted to EUR 20 million.

When selecting line of credit providers, the company pays close attention – as it always has in the past – to their long-term reliability and capital strength. As a consequence of the financial crisis and credit crunch, several major banks slipped into insolvency, merged or received various forms of state aid in 2008/2009. The present debt crisis facing several member states of the Eurozone has also put some banks under strain. Constant monitoring of the capital strength of the line of credit providers – a task performed centrally by Talanx Asset Management GmbH – is therefore of growing relevance.

Net assets

As in past years, the balance sheet of Talanx AG continues to be shaped by its function as a holding company and – on the assets side – in particular by the interests which it holds in subsidiaries. Total assets grew by around 4.5% to EUR 7.1 (6.8) billion. Along with the increase of 3% in the book value of the shares in affiliated companies to EUR 6.1 billion, the financial assets in the form of loans to affiliated companies (+EUR 80 million) and long-term securities held as fixed assets (+EUR 62 million) rose disproportionately strongly. The proportion of total assets attributable to shares in affiliated companies remained consistently high at 87 (88)%.

Within the other assets, bank balances again climbed sharply by EUR 45 million to EUR 405 million, while capitalised tax assets receivable from revenue authorities with respect to corporation tax and trade tax decreased by EUR 29 million to EUR 76 million.

The receivables from subsidiaries under profit transfer agreements were almost on the level of the previous year at EUR 189 (200) million.

Talanx AG has concluded a firm agreement with a broad consortium of banks providing for a floating-rate line of credit that may be drawn upon as necessary. A tranche amounting to altogether EUR 550 million had been utilised as at the balance sheet date. The nominal amount of the line of credit was EUR 1.5 billion as at the balance sheet date. In 2011 Talanx AG concluded agreements on two syndicated floating-rate lines of credit of EUR 500 million and EUR 650 million respectively, each for a term of five years. This is the follow-on arrangement which, under the terms of the agreement, only comes into effect when the existing credit line has run out or been cancelled or expires upon payout of the new credit line. No amount was drawn on the two new additional five-year credit lines serving as follow-on financing that were arranged in the year under review.

The liabilities to affiliated companies increased by EUR 155 million to EUR 1,255 million: the key driver here was liabilities arising out of claims on the part of subsidiaries to results offsetting under profit and loss transfer agreements, the amount of which rose by EUR 87 million.

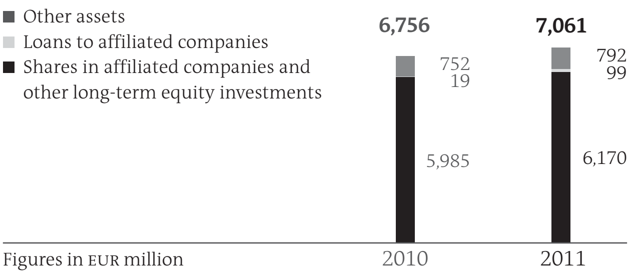
The capital structure and the composition of the liabilities of Talanx AG are shaped by the nature of a holding company: of the liabilities totalling EUR 2,134 million, 59% of which are attributable to liabilities to affiliated companies, it is in particular the issued bonds and liabilities to banks in an amount of EUR 809 million (38%) that serve to meet the financing of participating interests. These liabilities are opposed principally by the shares in affiliated companies of EUR 6,143 million. Above and beyond this, Talanx funds itself most notably through equity.

The bonds refer principally to the subordinated bond issued by Talanx on 18 November 2010; the bond, which is in principle perpetual, has a nominal volume of EUR 300 million with an initially fixed coupon and has a first scheduled call option in full after ten years. The bond subsequently converts to a floating rate and can then be called in full on a quarterly basis by Talanx AG. A contractual conversion obligation to shares of Talanx AG at the issue price exists in the event of an initial public offering.

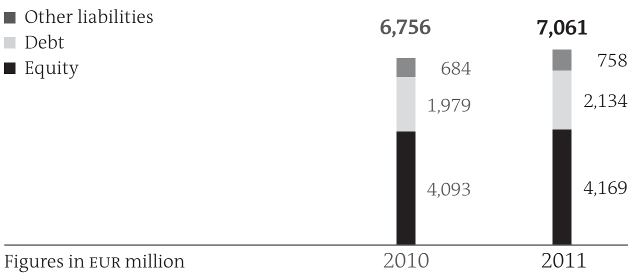
The other liabilities of EUR 758 million were somewhat higher than in the previous year; they can be attributed principally to provisions for pensions in an amount of EUR 576 million (EUR 447 million) and to provisions for corporation and trade tax in an amount of EUR 125 million (EUR 165 million).

The equity ratio consequently decreased slightly to 59.0 (60.6)%.

Assets



Liabilities



Overall assessment of the economic situation

The management of Talanx AG assesses the development of business in 2011 as satisfactory. Although it was not possible to achieve the planned income from participating interests, the interest income nevertheless rose as anticipated and the profit from ordinary activities was comfortably back in positive territory. At the time when the management report was drawn up, the company's economic situation remained favourable.

Report on relations with affiliated companies

The report on relations with affiliated companies that is to be drawn up by the Board of Management in accordance with § 312 of the Stock Corporation Act states that our company received an adequate consideration for all transactions with affiliated companies according to the circumstances of which it was aware at the time when the transactions were effected. No measures as defined by § 312 of the Stock Corporation Act were taken or omitted. The company did not incur any losses that required offsetting within the meaning of § 311 (1) of the Stock Corporation Act.

Proposal for the distribution of profits

The Board of Management and Supervisory Board intend to propose to the General Meeting that the disposable profit of EUR 377 million reported as at 31 December 2011 should be carried forward to new account.

Development of the major participations

The following section describes the development and 2011 business experience of the most important companies grouped together under Talanx AG. This mode of presentation was chosen in view of the fact that the performance of Talanx AG – as a holding company – is crucially determined by income from participating interests and profit/loss transfers from the individual companies. The key figures of the companies are determined in accordance with the German Commercial Code (HGB). Talanx International AG presents its business result, which is determined by its foreign subsidiaries, in accordance with International Financial Reporting Standards (IFRS) in order to ensure that they can be compared with one another. Most domestic companies are linked with Talanx AG via control and profit transfer agreements; these are listed in the Notes under "Other disclosures/important agreements".

The restructuring of the Group and the associated changes in the names of individual companies are largely completed. The presentation adopted in this individual financial statement is geared to the divisions of Industrial Lines, Retail Germany, Retail International and Reinsurance as well as the Corporate Operations.

Division: Industrial Lines

The Industrial Lines division is led by HDI-Gerling Industrie Versicherung AG. As an internationally operating industrial insurer, HDI-Gerling Industrie supports its clients at home and abroad with bespoke solutions optimally tailored to their individual requirements. The product range extends from liability, motor, accident, fire and property to marine and aviation, special lines and engineering insurance.

HDI-Gerling Industrie Versicherung AG
The gross written premium of HDI-Gerling Industrie Versicherung AG increased appreciably by 8% in the year under review to reach EUR 2.7 (2.5) billion. The generally favourable development manifested itself in varying ways in the individual lines: while premium erosion was incurred in liability, marine, aviation and fire business against the backdrop of a fiercely competitive market climate, premium increases were obtained in other lines such as motor and engineering.

Net premium earned declined by 10% to EUR 1.1 (1.2) billion; a key factor here was the reclassification of the change in the provision for reinstatement premium amounting to EUR 179 million from the other technical expenses to the reinsurance premiums.

Gross expenses for incurred claims increased by around 33% year-on-year to EUR 2.2 (1.6) billion. This was driven especially by claims expenditure for the financial year that was heavily impacted by several major losses. Above all in assumed business, major losses attributable to natural disasters in Japan and Thailand influenced the gross loss expenditure. The gross loss ratio consequently surged sharply to 82.2 (64.9)%. Net expenses for incurred claims increased by almost 17% to EUR 1,035 (885) million. Overall, the net loss ratio rose to 97.2 (75.1)%.

Reflecting the rise in loss ratios, the combined ratio stood at 101.1 (84.2)% for gross account and 122.7 (99.0)% for net account. The net underwriting result improved by EUR 104 million to EUR 58 (–46) million, albeit including a withdrawal from the equalisation reserves of EUR 159 million (previous year: allocation of EUR 39 million). The sizeable withdrawal was principally due to an effect of EUR 73 million which arose out of the reclassification of the entire amount of the non-liquid reinstatement premiums from the other technical expenses to the reinsurance premiums; the influence of this reclassification on the net premiums earned also caused the disproportionately strong increase in net loss ratios.

The investment result amounted to EUR 202 (207) million before deduction of technical interest. The total net return in the year under review stood at 3.3 (3.6)%.

Rising premium income and growing foreign business cement the strong position of HDI-Gerling Industrie Versicherung AG in the international competitive arena. In the 2012 financial year it intends to further enlarge its business in Europe as well as in Latin America and (South-)East Asia. The establishment of branches in Singapore and on the Arabian Peninsula is also planned for 2012.

For 2012 HDI-Gerling plans to grow its gross premium, first and foremost in foreign markets. The fiercely competitive climate in the industrial insurance market is expected to continue, and premium adjustments will therefore likely only be attainable to a limited extent in 2012. Despite cautious assumptions as to the income expected from investments, the company's goal in 2012 is to beat the investment result generated in the year under review, which was overshadowed by the debt and financial market crises.

Division: Retail Germany

The Retail Germany division brings together the activities of the companies transacting property/casualty and life insurance with private and commercial customers in Germany as well as the business conducted by the bancassurance companies that market their products through cooperation arrangements with banks and post office partners. The division is headed by Talanx Deutschland AG and encompasses the following major participations: HDI-Gerling Lebensversicherung AG, HDI-Gerling Firmen und Privat Versicherung AG and HDI Direkt Versicherung AG as well as the bancassurance companies neue leben, TARGO Versicherungen and PB Versicherungen.

Talanx Deutschland AG
Talanx Deutschland AG (TD) holds participations in domestic insurance companies and other undertakings. The core function of the company is to successfully coordinate and optimise the brands of the Retail Germany division under uniform leadership in the domestic market.

In the year under review TD transferred part of its assets by way of a spin-off for the purposes of new establishment to Talanx Deutschland Bancassurance GmbH, which was set up in July 2011 for this purpose. In accordance with the spin-off plan, the 100% participations held by TD in PB Lebensversicherung AG, PBV Lebensversicherung AG, PB Pensionskasse AG, PB Versicherung AG and TARGO Versicherung AG as well as the stakes of 94.9% held in TARGO Lebensversicherung AG and 67.5% in neue leben Holding AG were transferred at book values as a non-cash contribution in the context of establishment. Talanx Deutschland Bancassurance GmbH has concluded a profit/loss transfer agreement with TD.

On the basis of a service agreement TD bore responsibility in the year under review for tasks relating to advertising and marketing as well as some areas of legal affairs and communications within the Retail Germany division. The sales revenues generated in connection with these services amounted to altogether EUR 52 (40) million in the year under review. The income from profit transfer agreements totalled EUR 102 (25) million in the year under review. Following the restructuring described in the paragraph above, the company no longer generated any income from participating interests in the year under review (previous year: EUR 96 million).

Profitability was impacted in particular by expenses from loss assumptions totalling EUR 76 (278) million, primarily from HDI-Gerling Firmen und Privat Versicherung AG. In addition, write-downs were taken on shares in affiliated companies totalling EUR 78 (231) million. Other operating expenses were reduced to EUR 41 (65) million following the elimination of special effects reflected in the previous year.

The resulting loss for the year, which was considerably smaller than in the previous year at EUR 53 (428) million, is assumed in full by Talanx AG on the basis of the existing profit/loss transfer and control agreement.

HDI-Gerling Lebensversicherung AG
HDI-Gerling Lebensversicherung AG stands for comprehensive insurance and provision solutions. It offers a broad spectrum of products ranging from the so-called "basic" annuity and "Riester" policies through occupational retirement provision to traditional or unit-linked annuity insurance and also encompassing the necessary risk protection and disability coverage.

The new business premiums booked by the company climbed from EUR 395 million in the previous year to EUR 401 million. Most gratifying is the growth in regular new business premiums, which are crucial to the company's sustainable development: they were boosted by 11% to EUR 184 million through the successful marketing of the "Two Trust" product family. Single premiums, on the other hand, retreated by 5% to EUR 217 million in line with the industry trend.

Growth was generated both in the area of conventional provision products and in the field of unit-linked endowment and annuity policies. New business premiums from unit-linked products grew by 1.5% to EUR 201 million. Annuity policies were the most significant growth driver, contributing EUR 162 million. New business premiums from conventional provision products rose by 2% to EUR 200 million. Appreciable increases were also recorded for risk-oriented products – term life and occupational disability –, with new business premiums posting growth of 5% to reach EUR 24 million. The development of disability insurance policies – which have been honoured with multiple awards – was vital in this respect: new business premiums here rose by 9% to EUR 14 million.

Gross written premium again comfortably surpassed EUR 2 billion. Altogether, growth of 12% year-on-year to EUR 2,290 million was achieved; this was driven by the fact that the former ASPECTA Lebensversicherung AG was only included in the final quarter of the previous year due to merger during the year, whereas in the year under review it was recognised for the entire year.

The investment result amounted to altogether EUR 884 (863) million. The net interest return of 4.5% generated for the year under review was thus unchanged from the previous year. Overall, a profit for the year of EUR 8 (57) million was achieved.

HDI-Gerling Firmen- und Privat Versicherung AG

HDI-Gerling Firmen und Privat Versicherung AG offers insurance protection in mass business for private individuals, sole proprietors and self-employed professionals as well as small and mid-sized enterprises in the liability, accident, property and motor insurance lines. Backed by the group's own field service organisation, the company pursues a holistic counselling approach for its clients since – along with its own property/casualty products – legal protection, credit, life and health insurance policies are also offered.

The gross written premium by the company totalled EUR 757 (708) million in the year under review, an increase of 7%. The primary factors in this sharp rise were the sale of the D&O portfolio of Nassau Versicherung as well as the writing of business in the multi-risk line as part of an underwriting consortium. Premium income was also boosted by greater stability in the motor market as well as sizeable increases in medical malpractice and professional design liability insurance.

Net premium earned climbed for the same reasons, and also because the level of reinsurance decreased from 7.8% to 6.4% in the 2011 financial year. Net premiums increased to EUR 703 (653) million.

The expenses for incurred claims showed a sharp increase of 13% in the year under review to reach EUR 548 (484) million, principally owing to the strengthening of reserves set aside for liability claims. Net expenses for incurred claims rose by almost 12% from EUR 460 million to EUR 515 million. The net loss ratio consequently increased by 3.0 percentage points to 73.4 (70.4)%.

Operating expenses contracted for gross account by EUR 3 million to 281 (284) million, while remaining virtually unchanged for net account at EUR 272 million. The expense ratios decreased as a consequence of the cost-cutting programme as part of Group restructuring activities to 37.2 (40.1)% gross and 38.8 (41.7)% net. The combined ratio therefore increased only slightly to 109.8 (108.4)% gross and 112.2 (112.1)% net. Overall, a net underwriting result of –EUR 29 (–64) million was reported; the withdrawal from the equalisation reserves of EUR 55 (19) million was a crucial factor in this improved result.

The investment result amounted to altogether EUR 52 (28) million before deduction of technical interest; the previous year's result had been burdened by the loss of EUR 22 million assumed for HDI-Gerling Rechtsschutz Versicherung AG.

In the year under review HDI-Gerling Firmen und Privat Versicherung AG tailored its range of offerings in private property/casualty insurance to a modular product architecture. This not only creates value-added for policyholders, it also opens up potential cost-cutting scope for the insurance carrier and sales organisation. The goal now for 2012 is to migrate the entire property/casualty insurance portfolio to a new portfolio system implemented in the year under review with a view to being able to structure processes more efficiently and save IT costs going forward.

HDI Direkt Versicherung AG

HDI Direkt Versicherung AG offers private customers a comprehensive portfolio of insurance products ranging from personal liability through motor insurance to accident, householders' and homeowners' policies. The company sees itself as a provider of affordable and transparent insurance products for private customers. The focus is particularly on price-sensitive and performance-conscious end customers who navigate the market independently with the aid of new media. A core segment consists of employee affinity business, in which the employees of large companies are offered insurance protection at special conditions.

HDI Direkt Versicherung AG boosted its premium income, primarily on the back of premium adjustments in the motor portfolio as well as tariff increases in new business. Total gross written premium came in 4% higher than in the previous year at EUR 588 (562) million. It was possible to push through these tariff increases against the backdrop of a stabilising motor market; new business was virtually on the level of the previous year. The personal liability and homeowners' comprehensive lines also recorded higher premiums due to premium adjustments, albeit to a lesser extent.

The gross expenses for incurred claims climbed by EUR 9 million altogether owing to a higher claims experience for the financial year. As had also been the case in the previous year, the long winter caused considerable weather-related damage in the motor and homeowners' lines. In the summer a number of hail and windstorm events took a toll on the loss ratio for the financial year. The run-off for gross account improved on the previous year; the gross loss ratio decreased by 1.7 percentage points to 70.8 (72.5)% owing to the rise in gross premiums. The net underwriting result showed a loss of EUR 8 (33) million; an allocation of EUR 25 (9) million was made to the equalisation reserve. The investment result before deduction of technical interest totalled EUR 47 (54) million. Overall, a net return of 3.4 (4.0)% was generated in the year under review.

The stabilisation of the motor insurance market was sustained. The average premium level was 2% higher than in the previous year. Going forward, as in the past, HDI Direkt AG will continue to position itself as a value-for-money provider in the motor insurance market. Special emphasis will again be placed on the expansion of other lines in business with private customers. In this respect, modular products tailored specially to customer needs can be offered in the liability, accident and property lines. Overall, a modest increase in premium income is planned for 2012.

Bancassurance companies

Bancassurance business in Germany encompasses three cooperations with banks and Sparkasse savings institutions: the neue leben Group, the PB insurers and the TARGO insurers. These insurance companies concentrate particularly on the areas of life, annuity and accident insurance and are based in Hamburg, Hamelin and Hilden.

neue leben Lebensversicherung AG

The neue leben insurers position themselves in the market as provision specialists and expert partners for Sparkasse savings institutions with their extensive know-how in the fields of individual and occupational retirement provision. With a system of highly performant products, flexible provision solutions and concepts tailored to specific customer groups they have established themselves with their sales partners and customers as innovators and quality providers in the field of retirement provision.

The new business premiums booked by the company climbed in the year under review by 9% to EUR 462 million. In this context, regular new business premiums – which are crucial to the company's sustainable development – grew by 4% to EUR 55 million. Contrary to the market trend, single premiums were boosted by as much as 10% to EUR 407 million.

The weighting between the segments shifted further away from conventional provision products in favour of unit-linked endowment and annuity policies. New business premiums in this product segment soared by 64% to EUR 98 million, with the increase deriving both from regular premiums and single premiums. At EUR 97 million, unit-linked annuity insurance – including above all hybrid products – was a particularly significant growth driver. New business with conventional provision products remained on a par with the previous year, with new business premiums rising by 0.3% to EUR 338 million. Risk-oriented products – term life, credit life and occupational disability policies –, the new business premiums from which were boosted by 3% to EUR 26 million, played only a minimal part in total new business.

Gross written premium climbed from EUR 1,011 million in the previous year to EUR 1,045 million in the year under review, corresponding to year-on-year growth of 3%. Net premium earned grew accordingly, rising to EUR 1,031 (996) million.

The total investment result stood at EUR 351 (332) million, equivalent to a net return of 4.5 (4.4)% for the year under review. Overall, a profit for the year before profit transfer of EUR 18 (18) million was generated. The profit of EUR 17 million remaining after the allocation to the statutory reserve is transferred to neue leben Holding AG.

neue leben Holding AG is the parent company of neue leben Lebensversicherung AG and neue leben Unfallversicherung AG, in which it holds all shares. It holds a participating interest of 49 % in neue leben Pensionsverwaltung AG, which in turn is the sole owner of neue leben Pensionskasse AG. In the year under review neue leben Holding AG acquired a 50% stake in nl-PS Betriebliche Vorsorge GmbH for EUR 2 million. The majority shareholder of neue leben Holding AG is Talanx Deutschland AG with a stake of 67.5 % minus one share. Since the beginning of 2011 additional interests have been held indirectly and directly by three Sparkasse savings institutions.

The profit for the year reported by neue leben Holding AG in the 2011 financial year grew by EUR 0.7 million to EUR 22 (21) million; this derived principally from the profit transfer of neue leben Lebensversicherung AG. neue leben Lebensversicherung AG generated a disposable profit of EUR 17 (17) million, the full amount of which was paid out to neue leben Holding AG. In addition, neue leben Holding AG collected income from the profit transfer of neue leben Unfallversicherung AG in an amount of EUR 5 (4) million. neue leben Pensionsverwaltung AG closed the financial year with a profit of EUR 0.8 million, which will be paid out to neue leben Holding AG after netting with a loss carried forward from the previous year (EUR 0.3 million). After the allocation to retained earnings neue leben Holding AG reported a disposable profit of EUR 21 (20) million in the year under review.

TARGO Lebensversicherung AG

TARGO Lebensversicherung AG is the exclusive insurance partner of TARGOBANK. Through the long-term orientation of the cooperation until the year 2025 both partners are demonstrating their satisfaction with the partnership and putting in place the foundation for further consistent expansion, the focus of which is on risk protection and retirement provision. All products are designed exclusively for the bank partner's sales channels.

The new business premiums booked by the company contracted in the year under review by 17% to EUR 491 million against the backdrop of a difficult market environment. Single premiums fell as expected by 23% to EUR 385 million. In individual life, however, a significant shift was achieved away from new business with a single premium payment in favour of new business with regular premiums. The regular new business premiums generated by the company therefore developed positively and climbed by 12% to EUR 106 million. Conventional provision products, which enjoyed growth of 16% to EUR 80 million, were a major contributor to this growth. In the area of credit life policies, on the other hand, new business premiums contracted by 3% to EUR 6 million.

Gross written premium totalled EUR 862 (951) million in the year under review. This decline derived exclusively from the anticipated contraction in single premiums in individual life business. The 8% rise in premiums in credit life insurance failed to offset this decrease. Regular gross premiums in direct written business showed a modest increase of 2% to reach EUR 426 million.

The investment result came in at altogether EUR 105 (108) million. A net return on investment of 4.1 (4.6)% was thus achieved for the year under review. Overall, the company generated a profit for the year of EUR 42 (40) million.

PB Lebensversicherung AG
Working together with its partner Deutsche Postbank AG, PB Lebensversicherung AG offers insurance products that are optimally attuned to the needs of Postbank customers. The cooperation combines the selling power of Deutsche Postbank AG with the insurance know-how of Talanx.

With a view to streamlining the corporate structure, PBV Lebensversicherung AG, Hilden, was merged into PB Lebensversicherung AG, Hilden, in the year under review with retroactive effect from 1 January 2011. For reasons of comparability the combined figures of the two companies for the previous year are taken as a basis below.

The new business premiums of EUR 315 million were slightly below the level of the previous year. While new business with a regular premium payment was boosted by 1% year-on-year to EUR 47 million, single premiums (including credit life) fell marginally to EUR 268 (269) million.

The gross premium written by PB Lebensversicherung AG in the year under review totalled EUR 759 (770) million. Net premium earned amounted to EUR 716 million, after EUR 741 million in the previous year.

The investment result was boosted from EUR 137 million to EUR 165 million. A net return of 4.6 (4.4)% was achieved for the year under review. The profit for the year moved slightly higher to EUR 26 million. A disposable profit of EUR 25 million remained after the contribution to the statutory reserve.

Division: Retail International

The Retail International division brings together the activities of the companies transacting business with private and commercial customers in the areas of property/casualty insurance, life insurance and bancassurance in foreign markets; it is present in 15 countries and has more than eight million customers. The division is led by Talanx International AG.

Talanx International AG
Talanx International AG bears responsibility within the Talanx Group for steering the foreign-based legally independent insurance companies that transact the retail business of the brands HDI, HDI-Gerling, CiV and Magyar Posta. Talanx International AG assumes a pivotal role when it comes to evaluating new markets and identifying strategic options on the international level.

The goal of Talanx International AG is to generate value-based, profit-oriented growth with its portfolio of participating interests. Thanks to its growth strategy geared to long-term success, the company is well prepared to handle the challenges posed by markets in significant transition. Its focus in this context is on clearly defined target countries and markets: Eastern Europe (including Russia and Turkey) as well as Latin America. The strategic reorientation towards international retail business was completed in the year under review with the creation of the “Retail International” division.

In the year under review Talanx International acquired a company in Argentina that transacts life and property/casualty insurance as well as a P&C insurer in Uruguay and a company in Mexico. In addition, it signed the purchase agreement for a company (TU Europa) in Poland that offers both life and property/casualty products, a transaction which is expected to close in the current financial year. After the balance sheet date, on 19 January 2012, Talanx International signed a contract to acquire the shares in the Polish company Warta. Following the closing, which is still subject to the customary regulatory and anti-trust approvals and is also anticipated in the course of the current financial year, Talanx International and our partner Meiji Yasuda will hold 70% and 30% respectively of the Warta shares. With effect from 31 December 2011 the retail business of HDI Austria was for the first time allocated to this division. In total, Talanx International was represented by subsidiaries in 15 countries at the end of the year under review.

The vast majority of the international companies succeeded in boosting their premium volume year-on-year. Gross written premium in the division climbed 11% compared to the previous year to altogether EUR 2.5 (2.2) billion.

The underwriting result improved in the year under review from –EUR 136 million to –EUR 43 million owing to the absence of special effects such as the flood and winter-related damage in Poland or the earthquake in Chile recorded in 2010. Consequently, the combined ratio for the international P&C insurers was some 6 percentage points better than in the comparable period at around 99 (105)%.

In light of the Talanx Group's restructuring, new business at the Aspecta companies in Liechtenstein and Luxemburg was largely discontinued with effect from 1 January 2011.

Talanx International AG generated income from dividend payments made by its participating interests in an amount of altogether EUR 14 (21) million as well as from write-ups on the book values of participations in an amount of EUR 8 million. This contrasted with write-downs on participations in an amount of EUR 37 million and holding company expenditures of altogether EUR 21 million. On the basis of the existing control and profit transfer agreement, the loss of EUR 36 million was offset by Talanx AG; an amount of EUR 21 million had been transferred in the previous year.

For the 2012 financial year retail business in foreign markets will continue to pursue a clear expansionary strategy geared to growth combined with commensurate profitability.

Division: Reinsurance

The Reinsurance division of the Talanx Group, which combines non-life and life/health reinsurance, is comprised primarily of the Hannover Re Group, one of the world's pre-eminent reinsurance groups. Talanx AG holds a stake of 50.2% in Hannover Rückversicherung AG (Hannover Re), while the remaining shares of this listed company are held by institutional and private investors.

