

tal anx.

Talanx AG at a glance

	2012	2011	2010
Figures in EUR thousand			
Net income from participations	365,546	247,005	360,231
Net interest income	-145,864	-144,476	-109,414
Other operating income	20,709	102,661	87,069
Other operating expenses and write-downs	100,980	103,172	358,484
Result from ordinary activities	139,411	102,018	-20,599
Extraordinary result	-14,009	-14,009	-14,161
Tax expense	-5,515	12,101	-44,524
Net income for the financial year	130,917	75,907	9,764
Retained profits brought forward	376,599	300,691	290,927
Disposable profit	507,516	376,599	300,691
Long-term financial assets	7,414,203	6,331,574	6,003,032
Equity			
Subscribed capital	315,782	260,000	260,000
Capital reserves	1,390,397	629,529	629,529
Revenue reserves	2,902,758	2,902,758	2,902,758
Disposable profit	507,516	376,599	300,691
Total equity	5,116,453	4,168,886	4,092,978
Borrowed funds with a term in excess of 1 year ¹⁾	871,106	1,274,637	1,876,285

For mathematical reasons rounding differences of \pm one unit may occur in the tables

¹⁾ The amount stated for borrowed funds with a term in excess of 1 year refers exclusively to the liabilities recognised in the balance sheet under Item C

The definitions of the key figures reported above are provided at the end of this report in the chapter "Glossary and definitions of key figures".

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Report of the Supervisory Board

The Supervisory Board performed its functions and duties in the 2012 financial year 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 company's direction, monitored the management of business and were directly involved in decisions of fundamental importance. A particular focus of the Supervisory Board's work in the year under review was to support the company in its stock market flotation. This required us to discuss various issues as reported to us by the Board of Management and to pass requisite resolutions at Supervisory Board level prior to the IPO.

In the year under review we assembled for four ordinary meetings of the Supervisory Board, held on 20 March, 15 May, 13 August and 13 November 2012. As in the previous year, the Federal Financial Supervisory Authority (BaFin) exercised its legal powers to send two representatives to attend one of these meetings. The Finance and Audit Committee of the Supervisory Board held four ordinary meetings and – in view of the IPO – five extraordinary meetings. The Personnel Committee held three meetings. Neither the Standing Committee, formed in accordance with the requirements of the German Co-Determination Act (MitbestG), nor the Nomination Committee had any reason to meet in 2012. The full Supervisory Board was briefed on the work of the various committees. In addition, we received written and oral reports from the Board of Management, based on the quarterly financial statements, on business operations and the position of the company and 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 of the German Stock Corporation Act (AktG). Where transactions requiring approval arose between meetings, the Board of Management submitted these to us for a written resolution. The Chairmen of the Supervisory Board and Board of Management regularly exchanged views on all important developments and 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 regarding the business and financial situation including the risk situation and risk management, major capital expenditure projects and fundamental issues of corporate policy, and transactions that – although not subject to the approval of the Supervisory Board – nevertheless need to be reported in accordance with the requirements of the Rules of Procedure. At our meetings we considered at length the reports provided by the Board of Management and put forward suggestions and proposed improvements. All Supervisory Board meetings were attended by every member, with the exception of the March meeting from which one shareholder representative was excused as they were unable to attend. There were no conflicts of interest requiring disclosure to the Supervisory Board and reporting at the Annual General Meeting in the year under review.

Key areas of discussion for the full Supervisory Board

The following issues formed the primary focus of reporting and were discussed in detail at our meetings: consideration of the company's IPO insofar as this had not been devolved by full Supervisory Board resolution to the Finance and Audit Committee, business development of the company and individual Group segments, implementation of the Retail Germany division's restructuring, pooling of IT services in an in-house service company, integration and consolidation of newly acquired foreign companies, and planning for 2013. We were informed of the reasons why business development for the preceding financial year had diverged from relevant plans and targets, and were able to satisfy ourselves accordingly with the explanations provided.

Risk management within the Group was again a further focus of our deliberations. Risk reporting by the Board of Management was discussed at each meeting of the Supervisory Board. In addition, we considered a number of refinancing measures and gave our agreement prior to the IPO to the basis for future capital measures (conditional and authorised capital). The Supervisory Board also discussed the strategic realignment of the Turkish property/casualty insurance company in the Group.