Since 1 January 1997 Hannover Re has – with certain exceptions – transacted the group's active reinsurance solely in foreign markets. Its subsidiary E+S Rückversicherung AG (E+S Rück), on the other hand, bears responsibility within the Hannover Re Group for German business. Geographical risk spreading between Hannover Re and E+S Rück is ensured by means of reciprocal retrocessions.

Hannover Rückversicherung AG
The (re)insurance industry was faced with exceptionally heavy strains in the year under review, especially from natural disasters. Not only that, the sovereign debt of some European countries led to difficult conditions on international capital markets, which significantly reduced the investment income generated by companies. In view of these circumstances, Hannover Re is satisfied with the development of its business.

Gross written premium in total business grew by 6% to EUR 9.1 (8.6) billion. The level of retained premium climbed from 76.4% to 77.5%. Net premium earned increased by 9% to EUR 7.0 (6.4) billion.

Even though the hurricane season in North and Central America again passed off thoroughly moderately, the (re)insurance industry was nevertheless faced with extraordinarily heavy burdens in the year under review. The largest loss event for the insurance industry was the earthquake in Japan and the resulting tsunami. This event produced a net strain for Hannover Re of EUR 114 million. Yet the flooding in Thailand also resulted in considerable losses. The associated expenditures incurred by Hannover Re amounted to EUR 125 million. These and other major losses produced a net burden of catastrophe losses and major claims totalling EUR 552 million for the year under review.

The severe natural disasters that occurred in the first quarter ushered in something of a trend reversal. In the aftermath of the devastating earthquake in Japan in March of the year under review, as anticipated, price increases were pushed through for non-proportional earthquake covers as well as improved conditions under proportional treaties.

The development of life reinsurance business was pleasing. The growing importance attached by policyholders to insurance products for retirement provision had favourable implications for Hannover Re's business. In this segment the company further stepped up its activities in the field of enhanced annuities – especially in the United Kingdom. Hannover Re thus ranks among the leading reinsurance providers here.

Hannover Re is largely satisfied with market conditions in non-life reinsurance. The outcome of the renewals as at 1 January 2012 was pleasing for the company. Given the continuing uncertain capital market environment and the associated difficulties generating sufficient investment income, reinsurers exhibited considerable discipline in quoting prices that were commensurate with the risks. On average, Hannover Re obtained conditions and rates that were better than in the previous year. In light of this attractive climate, the company enlarged its premium volume by around 6%.

Going forward, as in the past, Hannover Re expects to see vigorous growth in its national and international activities in the area of life, annuity and health reinsurance. The ageing of the population in industrialised nations, progressive globalisation and the consistent improvement in living standards in emerging markets will be the key drivers of further expansion in the worldwide life/health reinsurance market in the years ahead. In this context, life insurers are increasingly calling for customised reinsurance solutions tailored to their needs. As one of the leading international life and health reinsurers, Hannover Re is facing up to the challenge of satisfying the individual requirements of its clients in a more competitive market climate.

In the current year Hannover Re is again striving to enlarge its premium volume. Bearing in mind the satisfactory to good market conditions described above in non-life and life/health reinsurance as well as its strategic orientation, 2012 looks set to be a good year for the company.

E+S Rückversicherung AG

The growth in the international business of E+S Rück more than made up for a slight contraction in the German portfolio in the year under review; gross written premium consequently increased by EUR 21 million to EUR 2,524 (2,503) million. Most notably, the fire, casualty and motor lines as well as the other lines recorded rising premium income on the back of broadly adequate rates and conditions. This more than offset the reduced volume in life and health business as well as in the accident, marine and aviation lines.

E+S Rück's net premium earned climbed by 2.1% to EUR 1,987 (1,946) million owing to an increased retention. At the same time, net expenses for incurred claims fell by 3% to EUR 1,561 (1,613) million, principally due to lower expenditures in the motor, casualty, accident, marine and life lines.

Particularly notable in this regard is the reduced net expenditure for incurred claims despite the increased burden of major losses. Even though the hurricane season in North and Central America again passed off thoroughly moderately, the (re)insurance industry was nevertheless faced with extraordinarily heavy burdens in the year under review. The largest loss event for E+S Rück was the earthquake in Japan with a net strain of EUR 25 million. The flooding in Thailand also cost the company EUR 17 million. These and other natural disasters as well as a number of basic losses produced a net burden of catastrophe losses and major claims totalling EUR 107 million for the year under review. This figure clearly surpassed the already unusually high level of EUR 78 million recorded in the previous year.

The underwriting loss incurred as a consequence of the increase in the equalisation reserve – despite the improved performance of the technical account – and a reduced positive balance of other income and expenses caused the profit from ordinary activities (EBIT) to contract despite a pleasing investment result. On the other hand, thanks to a favourable special effect from the refund of excess taxes paid, the tax load in the year under review was lower. While the profit for the year of EUR 133 million generated by E+S Rück fell short of the outstanding figure in the previous year (EUR 176 million), it is nevertheless thoroughly gratifying overall.

Given the satisfactory to good market conditions in non-life and life/health reinsurance as well as its strategic orientation, E+S Rück is targeting another pleasing result for 2012. This is, however, subject to the proviso that the burden of major losses stays within the expected bounds and that there are no fresh distortions on financial markets.

Corporate Operations

Together with Talanx AG, the Corporate Operations segment also encompasses the internal service companies Talanx Systeme AG for IT and Talanx Service AG – which brings together domestic central functions such as accounting, collections, purchasing, facility management and human resources –, asset management activities performed by the investment companies Talanx Asset Management GmbH (formerly AmpegaGerling Asset Management GmbH), AmpegaGerling Investment GmbH and Talanx Immobilien Management GmbH (formerly AmpegaGerling Immobilien Management GmbH) as well as the Group's internal reinsurance broker Talanx Reinsurance Broker AG (formerly Protection Reinsurance Broker).

Talanx Asset Management GmbH (AMG) renders its financial services exclusively within the scope of the intra-Group exemption, specifically for insurance and other undertakings within the Talanx Group. In addition to performing asset management tasks for the Talanx Group companies, its business activities encompass the full range of administrative services such as investment accounting including taxes and HGB/IFRS reporting, performance measurement, investment/risk controlling, compliance, investment reporting as well as financial analysis and asset/liability management (ALM) in coordination with the insurance carriers.

Along with asset management functions performed for the insurance carriers of the Talanx Group, the business activities of Talanx Immobilien Management GmbH also encompass services in the areas of investments and development, including the associated departments of letting and project management.

AmpegaGerling Investment GmbH (AIG) is an investment company under German law pursuant to § 2 Para. 6 of the Investment Act (InvG). AIG is owned by Talanx Asset Management GmbH (TAM) with a stake of 94.9% and Alstertor Erste Beteiligungs- und Investitionssteuerungs-GmbH & Co. KG (Alstertor) with a share of 5.1%. AIG manages separate funds, separate real estate funds, separate mixed funds and separate funds for retirement provision that are in conformity with the applicable directives and also performs financial portfolio management tasks for institutional clients.

It also manages public funds and special funds. The primary focus, however, is on portfolio management and the administration of assets for external clients outside the Group. Sales in the investment sector were heavily influenced in 2011 by the spreading financial market crisis, which became significantly more acute again as a result of the unresolved debt crises in the United States and Europe. Consequently, according to statistics published by the association representing the German investment fund and asset management industry (BVI Bundesverband Investment und Asset Management e. V.), the industry recorded net outflows for securities funds in an amount of EUR 13.4 billion as at November 2011, with the negative trend gaining pace towards year-end. In this difficult scenario AmpegaGerling Investment GmbH held its ground comparatively well, since no net outflows were booked over the full year and indeed cash inflows of EUR 33 million were generated in the challenging fourth quarter.

In business with external clients AIG achieved net inflows of EUR 66 million in the year under review. Despite the positive inflows, the total assets of the public funds under management by AmpegaGerling Investment GmbH – amounting to EUR 3.3 billion as at year-end 2011 – fell 6% short of the level at year-end 2010 (EUR 3.5 billion). The reduction in the assets under own management can be attributed to the sharp slump in prices on international equity markets in the second half of 2011, as a consequence of which the fund assets contracted. Complementary to its retail business, the company engages in institutional business with third-party clients and – on the basis of its existing know-how profile – positions itself as an outsourcing partner for non-Group primary insurers.

Talanx Reinsurance Broker AG, which is allocated to the Corporate Operations division within the Talanx Group, is wholly owned by Talanx AG. Previously trading as Protection Re, the company was renamed in the year under review and has operated as Talanx Reinsurance Broker since 1 September 2011. The company is the professional advisor and intermediary for the composite reinsurance cessions of the Talanx Group.

The core business consists of providing comprehensive advice on all aspects of outward reinsurance. Talanx Reinsurance Broker AG handles the complete spectrum of the reinsurance business process for Group cedants to the extent necessary in each particular case: from portfolio analysis and advising on the structuring of reinsurance programmes to administration and run-off of the placed reinsurance arrangements, specialised teams develop and support viable solutions that help Group cedants to achieve their business objectives on a lasting basis.

The reinsurance capacities required for all Group cedants served by Talanx Reinsurance Broker AG were again successfully obtained for 2012 on the world market. The operating profit for 2011 came in at EUR 13 (8) million. The branch of the company established in London in 2009 was closed on 31 May 2011. The business is now handled from Germany again.

Events of special significance after the end of the financial year

Major loss events

The fire on the KS Endeavor drilling rig off the coast of Nigeria on 16 January 2012 will result in an estimated loss for our subsidiary Hannover Re in the very low double-digit million euros.

On 16 and 23 January 2012 Hannover Re reported on the implications of the incident involving the Costa Concordia cruise liner. The net loss from the marine hull insurance is in the order of EUR 30 million, while the liability claims are difficult to estimate at this point in time. Given that Hannover Re is one of the world's leading marine reinsurers, the total loss for the company could run into the mid-double-digit millions of euros.

Other events

In a press release dated 20 January 2012 our subsidiary Talanx International AG, Hannover, announced the acquisition of all shares of TUiR Warta S.A. (Towarzystwo Ubezpieczeń i Reasekuracji Warta S.A.) from the Belgian KBC Group for a price of EUR 770 million. The acquisition is still subject, inter alia, to the customary regulatory approvals. In the context of the acquisition it is envisaged that our Japanese strategic partner Meiji Yasuda Life Insurance Company will take over 30% of these shares. The Warta Group also includes the life insurer Warta Towarzystwo Ubezpieczeń na Życie S.A. The transaction is expected to close in the second half of 2012.

In a press release dated 26 January 2012 Hannover Re announced that it had again enabled the capital market to participate in (natural) catastrophe risks by increasing the proportional retrocession programme referred to as the "K Cession" (previously "K6") by an amount equivalent to roughly EUR 15 million to EUR 270 million. The transaction, which complements the traditional retrocession programme used to protect against peak exposures such as natural disasters, was placed with institutional investors worldwide and is fully collateralised. The cession rate is roughly 37% and applies to a portfolio comprised of non-proportional reinsurance treaties from the six main zones for natural catastrophe risks as well as the aviation and marine (including offshore business) lines.

Risk report

Risk strategy

Deriving from our corporate strategy, our risk strategy formulates the objectives and structures of our risk management. Our acceptance of risks is governed by the guidelines and decisions of the Board of Management concerning the Group's risk budget. Our risk strategy is a stand-alone set of rules that provides the foundation for Group-wide risk management. In conjunction with value-based management, our risk strategy is an integral component of our entrepreneurial activities and is reflected in the detailed strategies of the various divisions.

As an internationally operating insurance and financial services group, we consciously enter into a wide range of risks that are indivisibly bound up with our business activities. Both our corporate strategy and our risk strategy are subject to an established review process. Through this regular scrutiny and, if necessary, adjustment of the underlying assumptions we seek to ensure that our strategic guidelines are appropriate at all times and hence that actions are grounded on an adequate information basis.

Functions within the risk management system

The interplay of the individual risk functions and bodies within the overall system is vital to an efficient and effective risk management system. Talanx has defined the roles as follows.

Controlling elements	Key risk management tasks
Supervisory Board	■ Advising and monitoring the Board of Management in its management of the company, inter alia with respect to the risk strategy and risk management
Board of Management	■ Overall responsibility for risk management ■ Defining the risk strategy ■ Responsible for the proper functioning of risk management
Risk Committee	■ Risk-monitoring and coordinating body, charged especially with the following tasks: ■ critical observation and analysis of the risk position of the Group as a whole, with particular attention paid to the risk budget approved by the Board of Management and the risk strategy ■ monitoring of steering measures within the Group with a focus on risks that could threaten the Group's continued existence
Chief Risk Officer	■ Responsible for holistic risk monitoring across divisions (systematic identification and assessment, control/monitoring and reporting of risks) of all risks that are material from the Group perspective
Central Risk Management	■ Group-wide, independent risk monitoring function ■ Methodological competence, inter alia for ■ development of processes/methods for risk assessment, management and analysis, ■ risk limitation and reporting, ■ risk monitoring and quantifying the risk capital needed across the Group
Local Risk Management	■ Risk monitoring function in the divisions ■ Observance of the centrally defined guidelines, methods and processes as well as systems of limits and thresholds that serve as a framework for local implementation, monitoring and reporting
Internal Auditing	■ Process-independent review of the functional areas of the Group

In addition to these (risk) functions and bodies, organisational structures have been set up to deal with special issues, e.g. task forces for managing contingencies and crises.

Risk management process

As the holding company of an insurance and financial services group whose undertakings are active predominantly in the insurance industry, Talanx AG not only carries its own entrepreneurial risks but also shares in the risks of its subsidiaries. Talanx AG and its subsidiaries use a diverse range of methods and tools to monitor and manage their risks. Talanx follows a central/local approach: within the framework of the internal model that is to be used going forward (for Solvency II), overall responsibility for and to a minor extent the operation of models for the risk categories of Group-wide relevance rests with the Group. The divisions operate those models that map the insurance risks. These models are refined jointly, although ownership of the models rests with the Group holding company. The Group carries out dedicated audits to verify the adequacy of the implemented models and their compliance with Group guidelines.

The risk management process encompasses the identification, measurement, analysis, evaluation, limitation, monitoring and steering of risks as well as risk reporting.

We identify Group-wide risks using appropriate indicators and various risk surveys. Central reviews are carried out to verify the completeness of the risk catalogue and its qualitative analysis and evaluation. Further analyses are then performed by the risk management units in the divisions. Risks of general relevance, such as compliance risks, are addressed by involving the segments or experts concerned. The applicable methods and procedures are documented and are subject to in-house adequacy checks and reviews by Internal Auditing. In the year under review, an initiative was launched to further promote Group-wide harmonisation of the risk data collection method.

In addition to this software-based risk recording, Group Risk Management holds quarterly meetings with the local risk management in the divisions and the Group's internal service companies. These risk meetings support the analysis and evaluation of risks at the level of Talanx AG. An escalation procedure has been put in place for bringing significant changes in the risk position to the attention of Group Risk Management, thereby ensuring ad hoc risk management at the level of Talanx AG.

In order to measure, analyse and evaluate risks, Group Risk Management derives the risk situation of the Talanx Group from the local risks with the aid of an internal risk capital model. This internal risk capital model enables us to assess the risks. Still based during the reporting period in key respects (albeit refined) on the so-called GDV (German Insurance Association) standard model, it is used to analyse and measure individual risks and the Group's overall risk position. A primary purpose of risk quantification is to calculate the risk-based capital on the basis of a 99.97% Value at Risk. The internal risk model covers a time horizon of one calendar year and makes allowance for the effects of correlations between Group companies and risk categories. Parallel to the GDV model, the solvency capital for 2009 and 2010 was calculated in the year under review using the internal model, which constitutes the basis for implementation of Solvency II in the Talanx Group. Since 2008 the Talanx Group has been in the pre-application phase. As part of the approval process the Federal Financial Supervisory Authority (BaFin) has and continues to conduct extensive audits in all divisions.

With respect to risk limitation, key indicators have been specified for steering and monitoring the Group's risks within our central system of limits and thresholds. In this context, limits and thresholds for quantitatively measurable risks are designed to operationalise risk steering and monitoring. Material risks that are impossible or difficult to quantify (such as operational risks) are primarily steered and monitored using appropriate processes and practices.

When it comes to risk monitoring, we distinguish between process-integrated independent monitoring and process-independent monitoring. Process-integrated independent monitoring is primarily the responsibility of the Risk Committee, the Chief Risk Officer and the organisational units supporting the CRO. Process-independent monitoring is carried out in particular by Internal Auditing and the Supervisory Board.

The purpose of our risk reporting is to provide systematic and timely information about risks and their potential implications and to ensure adequate in-house communication about all material risks as a basis for decision-making. Regular reporting on both current business developments and on risk management issues is intended to ensure that the Board of Management of Talanx AG is kept continuously informed of risks and can intervene as necessary to take controlling action; the Supervisory Board is also regularly advised of the risk situation. Material changes in the risk position are to be reported to the Board of Management of Talanx AG on an ad hoc basis.

The potential implications of risks are not only to be documented but must also be incorporated into the annual planning of the Group companies, thereby making it possible to allow for the risks of future development and to take appropriate countermeasures in a timely manner. The plans drawn up by all Group companies and the Group as a whole are discussed and approved by the Board of Management and

Supervisory Board of Talanx AG. Talanx AG draws up its own results planning on this basis. The purpose of this planning process is to make allowance not only for future developments but also for the interdependencies between the planning of each subsidiary and that of Talanx AG. In the context of the performance management cycle both operational and strategic considerations are factored into the planning.

Our decision-making and monitoring processes serve not only to satisfy the extensive requirements placed on reporting and information systems by the Insurance Supervision Act (VAG); rather, they also extend to the preparation and examination of the annual and consolidated financial statements, the internal control system and the use of planning and controlling tools.

In the year under review our risk management activities in the area of primary insurance were assessed as "adequate with positive trend" by Standard & Poor's. Hannover Re's risk management was assessed as "strong" by S&P.

In 2009 and 2010 Talanx Asset Management and Ampega-Gerling Investment GmbH were certified to US standard SAS 70 ("Statement on Auditing Standards No 70"). Certification attests to an adequately configured control system and effective implementation of the controls. In the year under review the SAS 70 audit was replaced by an audit pursuant to the international standard ISAE 3402.

Risks of future development

We have combined the risks to which Talanx AG is exposed into risk groups and analysed and evaluated them on the basis of the existing standards. The risk groups include:

- global risks
- participation risks
- functional risks.

Global risks encompass risks associated with changes in the political environment, economic climate or provisions of tax law. They are discussed intensively by the Board of Management of Talanx AG and the corresponding bodies for the Group as a whole and are monitored, in particular, through Association activities, information databases and a constant dialogue with local management.

We associate participation risks, in particular, with the performance of individual subsidiaries, the stability of results in the portfolio of participating interests and a potentially inadequate balance in the business. Through profit transfer agreements and dividend payments Talanx AG participates directly in the business development and risks of the subsidiaries. What is more, negative results trends at the subsidiaries can prompt a need to write down the book values of participating interests at Talanx AG. In the case of more recent foreign acquisitions with the involvement of our partner Meiji Yasuda as minority shareholder, there is a regulatory risk that under the internal model according to Solvency II risks from these participating interests will in future have to be allowed for in full when calculating the required Group solvency capital, while at the same time no correlated allowance for the own funds of the minority shareholder will be permitted (haircut). In our opinion, the own funds of the minority shareholder should correctly be taken into account – or the portion of the risk attributable to the minority shareholder should be deducted. The discussions in this regard are still ongoing under the current Solvency II, and the outcome is uncertain. There is also the inherent risk typically associated with joint ventures, namely that in the event of differences of opinion – in view of the legal rights of protection of the minority shareholder and also rights of protection afforded by contract – deadlock situations may arise in the decision-making process of certain governing bodies of the acquired entity which can only be resolved by building a consensus or – in the absence of this – through share transfers with corresponding strains on liquidity.

We use appropriate tools in the areas of controlling, internal auditing and risk management to counter risks arising out of the development of results at specific subsidiaries. A standardised reporting system supplemented as necessary by special reports regularly provides decision-makers with the latest information not only about the Group but also about the business development at all major subsidiaries. They are thus able to intervene at all times in order to control risks. Risks associated with a lack of stability in the results of the portfolio of participating interests or with an inadequate business balance are reduced for the various risk sources primarily by means of segmental and regional diversification, appropriate strategies for risk minimisation and risk shifting as well as by investing systematically in growth markets and in product and portfolio segments that stabilise results.

When it comes to the group of functional risks, the goal is to keep the risk of asset erosion on acquisitions and their inadequate profitability as low as possible through detailed due diligence tests conducted in cooperation with independent professional consultants and auditors as well as intensive monitoring of the business development. Furthermore, Talanx pays close attention to risks deriving from the financing of acquisitions and the capital needs of subsidiaries as well as their anticipated profitability and ability to pay a dividend. It monitors the financing risk by compiling regularly updated cash flow statements and forecasts and defining priorities for the application of funds. With respect to the financing and liquidity risks, too, Talanx AG is directly exposed to the risks of its subsidiaries through the profit transfer agreements and dividend payments. The leverage of Talanx AG is regularly reviewed. In 2011 the ratio of provisions and liabilities to total assets stood at 40.9 (39.4)%. A large proportion of the provisions relates to provisions set aside for pensions. Talanx therefore has the adequacy of the actuarial bases regularly reviewed in order to counteract the possibility of insufficient allocations to the pension provisions (e.g. through changes in mortality, inflation and the interest rate trend).

The tools and procedures described above for monitoring and controlling risks additionally include a planning component, thereby also enabling us to keep our sights firmly trained on the risks of future development.

Summary assessment of the risk situation

Particularly with respect to the further development of the banking, economic and sovereign debt crisis, there is considerable uncertainty as to whether the associated risks could take even more concrete form going forward and have a significant impact on the assets, financial position or results of operations of the Talanx Group. Above all, the further unfolding of the crisis may also have lasting implications for the behaviour of policyholders. The same – in other words, considerable uncertainty – is also true of ongoing developments in the regulatory framework governing our entrepreneurial activities.

Since the risk situation of Talanx AG is crucially shaped by the risks of the subsidiaries, their risks and risk management measures are described in greater detail below. The risk position of the subsidiaries can be broken down into the following five risk categories:

- underwriting risks
- default risks in insurance business
- investment risks
- operational risks
- other risks

Effects of the banking and economic crisis

In our assessment, the economic situation in Germany remains, if anything, robust and satisfactory. However, the weaker growth of the global economy coupled with doubts as to the long-term financial viability of some countries is fuelling forecasts of a slowdown. In the wake of the protracted debt wrangling between the US Administration and the opposition, the rating agency Standard & Poor's downgraded the creditworthiness of the United States from the top-notch AAA to AA+. At the same time, the outlook was assessed as "negative". This means that the US could face a further downgrade within the next two years. Moody's rating agency reduced the long-term credit ratings of some leading US banks by one notch, as the likelihood of the Administration stepping in to provide support in a crisis was assessed as low.

The problems resulting from the sovereign debt crisis within the Eurozone, too, remain unsolved. Greece, Ireland and Portugal are already having to refinance their debt via European and international bail-out funds. In Greece, especially, the urgently needed consolidation of public-sector budgets is being impeded by a deep and persistent recession combined with further increases in government spending. The market value of the Talanx Group's holding of Greek government bonds on the balance sheet date of 31 December 2011 was EUR 3.3 million. The debt write-down legislation approved by the Greek Parliament in February 2012 gives rise to the risk of further write-downs on this issuer exposure for the Talanx Group. Given our very modest holding at the end of the year under review, the write-downs required in 2012 will have only a minimal influence on the Group's investment income. Standard & Poor's downgraded Italy's rating in the year under review and assessed the outlook as negative. At 31 December 2011 the Talanx Group held investments (government bonds and securities issued by semi-governmental entities) with a market value of EUR 1,297.2 million from the GIIPS countries (thereof Italy EUR 634.3 million, Spain EUR 405.8 million, Ireland EUR 220.4 million and Portugal EUR 33.5 million, excluding unit-linked investments for the account and risk of holders of life insurance policies), which may give rise to rating-related impairments. Thanks to support measures at the European level (the European "rescue package"), however, there is currently no elevated risk of default on the bonds – especially in the case of the GIIPS countries other than Greece.

On the international markets, the banking and economic crisis and the prospect of regulatory innovations are increasingly driving a tendency towards more exacting capital requirements on the part of supervisory authorities. This trend could also affect some individual Group subsidiaries and make it necessary to boost their capital. Against the backdrop of the financial crisis, the G-20 nations are also discussing the introduction of higher equity capital requirements for systemically-relevant insurers, similar to those for banks. It is still unclear whether such capital add-ons will be implemented or what form they might take for insurers.

Tensions in the Arabian and North African region caused commodity prices to rise. The earthquake and nuclear disaster in Japan directly triggered bottlenecks in the global supply of electrical and electronic components. Any ratcheting up of the smouldering nuclear tensions with Iran could accelerate the surge in commodity prices (and lead to considerable distortions in investor behaviour worldwide, hence prompting a [fresh] crisis on capital markets).

In its Investment Guidelines Talanx establishes a precisely defined network of limits to rule out dependencies on individual debtors that could jeopardise the Group's survival. In the light of the continuing impact of the banking and economic crisis on capital markets, the previously applicable risk limits within the Talanx Group were tightened up in key respects.

Should the current low interest rate level be sustained or indeed should further interest rate cuts ensue, this would give rise to a considerable reinvestment risk for the life insurance companies offering traditional guarantee products, since it would become increasingly difficult to generate the guaranteed return – despite the fact that the Group reduces this interest guarantee risk primarily by means of interest rate hedges (see under "Material underwriting risks"). What is more, especially in the context of further declines in interest rates and higher volatilities, decreases may be seen in the Market Consistent Embedded Value (MCEV) of the life insurers. The MCEV for 2011 will be calculated in the first half of 2012.

A contraction in bank lending has been observed in the market as a symptom of the banking crisis and is associated with potential difficulties in raising cash. The sovereign debt crisis in the Eurozone and fears of a global slowdown in economic growth continue to shape the market environment. Further concerns have arisen in the banking sector not only with regard to potential losses on bonds and loans to the countries on the Eurozone periphery (GIIPS), but also in light of much stricter regulatory requirements for risk capital that are forcing the banks to look for considerable amounts of fresh capital and/or to reduce their balance sheets. A cutback in lending by the banks could also affect Talanx AG and constitute a liquidity risk. However, for reasons associated with the business model, the liquidity risk is of only minor significance to the Talanx Group (compared to the banking industry) because regular premium payments and interest income from invested assets, together with its liquidity-conscious investment policy, provide Talanx with an adequate supply of liquid funds. Extensive unused lines of credit are also available, most of which can be extended in the course of the financial year. Liquidity risks may, however, arise in particular as a consequence of illiquid capital markets and – in the life insurance sector – increased cancellations by policyholders, if this makes it necessary to liquidate a large volume of additional investments at short notice.