In view of § 87 Para. 1 of the German Stock Corporation Act as amended by the German Act on the Appropriateness of Management Board Remuneration (VorstAG), the full Supervisory Board considered bonus setting for members of the Board of Management, including consulting external sources as part of its remuneration assessment process. In addition, at its meeting on 13 November 2012, the Supervisory Board was informed about the structure of remuneration systems within the Group as required by § 3 Para. 5 of the German Regulation on Remuneration in the Insurance Sector (Versicherungs-Vergütungsverordnung). There was also a scheduled review of the fixed remuneration of five Members of the Board of Management as at 1 January 2013. The issue of the appropriateness of the remuneration system for Group managers was discussed at Supervisory Board meetings on 20 March 2012 and 15 May 2012.

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 Board of Management's information and reporting obligations towards the Supervisory Board were summarised in an information policy and adopted on 15 May 2012.

Work of the committees

Following appropriate delegation by the full Supervisory Board and within the framework specified by the full Board, the Finance and Audit Committee of the Supervisory Board considered issues requiring discussion and decisions prior to the IPO and passed necessary resolutions. Along with preparations for discussion and adoption of resolutions by the full Supervisory Board, it also carried out in-depth reviews of the company's quarterly financial statements. Furthermore, the Finance and Audit Committee discussed the findings of an actuarial audit of the net claims reserves for non-life insurance business within the Talanx Group together with profitability trends at individual Group companies as at 31 December 2011, and considered the internal control system, risk reports, risk management and internal audit activities, and the annual report submitted by the Chief Compliance Officer.

The Personnel Committee – along with preparations for discussion and adoption of resolutions by the full Supervisory Board – set targets for individual members of the Board of Management for the 2013 financial year. Recommendations were also made to the full Supervisory Board with regard to setting bonuses and reviewing fixed remuneration for members of the Board of Management.

The Nomination Committee met on 15 January 2013 and made recommendations regarding nominations for re-election of the shareholder representatives on the Supervisory Board at the General Meeting on 6 May 2013; the recommendations aim to ensure that composition of the Supervisory Board is both balanced and diverse.

Corporate Governance

The Supervisory Board again devoted special attention to the issue of Corporate Governance. Talanx's main Corporate Governance principles were summarised in a paper adopted by the Supervisory Board on 13 August 2012. In its meeting on 20 March 2013 the Supervisory Board considered various amendments to the German Corporate Governance Code (DCGK) as reflected in the version of 15 May 2012, and determined the appropriate number of independent members of the Supervisory Board pursuant to Item 5.4.2 of the Code. This also resulted in an amendment to the Supervisory Board's Rules of Procedure. Despite the great importance which the Supervisory Board attaches to high standards of responsible enterprise management as formulated in the German Corporate Governance Code, it has decided against complying with the recommendations of Item 4.2.3 Para. 4 of the Code relating to a severance payment cap in Management Board employment contracts and Item 5.2 Para. 2 regarding the Audit Committee chairman. The reason for this relates to the declaration of conformity pursuant to § 161 of the German Stock Corporation Act concerning compliance with the German Corporate Governance Code that appears in the Group Annual Report as part of the declaration on Corporate Governance. Further information on Corporate Governance is available on the Talanx AG website.

Audit of the annual and consolidated financial statements

KPMG AG, Wirtschaftsprüfungsgesellschaft, Hannover, audited Talanx AG's annual financial statements submitted by the Board of Management, the Talanx Group's financial statements drawn up in accordance with International Financial Reporting Standards (IFRS), together with corresponding Management Reports and accounting records. The auditors were appointed by the General Meeting. The Finance and Audit Committee awarded the specific audit mandate, and determined that in addition to the usual audit tasks special attention should be given in the 2012 financial statements to reviewing the forecast report and implementation of new requirements resulting from the IPO. The focus points in the consolidated financial statements were examining the application of IFRS 3 due to the first-time consolidation of three foreign companies, reviewing IAS 33 (earnings per share), the forecast report, and implementation of new IFRS improvements. The audit focus points of the German Financial Reporting Enforcement Panel (DPR) also formed the basis for various year-end procedures carried out by the auditors.

The audits conducted by the auditors provided no grounds for objection. The audit reports issued were unqualified, and state that the accounting records, annual financial statements and consolidated financial statements give a true and fair view of the net assets, financial position and net income, and that the Management Reports suitably reflect the annual and consolidated financial statements.

The financial statements and the KPMG audit reports were distributed to all the members of the Supervisory Board in good time. They were examined in detail at a Finance and Audit Committee meeting on 19 March 2013 and at a Supervisory Board meeting on 20 March 2013. The auditor took part in the Finance and Audit Committee's deliberations and those 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, 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 thereby adopted. We approve the statements made in the Management Reports regarding further development of the company. After examination of all relevant considerations we agree with the Board of Management's proposal for the appropriation of disposable profit.

The report on the company's relations with affiliated companies drawn up by the Board of Management in accordance with § 312 of the German Stock Corporation Act 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 company's expenditure 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.

An expression of thanks to the Board of Management and staff

The Board of Management and staff worked and acted with considerable personal dedication in the past financial year, particularly with regard to the Company's IPO. The Supervisory Board would like to express its special appreciation of their efforts.

Hannover, 20 March 2013

For the Supervisory Board

Wolf-Dieter Baumgartl
(Chairman)

Boards and Officers

Supervisory Board

Wolf-Dieter Baumgartl

Chairman

Berg

Former Chairman of the Board
of Management
of Talanx AG

Further current seats on supervisory
boards/control boards:

- Chairman of the Supervisory Board
HDI V. a. G.
- Member of the Supervisory Board
Hannover Rückversicherung AG
- Member of the Advisory Board
E+S Rückversicherung AG
- Member of the Administrative Board
HDI Assicurazioni S. p. A.

Ralf Rieger*

Deputy Chairman

Raesfeld

Employee

HDI Vertriebs AG

Further current seats on supervisory
boards/control boards:

- Member of the Supervisory Board
HDI Vertriebs AG

Prof. Dr. Eckhard Rohkamm

Deputy Chairman

Hamburg

Former Chairman of the Board
of Management
of ThyssenKrupp Technologies AG

Further current seats on supervisory
boards/control boards:

- Deputy Chairman of the
Supervisory Board HDI V. a. G.
- Chairman of the Advisory Board
J.J. Sietas KG Schiffswerft GmbH u. Co.**

Antonia Aschendorf

Hamburg

Lawyer

Member of the Board of Management
of APRAXA eG

Further current seats on supervisory
boards/control boards:

- Member of the Supervisory Board
 - Hamburger Friedhöfe AöR**
 - HGV Hamburger Gesellschaft
für Vermögens- und Beteiligungs-
management mbH**

Karsten Faber*

Hannover

Managing Director

Hannover Rückversicherung AG,

E+S Rückversicherung AG

Further current seats on supervisory
boards/control boards:

- Chairman of the Supervisory Board
 - Aegidius Rückversicherung AG**
 - AGILA Haustierversicherung AG**
 - European Warranty Partners SE,
Hannover**
 - Wertgarantie AG**

Jutta Hammer*

Bergisch Gladbach

Employee

HDI Kundenservice AG

Further current seats on supervisory
boards/control boards:

- Member of the Supervisory Board
HDI Kundenservice AG

Gerald Herrmann*

Norderstedt

Trade union secretary

Further current seats on supervisory
boards/control boards:

- Member of the Supervisory Board
 - Finanz Informatik GmbH & Co. KG**
 - Landesbank Berlin AG**
 - Landesbank Berlin Holding AG**

Dr. Thomas Lindner

Albstadt

Chairman of the Board of Management
of Groz-Beckert KG

Further current seats on supervisory
boards/control boards:

- Member of the Supervisory Board
HDI V. a. G.
- Chairman of the Regional
Advisory Board Stuttgart
of Deutsche Bank AG**
- Member of the Regional
Advisory Board Southwest
of Commerzbank AG**

Jutta Mück*

Oberhausen

Employee

HDI-Gerling Industrie Versicherung AG

Further current seats on supervisory
boards/control boards:

- Member of the Supervisory Board
 - HDI-Gerling Industrie
Versicherung AG
 - Talanx Service AG

* Staff representative

** Memberships of supervisory boards and comparable control boards at other
non-Group enterprises in Germany and abroad

Otto Müller*

Hannover
Employee
Hannover Rückversicherung AG

Further current seats on supervisory boards/control boards:

- Member of the Supervisory Board
Hannover Rückversicherung AG

Dr. Hans-Dieter Petram

Inning
Former Member of the Board
of Management
of Deutsche Post AG

Further current seats on supervisory boards/control boards:

- Member of the Board of Directors
DHL Global Mail, Florida**

Dr. Michael Rogowski

Heidenheim
Chairman of the Foundation Council
of Hanns-Voith-Stiftung

Further current seats on supervisory boards/control boards:

- Member of the Supervisory Board
 - Carl Zeiss AG**
 - HDI V.a.G.
 - Klöckner & Co. SE**
 - Vattenfall GmbH**