Material underwriting risks

The underwriting risks in property and casualty insurance are considered separately from those in life insurance because of the considerable differences between them.

Underwriting risks in **property/casualty insurance and non-life reinsurance** derive principally from the premium/loss risk and the reserving risk. The premium/loss risk arises because insurance premiums defined in advance are used to pay indemnifications at a later point in time, although the amount of such payments is initially unknown. The actual claims experience may therefore diverge from the expected claims experience. This may be attributable to two reasons: the risk of random fluctuation and the risk of error.

The risk of random fluctuation refers to the fact that both the number and size of claims are subject to random factors, and the expected claims payments may therefore be exceeded. This risk cannot be ruled out even if the claims spread is known. The risk of error describes the risk of the actual claims spread diverging from the assumed claims spread. A distinction is made here between the diagnostic risk and the forecasting risk. The diagnostic risk refers to the possibility that the current situation may be misinterpreted on the basis of the available data. This is particularly likely to occur if only incomplete data is available regarding claims from previous insurance periods. The forecasting risk refers to the risk that the probability distribution of the total claims may change after the estimate is made, for example due to higher inflation.

The Talanx Group manages and reduces all components of the premium/loss risk first and foremost through claims analyses, actuarial modelling, selective underwriting, specialist audits and regular monitoring of the claims experience as well as through appropriate reinsurance protection.

The second underwriting risk in property/casualty business, namely the reserving risk, refers to the possibility that the underwriting reserves may not suffice to pay in full claims that have not yet been settled or reported. This may then give rise to a need to establish additional reserves. In order to manage this risk, the companies belonging to the Talanx Group measure their reserves prudently. They take into account not only the claims information provided by their clients but also insights from their own claims investigations and experience. Furthermore, an IBN(E)R (incurred but not (enough) reported) reserve is constituted for claims that have probably already occurred but have not yet been reported (in their full amount). The level of reserves is regularly reviewed – not only internally but also by external actuaries – and an external expert assessment of the reserves is commissioned in order to minimise the reserving risk.

Typical risks in **life insurance** are associated with the fact that policies grant guaranteed long-term benefits: while the premiums for a given benefit are fixed at the inception of the policy for the entire policy period, the underlying parameters (interest rate level, biometric assumptions) may change. This is also true – to an increasing extent – of the general legal framework underlying the contractual relationship; changes that can aggravate the risk in this regard are discussed under "Material operating risks".

Biometric actuarial criteria such as mortality, longevity and morbidity are established at the inception of a contract for calculating the premiums and reserves. Over time, however, these assumptions may prove to be no longer accurate, and additional expenditures may be needed to boost the benefit reserve. The adequacy of the underlying biometric actuarial data is therefore regularly reviewed. Epidemics, a pandemic or a worldwide shift in lifestyle habits may pose special risks to contracts under which death is the insured risk. Under annuity policies, the risk derives first and foremost from steadily improving medical care and social conditions which increase longevity – with the result that insureds draw benefits for a longer time than calculated.

Reserves calculated on the basis of assumptions regarding the future development of biometric data such as mortality or disability are set up to ensure that commitments under these policies can always be met. Specially trained life actuaries use safety loadings to make sure that the actuarial bases also make sufficient allowance for risks of change.

In addition, life insurance policies entail lapse risks. In the event of an unusual accumulation of cancellations, for example, the available liquid assets may not be sufficient to cover the benefits payable. This may lead to losses being realised on the unplanned disposal of assets. For this reason, the Group's life insurers invest a sufficiently large asset portfolio in short-term holdings. They also regularly match and control the duration of their assets and liabilities. What is more, receivables due from insurance agents in the event of cancellation may be lost if the refunds receivable from intermediaries cannot be collected. For this reason, insurance intermediaries are carefully selected. Cancellation may also create a cost risk if new business drops off significantly and the fixed costs – unlike the variable costs – cannot be reduced in the short term. Cost controlling and a focus on variable sales costs through distribution channels such as brokers limit this risk.

In the case of life insurance policies with guaranteed interest payments, an interest guarantee risk arises if a guaranteed rate of interest on the savings element of the premium is agreed when the policy is taken out. The recent reform of the Insurance Contract Act (VVG) in Germany exacerbated the interest guarantee risk by entitling policyholders to a share in the unrealised reserves upon termination of the policy. In order to generate this guaranteed return, the insurance premiums must be invested at appropriate terms on the capital market. However, the capital market fluctuates over time; future investments are thus subject to the risk of poorer terms. What is more, the duration of the investments is generally shorter than the term of the insurance contracts, giving rise to a reinvestment risk. There is also an interest rate risk in connection with guaranteed surrender values. A rapidly rising interest rate level, for example, may create hidden obligations. If contracts are terminated prematurely, the policyholders would be entitled to the guaranteed surrender values but would not share in any hidden losses incurred. Upon disposal of the corresponding investments the hidden losses would have to be borne by the life insurers, and in theory it is possible that the fair market value of the investments would not suffice to cover the guaranteed surrender values. As a further factor, the change in the distribution of acquisition costs in compliance with the amended Insurance Contract Act leads to higher surrender values in the initial phase. The Group reduces the interest guarantee risk primarily by constantly monitoring the asset portfolios and capital markets and taking appropriate countermeasures. To some extent interest rate hedging instruments such as swaptions, book yield notes and forward purchases are also used. For a large part of our life insurance portfolio the interest guarantee risk is reduced through contractual provisions that enable the surplus distributions paid in addition to the guaranteed interest rate to be adjusted to the situation on the capital market. Under unit-linked life insurance policies, the investment risks are borne by policyholders, who also profit from the associated opportunities. However, the investment risks could be shifted back onto the life insurers as a consequence of adverse legal developments.

A protracted low level of interest rates poses a risk to the life insurers within the Group that draw up financial statements according to the German Commercial Code (HGB) inasmuch as provisions for interest payments may need to be boosted. The amendment of the Mathematical Provisions Ordinance (Deckungsrückstellungsverordnung) by the Federal Ministry of Finance (BMF) brought about such a change in the requirements under commercial and regulatory law governing allocations to the benefit reserve. Under the ordinance, which came into effect in March 2011, the strengthening of provisions for an insurance portfolio with an actuarial interest rate of 4% begins as soon as the long-term average market interest rate drops below 4%. On the basis of the planning assumptions and further interest rate analysis, there is a need to constitute additional provisions in the 2012 financial year. Some additional reserves were already set aside in the 2011 financial year so as to increase the safety margin in the in-force portfolio for regulatory purposes.

In **life and health reinsurance** the previously described biometric risks are of special importance; this is particularly true of catastrophe risks, for example with respect to pandemics. The reserves in life and health reinsurance are based principally upon the information provided by ceding companies. The plausibility of the figures is checked using reliable biometric actuarial bases. Through our quality assurance measures we ensure that the reserves established by ceding companies in accordance with local accounting principles satisfy all requirements with respect to the calculation methods used and assumptions made (e.g. use of mortality and morbidity tables, assumptions regarding the lapse rate). The Group writes new business in all regions in compliance with globally applicable underwriting guidelines which set out detailed rules governing the type, quality, level and origin of risks and are revised annually. Special underwriting guidelines give due consideration to the particular features of individual markets. By monitoring compliance with these underwriting guidelines the Group minimises the potential credit risk stemming from an inability to pay or deterioration in the financial status of cedants. Regular reviews and holistic analyses (e.g. with an eye to lapse risks) are carried out with respect to new business activities and the assumption of international portfolios. The interest rate risk, which in the primary sector is important in life business owing to the guarantees that are given, is of only minimal relevance in life and health reinsurance owing to the structure of the contracts.

A key risk management tool in the areas of life insurance and life/health reinsurance is systematic monitoring of the Market Consistent Embedded Value (MCEV). Sensitivity analyses highlight the areas where the Group is exposed and provide pointers as to which areas to focus on from the risk management perspective.

Default risks under insurance business

Bad debts may arise on receivables due under insurance business. This applies, in particular, to receivables due from reinsurers, retrocessionaires, policyholders and insurance agents. Value adjustments or write-downs on receivables would be the result.

The Group counteracts the default risk at reinsurers and retrocessionaires by carefully selecting them with the aid of expertly staffed Credit Committees, constantly monitoring their credit status and – where necessary – taking appropriate measures to secure receivables. Depending upon the type and expected run-off period of the reinsured business as well as a required minimum capital adequacy, the selection of reinsurers and retrocessionaires is guided by our own credit assessments as well as the minimum ratings of the rating agencies Standard & Poor's and A.M. Best. A rating information system has been implemented for inclusion of the rating data.

The default risk at policyholders is countered first and foremost by means of an effective collection procedure and the reduction of outstandings. Agents are subject to credit checks. In addition, adequate general bad debt provisions are established to allow for the default risk.

Material investment risks

Investment risks should be considered in the context of the investment policy. Based on a Group investment guideline, the investment policy at the individual companies is regulated within the Talanx Group by the supervisory framework applicable to each particular company and by internal investment guidelines. Particularly in the interests of policyholders as well as with a view to accommodating the future requirements of the capital market, the investment policy is essentially guided by the following objectives:

- optimising the return on investments while at the same time preserving a high level of security
- ensuring liquidity requirements are satisfied at all times (solvency)
- risk diversification (mix and spread)

An essential component of risk management is the principle of separation of functions – i.e. keeping a distinction between Portfolio Management, Settlement and Risk Controlling. Risk Controlling – which is organisationally and functionally separate from Portfolio Management – bears responsibility above all for monitoring all risk limits and evaluating financial products. In this respect the management and control mechanisms are geared particularly closely to the standards adopted by the Federal Financial Supervisory Authority (BaFin) and the respective local regulators.

Within the scope of the Group guidelines, detailed investment guidelines are in force for the individual companies, compliance with which is constantly monitored. These investment guidelines are used to define the framework of the investment strategy. Monitoring of the quotas and limits set out in these guidelines is the responsibility of Group Risk Management and local risk management as well as the Chief Financial Officer of each company. Any material modification of the investment guidelines and/or investment policy must be approved by the Management Board of the company concerned and brought to the attention of its Supervisory Board.

Risks in the investment sector consist most notably of market, credit and liquidity risks. The market risk arises from the potential loss due to adverse changes in market prices and may be attributable to changes in interest rates, equity prices and exchange rates. The credit risk refers to the possible fall in the value of an asset due to the failure of a debtor or a change in their ability to pay. In the area of profit-participating loans, there is a particular risk of default on interest payments. The liquidity risk refers to the risk of being unable to convert investments and other assets into cash in order to meet our financial obligations when they become due. Thus, for example, it may not be possible to sell holdings (or to do so only with delays) or to close open positions (or to do so only with price markdowns) due to the illiquidity of the markets. In general terms, the Group continuously generates significant liquidity positions because premium income normally accrues well before claim payments and other benefits need to be rendered.

Material operational risks

In our understanding, this category encompasses the risk of losses occurring because of the inadequacy or failure of internal processes or as a result of events triggered by employee-related, system-induced or external factors. The operational risk also extends to legal risks.

Multifaceted, cause-targeted risk management and an efficient internal control system minimise such risks, which may be associated with business activities of all types, members of staff or technical systems. In addition to Internal Auditing, the Compliance function also bears responsibility for overseeing compliance with applicable laws as well as with external and internal guidelines.

Legal risks may arise in connection with contractual agreements and the general legal environment, especially with respect to business-specific imponderables of commercial and tax law as they relate to an internationally operating life and property/casualty insurer as well as a life/health and non-life reinsurer. Insurers and reinsurers are also dependent on the political and economic framework conditions prevailing on their respective markets. These external risks are continuously monitored by the Talanx Board of Management as part of an ongoing exchange of information with local management.

Various countries are planning or have already introduced a tax on the financial sector (transaction tax and/or financial activity tax) as a means of recovering at least a part of the cost of the banking crisis. There is a risk that such a levy may also affect our Group.

Against the backdrop of the banking crisis, the G20 nations are also discussing the introduction of higher equity capital requirements for insurers, similar to those for systemically-relevant banks. It remains to be seen just what form such a capital add-on for the insurers in question might take. If, however, the general thrust of the plans for the banking sector is carried over to the insurance industry, large insurance undertakings – and hence potentially also the Talanx Group – could find themselves faced with exacting new capital requirements.

High-level court rulings may also have far-reaching implications for the core business of some Talanx subsidiaries. For instance, a landmark ruling handed down by the European Court of Justice (ECJ) on 1 March 2011 will prohibit insurance companies with effect from 21 December 2012 from using gender as one of several risk factors in calculating premiums and benefits. As far as in-force contracts are concerned, the judgement could have an effect on the various options still open to policyholders in future and on the contractually agreed future conversion of in-force contracts. Moreover, it may also have repercussions on the calculation of premiums and engender risks due to changes of cover, increased cancellations or a decline in new business. It remains to be seen whether this court practice will in future carry over to other differentiating criteria commonly used by the insurance industry for calculating premiums.

There are also proceedings pending before the courts, especially with respect to life insurance, that could have implications for the entire German insurance industry and hence also for the Talanx Group once their outcome is legally final. These include, for example, ongoing proceedings concerning the invalidity of clauses of the General Conditions of Insurance relating to surrender values and the allocation of acquisition costs as well as the question of how to deal with a monthly, quarterly or half-yearly method of payment in insurance contracts. The higher court decisions handed down with regard to the treatment of surcharges for instalment payments vary widely. There is (as yet) no ruling from the Federal Court of Justice. As far as new business is concerned, the aspects that have so far been challenged in court were adjusted out of caution and for reasons of consumer friendliness. This is not possible for in-force business on practical grounds.

Legislation in other countries can also give rise to new risks. The "Foreign Account Tax Compliance Act" (FATCA), which was signed into law in the United States in March 2010, takes effect on 1 January 2013. The provisions of the new FATCA tighten US tax reporting by foreign financial institutions (including insurance companies) and are intended to combat the evasion of tax on investments held abroad by entities liable to US tax. It is not yet fully clear which insurance products will be covered by the intended reporting requirements. As things stand now, term life insurance, property insurance and reinsurance contracts are to be exempt from the new requirements, whereas all cash value products and insurance policies with an investment component are to be included. The issue remains under observation.

The Talanx Group – in common with the entire insurance industry – is also facing far-reaching changes against the backdrop of the impending and in some cases already implemented reform of regulatory standards, especially in the context of IFRS, Solvency II and the Minimum Requirements for Risk Management in Insurance Undertakings (MaRisk VA). We are tracking the accounting and regulatory changes closely; we have identified the associated more exacting requirements and initiated measures to refine our risk management accordingly and hence enable us to satisfy the more complex and extensive standards going forward.

Along with legal risks, the other operational risks include the failure of data processing systems and data security. Ensuring the availability of applications and protecting the confidentiality and integrity of data are of vital importance to the Talanx Group. Since the global sharing of information increasingly takes place via electronic data transfer, this also creates a vulnerability to computer viruses. Systematic investment in the security and availability of information technology preserves and enhances the existing high level of security.

Operating risks may also arise in the area of human resources, for example due to a lack of the skilled experts and managers necessitated by an increasingly complex business with a strong customer orientation. Talanx therefore attaches great importance to further and advanced training activities. With the aid of individual development plans and appropriate skills enhancement opportunities members of staff are thus able to respond to the latest market requirements. What is more, state-of-the-art management tools and – where permissible under collective wage agreements – appropriate incentive schemes (both monetary and non-monetary) foster strong employee motivation. Talanx counters the risk of personnel committing fraudulent acts to the detriment of the company with internal guidelines governing areas of competence and processing workflows as well as with regular specialist checks and audits.

On the marketing side the Talanx Group works together with external agents, brokers and a number of cooperation partners. In this respect there is, of course, an immanent risk that marketing agreements can be impacted by external influences – with a corresponding potential for the loss of new business and erosion of the in-force portfolios.

Other material risks

Of material importance to our company in the category of other risks are primarily emerging risks, strategic risks and reputational risks.

The hallmark of emerging risks (such as in the field of nanotechnology or in connection with climate change) is that the content of such risks cannot as yet be reliably assessed – especially with respect to our in-force portfolio. Such risks evolve gradually from weak signals to unmistakable tendencies. It is therefore vital to detect these risks at an early stage and then determine their relevance. For the purpose of early detection we have developed an efficient process that spans divisions and ensures the linkage to risk management, thereby making it possible to pinpoint any necessary measures (e.g. ongoing observation and evaluation, the implementation of contractual exclusions or the development of new (re)insurance products).

Strategic risks derive from the risk of an imbalance between the corporate strategy and the constantly changing general business environment. Such an imbalance might be caused, for example, by incorrect strategic policy decisions or a failure to consistently implement the defined strategies. We therefore review our corporate strategy and risk strategy annually and adjust our processes as required.

The reputational risk is the risk associated with possible damage to the company's name as a consequence of an unfavourable public perception (e.g. among customers, business partners, government agencies). Management of this risk is made possible by our set communication channels, a professional approach to corporate communications, tried and tested processes for defined crisis scenarios as well as our established Code of Conduct.

Corporate Governance report

Talanx AG takes good Corporate Governance to mean responsible enterprise management and supervision geared to sustainable value creation. In particular, we strive to further foster the trust placed in us by future investors, our business partners and employees as well as the public at large. We also attach considerable importance to the efficient conduct of their work by the Board of Management and Supervisory Board, good cooperation between these bodies and with the company's staff as well as open and transparent corporate communications.

Talanx AG is a stock corporation company under German stock corporation law. It has three executive bodies: the Board of Management, Supervisory Board and General Meeting. The tasks and powers of these bodies are defined by law, the company's Articles of Association and the Rules of Procedure for the Board of Management and Supervisory Board.

In its striving to generate a sustainable increase in the value of the company, Talanx AG is guided by the principles of the German Corporate Governance Code (DCGK), by means of which it has now largely aligned itself with the standards of German listed enterprises.

Board of Management

The Board of Management leads the company at its own responsibility and defines goals and corporate strategy. In accordance with § 9 Para. 1 of the Articles of Association, the Board of Management is comprised of at least two persons. Beyond that, the Supervisory Board determines the number of members. The Board of Management currently consists of seven members. According to the Rules of Procedure of the Supervisory Board, it shall appoint only persons who are not yet 65 years of age to the Board of Management. The term of their appointment shall be defined such that it ends at the latest in the month in which the Board member turns 65.

The current composition of the Board of Management is set out on page 7 of this Annual Report.

The working practice of the Board of Management is governed by Rules of Procedure adopted by the Supervisory Board. These define the areas of responsibility of the individual members of the Board of Management. Notwithstanding their overall responsibility, each member of the Board leads the area(s) assigned to them at their own responsibility within the scope of the resolutions of the full Board of Management.

In addition, the Rules of Procedure set out the matters reserved for the full Board of Management as well as the required voting majorities. The full Board of Management decides in all cases where adoption of a resolution by the full Board of Management is stipulated by law, the Articles of Association or the Rules of Procedure.

The Board of Management meets at least once a month.

The Board of Management reports regularly and comprehensively to the Supervisory Board on the strategic orientation, the development of business, the financial position and results of operations, the planning and accomplishment of targets as well as the existing opportunities and risks.

Certain decisions of the Board of Management that are of special importance or strategic significance require the approval of the Supervisory Board. Some of these reservations of approval are prescribed by law, others are governed by the Rules of Procedure of the Board of Management. The following measures and transactions, among others, require the prior approval of the Supervisory Board:

- adoption of strategic principles and objectives for the company and the Group;
- adoption of the annual planning for the company and the Group;
- formation, amendment and termination of affiliation agreements;
- acquisition and disposal of parts of undertakings in excess of a certain size.

Members of the Board of Management may only take on sideline activities, most notably seats on supervisory boards outside the company, with the consent of the Chairman of the Supervisory Board.

Supervisory Board

The Supervisory Board advises and monitors the management of the company. It is also responsible, in particular, for the appointment and employment contracts of members of the Board of Management and for examining and approving the individual and consolidated financial statements.

The Supervisory Board consists of 16 members. Half of them are chosen by the shareholders and the other half are elected by the employees. According to the Rules of Procedure of the Supervisory Board, the members of the Supervisory Board shall not be older than 72 years of age at the time of their election.

The Board of Management informs the Supervisory Board in a regular and timely manner about the development of business, the implementation of strategic decisions, material opportunities and risks, and the company's planning. The Chairman of the Supervisory Board is in constant contact with the Chairman of the Board of Management to discuss the company's strategy, business development and risk management. The composition of the Supervisory Board and its committees is set out on pages 5 and 6 of this Annual Report.

The Rules of Procedure of the Supervisory Board require each member of the Supervisory Board to have the knowledge, skills and specialist experience required for the proper performance of their duties, and the Supervisory Board should include an adequate number of independent members. At least one independent member must have expertise in the fields of financial reporting and auditing of financial statements. The composition of the Supervisory Board should reflect the principle of diversity. The aim is for at least four members to be women. The Supervisory Board currently has five female members. It is up to each member of the Supervisory Board to ensure that they have adequate time to exercise the functions of their office. Not more than two former members of the Board of Management may serve on the Supervisory Board at any time.

In order to ensure that the Supervisory Board performs its tasks effectively, the Supervisory Board has formed the following committees:

- Personnel Committee
- Finance and Audit Committee
- Nomination Committee
- Standing Committee

The committees of the Supervisory Board prepare the decisions of the Supervisory Board that lie within their scope of competence and decide in lieu of the Supervisory Board on the matters assigned to the committee's scope of competence by the respective Rules of Procedure.

The Finance and Audit Committee monitors the accounting process and the effectiveness of the internal control system, the risk management system and the internal auditing system. It also handles issues relating to compliance and the information system for the Supervisory Board and discusses the quarterly reports, which have been published since Q3/2011. It prepares the Supervisory Board's examination of the annual financial statement, management report and proposal for the appropriation of profit as well as of the consolidated financial statement and Group management report. In this context, the Finance and Audit Committee receives detailed information on the auditor's view of the net assets, financial position and results of operations as well as explanations of the effects of any modified recognition and measurement principles on the net assets, financial position and results of operations together with available alternatives. It considers matters associated with the necessary independence of the auditor, the awarding of the audit mandate to the independent auditor, the determination of the audit concentrations and the fee agreement.

The Personnel Committee prepares personnel decisions for the Supervisory Board and decides in lieu of the Supervisory Board on the content, formation, amendment and termination of contracts of employment with the members of the Board of Management with the exception of remuneration-related content as well as resolutions regarding the implementation thereof. It bears responsibility for the granting of loans to the group of persons specified in §§ 89 Para. 1, 115 Stock Corporation Act (AktG) and those considered equivalent pursuant to § 89 Para. 3 Stock Corporation Act (AktG) as well as for the approval of contracts with Supervisory Board members in accordance with § 114 Stock Corporation Act (AktG). It exercises the powers arising out of § 112 Stock Corporation Act (AktG) in lieu of the Supervisory Board and – in cooperation with the Board of Management – ensures that long-term succession planning is in place.

The Nomination Committee is tasked with proposing to the Supervisory Board appropriate candidates for the nominations that the latter puts forward to the General Meeting for election to the Supervisory Board.

For further details of the activities of the Supervisory Board committees please see the explanations provided in the Supervisory Board Report from page 2 onwards of this Annual Report.

General Meeting

Shareholders exercise their rights at the General Meeting. The sole shareholder is currently HDI Haftpflichtverband der Deutschen Industrie V. a. G.

Each share carries one vote in the voting on resolutions. The General Meeting elects the members of the Supervisory Board representing the shareholders and votes to ratify the acts of management of the Board of Management and the Supervisory Board. It decides upon the appropriation of the disposable profit, on capital measures and the approval of affiliation agreements, as well as on the remuneration of the Supervisory Board and on amendments to the company's Articles of Association. Each year an ordinary General Meeting is held, at which the Board of Management and the Supervisory Board provide an account of the financial year just-ended. In special cases, the Stock Corporation Act provides for the convening of an extraordinary General Meeting.

Compliance

For the Talanx Group, compliance with applicable laws as a fundamental prerequisite for lasting successful business operations is a matter of course. Employees are supported in this respect by the compliance officers of Talanx.

The Code of Conduct for our staff has defined standards for responsible and ethical behaviour on all levels of the Group. It is incumbent upon every employee within the Group to ensure that their actions are in compliance with this code and the laws, guidelines and instructions governing their area of work.

Our commercial success is determined not only by the quality of our products and services, but also by the legally correct and responsible conduct of our employees towards each other, our business partners and the public at large. Only in this way can we create trust, a competitive factor in our industry that cannot be underestimated.

In the form of training events and programmes we offer staff the opportunity to refresh, broaden and deepen their knowledge and proficiency with respect to selected compliance-related topics.

A whistleblower system gives staff the opportunity to report certain serious breaches of the law – anonymously, if they so desire. This enables compliance officers to take action, contain the damage and avoid further harm.

Risk monitoring and steering

The risk management system of Talanx AG applicable throughout the Group is based on the risk strategy, which in turn is derived from the company strategy. A core component is systematic and comprehensive recording of all risks that from the current standpoint could conceivably jeopardise the company's profitability and continued existence. Further details in this regard may be obtained from the risk report contained in the present Annual Report on page 25.

Remuneration

The structure of the remuneration of the Board of Management and the Supervisory Board and of the managing directors and managers below the Group Board of Management is described in detail in the remuneration report. The remuneration of the members of the Board of Management and the Supervisory Board is also disclosed there on an individualised basis for the first time.

Hannover, March 2012

Remuneration report

The remuneration report describes and explains the basic features of the remuneration structure for the Board of Management of Talanx AG as well as the amount of remuneration paid to the Board of Management and the key criteria used in its determination. The presentation covers the payments made to the Board of Management in the 2011 financial year in connection with the activities of the members of the Board of Management on behalf of Talanx AG. The structure and amount of remuneration paid to the Supervisory Board of Talanx AG and the main features of the remuneration paid to managing directors and managers below the Board of Management are also discussed.

The remuneration report is guided by the recommendations of the German Corporate Governance Code. Under German commercial law, too, this information includes data specified as mandatory for the notes (§ 285 (9) and (10) HGB) and the management report (§ 289 (5) HGB). These details are discussed as a whole in this remuneration report and additionally presented in summary form in the notes in accordance with the applicable statutory provisions.

The provisions of the Act on the Adequacy of Management Board Remuneration (VorstAG) and of the Insurance Supervision Act in conjunction with the Regulation on the Supervisory Law Requirements for Remuneration Schemes in the Insurance Sector (VersVergV) – which entered into force in 2010 – have been observed. In addition, we took into account the more specific provisions of German Accounting Standard DRS 17 (amended 2010) "Reporting on the Remuneration of Members of Governing Bodies".