Katja Sachtleben-Reimann*

Hannover
Employee
Talanx Service AG

Further current seats on supervisory boards/control boards:

- Member of the Supervisory Board
 - Talanx Service AG
 - Talanx Systeme AG

Dr. Erhard Schipporeit

Hannover
Former Member of the Board
of Management
of E.ON AG

Further current seats on supervisory boards/control boards:

- Member of the Supervisory Board
 - BDO AG**
 - Deutsche Börse AG**
 - Fuchs Petrolub AG**
 - Hannover Rückversicherung AG
 - HDI V.a.G.
 - SAP AG**
- Member of the Board of Directors
 - Fidelity Funds SICAV, Luxembourg**
 - TUI Travel PLC, London**

Prof. Dr. Ulrike Wendeling-Schröder*

Hannover
Professor at Leibniz University

Werner Wenning

Leverkusen
Chairman of the Supervisory Board
of Bayer AG

Further current seats on supervisory boards/control boards:

- Chairman of the Supervisory Board
E.ON AG**
- Member of the Supervisory Board
 - Deutsche Bank AG**
 - HDI V.a.G.

* Staff representative
** Memberships of supervisory boards and comparable control boards at other non-Group enterprises in Germany and abroad

Supervisory Board Committees

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

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*
- Dr. Michael Rogowski
- Prof. Dr. Eckhard Rohkamm
- 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

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

Further current seats on supervisory boards/control boards:

- Chairman of the Supervisory Board
 - E+S Rückversicherung AG
 - Hannover Rückversicherung AG
 - HDI-Gerling Industrie Versicherung AG
 - HDI Kundenservice AG
 - HDI Lebensversicherung AG
 - HDI Versicherung AG
 - Talanx Deutschland AG
 - Talanx International AG
 - Talanx Systeme AG
- Member of the Advisory Board NORD/LB*

Dr. Christian Hinsch

Deputy Chairman

Burgwedel

Deputy Chairman of the Board of Management

HDI Haftpflichtverband

der Deutschen Industrie V.a.G.,

Chairman of the Board of Management

HDI-Gerling Industrie Versicherung AG,

Hannover

Responsible on the Talanx Board of Management for:

- Division: Industrial Lines
- Facility Management
- Human Resources
- Procurement
- Reinsurance Purchasing

Further current seats on supervisory boards/control boards:

- Chairman of the Supervisory Board
 - Talanx Reinsurance Broker AG
 - Talanx Reinsurance (Ireland) Ltd.
 - Talanx Service AG
- Deputy Chairman of the Supervisory Board
 - Extremus Versicherung AG*
 - Talanx Systeme AG
- Member of the Supervisory Board
 - RAG AG*
 - RAG Deutsche Steinkohle AG*

Torsten Leue

Hannover

Chairman of the Board of Management

Talanx International AG, Hannover

Responsible on the Talanx Board of Management for:

- Division: Retail International

Further current seats on supervisory boards/control boards:

- Chairman of the Supervisory Board
 - CIV Hayat Sigorta Anonim Sirketi
 - HDI-Gerling Życie Towarzystwo Ubezpieczeń S. A.
 - HDI Seguros S. A.
 - HDI Sigorta A. S.
 - Magyar Posta Életbiztosító Részvénytársaság
 - Towarzystwo Ubezpieczen Reasekuracji WARTA Spolka Akcyjna
 - Towarzystwo Ubezpieczen Europa Spolka Akcyjna
 - Towarzystwo Ubezpieczen na Życie WARTA Spolka Akcyjna
- Member of the Supervisory Board
 - Talanx Service AG
- Deputy Chairman of the Administrative Board
 - HDI Assicurazioni S. p. A.

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

Further current seats on supervisory
boards/control boards:

- Chairman of the Supervisory Board
Talanx Asset Management GmbH
- Deputy Chairman of the Supervisory Board
 - AmpegaGerling Investment GmbH
 - Talanx Deutschland AG
 - Talanx Immobilien Management GmbH
 - Talanx Reinsurance Broker AG
 - Talanx Service AG
- Member of the Supervisory Board
 - E+S Rückversicherung AG
 - Hannover Rückversicherung AG
 - HDI Lebensversicherung AG
 - HDI Versicherung AG
 - Talanx International AG
 - Talanx Reinsurance (Ireland) Ltd.
 - Talanx Systeme AG
 - TERTIA Handelsbeteiligungsgesellschaft mbH*
- Member of the Administrative Board
Talanx Finanz (Luxemburg) S.A.