Remuneration of the Board of Management

The amount of the remuneration of the Board of Management is decided on by the Supervisory Board. The Supervisory Board reviews and discusses the remuneration structure and the adequacy of the remuneration at regular intervals.

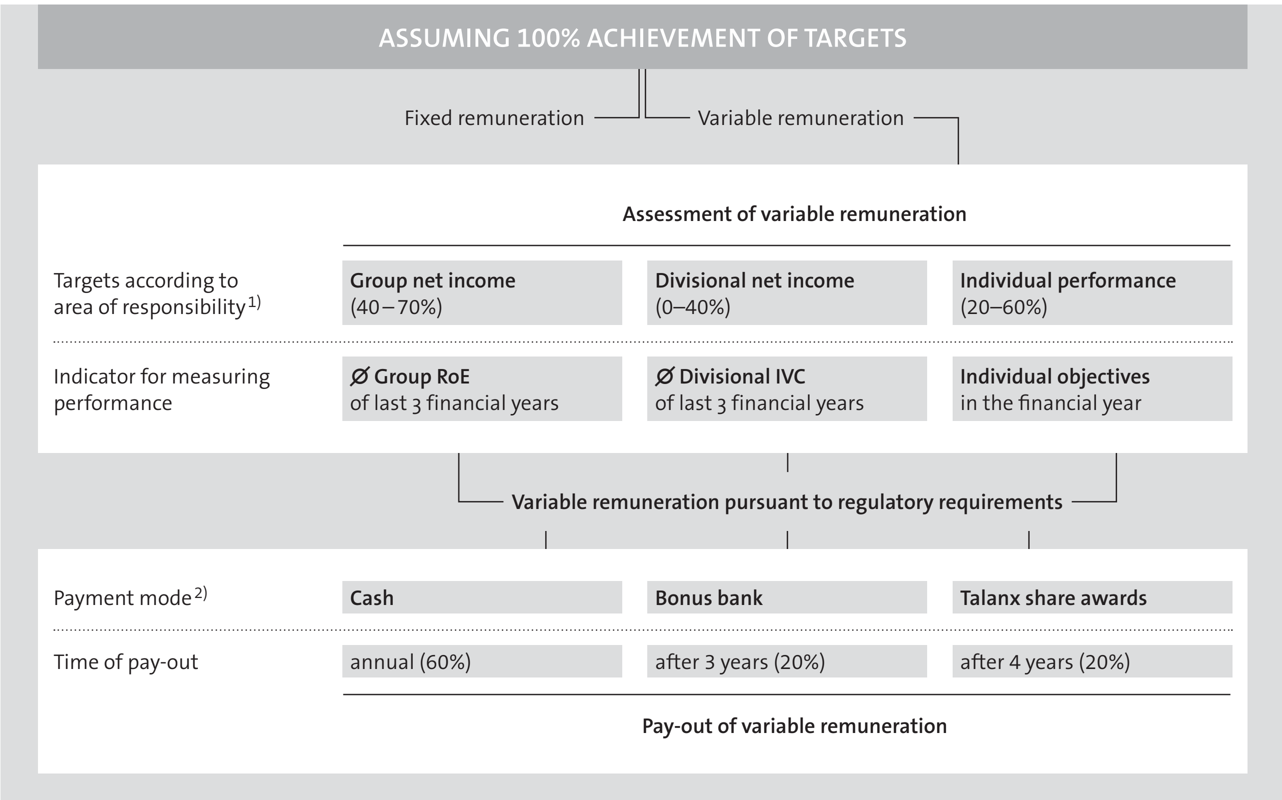
The Supervisory Board has reviewed the remuneration system for the Board of Management on the basis of the new statutory and regulatory provisions for executive remuneration and has fundamentally re-aligned its structure. The new remuneration structure applies to all active Members of the Board of Management with effect from the 2011 financial year.

Structure of the remuneration received by the Board of Management
The purpose of the remuneration system for the Board of Management is to appropriately recompense the members of the Board of Management. The remuneration of the Board of Management is geared to the size and activities of the company, its economic and financial situation, its success and future prospects, and the customariness of the remuneration, making reference to the peer environment (horizontal) and the remuneration levels applicable to the rest of the company's staff (vertical). The remuneration is also guided by the tasks and duties of the individual members of the Board of Management, their personal performance and the performance of the Board of Management as a whole. Altogether, the remuneration is such that it makes allowance for both positive and negative developments, is in line with the market and competitive, and promotes the sustainable, long-term development of the company.

The remuneration of the Board of Management is split into annual fixed remuneration and variable remuneration established on a multi-year assessment basis. The proportion of the total remuneration attributable to variable remuneration differs in each individual case and ranges from 44% to 68% in the event of 100% goal accomplishment.

The Supervisory Board decides regularly, and in exceptional circumstances at its prudent discretion, whether adjustments need to be made to the variable remuneration or limitations placed on payout.

Board remuneration model from 1 January 2011



1) *Chairman/Chief Financial Officer:* *70% Group net income, 30% individual performance (achievement of individual objectives)*
Deputy Chairman: *50% Group net income, 30% divisional net income, 20% individual performance*
Managers responsible for divisions: *40% Group net income, 40% divisional net income, 20% individual performance*
Chief Information Officer: *40% Group net income, 60% individual performance*
2) *Split dictated by statutory minimum requirements*

Assessment basis/preconditions for payment of the variable remuneration as of 2011

Remuneration component	*Assessment basis/parameters*	*Preconditions for payment*
Group bonus		
Percentage of variable remuneration Chief Executive Officer and Chief Financial Officer: 70% Deputy Chief Executive Officer: 50% Chief Information Officer: 40% Division Manager: 40%	■ Group return on equity (RoE); Individual basic amount (staggered depending on area of responsibility and professional experience) per 0.1 percentage point by which the average return on equity (RoE) of the last three financial years (FY) exceeds the risk-free interest rate (for the first time in 2013; for 2011 only RoE for FY 2011 as assessment period, for 2012: average RoE for FY 2011 and 2012) ■ 100% = 12.8% RoE ■ Cap max: 200% ■ Cap min: –100% (malus); ■ Calculation of the bonus will be amended if the risk-free interest rate changes by one percentage point or more; ■ Calculation of RoE: Group profit for the year calculated according to IFRS (without non-controlling interests) ÷ arithmetic mean of the Group equity to IFRS (without non-controlling interests) at the start and end of the financial year.	■ Agreement in contract ■ Achievement of three-year targets
Divisional bonus		
Percentage of variable remuneration Chief Executive Officer, Chief Financial Officer and Chief Information Officer: 0% Deputy Chief Executive Officer: 30% Division Managers: 40%	■ Evaluation of the intrinsic value creation (IVC) of the business areas within the individual's area of responsibility ■ Main criteria for IVC: relative change versus previous year, absolute amount, comparison with targets, distribution or profit transfer ratio, general market environment ■ 100% = amount x = targets fully achieved ■ Cap max: 200% ■ Cap min: EUR 0 ■ First used for 2013, until then refinement of the IVC concept and resolution by the Supervisory Board at its prudent discretion.	■ Achievement of targets for the year ■ until 2013: Supervisory Board determines the degree of target achievement at its prudent discretion ■ from 2013: achievement of the IVC
Perfomance bonus		
Percentage of variable remuneration Chief Executive Officer and Chief Financial Officer: 30% Chief Information Officer: 60% Deputy Chief Executive Officer and Division Managers: 20%	■ Individual qualitative and quantitative targets; personal contribution to overall result, leadership skills, innovation, entrepreneurial skills, specific remit factors ■ 100% = amount x = targets fully achieved ■ Cap max: 200% ■ Cap min: EUR 0	■ Achievement of targets for the year ■ Supervisory Board determines the degree of target achievement at its prudent discretion

Breakdown of pay-out of the variable remuneration

Short term	**Medium term**	**Long term**
■ **60% of the variable remuneration with the next monthly salary payment** following the resolution by the Supervisory Board	■ **20% of the variable remuneration allocated to the bonus bank** withheld for three years ■ Pay-out of the positive amount allocated three years prior to the pay-out, provided that this does not exceed the balance in the bonus bank after all credits/debits up to and including those for the most recent financial year ■ Any amounts due for disbursement that are not covered by the balance in the bonus bank are forfeited ■ Claims on the bonus bank forfeited in special cases: termination of office without material grounds; extension of contract at same terms rejected ■ No interest payable on positive balance	■ Automatic allocation of virtual **Talanx share awards** to a value equivalent to **20%** of the variable remuneration ■ On expiry of the **four-year retention** period: pay-out of the current value at the time of pay-out ■ Valuation of shares for allocation/pay-out: unweighted arithmetic mean of the Xetra closing prices over a period of five trading days before to five trading after the meeting of the Supervisory Board that approves the consolidated financial statements ■ Pay-out of the total amount of all dividends accumulated during the retention period ■ Changes in the value of the share awards by on aggregate 10% or more due to structural measures triggers adjustment

Negative total of variable bonuses = pay-out of EUR 0 of variable remuneration.
A negative value of the total variable bonuses in any financial year is transfered in full to the bonus bank (see "Medium term" column).

Components of the remuneration of the Board of Management

Fixed remuneration
The fixed remuneration is paid out in cash in twelve equal monthly instalments. It is tailored especially to the range of duties and functions and the professional experience of the individual Board member. The Supervisory Board reviews the amount of the fixed remuneration regularly, and at least every two years.

Non-cash compensation/fringe benefits
The members of the Board of Management also receive certain non-performance-related fringe benefits in line with common market practice, which are reviewed at regular intervals. For the duration of the appointment to the Board of Management a passenger car is made available for business and personal use. The member of the Board of Management is responsible for paying tax on the pecuniary advantage associated with private use of the company car. The company also grants its Board members insurance cover on a reasonable scale (liability, accident and luggage insurance). The non-cash and fringe benefits are reported at cost value in the Annual Report.

Travel and other expenses incurred in the company's interest are refunded to the Board members within reasonable limits.

Assessment of the variable remuneration
The amount of the variable remuneration depends on certain defined results and on the achievement of certain targets. The targets vary according to the function of the Board member concerned. The variable remuneration consists of a Group bonus and an individual bonus and – in the case of Board members responsible for a certain division – a divisional bonus. The weighting of the various components within the total variable remuneration is determined individually for each member of the Board of Management in light of the function that he or she performs.

Group bonus
The Group bonus is paid as an individually determined amount for each 0.1 percentage point by which the average return on equity (RoE) exceeds the risk-free interest rate. If the average return on equity is below the risk-free interest rate or if it is negative, this results in a corresponding penalty amount for each 0.1 percentage point of undershoot. The maximum amount of the Group bonus and the maximum penalty are agreed individually. The arrangements governing the Group bonus may be adjusted if the risk-free interest rate changes to such an extent that an (absolute) deviation of at least 1 percentage point arises. The risk-free interest rate is the average market rate for 10-year German government bonds over the last five years, the average being calculated annually at year-end on the basis of the interest rate prevailing in that year.

Divisional bonus
The divisional bonus is to be guided by the average intrinsic value creation (IVC) achieved in the three-year period just-ended for the division that falls within the relevant Board member's area of responsibility. A generally valid concept for measuring the IVC is currently still undergoing further refinement. The procedure for calculating the performance of the divisions on the basis of the divisional IVC is to be applied for the first time to the 2013 financial year.

Until these arrangements have been finalised, the divisional bonus is established by the Supervisory Board according to its best judgement. In so doing, the Supervisory Board pays special attention to the following criteria: relative change in the IVC in the remuneration year, absolute amount of the IVC in the remuneration year, IVC in the remuneration year relative to the target value, payout ratio or profit transfer ratio of the division relative to the target value and the general market environment. Upon complete fulfilment of the criteria the amount stipulated in the contract of employment for 100% goal accomplishment is awarded. Over- or underfulfilment of the criteria results in additions or deductions. The lowest divisional bonus amounts to EUR 0, while the highest is equivalent to double the bonus upon complete fulfilment of the criteria.

Individual bonus

In addition, individual qualitative and, as appropriate, quantitative personal goals are defined annually for each Board member to meet in the next year. The criteria applied may include, for example, the individual contribution to the overall result, leadership skills, power of innovation, entrepreneurial abilities and other quantitative and qualitative personal targets, making special allowance for the specific features associated with the Board member's area of responsibility. The degree of goal accomplishment is determined by the Supervisory Board according to its best judgement at the Supervisory Board meeting at which the consolidated financial statements for the financial year are approved. The amount payable for 100% goal accomplishment is individually established. The minimum individual bonus amounts to EUR 0, while the maximum is equivalent to double the bonus upon complete fulfilment of the defined targets.

Total amount of the variable remuneration

The total amount of variable remuneration is arrived at by adding the amounts for the individual remuneration components. If the sum of the individual amounts is negative, the variable remuneration is zero (in other words, there can be no negative variable remuneration). A negative amount is, however, taken into consideration when calculating the bonus bank (cf. next section "Payment of the variable remuneration").

The variable remuneration is defined at the Supervisory Board meeting that approves the consolidated financial statement for the financial year just-ended.

Payment of the variable remuneration

Of the total amount of defined variable remuneration, a partial amount of 60% is paid out in cash in the month following the Supervisory Board meeting that approves the consolidated financial statements. The remaining 40% of the total variable remuneration is initially withheld and paid out only after a reasonable retention period. With a view to encouraging the sustainable value creation of the company, half of the withheld portion (i.e. 20% of the total amount of defined variable remuneration) is allocated to a "bonus bank", while the other half is granted in the form of share awards in accordance with the rules explained in the following sections.

Bonus bank

Each year 20% of the defined variable remuneration is allocated to the bonus bank and withheld interest-free for a period of three years. If the mathematically calculated amount of variable remuneration is negative, 100% of this negative amount is allocated to the bonus bank, reducing the balance in the bonus bank accordingly. A positive balance in the bonus bank is carried forward to the following year after deduction of any amount paid out, while a negative balance is not carried forward to the next year. The amount allocated to the bonus bank in each case is paid out after three years to the extent that it is covered by the balance existing at that time – allowing for credits/debits up to and including those for the financial year just-ended. Any portion of the variable remuneration due for disbursement that is not covered by the balance in the bonus bank is forfeited.

Share swards

The other 20% of the total defined variable remuneration is granted as share-based remuneration in the form of virtual share awards. The total number of share awards allocated will depend – once Talanx AG has gone public – upon the value per share of Talanx AG at the time of allocation. The value per Talanx AG share is established as the unweighted arithmetic mean of the Xetra closing prices of Talanx shares over a period of five trading days before to five trading after the meeting of the Supervisory Board that approves the consolidated financial statements. The share awards are allocated automatically, without the need for a declaration by Talanx AG or the Board member. Until such time as Talanx shares are listed on the stock exchange, the value per share of Talanx AG shall be taken as the book value of the shareholders' equity per share obtained from the consolidated financial statement for the financial year just-ended drawn up in accordance with international financial reporting standards as defined by § 315a of the Commercial Code (HGB). The total number of share awards to be allocated is arrived at by dividing the amount to be credited by the value per share, rounded up to the next full share. For each share award, the value of one Talanx share calculated on the disbursement date (value calculated in the same way as when the award is made) plus an amount equivalent to the dividend – insofar as dividends are distributed to shareholders – is paid out after expiry of a vesting period of four years. Board members have no entitlement to delivery of shares.

Payment in case of incapacity for work
In the event of temporary incapacity for work the fixed annual salary shall continue to be paid in the same amount, at most until termination of the contract of employment.

If a member of the Board of Management is permanently incapacitated for work during the period of their contract of employment, the contract of employment shall terminate at the end of the sixth month after which the permanent incapacity for work is established – although no later than the end of the contract of employment. A permanent incapacity for work exists if the Board member will probably be permanently unable to perform without reservation the tasks assigned to him.

Early termination of membership of the Board of Management
In the event of voluntary resignation or termination/dismissal by the company for a compelling reason or if an offered contract extension on the same conditions (exception: the member of the Board of Management has reached the age of 60 and has served as a member of the Executive Board for two terms of office) is declined, all rights to payment of the balances from the bonus bank and from the share awards are forfeited. If the contractual relationship ends normally prior to the end of the vesting period for the bonus bank and share awards, and if a contract extension is not offered, the member of the Board of Management retains his or her entitlements to payment from the bonus bank and the already allocated share awards.

All claims to the allocation of amounts to the bonus bank and/or granting of share awards after leaving the company are excluded. In cases where an individual leaves the company because of non-reappointment, retirement or death this shall not apply with respect to claims to variable remuneration acquired (pro rata) in the final year of the Board member's work for the company.

The contracts of employment of the members of the Board of Management do not include commitments to benefits in the event of a premature termination of employment on the Board of Management owing to a change of control or on other grounds.

Caps on severance payments in management board contracts, as recommended by Item 4.2.3 Para. 4 of the German Corporate Governance Code as amended 26 May 2010, are not included in the contracts of employment with members of the company's Board of Management. Premature termination of an employment contract without serious cause may only take the form of cancellation by mutual consent. Even if the Supervisory Board insists upon setting a severance cap when concluding or renewing a Board of Management contract, this does not preclude the possibility of negotiations also extending to the severance cap in the event of a member leaving the Board of Management. Whilst it is true that the legal literature discusses structuring options that would permit the legally secure implementation of the recommendation contained in Item 4.2.3 Para. 4, it is, however, open to question whether qualified candidates for a position on the company's Board of Management would accept appropriate clauses. In addition, the scope for negotiation over a member leaving the Board of Management would be restricted, which could be particularly disadvantageous in cases where there is ambiguity surrounding the existence of serious cause for termination. In the opinion of Talanx AG, it is therefore in the interest of the company to diverge from the recommendation contained in Item 4.2.3 Para. 4 of the German Corporate Governance Code.

Amount of remuneration for the Board of Management
The total remuneration received by the Board of Management for its activities on behalf of Talanx AG was EUR 7,883 (6,017) thousand. The table below shows the breakdown into the components according to DRS 17. In the 2011 financial year the remuneration of the members of the Board of Management is voluntarily disclosed for the first time on an individualised basis in accordance with the requirements of commercial law.

Any remuneration received for seats at affiliated companies and other offices held at Group companies is counted toward the variable remuneration and shown separately in the overview.

Total remuneration received by active members of the Board of Management pursuant to DRS 17 (amended 2010)

	Non-performance-based remuneration		Performance-based remuneration [1]						
			Short-term		Medium-term	Long-term			
					Bonus bank	Share awards			
	I	II	III	IV	V	VI	VII		
Name	Fixed remuneration	Non-cash compensation/fringe benefits	Variable remuneration payable (60%)	thereof remuneration from seats with Group bodies [2]	Amount allocated to bonus bank [3] (20%)	Value of share awards granted [4] (20%)	Expense for share-based remuneration [5]	Total [6]	Estimated number of Talanx share awards [7]
in EUR thousand									
Herbert K. Haas	714	21	708	468	236	236	201	1,915	7,05
Dr. Christian Hinsch [8]	504	14	430	14	143	143	122	1,234	4,27
Torsten Leue [8], [9]	560	113	415	11	138	138	118	1,364	4,12
Dr. Thomas Noth [8]	500	17	196		65	65	56	843	1,94
Dr. Immo Querner	544	9	436	204	145	145	124	1,279	4,33
Dr. Heinz-Peter Roß [8], [9]	560	165	415	83	138	138	118	1,416	4,12
Ulrich Wallin [10]	—	—	126		42	42	36	210	1,25
Total 2011 [11]	**3,382**	**339**	**2,348**	**780**	**907**	**907**	**775**	**7,883**	**27,08**
Total 2010 [12]	2,342	345	3,330	575	—	—	—	6,017	—

[1] *As at the 2011 balance sheet date no Board resolution was available regarding the amount of performance-based remuneration for 2011. The amounts are recognised on the basis of estimates and the provisions constituted accordingly*
[2] *Remuneration from supervisory board seats at affiliated companies netted with the variable remuneration payable for 2011*
[3] *The nominal amount is stated; full or partial payment is made in 2015, depending on the development until such time of the balance in the bonus bank*
[4] *The nominal amount of the share awards to be granted is stated; the equivalent amount of the share awards will be paid out in 2016 at the relevant value prevailing at this time*
[5] *The expense for share awards is recognised according to the duration of the respective contract of employment*
[6] *Total of I, II, III, V, VI*
[7] *In order to calculate the number of Talanx share awards reference was made to the book value of the shareholders' equity per share, as calculated from the consolidated financial statement for the year under review drawn up in accordance with international accounting standards as defined by § 315a German Commercial Code (HGB)*
[8] *The stated remuneration is contractually owed in full by Talanx AG, but is also spread through appropriate on-debiting among affiliated companies at which the relevant member of the Board of Management of Talanx AG at the same time performs the function of Chief Executive Officer*
[9] *The non-cash compensation and fringe benefits of Mr. Leue and Dr. Roß include the non-performance-based additional payments granted with the fixed remuneration for the month of December*
[10] *Excluding the remuneration granted to Mr. Wallin by Hannover Re and E+S Rück for his work at these companies*
[11] *For the 2010 bonus payments altogether EUR 378 thousand less was paid out than reserved. The total amount for the variable remuneration payable in 2011 was reduced accordingly*
[12] *The total amounts for 2010 reflect the old remuneration structure and are therefore only comparable to a limited extent with the total figures for 2011*

Cash remuneration actually accruing to active members of the Board of Management in the year under review

Name	Non-performance-based remuneration	Performance-based remuneration [1]	Total
in EUR thousand			
Herbert K. Haas	714	1,263	1,977
Dr. Christian Hinsch [2]	504	647	1,151
Torsten Leue [2]	660	178	838
Dr. Thomas Noth [2]	500	275	775
Dr. Immo Querner	544	623	1,167
Dr. Heinz-Peter Roß [2]	725	564	1,289
Ulrich Wallin [3]	—	55	55
Total 2011	**3,647**	**3,605**	**7,252**
Total 2010	2,607	4,446	7,053

[1] *Performance-based remuneration paid out in the year under review for the 2010 financial year*
[2] *The stated remuneration is contractually owed in full by Talanx AG, but is also spread through appropriate on-debiting among affiliated companies at which the relevant member of the Board of Management of Talanx AG at the same time performs the function of Chief Executive Officer*
[3] *Excluding the remuneration granted to Mr. Wallin by Hannover Re and E+S Rück for his work at these companies*

Occupational retirement provision
The contracts of employment between the members of the Board of Management and Talanx AG contain – with one exception granting an annual funding contribution according to the fixed remuneration – commitments to an annual retirement pension calculated as a percentage of the fixed annual remuneration ("defined benefit"). The amount of the agreed maximum pension varies according to the particular contract and is between 35% and 65% of the Board member's monthly fixed salary payable on leaving the company as contractually agreed at the age of 65. In connection with the new remuneration structure applicable from the 2011 financial year onwards, a non-pensionable component of the fixed remuneration was introduced.

In one instance a contract contains a commitment to a pension on a defined contribution basis. In this case the company pays an annual funding contribution amounting to 20% of the Board member's pensionable income (fixed annual remuneration as at 1 July of each year).

In both types of contract ("defined benefit" and "defined contribution"), income received from other sources during the pension payment period may under certain circumstances (e.g. in the event of incapacity for work or termination of the contract of employment before age 65) be counted towards the pension in full or in part.

Survivor pensions
If a member of the Board of Management dies during the term of his or her contract of employment, the surviving spouse – or in the absence thereof the eligible children – is entitled to continued payment of the monthly fixed salary for the month in which the Board member dies and the following six months, but not longer than until the expiry date of the contract. If a member of the Board of Management dies after the onset of pension payments, the pension for the month in which the Board member dies and the following six months will be paid to the surviving spouse and in the absence thereof to the dependant children.

The widow's pension is 60% of the retirement pension that the deceased member of the Board of Management was drawing or would have drawn if he or she had become incapacitated before the time of death. If the widow re-marries, the widow's pension is forfeited. If that marriage is dissolved by death or divorce, the pension entitlement is revived, but all pensions, annuities and other insurance benefits accruing by virtue of the new marriage will be counted against the widow's pension.

An orphan's pension will be granted in the amount of 15% – or if the widow's pension is forfeited 25% – of the retirement pension that the deceased member of the Board of Management was drawing at the time of death or would have drawn if he or she had retired early due to permanent incapacity. The orphan's pension is paid for not longer than until the child turns 25 or 27 years of age. Any income earned from employment or an apprenticeship will be counted in part against the orphan's pension.

Adjustments
Retirement, widow's and orphan's pensions are linked to the consumer price index for Germany (overall index).

Amount of retirement provision
The pension commitments given by the company to the active members of the Board of Management totalled EUR 1,289 (1,338) thousand. The expenses for retirement provision (change in the recognition of pension commitments pursuant to the Act on the Modernisation of Accounting Law (BilMoG)) for the active members of the Board of Management amounted to EUR 816 (6,435) thousand. The details of the amount of retirement provision for the Board of Management of Talanx AG are disclosed for the individual members by name for the first time in the year under review.

The total payments made to former members of the Board of Management and their surviving dependants, for whom 11 individual commitments existed in the year under review, amounted to EUR 362 (1,897) thousand. The provisions constituted for pension obligations towards this group of persons totalled EUR 20,818 (20,769) thousand.

Pension entitlements of the active members of the Board of Management

Name	Pension commitment [1)]	Present value as at 31.12.2011 (BilMoG) [2)]	Expenses for retirement provision [3)]
in EUR thousand			
Herbert K. Haas	390	5,211	348
Dr. Christian Hinsch	275	3,539	218
Torsten Leue	225	254	180
Dr. Thomas Noth [4)]	—	—	100
Dr. Immo Querner	250	1,632	–140
Dr. Heinz-Peter Roß	149	261	110
Ulrich Wallin [5)]	—	—	—
Total 2011	**1,289**	**10,897**	**816**
Total 2010 [6)]	1,338	10,181	6,435

[1)] *Value of the agreed annual maximum pension on leaving the company as contractually agreed after reaching the age of 65*
[2)] *The amount stated is the amount recognised for pension commitments pursuant to the Act on the Modernisation of Accounting Law (BilMoG).The amount allocated to the provisions for current pensions, entitlements and similar commitments (BilMoG transition) – which is spread over 15 years and not shown in the balance sheet – totalled altogether EUR 3,429 thousand as at the reporting date*
[3)] *The change in the amount stated for the pension commitments pursuant to the Act on the Modernisation of Accounting Law (BilMoG) relative to the previous year is shown*
[4)] *In the case of Dr. Noth a defined contribution commitment exists with an annual funding contribution of 20% of the annual fixed remuneration. The funding contribution of EUR 100 (100) thousand is stated here*
[5)] *The pension commitment given to Mr. Wallin is awarded by Hannover Re and E+S Rück. The corresponding provisions for pensions are also constituted at these companies*
[6)] *As at 31 December 2009 the pension commitments were recognised using the entry age normal method. The change in the amount stated for 2010 is therefore comparable only to a limited extent with the figure shown for 2011 owing to the modifications that have since been brought about by the Act on the Modernisation of Accounting Law (BilMoG)*

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board is governed by § 13 of the Articles of Association of Talanx AG. It is set by the General Meeting of Talanx AG. In accordance with the resolution of the General Meeting of Talanx AG adopted on 4 June 2010, the members of the Supervisory Board receive, in addition to reimbursement of their expenses, an annual fixed remuneration (basic remuneration) and a performance-based variable remuneration, which also reflects the company's long-term success. In order to make allowance for their considerable extra workload, the Chairman receives 2.5 times and his deputies 1.5 times these remuneration amounts.