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

Further current seats on supervisory
boards/control boards:

- Chairman of the Supervisory Board
 - HDI Vertriebs AG
 - neue leben Holding Aktiengesellschaft
 - neue leben Lebensversicherung AG
 - PB Lebensversicherung AG
 - PB Versicherung AG
 - Talanx Deutschland Bancassurance
Kundenservice GmbH
 - TARGO Lebensversicherung AG
 - TARGO Versicherung AG
- Member of the Supervisory Board
 - Talanx Service AG
 - Talanx Systeme AG
- Member of the Advisory Board
Roland Rechtsschutz Versicherung AG*

Ulrich Wallin

Hannover
Chairman of the Executive Board
Hannover Rückversicherung AG,
Hannover

Responsible on the Talanx Board of Management for:

- Division: Reinsurance

Further current seats on supervisory
boards/control boards:

- Chairman of the Supervisory Board
 - Hannover Life Reassurance Company of America
 - Hannover Re (Bermuda) Ltd.
 - Hannover Re (Ireland) Public Limited Company
- Member of the Supervisory Board
Hannover Life Re of Australasia Ltd.

* Memberships of supervisory boards and comparable control boards at
other non-Group enterprises in Germany and abroad

Management Report. Enterprise management

Within the Talanx Group we have set ourselves a number of core tasks, which we want to achieve on a sustained basis: providing reliable support for our clients, maintaining sufficient independent capacities in all market phases, cultivating new markets, and safeguarding and increasing the intrinsic value of the Group for shareholders in the long term. At the same time, more and more demanding requirements are being made of insurance groups by the regulatory environment and by capital markets and rating agencies. We have responded to the background situation determined by these internal and external influences by defining the following goals:

- increase profitability and create value
- make optimal use of capital
- optimise the cost of capital
- invest in areas where we generate the highest risk-adjusted return over the long term
- seize strategic opportunities and at the same time remain aware of and manage the immanent risks

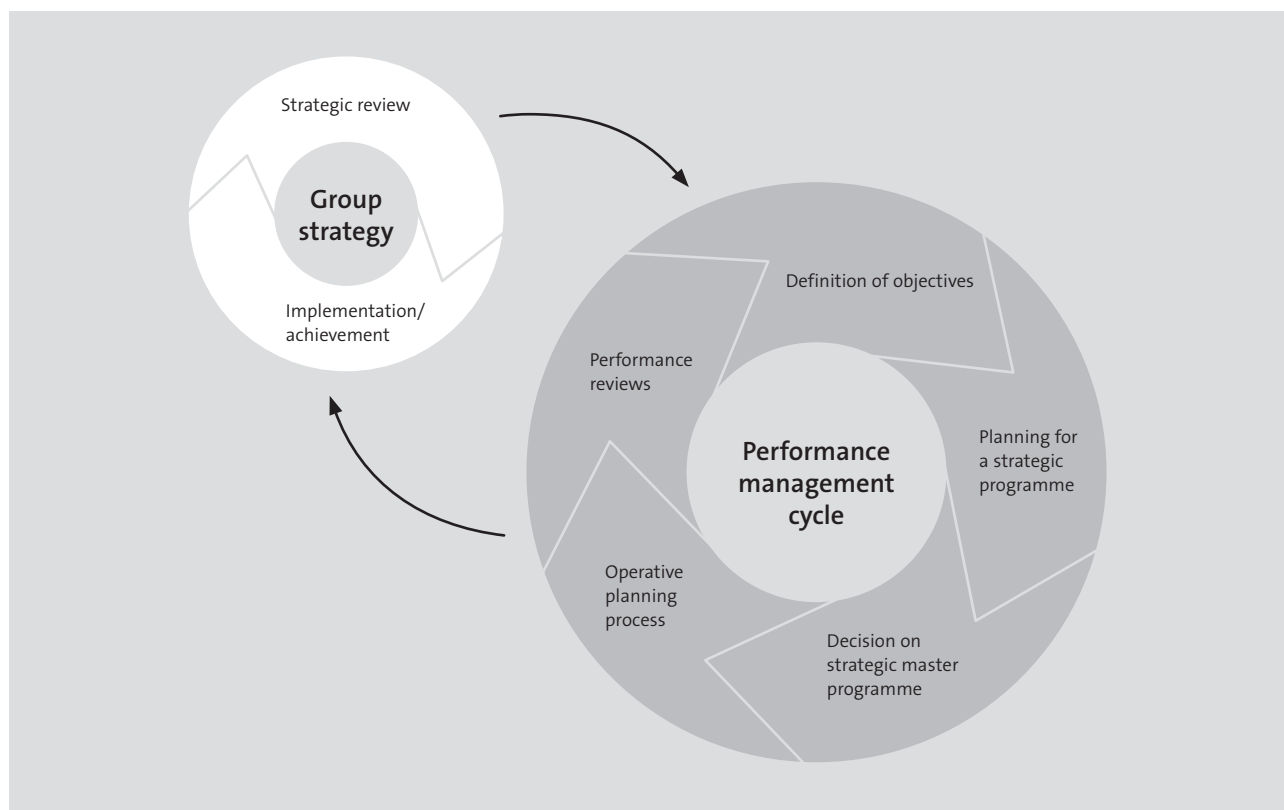
We pursue these goals with the aid of our holistic, integrated management system, in which we devote special attention to the four fundamental management processes that govern the interplay between the holding company Talanx AG and the various divisions: capital management, performance management, risk management and mergers & acquisitions (M & A).

Performance management

Performance management is the centrepiece of our array of steering tools. In our systematic approach, a clear strategy geared to ensuring the Group's long-term viability and consistent enforcement of that strategy are fundamental to efficient enterprise and group management. Since instances of mismanagement are very often due to inadequate implementation of the defined strategy, we devote particularly close attention to the process steps that serve to ensure that our entrepreneurial actions are in line with our strategic objectives.

In the year under review, our performance management cycle, which is closely linked with our Group strategy, was as follows:

Performance management cycle



The major stages in strategy implementation at the Talanx Group are drawing up a strategic programme, i.e. breaking down the strategic objectives into specific goals, and then breaking these goals down into operational targets that are underpinned by concrete measures.

Performance management and the steering of the divisions are guided by the following basic principles:

- The Board of Management of Talanx AG (the holding company) defines strategic objectives as a framework for planning and aligning business activities. The focus is on the Group's core management ratios and on Group-wide strategic initiatives. The objectives formulated by the holding company thus define the Group's aspirations in terms of economic value creation, profitability, level of security and growth initiatives

- The holding company and the Group's divisions use a consistent performance metric to manage their business. This performance metric encompasses not only financial core management ratios but also other relevant operational management ratios from four different perspectives: the financial perspective, the market/client perspective, the process perspective and the staff perspective
- The Boards of Management of the holding company and the divisions meet regularly to discuss and assess performance on the basis of this performance metric

The performance metric enables us to link up our strategic and operational planning by setting out our strategy in measurable terms in structured overviews and monitoring its execution.

Core management ratios	Operational management ratios								
<p>From Group parameters and strategic programme planning of the divisions:</p> <table border="1" style="width: 100%;"> <tr><td style="padding: 5px;">IVC, xRoCC</td></tr> <tr><td style="padding: 5px;">Dividend</td></tr> <tr><td style="padding: 5px;">Risk budget, capital adequacy ratio (CAR)</td></tr> </table>	IVC, xRoCC	Dividend	Risk budget, capital adequacy ratio (CAR)	<p>Operational requirements from the divisions:</p> <table border="1" style="width: 100%;"> <tr> <td style="padding: 5px;">Financial perspective Finance</td> <td style="padding: 5px;">Market and customer perspective Market/customers</td> </tr> <tr> <td style="padding: 5px;">Internal perspective Processes</td> <td style="padding: 5px;">Learning and development perspective Staff</td> </tr> </table>		Financial perspective Finance	Market and customer perspective Market/customers	Internal perspective Processes	Learning and development perspective Staff
IVC, xRoCC									
Dividend									
Risk budget, capital adequacy ratio (CAR)									
Financial perspective Finance	Market and customer perspective Market/customers								
Internal perspective Processes	Learning and development perspective Staff								
<p>Our five core management ratios</p> <ul style="list-style-type: none"> ■ IVC – intrinsic value creation Value creation of the division in accordance with value-based management (as an absolute amount) ■ xRoCC – Excess Return on Company's Capital Value creation of the division in accordance with value-based management (relative to the company's capital) ■ Dividend/profit transfer of the division ■ Risk budget Definition of available risk capital per division ■ Capital adequacy ratio (CAR) Minimum solvency level of the division (ratio of company's capital to risk-based capital) 									

Group holding company and Group divisions use a consistent performance metric to manage business.