The annual basic remuneration for the year under review is EUR 50,000 per Supervisory Board member. The basic remuneration of the Chairman is EUR 125,000, that of the deputy chairpersons of the Supervisory Board EUR 75,000 each. In addition, commencing with the 2010 financial year, each member of the Supervisory Board receives variable remuneration of EUR 55 for each full EUR million by which the average Group net income after non-controlling interests for the last three financial years exceeds the minimum return pursuant to § 113 Para. 3 Stock Corporation Act (AktG) (4% of the contributions paid on the lowest issue price of the shares) (benchmark). The factor for the Chairman amounts to EUR 138, and for each of his deputies EUR 83. The variable remuneration of the members of the Supervisory Board is capped at a maximum of EUR 50,000, for the Chairman at EUR 125,000 and for his deputies at EUR 75,000. If the average Group net income after non-controlling interests for the last three financial years falls short of the minimum return pursuant to § 113 Para. 3 Stock Corporation Act (AktG), the variable remuneration is forfeited.

Further fixed remuneration of EUR 25,000 per member has been set for the members of the Finance and Audit Committee and the Personnel Committee of the Supervisory Board. The Chairman of each of these committees receives twice this amount.

The upper limit of the annual total remuneration that can be received by a Supervisory Board member (including remuneration for serving on the Supervisory Board committees) is three times the applicable basic remuneration.

In addition to reimbursement of their expenses, the members of the Supervisory Board receive an attendance allowance of EUR 1,000 for their participation in each meeting of the Supervisory Board as well as for their participation in each meeting of committees of the Supervisory Board. If two or more meetings of the Supervisory Board or its committees are held on the same day, only one attendance allowance is payable for that day.

The value-added tax payable on the remuneration for the Supervisory Board is reimbursed by the company.

The total remuneration received by the Supervisory Board amounted to EUR 1,821 (1,694) thousand. The details are given in the table below. The remuneration is disclosed for the individual members by name for the first time in the year under review.

Individual remuneration received by the members of the Supervisory Board

Name	Function	Type of remuneration	Amount[1), 2)]
in EUR thousand			
Wolf-Dieter Baumgartl	■ Chairman of the Supervisory Board ▪ Personnel Committee ▪ Finance and Audit Committee ▪ Nomination Committee ▪ Standing Committee	Basic remuneration	125
		Variable remuneration	51
		Remuneration for committee work	100
		Attendance allowances	14
			290
Prof. Dr. Eckhard Rohkamm	■ Deputy Chairman of the Supervisory Board ■ Member of the ▪ Personnel Committee ▪ Finance and Audit Committee ▪ Standing Committee	Basic remuneration	75
		Variable remuneration	31
		Remuneration for committee work	50
		Attendance allowances	13
			169
Ralf Rieger	■ Deputy Chairman of the Supervisory Board ■ Member of the ▪ Finance and Audit Committee ▪ Standing Committee	Basic remuneration	75
		Variable remuneration	31
		Remuneration for committee work	25
		Attendance allowances	9
			140
Antonia Aschendorf	■ Member of the Supervisory Board (since 1 September 2011)	Basic remuneration	17
		Variable remuneration	7
		Attendance allowances	2
			26
Karsten Faber	■ Member of the Supervisory Board	Basic remuneration	50
		Variable remuneration	20
		Attendance allowances	5
			75
Jutta Hammer	■ Member of the Supervisory Board (since 1 February 2011)	Basic remuneration	46
		Variable remuneration	19
		Attendance allowances	5
			70
Hans-Ulrich Hanke	■ Member of the Supervisory Board (until 31 January 2011)	Basic remuneration	4
		Variable remuneration	2
		Attendance allowances	0
			6
Gerald Herrmann	■ Member of the Supervisory Board	Basic remuneration	50
		Variable remuneration	20
		Attendance allowances	5
			75
Dr. Thomas Lindner	■ Member of the ▪ Supervisory Board ▪ Finance and Audit Committee ▪ Nomination Committee	Basic remuneration	50
		Variable remuneration	20
		Remuneration for committee work	25
		Attendance allowances	10
			105
Jutta Mück	■ Member of the Supervisory Board	Basic remuneration	50
		Variable remuneration	20
		Attendance allowances	5
			75

Individual remuneration received by the members of the Supervisory Board

Name	Function	Type of remuneration	Amount [1), 2)]
in EUR thousand			
Otto Müller	■ Member of the Supervisory Board	Basic remuneration	50
		Variable remuneration	20
		Attendance allowances	5
			75
Dr. Hans-Dieter Petram	■ Member of the Supervisory Board	Basic remuneration	50
		Variable remuneration	20
		Attendance allowances	4
			74
Dr. Michael Rogowski	■ Member of the ■ Supervisory Board ■ Personnel Committee ■ Nomination Committee	Basic remuneration	50
		Variable remuneration	20
		Remuneration for committee work	25
		Attendance allowances	10
			105
Katja Sachtleben-Reimann	■ Member of the ■ Supervisory Board ■ Standing Committee	Basic remuneration	50
		Variable remuneration	20
		Remuneration for committee work	—
		Attendance allowances	5
			75
Dr. Erhard Schipporeit	■ Member of the ■ Supervisory Board ■ Finance and Audit Committee	Basic remuneration	50
		Variable remuneration	20
		Remuneration for committee work	25
		Attendance allowances	9
			104
Bodo Uebber	■ Member of the Supervisory Board (until 31 August 2011)	Basic remuneration	33
		Variable remuneration	14
		Attendance allowances	1
			48
Prof. Dr. Ulrike Wendeling-Schröder	■ Member of the ■ Supervisory Board ■ Personnel Committee	Basic remuneration	50
		Variable remuneration	20
		Remuneration for committee work	25
		Attendance allowances	9
			104
Werner Wenning	■ Member of the Supervisory Board	Basic remuneration	50
		Variable remuneration	20
		Attendance allowances	5
			75
Total 2011 [3)]			**1,821**
Total 2010			1,694

1) The remuneration for the financial year is payable at the end of the General Meeting that ratifies the acts of management of the Supervisory Board for the financial year in question. The provisions constituted are stated for the remuneration
2) Plus the value-added tax payable on the remuneration and attendance allowances that is reimbursed by the company
3) Altogether EUR 126 thousand (plus VAT) more was paid out than reserved for the 2010 remuneration. The total amount for the 2011 remuneration was increased accordingly

Loans to members of the management boards and contingent liabilities
In order to avoid potential conflicts of interest, Talanx AG or its affiliated companies may only grant loans to members of the Board of Management or Supervisory Board or their dependants with the approval of the Supervisory Board.

As at the balance sheet date a mortgage loan for a member of the Supervisory Board existed with HDI-Gerling Lebensversicherung AG in an amount of EUR 64 (80) thousand. In the year under review EUR 15 thousand was repaid; the remaining term of the loan is four years and three months, the agreed interest rate is nominally 4.2% (effective rate of 4.3%). No other loans or advances were granted to members of the Board of Management or Supervisory Board or their dependants in the year under review. No contingent liabilities existed in favour of this group of persons.

Remuneration of managing directors and managers below the Group Board of Management

The remuneration strategy of the Talanx Group is geared to the goal of sustainably increasing the value of the Group. The remuneration structure described above for members of the Group Board of Management therefore applies in principle also to managing directors and managers below the Group Board of Management who are equally able to exert a material influence on the overall risk profile (so-called "risk takers").

Separate remuneration systems exist in the individual divisions within the Talanx Group for the group of persons composed of managing directors and managers below the Group Board of Management who are not included among the ranks of risk takers; these systems reflect the remuneration strategy of the Group. Structuring differences are designed to take account of the specific framework factors in the divisions and promote their competitiveness.

The remuneration for this group of persons across all divisions is composed of a fixed and a variable component. The variable remuneration in 2011 accounted on average for 30% of the total.

The ongoing harmonisation of the remuneration and management-by-objectives systems was a major focus of human resources efforts within the Group in the year under review.

In the first place, a new remuneration system was introduced for risk takers, while at the same time preparations continued for the Group-wide adjustment of the variable remuneration for managers. The amount and structure of the remuneration promote sustainable development of the company, are in line with the market and are competitive.

The basis of the performance-related remuneration system in the primary insurance divisions is the target salary. This means the total gross salary for the year that can be achieved with a good performance. The target salary is composed of a fixed salary component and a variable remuneration component that depends on the responsibility and function level of the individual position. The variable remuneration accounts for a share of 35% of the target salary.

The variable remuneration is determined according to the extent to which certain targets relating to the Group profit, divisional result and individual achievement have been accomplished. These three target categories for the variable remuneration are weighted differently for managers in the primary insurance divisions and in Corporate Operations.

Within the Hannover Re subgroup a standardised remuneration system is applicable to all group managers in Germany and abroad with effect from 1 January 2012.

Here, too, the measurement of the variable remuneration is based on three elements: Group net income, business group targets and individual targets. The weighting of the elements is dependent upon whether responsibility is carried in a treaty/regional department or in a service department. The business group targets and individual targets and the extent to which they have been accomplished are established in the context of the Management-by-Objectives process. As part of the reorientation of the remuneration system, the share-based remuneration for the Executive Board (share award programme) has also been extended to managers on other levels.

Non-financial performance indicators

Human resources

In total, an average of 187 (97) staff were employed in the financial year just-ended. The number of staff as at year-end was 200 (99), corresponding to 182.2 (93.8) full-time equivalents (FTEs).

The sharp surge in the workforce is attributable to the expansion of Talanx AG into the financial and management holding company effective 1 January 2011. In this connection, most notably, various central functions were concentrated at the holding company and areas such as risk management, internal auditing and corporate development were enlarged and strengthened.

With a view to responding to the changes taking place at ever shorter intervals in the economic, technological and social environment and in order to ensure the necessary adaptability, the operational side of the Talanx Group's human resources activities in Germany – with the exception of those of Hannover Re – has been performed by Talanx Service AG since 2011.

The central human resources unit of Talanx AG, the primary task of which is to lead and steer the Group, coordinates solely those personnel matters that are of Group relevance. This includes, most notably, industrial co-determination on the Group level and occupational retirement provision for the Group's employees.

On the human resources policy side, the year under review was dominated by the reorientation of the Retail Germany division. A further focus was on implementation of the organisational reconfiguration of the Group that was decided upon in the previous year; this involves a transition from the previous line-of-business orientation to a customer orientation in the primary insurance sector as well as the centralisation of cross-divisional functions in the context of a multi-site concept.

The Talanx Foundation, which was set up in 2009 with the aim of offering financial assistance to particularly strong students in insurance-related disciplines and institutes at selected universities, awarded a further 16 study scholarships in 2011. The scholarships are initially awarded for one year and may be extended for a further year on at most two occasions until completion of the standard period of study. In addition, Talanx AG awarded five scholarships to students at the University of Hannover (Gottfried Wilhelm Leibniz Universität Hannover) in the year under review and since the 2011/2012 winter semester it has assisted ten students at the University of Hannover under the National Scholarship Program (so-called "Deutschlandstipendium"). By way of this involvement Talanx AG seeks to live up to its responsibility to society through the emphasis that it has placed on "education and training".

The Board of Management thanks all the members of staff at Talanx AG for their dedication and efforts in the financial year just-ended.

Public relations and advertising

The Talanx brand is aimed primarily at the financial community – analysts, banks and fund managers – and business journalists. Consequently, Talanx AG places hardly any traditional advertising. As a holding company, Talanx AG does not offer insurance products under its own name and does not conduct any marketing activities of its own. Similarly, the subsidiaries that have included Talanx as part of their name since 2011 either operate internally within the Group – such as Talanx Asset Management GmbH, Talanx Service AG and Talanx Systeme AG – or do not have any external profile in their role as divisional companies, e.g. Talanx Deutschland AG and Talanx International AG. The situation is somewhat different with Talanx Reinsurance Broker AG, which operates under this brand on the international reinsurance market. The Group companies and brands of the Talanx Group carry out marketing campaigns in various media that target their own specific clientele.

Forecast

Economic environment

We consider a further slowdown in the pace of growth in the developed countries, as was already becoming apparent in the last quarter of 2011, to be possible in the current year too. We assess the economic environment, especially in the Eurozone, as critical in 2012. Given that the resources of both fiscal and monetary policy appear to be approaching exhaustion, it may well prove more difficult in future to revive the economy through stimulus packages or by lowering interest rates. In particular, the labour markets in countries on the Eurozone periphery are likely to remain under pressure due to austerity measures. Whether the United States manages to divorce itself from this trend remains to be seen in light of softening growth in emerging economies.

Given the global cooldown, we do not see prices coming under pressure despite further monetary policy measures. All in all, the worsening European sovereign debt and banking crisis (including the ensuing recapitalisation requirements) and the debate about the breakup of the Eurozone are likely to remain the major risk factors in 2012. Whether the emerging markets can continue to have the same stabilising effect as in the past appears open to question.

Capital markets

The ultimately unresolved debt problems, the depressed mood in the banking sector and severely dampened expectations as regards the global economy give reason to fear that interest rates are set to remain low at least for the first half of 2012. After the rate cuts in November and December 2011, we anticipate a further decline in interest rates in the Eurozone in the first half of the year. The US has virtually committed itself to leaving base rates at their current low level over the next two years unless its economy recovers appreciably. The general risk situation can likely only be stabilised if politicians manage to restore lasting confidence among market players through broadly accepted measures and framework conditions.

We expect stock markets to move sideways overall in 2012, albeit with marked volatility. The urgent need to reduce debt on a global scale is likely to be a dampening factor. This will probably hit financial stocks particularly hard, especially as the new recapitalisation requirements take effect. A macroeconomic cooldown would also take its toll on corporate profits. However, thanks to much lower debt levels and comparatively healthy balance sheets, most companies appear to be well prepared for a cooldown. The already historically low fundamental valuations may well mitigate the risk of a further decline in stock prices.

Future state of the industry

The following remarks about the future state of the insurance industry are based primarily on publications by the ifo Institute, the German Insurance Association (GDV) and Swiss Re's sigma.

Against the background of ongoing macroeconomic risk factors, any forecasts are bound to involve uncertainties. However, despite all the imponderables, the insurance industry should enjoy an improvement overall in premium growth in 2012. According to the GDV, demand for insurance remains on a stable footing. Current challenges facing the industry, such as stiffening competition and changes in the regulatory environment, are expected to lead to a further shift in the relative positions of the various market players. At the same time, trends such as increasing differentiation of customer groups and the demographic shift in Germany are opening up new business opportunities for insurers within the dominant context of high market penetration. This is expected to be reflected in further changes in the product landscape and increasing diversity in sales structures.

Despite all the uncertainties, we are looking forward to further favourable development of our **property and casualty insurance** business in general in the next two years, although growth may be somewhat softer than in the year under review. According to the ifo Institute, this is because – on the one hand – the already high market penetration in many lines of business is restricting further growth, while – on the other hand – the expansion of the economy in general is expected to slow. Nevertheless, we anticipate an economic environment that should have a stabilising effect on property and casualty insurance business in 2012.

The future development of business in the **life insurance** sector is likely to be shaped by opposing factors. Favourable effects, according to GDV reports, are associated with the relatively sound economic state of private households, the good competitive advantage still enjoyed by life insurance over other forms of investment and the acknowledged need for greater individual provision for old age. The persistent wait-and-see attitude of private households towards longer-term investments has a curtailing influence. This caution, which has been reinforced by the financial and economic crisis and the debate surrounding the future of the euro, runs contrary to the need to build up funded individual provision for retirement. However, we consider the interest rate level to be the crucial factor in the future development of life insurance. In the current, already protracted low interest-rate environment, it is becoming more and more difficult to earn the minimum returns guaranteed under in-force portfolios from prior years. The German life insurance industry is soundly capitalised with appropriate reserves and has a diversified, long-term investment portfolio. These circumstances will enable it to absorb the present low interest rate level for a few more years if need be.

Orientation of the company over the next two financial years

It is of course particularly difficult to give an earnings forecast for the 2012 and 2013 financial years in view of the prevailing uncertainty on capital markets. The current sovereign debt and financial market crisis will be one of the major challenges over the next two years. The Group restructuring that commenced in 2009 with the concentration of central functions was successfully executed in the year under review. We aim to leverage the first synergistic effects through the newly implemented structures by the end of 2012. In addition, over the coming two years we shall focus on the elimination of cost disadvantages, especially in the Retail Germany division. In order to get this division fit for the future, processes need to be structured more efficiently and shared solutions put in place on a cross-company basis. In international retail business, on the other hand, we shall strive for profitable growth in the strategic target markets of Latin America as well as Central and Eastern Europe.

Anticipated profitability and financial position of the company

Profit trend

The profit generated by Talanx AG is determined essentially by the income from participating interests and profit transfers from its subsidiaries – and hence by developments within the Talanx Group. Despite the prevailing difficult climate on capital markets, we are seeking to further boost profitability for the Talanx Group over the next two financial years. It is our assumption that virtually all divisions will contribute to this growth. It is only in the Industrial Lines division that we consider a temporary decline in profitability in the coming year to be a possibility; this is due to the looming slowdown in the pace of economic growth as well as favourable non-recurring special effects recorded in the year under review.

Financial position

The cash and liquidity position of Talanx AG are geared to foreseeable payment flows. Available lines of credit can be used to finance Talanx's share of the newly acquired Europa Group and TUiR Warta S.A. (Towarzystwo Ubezpieczeń i Reasekuracji Warta S.A.) in Poland. In addition, further optimisation of the capital resources and hence the financial position from all available sources by way of appropriate measures – such as the issue of hybrid capital – is planned.

Opportunity management

Identifying, managing and acting on opportunities is an integral part of our performance management process and has been firmly anchored in the Talanx Group's corporate culture and holistic management philosophy for many years. We consider consistently leveraging available opportunities to be a fundamental entrepreneurial challenge that is crucial to achievement of our corporate objectives. The core element of our opportunity management process is an integrated performance metric built up along the lines of a balanced scorecard. This applies across all hierarchical levels – from the top of the Group down to individual functional areas of the Group companies. It also constitutes the link between our strategic and operational opportunity management.

In strategic opportunity management, the annually initiated performance management process commences with Group management evaluating the strategic targets and specific strategic core issues identified on the basis of the umbrella strategy and breaking them down as target indications for the divisions. On this basis the divisions then work out specific target proposals and strategic action programmes as part of their strategic programme planning. After a strategy dialogue between Group management and the respective divisional boards, the individual strategic programmes are put together to form a binding overall strategic programme for the Group that establishes the starting point and framework for the operational side of opportunity management.

In operational opportunity management, the strategic inputs are translated into operational targets and a detailed activity plan and they are defined as mandatory target agreements not only on the divisional level but also on the lower levels. The integrated performance metric again comes into play here. Whether and to what extent the opportunities and potentials actually result in operational successes is checked and followed up in performance reviews during and at the close of the year. These reviews in turn generate forward-looking management stimuli for the next opportunity management cycle.

Two essential aspects of opportunity management within the Talanx Group, therefore, are shifting the focus away from short-term performance and purely financial profit indicators and onto the success factors and measures relevant to long-term excellence as well as monitoring the successful leveraging of these value drivers in a regular, integrated control and verification process.

Assessment of future opportunities and challenges

Opportunities associated with the development of the general business environment

Demographic change in Germany: Triggered by demographic change, the emergence of two markets offering considerable growth potential can currently be observed: firstly, the market for senior citizens products and, secondly, the market for young customers, who need to make greater individual provision in response to the diminishing benefits afforded by social welfare systems. It is evident even today that “senior citizens” can no longer be equated with the traditional pensioner of the past. This is apparent not only from their increasing use of services, for which they are nowadays very much willing and able to pay; the shift is even more vividly illustrated by the fact that this customer group is becoming increasingly active and is devoting more attention than previous generations to risks against which they need protection. For providers, then, it is not enough simply to add on assistance benefits to existing products; instead, they have to offer innovatively designed products to cater to these newly emerging needs. By way of example, we may cite here products for second homes, extensive travel abroad, sporting pursuits conducted well into advancing years and the passing on of assets to heirs. At the same time, young customers, too, are becoming increasingly aware of the issue of financial security in old age. This potential can be tapped into through a broad range of (state-subsidised) individual retirement provision products and attractive employer offerings in the field of occupational retirement provision. Among this customer group we currently expect to see a trend towards stronger demand for retirement provision products with flexible saving and dissaving phases. Thanks to their comprehensive range of products with innovative solutions and their sales positioning across a broad front, the life insurance companies within the Group are well placed to profit disproportionately strongly from the “seniors’ market” and “young customers’ market”.

Turnaround in energy policy: Germany has taken a fundamental social decision to meet its energy needs primarily from renewable sources in the future. The federal government’s decision to abandon nuclear power by 2022 has put the country on course towards this goal. This reversal of energy policy poses a major societal challenge. It involves, on the one hand, making renewable energy resources available nationwide while at the same time finding new ways to save energy and use it more efficiently. We see the new energy system as an opportunity to strengthen Germany as a business location in that it can provide important stimuli for innovation and technological progress. As an insurance group, we are actively supporting this transition. We offer our industrial clients tailor-made solutions for the development, marketing and use of renewable energies. In addition to subsidies for wind farms, photovoltaic installations, biomass and hydroelectric power plants, expanding the electric power grid is of crucial importance. In the summer of 2011 we joined a consortium to buy shares in the RWE transmission systems operator subsidiary Amprion as a long-term investment. We see this participation as a sustainable commitment and intend to step up such investments going forward.

Financial market stability: The turmoil on financial markets has severely shaken customer confidence in banks. Among policyholders, too, today's low interest levels and the volatility on stock markets have created a high degree of uncertainty. However, this macroeconomic environment also offers opportunities for insurance companies to develop innovative products designed specifically to address these new realities. In Europe, the United States and Asia, life insurers had concentrated more on selling modern, flexible products linked to the performance of stock markets. Traditional German life insurance, which gives guarantees for the entire policy period, has been put to the test. Given the exacting equity requirements for this business, it is in principle conceivable that in future the guarantees could be limited to a certain duration.

Regulatory changes: Against the backdrop of the impending and in some cases already effective regulatory amendments, the entire insurance industry is faced with extensive changes, especially in the context of IFRS, Solvency II and a flood of associated European and German implementing rules. We are closely tracking the changes in accounting and regulatory law, have identified the associated stricter requirements and have taken action. At the same time, this situation offers an opportunity to refine our risk management accordingly and hence live up to the more complex and extensive requirements going forward. An internal, Solvency II-compliant stochastic risk capital model is currently being implemented for the evaluation of risk categories and the Group's overall risk position. This will facilitate the Talanx-wide use of internal models and is already in the process of receiving approval from the Federal Financial Supervisory Authority (BaFin).

In Europe, reinsurance companies may see increased demand among cedants for reinsurance solutions in response to the capital requirements of Solvency II; for such companies, the transfer of risk to reinsurers with good ratings constitutes an economically attractive alternative.

Opportunities created by the company

With a view to making our Group more competitive and fit for the future as well as eliminating cost disadvantages in German retail business, we are currently realigning our Group segment of Retail Germany. The bottom-line aim is to reduce complexity and make our processes more efficient. The basis consists of the four action fields of customer benefit, profitable growth, efficiency and performance culture. Only if our customers are entirely satisfied will we be successful. With this in mind, we are working on making the decision facing both end customers and sales partners as easy as possible – clear use of language, quick solutions, convincing products. For example, we are introducing a new modular product structure which enables customers to put together their own individual insurance cover – while at the same time fixed modules also reduce our own administrative effort. Furthermore, we are improving our own internal cooperation. If we are to generate a positive trend in premiums and results, we must gear our business to unambiguous risk/return parameters and consistently leverage opportunities arising in the market. For this reason, every single product must be examined with an eye to sustainable profitability. As far as profitability is concerned, we are working to make even more systematic cross-divisional use of existing customer contacts. We can work efficiently only if the allocated resources are reasonably proportionate to the achieved results. In this context we have already launched a number of initiatives to simplify complex processes and reduce excessive costs. With our integrated annual planning cycle, for example, we have introduced a central management tool for sales, operations, marketing and product-related activities. This will make it possible going forward to work efficiently in terms of markets, resources and budgets across all divisions and segments. Further examples are a new SAP portfolio management system and digital case handling. The reorientation also presupposes the conviction that our mindset and actions must be systematically geared towards the benchmark of performance. We are seeking to actively encourage such a culture, for instance by working on a Group-wide variable remuneration system for top-level managers. Annual appraisal interviews with all employees are also intended to promote discussion of mutual expectations in a structured manner.

Promising sales channels

Bancassurance: Sales of insurance products across the counter at banks – known as bancassurance – have been gaining ground in recent years. For the Talanx Group, bancassurance is a success factor with considerable future potential. Its success is grounded on the special business model in which the insurance business is fully integrated into the structures of the partner bank. The insurance companies develop the insurance products, while in return banks, savings institutions or the postal service provide a wide variety of sales channels. The Talanx insurance companies transacting bancassurance focus not only on the German market, but have also already exported the bancassurance model to Hungary, Turkey and Russia. This will, in our assessment, promote profitable growth with an eye to European markets. The success of the Talanx bancassurance model is based essentially on three core factors: firstly, the establishment of exclusive insurance companies – a dedicated insurance company is founded for each cooperative venture and tied to the partner by means of exclusive long-term cooperation agreements with terms of up to 30 years; the insurance products are sold only through the cooperation partner's distribution channels; secondly, the highest possible degree of integration and excellent quality of products and services – the cooperation takes place within the framework of the partner's strategic orientation; the insurance companies design exclusive and bespoke products for the bank's customer segments and are fully integrated into the partner's market presence; integration into the partner's IT systems also makes it easier to provide all-round advice when selling banking and insurance products; and thirdly, success comes from providing customised sales support for the partner – the bank's sales staff are given personal training and exclusive guidance by sales coaches from the insurance companies. Both product expertise and sales techniques are communicated; the insurance companies also supply readily understandable supporting sales materials.