Management indicators

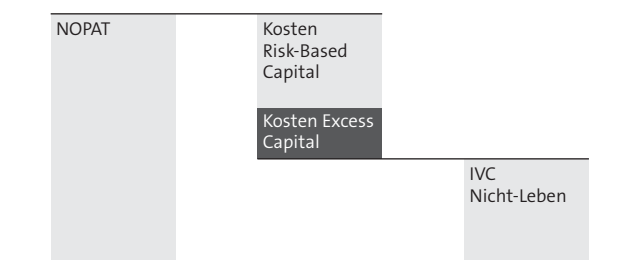
As part of our performance management, we measure economic value creation from strategic planning through to operational management using our central management indicator, namely intrinsic value creation (IVC).

The IVC enables us to identify and consistently allocate the value contributions of the Group at different hierarchical levels – Group, divisions and operating companies. The IVC and its methodological determination form the basis on which the value-contributions of the divisions and of the individual operational units can be measured and compared – making allowance for their specific characteristics – in order to reliably identify value-creating areas. The core management ratios, the operational management ratios and their respective degrees of goal accomplishment create the transparency-needed to optimise the allocation of capital and resources, to pinpoint risks and opportunities and to initiate further measures.

The methodological determination of the IVC – and hence of the economic value creation – is carried out unchanged according to the uniform scheme for our life and non-life companies. Under this approach, the intrinsic value creation represents the economic net income in each period less the cost of capital.

The IVC is calculated on the basis of different specific ratios for life and non-life.

Calculation of IVC for non-life



In non-life business (i.e. property/casualty insurance and non-life reinsurance), the IVC measures the difference between the NOPAT (net operating profit after adjustments and tax) and the cost of risk-based capital and excess capital.

The NOPAT is an economically informative performance and management ratio for the reporting period in question, which is derived from the net income for the year as recognised under IFRS after tax. Fair value adjustments that arise out of the change in differences between present values and carrying amounts on both the assets and liabilities side of the balance sheet, e.g. under investments and loss reserves (loss reserve discount, excess loss reserves), are taken into account.

The cost of capital reflects the expectations of lenders/investors as regards interest on the capital they have provided; this must be deducted from the NOPAT to arrive at the IVC and hence at the true value created in the context of value-based management. It consists of the costs associated with the allocated risk-based capital and the cost of excess capital. The risk-based capital is the capital a company or unit needs to adequately cover its risks with a defined level of security. It thus reflects the amount of capital required to protect the entity against financial insolvency.

While the risk-based capital is divided between the profit centres in accordance with their actual risks on the basis of a 99.97 percent value at risk, the excess capital is obtained as the difference between the company's capital and the risk-based capital. The cost of risk-based capital is calculated from a risk-free basic interest rate, a risk premium reflecting the current market situation and friction costs. By contrast, calculation of the cost of excess capital takes only the risk-free interest rate and friction costs into account, since the capital itself is not at risk.

An overview of our capital cost rates

- The risk-free basic interest is an interest rate that is calculated on the basis of the three-year average for 10-year swap rates. The swap rate from the beginning of the financial year and the two previous years is used to calculate the average
- The margin of risk is the consideration an investor expects for investing in a vehicle that involves some kind of risk (e.g. a company). As the margin of risk cannot be defined individually for each investor, it is derived from the excess return on a share index compared with a risk-free investment
- Friction costs are opportunity costs incurred by a shareholder through investing his capital not directly in the capital market but rather indirectly via a company in which the capital is tied down and no longer freely fungible. This generic term encompasses elements such as double taxation, the risk of insolvency and agency costs

The following table shows the capital cost rates underlying the value-based management of our non-life business at a security level with a one-year ruin probability of 0.5%, corresponding to the regulatory confidence level, whereby – in line with our target AA capitalisation in accordance with Standard & Poor’s – the Group’s own benchmark for a ruin probability is below the minimum regulatory requirements at 0.03%.

Cost of equity for non-life business

Capital cost rates in %	
Risk-free interest ¹⁾	3.1
Margin of risk	4.0
Friction cost	2.0

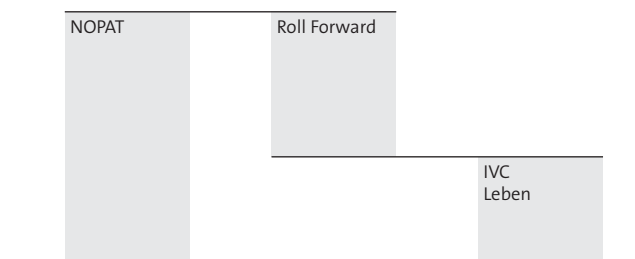
¹⁾ Basis: three-year average of ten-year swap rates for the Eurozone at 31 December 2009, 2010, 2011

On this basis, the cost of risk-based capital offers the investor a return that is 600 basis points above the risk-free interest rate. Above this rate of return, value is created. The return on equity of at least 750 basis points above “risk-free” targeted for the Group as a whole in our strategy thus already includes an aspiration to intrinsic value creation.