Internet: Increasing digitalisation and the associated easy access to information have led to a situation in which the majority of consumers search online for information before taking out an insurance contract. The Internet offers the opportunity to address younger target groups, in particular, and has evolved into an important medium for customers and insurers alike. With this in mind, HDI Direkt Versicherung AG joined together with other insurers to set up the consumer portal Transparo in the year under review. This portal enables potential buyers to compare insurance, financial and energy services. The core elements of Transparo are a number of Web-based calculators that compare the prices and benefits of all available tariffs and rates. We are aiming to generate further growth via this sales channel going forward.

The Internet offers new potential for the future in the industrial lines, too. For this reason, HDI-Gerling Industrie Versicherung AG joined forces with other reputable partners in 2010 to set up the inex24 platform. This is the world's first neutral collaboration platform for the industrial insurance sector. inex24 gives industrial enterprises, intermediaries and risk carriers access to a neutral, highly secure Internet platform with a large number of powerful tools. This makes the handling of contract negotiations and closings in industrial lines quicker, simpler and more secure.

Brokers: Despite the increasing importance of online sales, personal contact with the customer will continue to be a major success factor in the future. We see particularly strong growth potential for sales through brokers. Talanx AG has entered into a close partnership with Swiss Life, in which it holds a long-term stake of just under 10%. As part of this cooperation, Talanx is to become a key product partner for the financial services provider AWD. Talanx also holds an interest of slightly less than 10% in the financial services provider MLP. Both MLP and the AWD group, which now belongs to Swiss Life, are major partners in broker sales. These participations provide an opportunity to strengthen and further expand our already existing business relationships with the brokers concerned.

Annual financial statements.

Balance sheet as of 31 December 2011

Assets	31.12.2011	31.12.2010
Figures in EUR thousand		
A. Fixed assets		
I. Intangible fixed assets		
1. purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	4,225	2,040
2. Prepayments	143	1
	4,368	2,041
II. Tangible fixed assets		
1. Other equipment, operating and office equipment	742	1,001
2. Prepayments and assets under construction	6	7
	748	1,008
III. Long-term financial assets		
1. Shares in affiliated companies	6,143,323	5,954,883
2. Loans to affiliated companies	99,081	18,940
3. Other long-term equity investments	26,878	29,209
4. Long-term securities	62,292	—
	6,331,574	6,003,032
B. Current assets		
I. Receivables and other assets		
1. Receivables from affiliated companies – of which due after more than one year: EUR 2,151,000 (prior year: EUR 2,479,000)	204,944	263,915
2. Other receivables and other assets – of which due after more than one year: EUR 21,023,000 (prior year: EUR 2,511,000)	110,878	113,242
	315,822	377,157
II. Securities		
Other securities	—	10,600
III. Bank balances	**405,293**	359,908
C. Deferred and accrued items	**2,808**	2,489
D. Excess of plan assets over post-employment benefit liability	**38**	2
Total assets	**7,060,651**	6,756,237

Total equity and liabilities	31.12.2011	31.12.2010
Figures in EUR thousand		
A. Equity		
I. Subscribed capital	260,000	260,000
II. Capital reserves	629,529	629,529
III. Revenue reserves	2,902,758	2,902,758
IV. Net retained profits	376,599	300,691
	4,168,886	**4,092,978**
B. Provisions		
1. Provisions for pensions and similar obligations	576,187	447,245
2. Provisions for taxes	125,160	165,104
3. Other provisions	54,706	69,215
	756,053	**681,564**
C. Liabilities		
1. Bonds – of which convertible: EUR 300,000,000 (prior year: EUR 300,000,000) – of which due within one year: EUR 0 (prior year: EUR 0)	309,000	309,000
2. Liabilities to banks – of which due within one year: EUR 550,428,000 (prior year: EUR 145,000)	550,428	550,145
3. Trade payables – of which due within one year: EUR 188,000 (prior year: EUR 821,000)	188	822
4. Liabilities to affiliated companies – of which due within one year: EUR 289,496,000 (prior year: EUR 82,788,000)	1,255,132	1,100,074
5. Other liabilities – of which taxes: EUR 257,000 (prior year: EUR 129,000) – of which social security: EUR 1,805,000 (prior year: EUR 2,112,000) – of which due within one year: EUR 18,258,000 (prior year: 17,724,000)	19,587	19,360
	2,134,335	**1,979,401**
D. Deferred and accrued items	**1,377**	**2,294**
Total equity and liabilities	**7,060,651**	**6,756,237**

Income statement for 1 January–31 December 2010

	31.12.2011	31.12.2010
Figures in EUR thousand		
1. Income from long-term equity investments – of which from affiliated companies: EUR 146,325,000 (prior year: EUR 590,524,000)	147,047	591,147
2. Other operating income – of which currency translation gains: EUR 1,188,000 (prior year: EUR 322,000)	102,661	87,069
3. Personnel expenses		
a. Wages and salaries	19,190	14,300
b. Social security, post-employment and other employee benefit costs – cost of post-employment benefits: EUR 12,600,000 (prior year: EUR –18,329,000)	14,493	–17,360
4. Amortisation and write-downs of intangible fixed assets, depreciation and write-downs of tangible fixed assets	1,753	984
5. Other operating expenses – of which currency translation losses: EUR 252,000 (prior year: EUR 1,000)	67,735	356,360
6. Income from other securities and long-term loans – of which from affiliated companies: EUR 1,945,000 (prior year: EUR 451,000)	2,053	569
7. Other interest and similar income – of which from affiliated companies: EUR 6,761,000 (prior year: EUR 5,913,000) – of which from discounting: EUR 422,000 (prior year: EUR 0)	21,010	15,907
8. Write-downs of long-term financial assets and securities classified as current assets	—	4,200
9. Interest and similar expenses – of which to affiliated companies: EUR 54,444,000 (prior year: EUR 55,886,000) – of which accrued interest: EUR 38,607,000 (prior year: EUR 31,987,000)	167,539	125,890
10. Income from profit transfer agreements	189,218	199,754
11. Cost of loss absorption	89,260	430,670
12. Result from ordinary activities	**102,018**	**–20,599**
13. Extraordinary expenses	14,009	14,161
14. Extraordinary result	**–14,009**	**–14,161**
15. Taxes on income	12,101	–44,526
16. Other taxes	—	2
17. Net income for the financial year	**75,907**	**9,764**
18. Retained profits brought forward	300,691	290,927
19. Net retained profits	**376,599**	**300,691**

Notes to the financial statements

General information

The annual financial statements for the 2011 financial year were prepared in accordance with the German Commercial Code (Handelsgesetzbuch; HGB) and the German Stock Corporation Act (Aktiengesetz; AktG).

Accounting and measurement

Measurement: Assets
Intangible fixed assets were recognised at cost less amortisation applied in accordance with their customary useful lives.

Tangible fixed assets were recognised at cost. Operating and office equipment was recognised at cost less depreciation and write-downs. The depreciation was applied according to the straight-line method; the periods of useful life range from three to 20 years. Low-value assets of up to EUR 150 are immediately recognised as an expense. Low-value assets of up to EUR 410 are fully depreciated/amortised in the year in which they are acquired. In previous years (2008 and 2009) assets with acquisition and/or production costs of more than EUR 150 and up to EUR 1,000 were recognised in a collective account that is being depreciated over five years.

Shares in affiliated companies were recognised at cost and are written down to their lower fair value.

The market values of the holding companies were determined by what is termed a "sum-of-parts" valuation, under which the assets and liabilities were stated at their respective market values. In the case of composite insurance companies and financial service providers, the income approach was used to determine the market values of the equity investments in the operating companies. For life insurance companies, the market value is determined mainly on the basis of updated embedded values. Where justified in selected cases, companies were recognised at their carrying amount, especially in relation to events close to the acquisition date.

Loans to affiliated companies were recognised at cost and/or the nominal amount and are written down when applicable to their lower fair value as of the balance sheet date.

The carrying amount of the loans to affiliated companies as of 31 December 2011 is stated as EUR 99,081,000 and the fair value is stated as EUR 94,513,000. No permanent impairment was recognised, since there are presently no reasons to anticipate repayment at other than the nominal amount.

Shares in affiliated companies are carried at cost less repayments of capital and write-downs to their fair value.

Long-term securities were recognised at cost. The carrying amount of the securities as of 31 December 2011 is stated as EUR 62,292,000 and the fair value is stated as EUR 56,228,000. The shares represent a strategic investment carried as long-term securities. There is no permanent impairment, since the share price had already recovered by the balance sheet date.

Loans to affiliated or associated companies were recognised at cost less amortisation and write-downs.

Receivables, other assets, bank deposits and current accounts at banks are carried at the nominal amounts.

Since the cost accounts were closed for new postings before the balance sheet date, costs that were posted after the record date for accrued and deferred items were recognised as other receivables. These accrued and deferred items are offset by estimated costs for the period between the closing of the cost accounts and the balance sheet date, which are reported under other provisions.

Claims against the funds covering employee benefits are recognised at their present value.

With the transition to regulations under the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz; BilMoG), the plan assets must be measured at fair value and netted against the corresponding post-employment benefit liabilities in accordance with § 246 (2) sentence 2 HGB in conjunction with § 253 (1) sentence 4 HGB. If the fair value of the plan assets exceeds the amount of the pension obligations, the amount of the excess must be recognised in accordance with § 266 (2) HGB in a separate line item as "Excess of post-employment benefits over post-employment benefit liabilities."

Measurement: Total equity and liabilities
In accordance with the option in Article 67 (2) sentence 1 of the Introductory Act to the German Commercial Code (EGHGB), the required addition to the provisions for pensions is distributed over the maximum of 15 years and will be recognised in each case as extraordinary expenses.

Pursuant to § 253 (1) sentence 2 HGB pension liabilities were recognised at the settlement amount determined in accordance with the principles of commercial prudence and have been discounted in accordance with § 253 (2) sentence 2 HGB over an assumed remaining life of 15 years, using the average interest rate for the last seven years as published by the German Bundesbank in accordance with German Regulation on the Discounting of Provisions (Rückstellungsabzinsungsverordnung; RückAbzinsVO). The provisions for pensions for employer-funded commitments and for employee-funded commitments not contingent on securities were calculated in accordance with the entry age normal method based on the actuarial charts "2005G" of Dr. Klaus Heubeck. Benefit adjustments due to surplus sharing from pension plan reinsurance in the case of deferred compensation that is linked to the surplus sharing under pension plan reinsurance is taken into account at a rate of 0.75% p.a.

The calculation was based on the following assumption:

Salary increase rate:	2.75%
Pension increase rate:	2.00%
Interest rate:	5.13% as of 31 December 2011

The interest rate applied as of 31 December 2011 was fixed in accordance with the rate published by the Bundesbank as of the measurement date of 30 September 2011.

The fluctuations taken into account correspond to diverse company-specific probabilities depending on age and gender.

The securities-linked employee-financed commitments are exclusively pension commitments covered by fully matched benefit reinsurance, which are measured in accordance with § 253 (1) sentence 3 HGB as required by the German Accounting Standard IDW RS HFA 30 margin no. 74. For these commitments, the settlement amount is consequently equal to the market value of the actuarial reserve for the life insurance contract plus the surplus share.

The calculation of the provisions for partial retirement included all employees of the Company who have already taken advantage of partial retirement and/or who are expected to take advantage of the partial retirement regulations. The possible draw-downs were weighted using assumed percentages chosen on the basis of past empirical data. The calculations were performed using the actuarial charts 2005G of Dr. Klaus Heubeck. The calculations were based on the actuarial decrement tables for active employees. To this end, an actuarial interest rate of 4.08% was applied assuming an average remaining term of three years. A rate of 2.75% was assumed for salary increases. In accordance with § 253 HGB, the provisions are recognised at the required settlement amount. They comprise the provisions for back wages and salaries, the provisions for top-up amounts, the provisions for the additional employer contributions to the statutory pension insurance scheme and provisions for severance.

Provisions for anniversary bonuses were recognised depending on tenure with the Company and existing eligibility requirements, taking the increase in eligibility into account.

The provisions for taxes and other provisions take all recognisable risks and contingent liabilities into account.

Provisions with a remaining term of more than one year were discounted at the average market interest rate for the last seven years as determined and published by the German Bundesbank in accordance with the RückAbzinsVO.

The subordinated liabilities were recognised at their nominal amount.

Other liabilities are recognised at their settlement amounts.

Currency translations
If there are items denominated in foreign currency, they are converted as of the balance sheet date at the closing rate for balance sheet items and at the average rate for items in the income statement.

Income statement
The income statement was prepared in accordance with the nature of expense method. The breakdown of the individual line items in the income statement differs from the breakdown set out by law in order to accommodate the special characteristics of a holding company. To this end, the income from long-term equity investments is listed first to reflect its great significance.

Other
The total amount restricted from distribution is equal to EUR 14,000. It is derived from the capitalisation of assets at fair value. The free reserves exceed this amount (see § 268 (8) HGB).

In the reporting period, interest income of EUR 4,000 on plan assets covering the provisions for partial retirement were netted against EUR 21,000 from interest expense for interest accruing on the provisions for partial retirement.

Disclosures on the balance sheet – assets

Statement of changes in fixed assets	Cost 1.1.2011	As of 1.1.2011
Figures in EUR thousand		
A. I. Intangible fixed assets		
1. Purchased concessions, industrial and similar rights and assets, and licences in such rights and assets	4,258	2,040
2. Prepayments	1	1
3. Total A.I.	**4,259**	**2,041**
A. II. Tangible fixed assets		
1. Other equipment, operating and office equipment	1,967	1,001
2. Prepayments and assets under construction	7	7
3. Total A.II.	**1,974**	**1,008**
A. III. Long-term financial assets		
1. Shares in affiliated companies	5,954,883	5,954,883
2. Loans to affiliated companies	18,940	18,940
3. Other long-term equity investments	29,209	29,209
4. Long-term securities	—	—
5. Total A.III.	**6,003,032**	**6,003,032**
Grand total	**6,009,265**	**6,006,081**

Disclosures on the balance sheet – total equity and liabilities

Other provisions	As of 1.1.2011
Figures in EUR thousand	
B. 3. Other provisions	
Remuneration of Board of Management members	2,048
Remuneration of Supervisory Board members	1,663
Variable compensation/bonuses	1,135
Vacation claims	162
Anniversary bonuses	143
Credit balances in flextime accounts	56
Partial retirement [1]	242
Obligations assumed	—
Consulting costs	5,139
Employers' Liability Association (Berufsgenossenschaft)	28
Compensating levy for non-employment of severely handicapped persons	—
Restructuring	63
Costs for the preparation of the annual financial statements	1,003
Interest portion from provisions for taxes	—
Other [2]	57,532
Total B.3.	**69,214**

[1] *The settlement amount of the provisions of partial retirement was equal to EUR 544,000*
[2] *Other provisions include an amount of EUR 23,402,000 for the interest portion of the provisions for taxes*

Additions	Reclassifications	Deletions	Amortisation, depreciation and write-downs, accumulated	Amortisation, depreciation and write-downs for the financial year	**As of 31.12.2011**
3,685	—	—	2,217	1,501	4,225
143	—	1	—	—	143
3,828	**—**	**1**	**2,217**	**1,501**	**4,368**
325	1	672	626	253	742
—	–1	—	—	—	6
325	**—**	**672**	**626**	**253**	**748**
230,737	—	42,297	—	—	6,143,323
80,141	—	—	—	—	99,081
—	—	2,331	—	—	26,878
62,292	—	—	—	—	62,292
373,170	**—**	**44,628**	**—**	**—**	**6,331,574**
377,323	**—**	**45,301**	**2,843**	**1,754**	**6,336,690**

Use	Reversal	Addition	Accrued interest/ interest rate change	Offset (carried forward)	**Carrying amount 31.12.2011**
1,629	419	2,153			2,153
1,663		1,874			1,874
1,135		1,886			1,886
162		352			352
17		186	16		328
56		78			78
127		251	21	–2	385
		18,131			18,131
4,674	465	2,907			2,907
28		41			41
		21			21
					63
986	17	939			939
		23,402			23,402
30,149	28,595	25,549	1,211		25,548
40,626	**29,496**	**54,368**	**1,248**	**–2**	**54,706**

Notes to the balance sheet – assets

A.I.1. Purchased concessions, industrial and similar rights and assets, and licences in such rights and assets

An amount of EUR 4,225,000 was recognised for purchased software.

A.III.1. Shares in affiliated companies

The addition largely reflects voluntary contributions to capital reserves at Talanx International AG in the amount of EUR 145,800,000 and at HDI-Gerling Lebensversicherung AG in the amount of EUR 84,909,000. Since Talanx is only an indirect shareholder of HDI-Gerling Lebensversicherung AG, the carrying amount of Talanx Deutschland AG was increased accordingly.

1. Shares in affiliated companies in Germany	Share of capital in % [1]	Equity [2] in EUR thousand	Result before profit transfer [2] in EUR thousand
Alstertor Erste Beteiligungs- und Investitionssteuerungs-GmbH & Co. KG, Hamburg [13]	100.00	5,841	579
Alstertor Zweite Beteiligungs- und Investitionssteuerungs-GmbH & Co. KG, Hamburg [13]	100.00	31,361	741
AmpegaGerling Investment GmbH, Cologne [3), 13]	100.00	16,936	7,258
Bureau für Versicherungswesen Robert Gerling & Co. GmbH, Cologne [3), 13]	100.00	26	–5
CiV Grundstücksgesellschaft mbH & Co. KG, Hilden [13]	100.00	26,108	544
CiV Immobilien GmbH, Hilden [13]	100.00	29	1
Credit Life International Lebensversicherung AG (formerly: Erste Credit Life International AG), Hilden [3]	100.00	7,496	–1,857
Credit Life International Versicherung AG (formerly: Zweite Credit Life International AG), Hilden [3]	100.00	4,944	–2,463
E+S Rückversicherung AG, Hannover [19]	63.69	716,413	133,000
Funis GmbH & Co. KG, Hannover [16]	100.00	25,040	44
GERLING Pensionsenthaftungs- und Rentenmanagement GmbH, Cologne [13]	100.00	5,458	–2,023
GERLING Sustainable Development Project-GmbH, Cologne [13]	100.00	55	—
Hannover America Private Equity Partners II GmbH & Co. KG, Cologne [16]	100.00	171,011	3,202
Hannover Beteiligungsgesellschaft mbH (formerly: GERLING Beteiligungs-GmbH), Hannover [13]	100.00	4,792	–582
Hannover Euro Private Equity Partners II GmbH & Co. KG, Cologne [16]	100.00	2,056	232
Hannover Euro Private Equity Partners III GmbH & Co. KG, Cologne [16]	100.00	47,892	1,159
Hannover Euro Private Equity Partners IV GmbH & Co. KG, Cologne [16]	100.00	82,836	5,812
Hannover Insurance-Linked Securities GmbH & Co. KG, Hannover [16]	100.00	39,274	7,068
Hannover Life Re AG, Hannover [3]	100.00	1,032,596	20,011
Hannover Re Euro PE Holdings GmbH & Co. KG, Cologne [16]	100.00	46,685	474
Hannover Re Euro RE Holdings GmbH, Cologne [16]	100.00	142,612	1,105
Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover [3]	100.00	2,621,855	166,594
Hannover Rückversicherung AG, Hannover [13]	50.22	1,682,903	302,000
Hannoversch-Kölnische Beteiligungsgesellschaft mbH, Hannover [13]	50.00	26	—
HAPEP II Holding GmbH, Cologne [16]	100.00	27,016	3,487
HAPEP II Komplementär GmbH, Cologne [16]	100.00	27	—
HDI Direkt Service GmbH, Hannover [3), 13]	100.00	51	–319
HDI Direkt Versicherung AG, Hannover [3), 13]	100.00	162,088	4,657
HDI-Gerling Firmen und Privat Versicherung AG, Hannover [3), 13]	100.00	174,907	–56,373
HDI-Gerling Friedrich Wilhelm Rückversicherung AG, Cologne [3), 13]	100.00	39,619	111,006
HDI-Gerling Industrie Versicherung AG, Hannover [3), 13]	100.00	406,536	130,813
HDI-Gerling Leben Betriebsservice GmbH, Cologne [3), 8), 13]	100.00	171	130
HDI-Gerling Lebensversicherung AG, Cologne [13]	100.00	234,593	15,000
HDI-Gerling Pensionsfonds AG, Cologne [13]	100.00	5,278	133

1. Shares in affiliated companies in Germany	Share of capital in %[1]	Equity[2] in EUR thousand	Result before profit transfer[2] in EUR thousand
HDI-Gerling Pensionskasse AG, Cologne[13]	100.00	28,248	–1,462
HDI-Gerling Pensionsmanagement AG, Cologne[3, 8, 13]	100.00	6,414	—
HDI-Gerling Schadenregulierung GmbH (formerly: HDI-Gerling Beschäftigungs- und Qualifizierungsgesellschaft mbH), Hannover[3, 13]	100.00	25	–22
HDI-Gerling Sicherheitstechnik GmbH, Hannover[13]	100.00	1,875	1,233
HDI-Gerling Vertrieb Firmen und Privat AG, Hannover[3, 8, 13]	100.00	55	–2,806
HDI-Gerling Welt Service AG, Hannover[3, 13]	100.00	90,986	5,231
HEPEP II Holding GmbH, Cologne[16]	100.00	6,181	6,136
HEPEP III Holding GmbH, Cologne[16]	100.00	9,152	–523
HEPEP III Komplementär GmbH, Cologne[16]	100.00	20	–2
HEPEP II Komplementär GmbH, Cologne[16]	100.00	26	–1
HEPEP IV Komplementär GmbH, Cologne[16]	100.00	21	–1
HG-I Alternative Investments Beteiligungs-GmbH & Co. KG, Cologne[11]	100.00	—	—
HG Sach AltInvest GmbH & Co. KG, Cologne[9, 16]	100.00	43,229	1,853
HILSP Komplementär GmbH, Hannover[16]	100.00	26	2
HNG Hannover National Grundstücksverwaltung GmbH & Co KG, Hannover[9, 13]	100.00	37,957	3,871
International Hannover Holding AG, Hannover	100.00	41	—
IVEC Institutional Venture and Equity Capital AG, Cologne[13]	100.00	178,003	21,171
Nassau Assekuranzkontor GmbH, Cologne[11]	100.00	—	—
neue leben Holding AG, Hamburg[13]	67.50	75,960	20,456
neue leben Lebensversicherung AG, Hamburg[3, 13]	100.00	64,566	17,800
neue leben Unfallversicherung AG, Hamburg[3, 13]	100.00	3,596	3,814
Oval Office Grundstücks GmbH, Hannover[19]	100.00	59,553	1,765
Paetau Sports Versicherungsmakler GmbH, Berlin[13]	100.00	344	11
PARTNER OFFICE AG, Cologne[3, 8, 13]	100.00	3,041	–16,189
PB Lebensversicherung AG, Hilden	100.00	79,905	26,105
PB Pensionsfonds AG, Hilden[3]	100.00	5,038	109
PB Pensionskasse AG, Hilden	100.00	6,177	148
PB Versicherung AG, Hilden	100.00	10,532	4,062
Riethorst Grundstücksgesellschaft AG & Co. KG, Hannover[9, 13]	100.00	43,246	–137
Shamrock Marine-Insurance Agency GmbH, Hamburg[3, 13]	100.00	25	–5
SSV Schadenschutzverband GmbH, Hannover[3]	100.00	200	740
Talanx Asset Management GmbH (formerly: AmpegaGerling Asset Management GmbH), Cologne[3, 8, 13]	100.00	83,600	39,918
Talanx Beteiligungs-GmbH & Co. KG, Hannover[9, 13]	100.00	146,024	1,242
Talanx Deutschland AG, Hannover[3, 8, 13]	100.00	2,899,468	428,051
Talanx Deutschland Bancassurance Communication Center GmbH (formerly: Proactiv Communication Center GmbH), Hilden[3, 8, 13]	100.00	630	538
Talanx Deutschland Bancassurance GmbH, Hilden[3, 8, 11]	100.00	—	—
Talanx Deutschland Bancassurance Kundenservice GmbH (formerly: Proactiv Servicegesellschaft mbH), Hilden[3, 8, 13]	100.00	7,025	2,176
Talanx Immobilien Management GmbH (formerly: AmpegaGerling Immobilien Management GmbH), Cologne[3, 8, 13]	100.00	2,837	–2,029
Talanx International AG, Hannover[3, 8]	100.00	741,137	36,354
Talanx Reinsurance Broker AG (formerly: Protection Reinsurance Intermediaries AG), Hannover[3, 8, 13]	100.00	389	7,575
Talanx Service AG, Hannover[3, 8]	100.00	1,746	9,681
Talanx Systeme AG, Hannover[3, 8, 13]	100.00	130	7
TARGO Lebensversicherung AG, Hilden	100.00	75,557	41,902
TARGO Versicherung AG, Hilden[3]	100.00	9,492	17,972
THS Services Versicherungsvermittlungs GmbH, Berlin[13]	100.00	13	15
THV Versicherungsmakler GmbH, Berlin[13]	99.00	2,014	251
VES Gesellschaft für Mathematik, Verwaltung und EDV mbH, Gevelsberg[3, 13]	100.00	195	–950

2. Shares in affiliated companies outside of Germany	Share of capital in % [1]		Equity [2] in thousand		Result before profit transfer [2] in thousand
11 Stanwix LLC, Wilmington, USA [6]	100.00	USD	30,292	USD	941
300 South Orange Avenue, LLC, Wilmington, USA [6]	100.00	USD	56,694	USD	1,302
402 Santa Monica Blvd LLC, Wilmington, USA [6]	100.00	USD	32,352	USD	679
465 Broadway LLC, Wilmington, USA [6]	100.00	USD	43,175	USD	788
5115 Sedge Boulevard LP, Chicago, USA [6]	84.00	USD	149	USD	–1,084
5115 Sedge Corporation, Chicago, USA [6]	100.00	USD	1,899	USD	–585
ASPECTA Assurance International AG, Vaduz, Liechtenstein [13]	100.00	CHF	9,667	CHF	2,047
ASPECTA Assurance International Luxembourg S. A., Luxembourg, Luxembourg [13]	100.00	EUR	9,205	EUR	—
Atlantic Capital Corporation, Wilmington, USA [4), 18]	100.00	USD	–111,867	USD	1,520
Cargo Transit Insurance (Pty) Ltd., Helderkruin, South Africa [5]	80.00	ZAR	–2,522	ZAR	–2,252
CiV Hayat Sigorta A. Ş., Istanbul, Turkey [13]	100.00	TRY	13,287	TRY	–3,978
Clarendon Insurance Group, Inc., Wilmington, USA	100.00	USD	221,640	USD	66,885
Clarenfin (Pty) Ltd., Johannesburg, South Africa [23]	100.00	ZAR	—	ZAR	—
Compass Insurance Company Ltd., Johannesburg, South Africa [5]	100.00	ZAR	109,365	ZAR	–21,717
Construction Guarantee (Pty) Ltd., Parktown, South Africa [5]	60.00	ZAR	–831	ZAR	3,455
Desarrollo de Consultores Profesionales en Seguros S. A. de C. V., León, Mexico [7]	100.00	MXN	—	MXN	—
Envirosure Underwriting Managers (Pty) Ltd., Durban, South Africa [5]	60.00	ZAR	–1,690	ZAR	159
Film & Entertainment Underwriters SA (Pty) Ltd., Northcliff, South Africa [5]	51.00	ZAR	–1,479	ZAR	–620
Garagesure Consultants and Acceptances (Pty) Ltd, Johannesburg, South Africa [5]	80.00	ZAR	541	ZAR	815
Gem & Jewel Acceptances (Pty) Ltd., Johannesburg, South Africa [5), 19]	70.00	ZAR	157	ZAR	998
Gente Compania de Soluciones Profesionales de Mexico S. A. de C. V., León, Mexico [13]	100.00	MXN	12,840	MXN	2,744
Gerling Insurance Agency Inc., Chicago, USA [23]	100.00	USD	—	USD	—
Gerling-Konzern Panamericana Ltda., São Paulo, Brazil [13]	100.00	BRL	609	BRL	–19
Gerling Norge A/S, Oslo, Norway [13]	100.00	NOK	238	NOK	10
Glencar Underwriting Managers, Inc., Itasca, USA [11]	95.90	USD	2,502	USD	—
GLL HRE CORE PROPERTIES LP, Wilmington, USA [6]	99.90	USD	111,771	USD	391
GLL Terry Francois Blvd LLC, Wilmington, USA [6]	50.95	USD	25,542	USD	741
Hannover Finance, Inc., Wilmington, USA [10), 19]	100.00	USD	494,803	USD	61,969
Hannover Finance (Luxembourg) S. A., Luxembourg, Luxembourg [19]	100.00	EUR	31,719	EUR	475
Hannover Finance (UK) Ltd., Virginia Water, United Kingdom [19]	100.00	GBP	131,122	GBP	27
Hannover Life Reassurance Africa Ltd., Johannesburg, South Africa [5]	100.00	ZAR	368,337	ZAR	22,482
Hannover Life Reassurance Bermuda Ltd., Hamilton, Bermuda	100.00	EUR	183,262	EUR	23,815
Hannover Life Reassurance Company of America, Orlando, USA [19]	100.00	USD	175,264	USD	4,103
Hannover Life Reassurance (Ireland) Ltd., Dublin, Ireland [19]	100.00	EUR	981,765	EUR	31,700
Hannover Life Reassurance (UK) Ltd., Virginia Water, United Kingdom [19]	100.00	GBP	34,654	GBP	–5,856
Hannover Life Re Consultants, Inc., Orlando, USA [13]	100.00	USD	199	USD	26
Hannover Life Re of Australasia Ltd, Sydney, Australia [19]	100.00	AUD	297,281	AUD	45,537
Hannover Re Advanced Solutions Ltd., Dublin, Ireland [23]	100.00	EUR	31	EUR	—
Hannover Re (Bermuda) Ltd., Hamilton, Bermuda [19]	100.00	EUR	888,307	EUR	30,260
Hannover Re Consulting Services India Private Ltd., Mumbai, India [14]	100.00	INR	50,647	INR	5,004
Hannover Re (Guernsey) PCC Ltd., St. Peter Port, Guernsey [19]	100.00	EUR	258	EUR	–3
Hannover Reinsurance Africa Ltd., Johannesburg, South Africa [5]	100.00	ZAR	755,497	ZAR	147,341
Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg, South Africa [10]	100.00	ZAR	155,600	ZAR	109,787
Hannover Reinsurance (Ireland) Ltd., Dublin, Ireland	100.00	EUR	460,232	EUR	36,853
Hannover Reinsurance Mauritius Ltd., Port Louis, Mauritius [5]	100.00	MUR	46,393	MUR	–4,220
Hannover Re Real Estate Holdings, Inc., Orlando, USA [10]	100.00	USD	280,345	USD	12,939
Hannover Re Services Italy S. r. L., Milan, Italy	100.00	EUR	485	EUR	80
Hannover Re Services Japan, Tokyo, Japan	100.00	JPY	92,870	JPY	2,573
Hannover Re Services USA, Inc., Itasca, USA	100.00	USD	845	USD	50
Hannover ReTakaful B. S. C. (c), Manama, Bahrain [19]	100.00	BHD	34,302	BHD	6,103
Hannover Risk Consultants B. V., Rotterdam, Netherlands [13]	100.00	EUR	230	EUR	–119

2. Shares in affiliated companies outside of Germany	Share of capital in %[1]		Equity[2] in thousand		Result before profit transfer[2] in thousand
Hannover Rückversicherung AG Escritório de Representação no Brasil Ltda., Rio de Janeiro, Brazil[13]	100.00	BRL	377	BRL	3
Hannover Services (México) S. A. de C. V., Mexico City, Mexico[13]	100.00	MXN	10,552	MXN	561
Hannover Services (UK) Ltd., Virgina Water, United Kingdom	100.00	GBP	663	GBP	–60
HDI Asekuracja Towarzystwo Ubezpieczen S. A., Warsaw, Poland[13]	100.00	PLN	270,727	PLN	–42,280
HDI Assicurazioni S. p. A, Rome, Italy[13]	100.00	EUR	140,947	EUR	8,202
HDI-Gerling America Insurance Company, Chicago, USA[13]	100.00	USD	124,801	USD	11,928
HDI-Gerling Assurances S. A., Brussels, Belgium[13]	100.00	EUR	36,637	EUR	4,602
HDI-Gerling Australia Insurance Company Pty. Ltd., Sydney, Australia[13]	100.00	AUD	23,796	AUD	–802
HDI-Gerling de México Seguros S. A., Mexico City, Mexico[13]	100.00	MXN	94,498	MXN	3,210
HDI-GERLING Financial Services GmbH, Vienna, Austria[13]	100.00	EUR	781	EUR	112
HDI-Gerling Insurance of South Africa Ltd, Johannesburg, South Africa[13]	100.00	ZAR	39,989	ZAR	1,688
HDI-Gerling Services S. A., Brussels, Belgium[13]	100.00	EUR	143	EUR	31
HDI-Gerling Verzekeringen N. V., Rotterdam, Netherlands[13]	100.00	EUR	70,885	EUR	15,932
HDI-Gerling Zycie Towarzystwo Ubezpieczen S. A., Warsaw, Poland[13]	100.00	PLN	41,917	PLN	39
HDI HANNOVER International España Cía de Seguros y Reaseguros S. A., Madrid, Spain[13]	100.00	EUR	44,898	EUR	4,911
HDI Immobiliare S. r. L., Rome, Italy[13]	100.00	EUR	62,145	EUR	396
HDI Reinsurance (Ireland) Ltd., Dublin, Ireland[13]	100.00	EUR	5,102	EUR	102
HDI Seguros S. A. de C. V., León, Mexico[13]	99.47	MXN	426,463	MXN	41,388
HDI Seguros S. A., Montevideo, Uruguay[13]	100.00	UYU	190,379	UYU	20,443
HDI Seguros S. A., Santiago, Chile[13]	99.93	CLP	6,605,378	CLP	195,109
HDI Seguros S. A., São Paulo, Brazil[13]	100.00	BRL	542,419	BRL	62,431
HDI Sigorta A. Ș., Istanbul, Turkey[13]	100.00	TRY	72,455	TRY	–101,659
HDI STRAKHUVANNYA (Ukraine), Kiev, Ukraine[13]	99.28	UAH	66,121	UAH	–18,727
HDI Versicherung AG, Vienna, Austria	100.00	EUR	44,979	EUR	6,380
HDI Zastrahovane AD, Sofia, Bulgaria[13]	94.00	BGL	8,106	BGL	227
H. J. Roelofs Assuradeuren B. V. , Rotterdam, Netherlands[13]	100.00	EUR	718	EUR	8
Hospitality Industries Underwriting Consultants (Pty) Ltd., Johannesburg, South Africa[5]	90.00	ZAR	1,603	ZAR	2,981
HR Hannover Re, Correduría de Reaseguros, S. A., Madrid, Spain[19]	100.00	EUR	231	EUR	33
InChiaro Assicurazioni S. p. A., Rome, Italy[13]	51.00	EUR	7,995	EUR	–1,472
Indoc Holdings S. A., Luxembourg, Luxembourg[5, 22]	100.00	CHF	—	CHF	—
InLinea S. p. A., Rome, Italy[13]	70.00	EUR	712	EUR	54
Integra Insurance Solutions Ltd., Bradford, United Kingdom[14]	74.99	GBP	115	GBP	100
Inter Hannover (No. 1) Ltd., London, United Kingdom[19]	100.00	GBP	–1,314	GBP	1
International Insurance Company of Hannover Ltd., Bracknell, United Kingdom[19]	100.00	GBP	116,406	GBP	5,702
International Mining Industry Underwriters Ltd., London, United Kingdom[19]	100.00	GBP	419	GBP	60
Inversiones HDI Limitada, Santiago, Chile[13]	100.00	CLP	11,674,512	CLP	–42,056
Kaith Re Ltd., Hamilton, Bermuda[19]	88.00	USD	386	USD	–254
Landmark Underwriting Agency (Pty) Ltd., Bloemfontein, South Africa[5]	75.50	ZAR	2,948	ZAR	3,802
Lireas Holdings (Pty) Ltd., Johannesburg, South Africa[5]	51.00	ZAR	199,836	ZAR	57,019
LRA Superannuation Plan Pty Ltd., Sydney, Australia[23]	100.00	AUD	—	AUD	—
L'UNION de Paris Compañía Argentina de Seguros S. A., Buenos Aires, Argentina[12]	100.00	ARS	79,098	ARS	15,096
Magyar Posta Biztositó Részvénytársaság, Budapest, Hungary[13]	66.93	HUF	1,566,565	HUF	–440,599
Magyar Posta Életbiztosító Részvénytársaság, Budapest, Hungary[13]	66.93	HUF	3,071,018	HUF	137,522
Mediterranean Reinsurance Services Ltd., Hong Kong, China[17, 22]	100.00	USD	125	USD	—
Micawber 185 (Pty) Ltd., Johannesburg, South Africa[5]	100.00	ZAR	20,355	ZAR	2,098
MUA Insurance Acceptances (Pty) Ltd., Kapstadt, South Africa[5]	80.00	ZAR	4,376	ZAR	4,624
MUA Insurance Company Ltd., Kapstadt, South Africa[5]	100.00	ZAR	9,784	ZAR	111
One Winthrop Square LLC, Wilmington, USA[6]	100.00	USD	23,816	USD	693
OOO Strakhovaya Kompaniya CiV Life, Moscow, Russia[13]	100.00	RUB	241,070	RUB	9,341
OOO Strakhovaya Kompaniya HDI Strakhovanie, Moscow, Russia[13]	100.00	RUB	49,998	RUB	–1,434
Peachtree (Pty) Ltd., Johannesburg, South Africa[5, 22]	100.00	ZAR	—	ZAR	—

2. Shares in affiliated companies outside of Germany	Share of capital in % 1)		Equity 2) in thousand		Result before profit transfer 2) in thousand
Protecciones Esenciales S.A., Buenos Aires, Argentina 12)	100.00	ARS	88,808	ARS	15,184
Saint Honoré Iberia S.L., Madrid, Spain 13)	100.00	EUR	89	EUR	2
Scandinavian Marine Agency A/S, Oslo, Norway 13)	52.00	NOK	5,387	NOK	2,191
Secquaero ILS Fund Ltd., Georgetown, Grand Cayman, Cayman Islands	100.00	USD	53,277	USD	1,805
SUM Holdings (Pty) Ltd., Johannesburg, South Africa 5)	72.20	ZAR	20,811	ZAR	5,689
Svedea AB, Stockholm, Sweden 13)	71.20	SEK	255	SEK	–18,515
Talanx Finanz (Luxemburg) S.A., Luxembourg, Luxembourg 13)	100.00	EUR	8,260	EUR	2,201
Thatch Risk Acceptances (Pty) Ltd., Cape Town, South Africa 5)	90.00	ZAR	1,246	ZAR	2,233
Transit Underwriting Managers (Pty) Ltd., Cape Town, South Africa 5)	100.00	ZAR	806	ZAR	1,474
Woodworking Risk Acceptances (Pty) Ltd., Pietermaritzburg, South Africa 5)	60.00	ZAR	1,910	ZAR	2,409

3. Shares in special and public funds (in Germany) pursuant to § 285 no. 26 HGB	Share of fund assets in % 1)	Fund assets in EUR thousand 2)	Change in fund assets, incl. inflows and outflows of funds in EUR thousand 2)
Ampega-nl-Balanced-Fonds, Cologne 12)	100.00	50,165	–4,406
Ampega-nl-Euro-DIM-Fonds, Cologne 12)	100.00	439,098	1,732
Ampega-nl-Global-Fonds, Cologne 12)	100.00	43,146	–4,041
Ampega-nl-Rent-Fonds, Cologne 12)	100.00	508,918	–271,212
Ampega-TAL-A-Fonds, Cologne 12)	100.00	86,673	–6,910
GERLING EURO-RENT 3, Cologne 12)	100.00	669,949	75,289
Gerling Immo Spezial 1, Cologne 12)	100.00	265,035	–4,348
GKL SPEZIAL RENTEN, Cologne 12)	100.00	608,686	9,170
HDI Gerling-Sach Industrials, Cologne 12)	100.00	230,490	59,203
HGLV-Financial, Cologne 12)	100.00	1,080,862	33,763
PBVL-Corporate, Cologne 12)	100.00	111,829	4,902
terrAssisi Aktien I AMI, Cologne 12)	64.26	7,408	505

4. Shares in special and public funds (outside of Germany) pursuant to § 285 no. 26 HGB	Share of fund assets in % 1)		Fund assets in thousand 2)		Change in fund assets, incl. inflows and outflows of funds in thousand 2)
Ampega-Vienna-Bonds-Fonds, Vienna, Austria 12)	100.00	EUR	264,297	EUR	53,762
BNP-HDI Credit FI Renda Fixa Crédito Privado, São Paulo, Brazil 12)	100.00	BRL	66,468	BRL	24,727
Credit Suisse HDI RF Crédito, São Paulo, Brazil 12)	100.00	BRL	61,131	BRL	5,482
CSHG Hannover FI Multimercado Crédito Privado, São Paulo, Brazil 12)	100.00	BRL	20,190	BRL	20,190
FRACOM FCP, Paris, France 12)	100.00	EUR	842,369	EUR	133,937
HSBC FI Renda Fixa Hannover, São Paulo, Brazil 12)	100.00	BRL	95,963	BRL	–38,307
HSBC Performance HDI RF Crédito, São Paulo, Brazil 12)	100.00	BRL	70,121	BRL	11,020
UBS Pactual HDI RF Crédito, São Paulo, Brazil 12)	100.00	BRL	65,392	BRL	11,222

5. Other long-term equity investments	Share of capital in % [1]		Equity [2] in thousand		Result before profit transfer [2] in thousand
Apulia Prontoprestito S. p. A., Rome, Italy [13], [21]	10.60	EUR	216,429	EUR	–20,350
aspect online AG, Augsburg, Germany [15]	21.09	EUR	199	EUR	–242
Camargue Underwriting Managers (Pty) Ltd., Parktown, South Africa [5], [19]	26.00	ZAR	3,504	ZAR	504
Capital System GmbH, Hannover, Germany [19]	49.00	EUR	25	EUR	—
Clarendon Transport Underwriting Managers (Pty) Ltd., Johannesburg, South Africa [5], [19]	37.33	ZAR	3,893	ZAR	47,912
Clarus Holding GmbH, Wiesbaden, Germany [19]	25.10	EUR	82	EUR	57
C-QUADRAT Investment AG, Vienna, Austria [16]	25.56	EUR	30,234	EUR	2,518
Commercial & Industrial Acceptances (Pty) Ltd., Johannesburg, South Africa [5], [19]	40.00	ZAR	6,218	ZAR	19,901
Credit Life International Services GmbH, Neuss, Germany [13]	50.00	EUR	64	EUR	38
DFA Capital Management Inc., Wilmington, USA [20]	25.37	USD	1,177	USD	–1,928
Energi, Inc. (formerly: Energi Holdings, Inc.), Peabody, USA [13]	28.50	USD	7,381	USD	–817
Flexible Accident and Sickness Acceptances (Pty) Ltd., Johannesburg, South Africa [5], [19]	40.00	ZAR	5,053	ZAR	3,322
Hannover Care AB, Stockholm, Sweden [13]	30.00	SEK	522	SEK	–2,656
HANNOVER Finanz GmbH, Hannover, Germany [13]	25.00	EUR	69,063	EUR	5,629
Hannoversch-Cologneische Handels-Beteiligungsgesellschaft mbH & Co. KG, Hannover, Germany [13]	50.00	EUR	28,303	EUR	2,439
IGEPA Gewerbepark GmbH & Co. Vermietungs KG, Munich, Germany [20]	37.50	EUR	–11,272	EUR	8,764
ITAS Vita S. p. A., Trento, Italy [13]	34.88	EUR	76,299	EUR	1,449
neue leben Pensionsverwaltung AG, Hamburg, Germany [13]	49.00	EUR	15,176	EUR	408
nl-PS Betriebliche Vorsorge GmbH, Erlangen, Germany [11]	50.00	EUR	—	EUR	—
PlaNet Guarantee (SAS), Saint-Ouen, France [13]	23.58	EUR	1,447	EUR	–549
Petro Vietnam Insurance Holdings, Hanoi, Vietnam [16]	25.00	VND	3,726,975,677	VND	288,532,824
Sciemus Power MGA Ltd., London, United Kingdom [13]	25.00	GBP	1	GBP	—
Takafol South Africa (Pty) Ltd., Johannesburg, South Africa [5], [19]	49.00	ZAR	601	ZAR	–181
VOV Verwaltungsorganisation für Vermögensschadenhaftpflicht-Versicherungen für Mitglieder von Organen juristischer Personen GmbH, Cologne, Germany [13]	25.00	EUR	1,115	EUR	–2,042
WeHaCo Unternehmensbeteiligungs-GmbH, Hannover, Germany [13]	40.00	EUR	77,311	EUR	3,112
XS Direct Holdings Ltd., Dublin, Ireland [13]	25.00	EUR	4,870	EUR	2,962

6. Long-term equity investments of Hannover Rückversicherung AG in large corporations in which the equity interest exceeds 5% of the voting rights (large corporations within the meaning of § 341 a HGB)	Share of capital in % [1]	Equity [2] in EUR thousand	Result before profit transfer [2] in EUR thousand
Acte Vie S. A. Compagnie d'Assurances sur la Vie et de Capitalisation, Strasbourg, France [13]	9.38	8,203	226

[1] *The percentage of shares held is determined as the sum of all shares held directly or indirectly according to the criteria in § 16 (2) and (4) of the German Stock Corporation Act (AktG)*
[2] *The stated values correspond to the annual financial statements according to local law and/or international accounting standards; the different currencies are specified*
[3] *A profit and loss transfer agreement is in effect*
[4] *Sub-group financial statements; included in the information for Hannover Finance, Inc.*
[5] *Sub-group financial statements; included in the information for Hannover Reinsurance Group Africa (Pty) Ltd.*
[6] *Sub-group financial statements; included in the information for Hannover Re Real Estate Holdings Inc.*
[7] *No disclosures pursuant to § 286 (3) HGB*
[8] *Simplification pursuant to § 264 (3) HGB was elected*
[9] *The exemption pursuant to § 264 b HGB was elected*
[10] *The entity prepares separate sub-group financial statements*
[11] *The entity was formed during the reporting period – an annual report/financial statements are not yet available*
[12] *Information as of the end of the 2010 financial year*
[13] *Information as of 31 December 2010*
[14] *Information as of 31 March 2010*
[15] *Information as of 30 June 2011*
[16] *Information as of 30 September 2011*
[17] *Last annual financial statements issued as of 31 December 1999*
[18] *Certain equity items are not counted under IFRS so that the amount shown as equity may be negative in this case. According to local GAAP, which is relevant for the supervisory authorities, the entity is sufficiently capitalised*
[19] *Preliminary/unaudited figures*
[20] *Information as of the end of the 2009 financial year*
[21] *Significant influence by representation on governing bodies as per IAS 28.7 (a)*
[22] *The entity is in liquidation*
[23] *The entity is inactive and does not prepare an annual report*

A.III.2. Loans to affiliated companies

These are subordinated bonds in the amount of EUR 48,081,000 issued by Talanx Finanz (Luxemburg) S. A. In addition, a subordinated loan in the amount of EUR 51,000,000 was extended in connection with the assumption of pension liabilities from HDI-Gerling Lebensversicherung AG.

A.III.3. Other long-term equity investments

This total includes an amount of EUR 26,878,000 for the equity interest held in IGEPA Industrie- und Gewerbepark GmbH & Co. KG taking scheduled capital repayments into account.

B.I.1. Receivables from affiliated companies

Figures in EUR thousand	31.12.2011	31.12.2010
	204,944	263,915

This line item largely includes receivables under profit and loss transfer agreements and receivables from current business transactions.

B.I.2. Other assets

Figures in EUR thousand	31.12.2011	31.12.2010
Other receivables	110,878	113,242

The other receivables are largely receivables due from the tax authorities.

C. Deferred and accrued items

Figures in EUR thousand	31.12.2011	31.12.2010
	2,808	2,489

In addition to accrued administrative expenses, this item includes a discount arising from loans taken out at HDI-Gerling Industrie Versicherung AG and HDI-Gerling Lebensversicherung AG. The discount is amortised over the life of the loans (pro rata temporis).

D. Excess of plan assets over post-employment benefit liability

Figures in EUR thousand	31.12.2011	31.12.2010
	38	2

Starting with the 2010 financial year, the provisions for partial retirement and the securities segregated for this purpose are netted in accordance with § 246 (2) HGB. The segregated securities carried as the offset to the provisions were recognised at market value (EUR 159,000); this is higher than their historical costs (EUR 145,000). All assets held as security for the provisions for partial retirement are maintained in a separate depository. This is necessary in order to differentiate between the “regular” and the “Treuhandverein (Trust Association)” portions of the above assets and also to avoid blended prices for the overall holdings of these funds. All shares in the Treuhandverein are part of other assets since they are dedicated as collateral for the partial retirement obligations and therefore not eligible as guarantee assets.

Notes to the balance sheet – liabilities

A.I. Subscribed capital

Figures in EUR thousand	2011	2010
Balance as of the start of the financial year	260,000	260,000
Capital increase	—	—
Balance as of the end of the financial year	**260,000**	**260,000**

The share capital is divided into 260,000 registered shares with no par value. The HDI Haftpflichtverband der Deutschen Industrie Versicherungsverein auf Gegenseitigkeit, Hannover, holds 100% of the share capital in our Company.

A.II. Capital reserves

Figures in EUR thousand	2011	2010
Balance as of the start of the financial year	629,529	629,529
Capital increase	—	—
Balance as of the end of the financial year	**629,529**	**629,529**

A.III. Revenue reserves

Figures in EUR thousand	2011	2010
Balance as of the start of the financial year	2,902,759	2,695,601
Reversal of deferred taxes (BilMoG)	—	–83,769
Appropriations to other revenue reserves	—	290,927
Balance as of the end of the financial year	**2,902,759**	**2,902,759**

The full amount of the reported total represents other revenue reserves.

A.IV. Net retained profits

Figures in EUR thousand	31.12.2011	31.12.2010
	376,599	300,691

This line item breaks down into the net retained profit for 2010 of EUR 300,691,000, which was carried forward to the following year by resolution of the annual general meeting on 23 May 2011, and EUR 75,907,000 as profit for the current year.

B.1. Provisions for pensions and similar obligations

Figures in EUR thousand	31.12.2011	31.12.2010
	576,187	447,245

This item represents the portion of the provisions for pensions that was not offset against assets eligible for netting. The line item as of 31 December 2011 is calculated as follows:

	31.12.2011
Figures in EUR thousand	
Employer-financed provisions for pensions as of 31 December 2010	447,239
Change	92,006
Accrued interest/interest rate change	37,336
Pension plan reinsurance assets eligible for netting	–401
Total	**576,180**

The plan assets eligible for netting are claims under life insurance agreements for which the amortised cost and thus the market value within the meaning of § 255 (4) sentence 4 is equal to the so-called actuarial reserve for the insurance agreement plus the surplus share. The settlement amount for the employer-funded provisions for pensions was EUR 586,634,000. The market value as of 31 December 2011 was EUR 10,454,000.

	31.12.2011
Figures in EUR thousand	
Employee-financed provisions for pensions as of 31 December 2010	6
Change	229
Accrued interest/interest rate change	18
Pension plan reinsurance assets eligible for netting	–246
Total	**7**

The settlement amount for the employee-funded provisions for pensions was EUR 385,000. The market value of the insurance obtained as cover for this settlement amount as of 31 December 2011 was equal to EUR 378,000.

The amounts not recognised as provisions for current pensions, vested pension benefits or similar obligations on the balance sheet by exercising the option according to Article 67 (1) sentence 1 EGHGB are equal to EUR 182,123,000.

The shortfall due to pension obligations within the meaning of Article 28 (2) EGHGB that is not recognised on the balance sheet is equal to EUR 7,000.

The income and expenses netted in the income statement and resulting from the offset of assets and liabilities were equal to EUR 416,000.

C.1. Bonds

Talanx AG has entered into a business and capital cooperation agreement with Meiji Yasuda Life. The capital investment of Meiji Yasuda Life takes the form of subordinated mandatory convertible bonds with no final maturity and a volume of EUR 300,000,000 issued by Talanx AG. The terms and conditions of the bond are structured in such a way that we presently expect that it will also be recognised as regulatory Tier 1 capital (equity substitute) under Solvency II. In the event that Talanx AG launches a public offering, the bond will convert to common shares of the Company and Meiji Yasuda Life will become a major Talanx shareholder. The total for this line item also includes a portion of the bearer bond issued in 2003, which is held by a company that is no longer a member of the corporate Group.

As in the prior year, the total for the bonds has a remaining term to maturity of more than five years.

C.2. Liabilities to banks

Figures in EUR thousand	31.12.2011	31.12.2010
	550,428	550,145

A group of banks with Bank of America as the facility agent have provided Talanx AG with a line of credit in the amount of EUR 1,500,000,000. Of that, EUR 550,000,000 was utilised on the balance sheet date. Two additional lines of credit were agreed during the financial year, one for EUR 500,000,000 with Barclays as the facility agent and one for EUR 650,000,000 with the Royal Bank of Scotland as the facility agent. The total for the line item does not include any liabilities with a remaining term to maturity over five years.

C.4. Liabilities to affiliated companies

Figures in EUR thousand	31.12.2011	31.12.2010
	1,255,132	1,100,074

Talanx AG has issued bearer bonds at market interest rates that were subscribed by various Group companies. The carrying amount as of the balance sheet date is EUR 696.0 million.

On 10 February 2005, Talanx Finanz (Luxemburg) S. A. issued subordinated bonds with a term of 20 years for which Talanx AG guarantees repayment. The proceeds from the issue were made available to Talanx AG in the form of a loan. As of the balance sheet date, the remaining amount outstanding on the loan was EUR 269.6 million.

Hannover Re (Bermuda) Ltd. extended a loan to Talanx AG in the amount of EUR 50.0 million. The loan is due and payable on 31 May 2012.

Other liabilities are recognised for the transfer of losses from affiliated companies, time deposits made available on a short-term basis and liabilities arising from current business transactions with subsidiaries. The total includes liabilities with a remaining term of over five years in the amount of EUR 269.6 million (prior year: EUR 426.3 million).

C.5. Other liabilities

Figures in EUR thousand	31.12.2011	31.12.2010
	19,587	19,360

This line item mainly represents accrued interest on loans and swap transactions. A smaller portion relates to liabilities vis-à-vis the pension indemnification fund association (Pensionssicherungsverein).

Notes to the income statement

1. Income from long-term equity investments

	31.12.2011	31.12.2010
Figures in EUR thousand		
Dividend distributions from affiliated companies		
Alstertor Erste Beteiligungs- und Investitionssteuerungs-GmbH & Co. KG, Hamburg	1,814	—
Hannover Beteiligungsgesellschaft mbH, Hannover	—	51
Hannover Rückversicherung AG, Hannover	139,297	127,184
IGEPA Industrie- und Gewerbepark GmbH & Co. KG	722	624
Talanx Beteiligungs-GmbH & Co. KG, Hannover	1,429	1,242
Talanx Deutschland AG, Hannover	—	460,000
Talanx Finanz (Luxemburg) S. A., Luxembourg	1,648	—
TARGO Lebensversicherung AG, Hilden	2,137	2,046
	147,047	591,147

2. Other operating income

	31.12.2011	31.12.2010
Figures in EUR thousand		
Income from services rendered	9,876	6,528
Reimbursements	803	8,176
Income from the disposal of investments	—	56,229
Income from the commutation agreement with Hannover Reinsurance (Ireland) ltd.	—	12,805
Income from the swap of KG shares for shares	41,753	—
Income in connection with pension transfers	18,770	—
Income from the reversal of provisions	29,502	687
Other income	1,957	2,644
	102,661	87,069

With the transfer to Talanx, the re-measurement of pension liabilities pursuant to BilMoG was no longer spread over 15 years; instead, the full amount was reserved this year at the higher level. This effect is reflected in the costs. Outside of the costs, this item compares to income of EUR 18,770 from the recognition of receivables, since Talanx has only assumed the interest expense.

In the prior year, Talanx indemnified Talanx International AG from expenses that Talanx International AG might incur in connection with the run-off of the then current portfolio of insurance policies and the discontinuation of new business at Aspecta Assurance International AG and Aspecta International Luxembourg S. A. The reasons for this indemnification no longer exist. An amount of EUR 23,509,000 was reversed.

3. Personnel expenses

	31.12.2011	31.12.2010
Figures in EUR thousand		
	33,683	–3,060

This item represents remuneration for the Board of Management and salaries of EUR 19,190,000, social insurance contributions and pension payments to former Board of Management members. The change in the provisions for pensions, including guarantees for pension commitments, was netted (see also "no. 13 Extraordinary expenses"). The prior year total mainly reflected income of EUR 16,866,000 from the reversal of provisions for pensions due to a change in assumed trends (lowering of the rates of increase for salaries and pensions by, respectively, 0.25%). As a result of restructuring within the Group, staffing levels have increased significantly.

5. Other operating expenses

	31.12.2011	31.12.2010
Figures in EUR thousand		
Remuneration of Supervisory Board members	2,114	1,694
Internal transfer pricing expenses	15,229	6,109
Travel expenses	929	771
Audit and consulting expenses	28,840	35,697
Advertising expenses	1,533	8,347
Contribution to earnings of Talanx International AG	—	67,400
Indemnification of Talanx International AG	—	37,289
Contribution to earnings of HDI-Gerling Lebensversicherung AG	—	170,735
Indemnification to earnings of HDI-Gerling Lebensversicherung AG	—	21,200
External services incl. rating fees	4,901	5,058
Sales promotion contributions	1,307	—
Other expenses	12,882	2,060
	67,735	**356,360**

The major portion of the consulting services is related to IT projects and the restructuring of the Group.

6. Income from other securities and long-term loans

	31.12.2011	31.12.2010
Figures in EUR thousand		
	2,053	569

The major portion of this item represents interest income on loans extended to affiliated companies.

7. Other interest and similar income

	31.12.2011	31.12.2010
Figures in EUR thousand		
	21,010	15,907

This item largely represents interest income on overnight and time deposits, on profit and loss transfer agreements, on current accounts with financial institutions and on swap transactions, as well as dividend income.

9. Interest and similar expenses

	31.12.2011	31.12.2010
Figures in EUR thousand		
	167,539	125,890

The amount recognised in this line item relates to interest on loans as well as interest expenses in connection with the bonds issued to various Group companies in the financial years 2003 and 2006, interest expense on loans vis-à-vis Talanx Finanz (Luxemburg) S. A., interest on swaps, interest on the Meiji Yasuda mandatory convertible bonds, interest on loans from affiliated companies, interest on the partial utilisation of credit lines, interest expense related to the accrued interest on pensions as well as commitment fees.

10. Income from profit transfer agreements

	31.12.2011	31.12.2010
Figures in EUR thousand		
	189,218	199,754

This income arises from profit and loss transfer agreements entered into with the companies listed under “Important agreements.”

11. Cost of loss absorption

	31.12.2011	31.12.2010
Figures in EUR thousand		
	89,260	430,670

These expenses arise from profit and loss transfer agreements entered into with the companies listed under “Important agreements.”

14. Extraordinary result

	31.12.2011	31.12.2010
Figures in EUR thousand		
	–14,009	–14,161

The extraordinary result is exclusively related to adjustment entries for the provisions for pensions on the basis of the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz; BilMoG).

15. Taxes on income

	31.12.2011	31.12.2010
Figures in EUR thousand		
Taxes, current financial year	133	—
Taxes, prior years	11,968	–44,526
	12,101	**–44,526**

Despite the net income for the year no tax expense is recognised for the current financial year because significant income items (e.g. distributions from Hannover Rückversicherung AG) are recognised as virtually tax-free income.

Talanx, including the member companies of the joint tax filing entity, measures deferred taxes using a corporate tax rate (including solidarity surcharge) of 15.83% and a trade tax rate of 15.96%. Deferred tax liabilities, which arise especially in relation to the balance sheet items shares in affiliated companies, other long-term equity investments (because of differences in the amounts recognised for shares in partnerships) and in connection with special tax-allowable reserves pursuant to § 6b of the German Income Tax Act (Einkommensteuergesetz; EStG), were offset against deferred tax assets related to the balance sheet item provisions for claims not yet settled. In accordance with the opinion in § 274 (1) sentence 2 HGB, deferred tax assets in excess of this offset are not recognised. The calculations for 2011 did not result in any recognition of deferred tax liabilities.

Other disclosures

Shareholders
HDI Haftpflichtverband der Deutschen Industrie Versicherungsverein auf Gegenseitigkeit, Hannover, holds 100% of the shares.

Important agreements
Control and profit and loss transfer agreements are in effect between Talanx and

- Talanx Deutschland AG (formerly: HDI-Gerling Leben Serviceholding AG) dated 14 June 2001
- Talanx Reinsurance Broker AG (formerly: Protection Reinsurance Intermediaries AG) dated 27 June 2003, amended on 2 December 2008
- Talanx Service AG (formerly: HDI-Gerling Sach Serviceholding AG) dated 27 November 2003 (effective 1 January 2004)
- Talanx Asset Management GmbH (formerly: AmpegaGerling Asset Management GmbH) dated 26 February 2004
- HDI-Gerling Schadenregulierung GmbH (formerly: HDI-Gerling Beschäftigungs- und Qualifizierungsgesellschaft mbH) dated 12 December 2007
- Bureau für Versicherungswesen Robert Gerling & Co. GmbH dated 2 December 2008
- Talanx International AG (formerly: HDI-Gerling International Holding AG) dated 25 February 2004. The agreement was carved out from Talanx Service AG and spun off to Talanx AG in 2010.
- HDI-Gerling Industrie Versicherung AG dated 21 March 2007. This agreement was likewise carved out from Talanx Service AG and spun off to Talanx AG during the reporting period.
- Talanx Systeme AG (formerly: HDI-Gerling Gesellschaft für IT-Dienstleistungen AG) dated 6 December 2010.

Syndicated line of credit for EUR 650 million of 21 December 2011
On 21 December 2011, Talanx AG, The Royal Bank of Scotland PLC as facility agent and certain other financial institutions as lenders entered into an agreement about a syndicated credit facility under which the lenders will provide a revolving line of credit in the amount of EUR 650 million to Talanx AG and member companies of the Talanx Group for a period of five years.

The lenders may cancel the credit line, inter alia, if and when a so-called change of control occurs, meaning that a person or group of persons acting together other than HDI Haftpflichtverband der Deutschen Industrie V.a.G. gains direct or indirect control over more than 50% of the voting rights or the share capital of Talanx AG. Talanx AG is further required to repay the loan earlier up to the amount corresponding to the net proceeds from a disposal of shares in Hannover Rückversicherung AG to a third party (if and to the extent such proceeds exceed an amount of EUR 50 million p.a., or an amount of EUR 100 million over the life of the agreement, provided that the disposal leads to a reduction in the equity interest of Hannover Rückversicherung AG below 50% [or is reduced even further if the equity interest of Talanx has already fallen below 50%]). The lenders are further entitled to terminate the credit line if Talanx AG or major subsidiaries fail to service the debt to the extent that this exceeds an amount of EUR 20 million (“cross default”).

Talanx AG guarantees any and all liabilities under the line of credit. The agreement further includes the customary restrictions (covenants) on Talanx AG.

Syndicated line of credit for EUR 500 million of 13 July 2011

On 13 July 2011, Talanx AG, Barclays Bank PK as facility agent and certain other financial institutions as lenders entered into an agreement about a syndicated credit facility under which the lenders will provide a revolving line of credit in the amount of EUR 500 million to Talanx AG and member companies of the Talanx Group for a period of five years.

The lenders may cancel the credit line, inter alia, if and when a so-called change of control occurs, meaning that a person or group of persons acting together other than HDI Haftpflichtverband der Deutschen Industrie V. a. G. gains direct or indirect control over more than 50% of the voting rights or the share capital of Talanx AG. Talanx AG is further required to repay the loan earlier up to the amount corresponding to the net proceeds from a disposal of shares in Hannover Rückversicherung AG to a third party (if and to the extent such proceeds exceed an amount of EUR 50 million p.a., or an amount of EUR 100 million over the life of the agreement, provided that the disposal leads to a reduction in the equity interest of der Hannover Rückversicherung AG below 50% [or is reduced even further if the equity interest of Talanx has already fallen below 50%]). The lenders are further entitled to terminate the credit line if Talanx AG or major subsidiaries fail to service the debt to the extent that this exceeds an amount of EUR 20 million ("cross default").

Talanx AG guarantees any and all liabilities under the line of credit. The agreement further includes the customary restrictions (covenants) on Talanx AG.

Syndicated line of credit for EUR 1.5 billion of 1 August 2005

On 1 August 2005, Talanx AG, Banc of America Securities Limited as facility agent and certain other financial institutions as lenders entered into an agreement about a syndicated credit facility under which the lenders will provide a revolving line of credit in the amount of EUR 1,500 million to Talanx AG and member companies of the Talanx Group for a period of five years. The agreement provides for Talanx AG to extend the term twice. The term was accordingly extended twice of a period of one year each.

The lenders may terminate the credit line inter alia, if there is a change of control, meaning if and when HDI Haftpflichtverband der Deutschen Industrie V. a. G. is no longer entitled, directly or indirectly, to more than 50% of the voting rights in Talanx AG, or if it is no longer able to name more than 50% of the Supervisory Board members representing the shareholders, or if another person that is not controlled directly or indirectly by HDI Haftpflichtverband der Deutschen Industrie V. a. G. gains the ability to control the business operations and business policy of Talanx AG. The lenders are also entitled to terminate the credit line if Talanx AG or major subsidiaries fail to service the debt to the extent that this exceeds an amount of EUR 20 million ("cross default").

Talanx AG guarantees any and all liabilities under the line of credit. The agreement further includes the customary restrictions (covenants) on Talanx AG.

A cooperation agreement with Magyar Posta Rt. has been in effect since 17 April 2002 allowing life and non-life insurance products to be offered to its customers through Hungarian joint ventures (subsidiaries of ProACTIV Holding AG).

A framework agreement for cooperation in foreign markets in the field of bancassurance was entered into with Citibank on 22 December 2006, providing for cooperation in Russia and Turkey.

On 18 July 2007, Talanx entered into a cooperation agreement with a term of 15 years with Deutsche Postbank AG concerning the distribution of PB insurance products. The cooperation agreement refers back to the cooperation between HDI V.a.G and Deutsche Postbank AG, and places it on a new foundation.

Strategic cooperation has also been in effect since 4 October 2010 with the Japanese life insurance company Meiji Yasuda Insurance Company ("Meiji Yasuda"); the aim is to identify and realise shared business opportunities in the international insurance markets. The cooperation is structured on the basis of a subordinated mandatory convertible bond in the amount of EUR 300 million issued by Talanx AG and subscribed by the cooperation partner, which will be converted to common shares of Talanx in the event that Talanx AG launches a public offering.

On 14 December 2011, Talanx International AG (TINT) and its cooperation partner Meiji Yasuda made a joint take-over offer on the Warsaw stock exchange to acquire 100% of the shares in Towarzystwo Ubezpieczeń EUROPA S.A. ("TU Europa"). Talanx AG will provide the necessary funds for this purpose to TINT.

The background for this takeover offer is a purchase and sale agreement entered into on the same date by and between Talanx International AG and the previous majority shareholder of TU Europa, Getin Holding S.A., for the acquisition of 50% + 1 of the shares in TU Europa. Getin Holding S.A. will continue to hold 16.54% of the shares in TU Europa; the remaining shares in TU Europa that are offered for sale on the basis of the take-over offer will be subscribed by Meiji Yasuda Insurance Company.

The takeover offer is contingent on an acceptance rate of at least 50% + 1 of the shares, which is presumably ensured by obligations assumed by Getin Holding S.A. under the purchase agreement. The takeover offer is further contingent on the approval of the Polish insurance supervisory authority as well as that of the EU and/or Polish cartel authorities.

Talanx International AG and Meiji Yasuda have entered into an underwriting agreement about the details of their cooperation as shareholders. This already provides for the squeeze-out of any remaining minority shareholders other than Getin Holding S.A. and the delisting of the company from the Warsaw stock exchange. Ultimately, only Meiji Yasuda and Getin Holdings S.A. will therefore remain as minority shareholders alongside Talanx International AG as the majority shareholder.

The acquisition of the shares in TU Europa is flanked by the signing of bancassurance agreements between TU Europa, TU Europa Life and Open Life on the one hand and Getin Noble Bank, Idea Bank and Open Finance on the other hand.

On 19 January 2012, TINT further prevailed in an auction for the acquisition of Towarstzystwo Ubezspieczien I Reasekuracji Warta S. A. („Warta“) in Poland, and signed a share purchase agreement with the company KBC Verzekeringen NV („KBC“) domiciled in Belgium as the seller.

TINT, together with our cooperation partner Meiji Yasuda, will directly acquire shares in Warta and indirectly in Towarstzystwo Ubezspieczien na Życie Warta S. A. („Warta TunZ“) as well as various smaller entities at a ratio of 70 (TINT stake) to 30 (Meiji Yasuda stake). The seller is KBC. Talanx AG is a joint and several debtor with respect to the entire purchase price.

In a first step, TINT will acquire all shares (100%) in Warta on the basis of an SPA agreement with KBC signed on 19 January 2012. The execution of the share purchase is subject to the customary reservation of consent by various public authorities, meaning approval by the competent insurance supervisory authority in Poland (“KNF”) as well as the responsible competition authority in Brussels (European Commission).

On that same 19 January 2012 TINT signed a corresponding share purchase agreement (back-to-back SPA) with Meiji Yasuda for 30% of the Warta shares. The relevant supervisory and cartel law approval procedures were also initiated immediately following 19 January 2012.

The relationship between the future shareholders is governed by an agreement between TINT and Meiji Yasuda also entered on 19 January 2012.

Employees

Average number of employees during the year	**31.12.2011**	31.12.2010
Full-time employees	164	86
Part-time employees	23	11
Total	**187**	97

Governing bodies of the Company

The names of the members of the Supervisory Board and of the Board of Management are found in the management report under “Governing bodies of the Company.”

Remuneration of the governing bodies

The remuneration of the Board of Management members totalled EUR 7,883,000. The remuneration of the Supervisory Board members totalled EUR 1,821,000. The remuneration of former Board of Management members and their survivors totalled EUR 362,000. A total of EUR 20,818,000 was recognised for pension liabilities due to former members of the Board of Management and their survivors.

Related party disclosures

In the reporting period there were no non-arms length transactions with related parties that were relevant to an assessment of the financial position or results of operations.

Total audit fees

The fee for the financial auditor – broken down into expenses for audit service, for other certification services, for tax advisory services and for other services – are included in the consolidated financial statements of HDI V.a.G. and Talanx AG on a pro-rata basis.

Derivative financial instruments

The Company uses interest rate swaps (hedging instruments) in order to hedge the cash flows from certain floating interest liabilities of EUR 550 million (hedged items) against interest rate risk. The plain vanilla interest rate swaps are used as protection against negative effects from rising interest rates on the results for the period. The interest payments received under the swap contracts (floating rate interest) are matched with interest payments in an equal amount on the liabilities; in addition, the Company must pay interest at a fixed rate to the swap counterparty in an amount of approx. EUR 27 million. The selection of highly rated counterparties avoids significant credit risk. The variable interest rate is indexed to the three-month EURIBOR rate.

In 2011, the Company maintained foreign exchange hedges for various equity instruments having a value, after translation, of EUR 91 million. In this connection, it also entered into countervailing foreign currency hedges in 2011 in order to cover part of the equity instruments denominated in a foreign currency. Here, the counterparty risk is fully passed on to an affiliated company. The maximum term for this option expires on 31 January 2013.

All hedging instruments are accounted for as hedging relationships.

Contingent liabilities and other financial liabilities

In February 2005, Talanx AG assumed a subordinated guarantee to the holders of subordinated bonds issued by its subsidiary Talanx Finanz (Luxemburg) S.A. for interest payments and redemption payable on the bond in the original amount of EUR 350 million. The bond matures in 2025. The funds of EUR 350 million raised by the issuance of the bond were made available to Talanx AG by Talanx Finanz (Luxemburg) S.A. in the form of a loan. By December 2011, Talanx Finanz (Luxemburg) S.A. had repurchased and voided a portion of the bond issue with a nominal value of approximately EUR 85 million, so that the remaining nominal value of the bond at the end of the reporting period was only approximately EUR 265 million. Talanx AG has partly repaid the loan granted to it by Talanx Finanz (Luxemburg) S.A. The remaining loan amount of approximately EUR 270 million is recognised on the balance sheet under liabilities to affiliated companies. At the end of the reporting period Talanx AG was holding additional portions of the bond with a carrying amount of approximately EUR 48 million. They are recognised on the balance sheet under loans to affiliated companies.

Talanx AG further assumed guarantees for amounts not paid in as part of a capital increase at its subsidiaries TARGO Lebensversicherung AG – formerly CiV Lebensversicherung AG – (EUR 59.0 million) and TARGO Versicherung AG – formerly CiV Versicherung AG – (EUR 8.9 million).

In addition, it carries deferred payment obligations from not fully paid-up shares of Talanx Reinsurance Broker AG (EUR 0.7 million).

Due to the carve-out of various equity investments from Talanx Service AG (formerly: HDI-Gerling Sach Serviceholding AG) and spin-off to our Company that were implemented during the reporting period, Talanx AG – as the succeeding legal entity under § 133 of the German Reorganisation of Companies Act (Umwandlungsgesetz; UmwG) – is liable together with Talanx Service AG as a joint and several debtor, for the liabilities of Talanx Service AG that were created prior to the effectiveness of the carve-out as of 4 August 2010, and is so liable for a period of five years, or for a period of ten years for pension obligations based on the German Company Retirement Benefits Act (Betriebsrentengesetz). The total amount of these liabilities is equal to EUR 20 million. Of that, EUR 0 million were due to affiliated companies.

As the sponsoring company for the former Gerling Versorgungskasse (Pension Fund), the Company is liable, on a pro-rata basis, for any possible shortfalls in relation to the employees of the former Gerling companies that have joined our Company as part of the Gerling integration.

Consolidated financial statements
The Company is a member company of the HDI Haftpflichtverband der Deutschen Industrie Versicherungsverein auf Gegenseitigkeit, Hannover. HDI (the parent company) prepares consolidated financial statements for the Group according to § 341 i HGB that includes the Company within the scope of consolidation. Talanx AG, Hannover, also prepares separate consolidated financial statements according to IFRS on a voluntary basis. The consolidated financial statements are published in the German electronic Federal Gazette (elektronischer Bundesanzeiger).

Hannover, 6 March 2012

Talanx Aktiengesellschaft

The Board of Management

Haas　　Dr. Hinsch　　Leue

Dr. Noth　　Dr. Querner　　Dr. Roß　　Wallin

Auditor's report

To Talanx Aktiengesellschaft, Hannover:

We have examined the annual financial statements – comprising the balance sheet, the income statement as well as the notes – including the accounting and the management report of Talanx Aktiengesellschaft, Hannover, for the financial year from 1 January through 31 December 2011. The accounting and the preparation of the annual financial statements and the management report in accordance with the provisions of German commercial law and the additional regulations of the articles of incorporation and rules of procedure are the responsibility of the Company's Board of Management. Our responsibility is to express an opinion on the annual financial statements including the accounting and on the management report on the basis of our audit.

We conducted our audit of the annual financial statements in accordance with § 317 of the German Commercial Code and in compliance with the generally accepted German standards for the audit of financial statements as promulgated by the Institut der Wirtschaftsprüfer (German Institute of Public Accountants) (IDW). These standards require that we plan and perform the audit so that errors and misstatements materially affecting the presentation of the Company's assets, financial position and earnings as conveyed in the annual fnancial statements according to the generally accepted accounting principles (Grundsätze ordnungsmäßiger Buchführung; GoB) and in the management report will be detected with reasonable assurance. Knowledge of the business activities and of the economic and legal environment of the Company as well as anticipations concerning possible misstatements were taken into account in the determination of audit procedures. As part of the audit, the effectiveness of the system of internal controls as it relates to accounting, as well as the evidence supporting the disclosures in the accounting, the financial statements and the management report are examined primarily on a sampling basis. The audit includes an assessment of the accounting policies applied and of the significant estimates made by management as well as an evaluation of the overall presentation of the financial statements and the management report. We believe that our audit provides a reasonably reliable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the understanding gained during the audit, the annual financial statements are in compliance with statutory regulations and the supplementary provisions of the articles of incorporation and give a true and fair view of the net assets, financial position and results of operations of the Company in compliance with the German generally accepted accounting principles (Grundsätze ordnungsmäßiger Buchführung; GoB). The management report is consistent with the annual financial statements and in all material respects presents a fair view of the position of the Company and of the risks and opportunities associated with future developments.

Hannover, 6 March 2012

KPMG AG
Wirtschaftsprüfungsgesellschaft

Dr. Ellenbürger	Husch
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

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

Annual Report online:
http://annualreport2011.talanx.com

Konzernstruktur
Group Structure

Talanx AG

Geschäftsbereich Industrieversicherung
Industrial Lines Division

- HDI-Gerling Industrie Versicherung AG
- HDI Versicherung AG (Austria)
- HDI-Gerling Assurances (Belgique) S.A.
- HDI-Gerling Welt Service AG
- HDI-Gerling de México Seguros S.A.
- HDI-Gerling Verzekeringen N.V. (Netherlands)
- HDI-Gerling Insurance of South Africa Ltd.
- HDI Seguros S.A. (Spain)
- HDI-Gerling America Insurance Company

Geschäftsbereich Privat- und Firmenversicherung Deutschland
Retail Germany Division

- Talanx Deutschland AG
- HDI-Gerling Firmen und Privat Versicherung AG
- HDI-Gerling Lebensversicherung AG
- HDI-Gerling Pensionsmanagement AG
- HDI-Gerling Pensionskasse AG
- HDI Direkt Versicherung AG
- neue leben Lebensversicherung AG
- neue leben Unfallversicherung AG
- PB Lebensversicherung AG
- PB Versicherung AG
- PB Pensionsfonds AG
- TARGO Lebensversicherung AG
- TARGO Versicherung AG

Geschäftsbereich Privat- und Firmenversicherung International
Retail International Division

- Talanx International AG
- L'UNION de Paris Argentina S.A.
- HDI Seguros S.A. (Brazil)
- HDI Zastrahovane AD (Bulgaria)
- HDI Seguros S.A. (Chile)
- Magyar Posta Biztosító Zrt. (Hungary)
- Magyar Posta Életbiztosító Zrt. (Hungary)
- HDI Assicurazioni S.p.A. (Italy)
- HDI Seguros S.A. (Mexico)
- Metropolitana Cía. de Seguros S.A. (Mexico)
- HDI-Gerling Zycie TU S.A. (Poland)
- HDI Asekuracja TU S.A. (Poland)
- OOO Strakhovaya Kompaniya „CiV Life" (Russia)
- OOO Strakhovaya Kompaniya „HDI Strakhovanie" (Russia)
- CiV Hayat Sigorta A.Ş. (Turkey)
- HDI Sigorta A.Ş. (Turkey)
- HDI STRAKHUVANNYA (Ukraine)
- HDI Seguros S.A. (Uruguay)

Geschäftsbereich Rückversicherung
Reinsurance Division

Schaden-Rückversicherung
Non-Life Reinsurance

Personen-Rückversicherung
Life and Health Reinsurance

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

Konzernfunktionen
Corporate Operations

- Talanx Asset Management GmbH
- AmpegaGerling Investment GmbH
- Talanx Immobilien Management GmbH
- Talanx Service AG
- Talanx Systeme AG
- Talanx Reinsurance Broker AG
- HDI Reinsurance (Ireland) Ltd.

Nur die wesentlichen Beteiligungen
Main participations only

Stand / As at: 31.12.2011

400-GB051

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