Value creation in life business (i.e. life/health insurance and reinsurance) is measured in terms of the change in the Market Consistent Embedded Value (MCEV), which is expressed in the MCEV earnings. The MCEV is defined as the going-concern value, which consists of two components: the discounted present value of future earnings until final run-off of the in-force portfolio plus the fair value of equity with allowance made for capital commitment costs. In other words, the MCEV is the sum of the earning capacity value of the in-force portfolio and the net asset value or company’s capital.

We chose the MCEV as the basis for value-based management of our life insurance business because it represents the going-concern value inherent in the insurance portfolio already in force from the standpoint of the shareholder. It thus lends itself ideally to determining the intrinsic value creation within life insurance companies with their typically long-running products.

Calculation of IVC for life



The life IVC is thus determined as the difference between the MCEV earnings, corresponding to NOPAT, and the roll forward, the latter corresponding to the expected cost of capital after allowance for exposure to capital market risks.

In order to measure and compare the returns delivered by business units or divisions of different sizes, the IVC is taken in relation to the capital available to each. In this way we arrive at the ratio known as the xRoCC (Excess Return on Company’s Capital), which indicates the return for the shareholder in excess of the cost of capital.

Business overview and general climate

Talanx AG serves as the financial and management holding company of the Talanx Group, which is active worldwide with its own 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.

Talanx AG was listed for the first time on the Frankfurt Stock Exchange on 2 October 2012. Talanx shares successfully began trading in the Prime Standard at EUR 19.05. The initial price was thus around 4% higher than the placement price of EUR 18.30 per share. The shares have been included in the MDAX mid-cap index since 12 December 2012.

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 raising and optimising equity and debt capital for the Group.

Macroeconomic environment and industry-specific conditions

Overall economic development

The European sovereign debt crisis was again the dominant issue affecting worldwide economic development in the year under review. At a global level the 2012 economic environment proved to be fragile overall, although the outlook improved slightly at the end of the year, albeit only in certain areas. Recovery in the USA gained momentum in the second half of the year, allowing emerging countries, particularly China, to

reap the benefits. In contrast, the economic situation in the Eurozone remained challenging and the difficult conditions experienced there were reflected in the numerous, sometimes drastic, measures taken over the course of the year. In spring 2012 the ECB placed its second three-year tender and Greece's private creditors wrote off part of what they were owed. The EU summit at the end of June, in response to the crisis in the Spanish banking sector, decided that the European Stability Mechanism (ESM) should in future support banks directly. In September, the ECB announced details of its new bond purchase programme. This will allow it to make unlimited purchases of government bonds from crisis-hit countries as and when required. In November, the Eurozone and the International Monetary Fund (IMF) jointly approved a further rescue package for Greece, and the EU finance ministers agreed that in future the ECB should bear ultimate responsibility for bank supervision in the Eurozone.

In 2012 the Eurozone economy slid de facto into recession. In the first quarter it was stagnant when compared to the previous quarter, but then declined slightly. Growth in the German economy of 0.5% in the first quarter of 2012 was unexpectedly strong compared to the previous quarter, but was only moderate in following quarters. After falling six times (and, in October 2012, reaching its lowest level since February 2010), the respected business climate indicator the ifo index was surprisingly positive in December at 102.4. Unemployment in the Eurozone reached a record high in November of 11.8%, while Spain struggles on with an unemployment rate of over 25%.

The United States were again the global economy's driving force. Although US growth declined at first from an annualised rate of 2.0% in the first quarter to 1.3% in the second quarter, the economy grew again in the third quarter to 3.1%. Unemployment fell to a four-year low of 7.8%, and housing market data indicated a steady recovery throughout the year. The UK experienced a recession similar to that of the Eurozone, with the economy shrinking by 0.2% in the first quarter of 2012 compared to the previous quarter, and by even more in the second

quarter. The third quarter benefited from a one-off effect of the summer Olympic Games in London, with recorded growth of 0.9%. However, it is likely that over the year as a whole the UK economy will have slightly contracted.

Monetary policy pursued by the major central banks remained highly expansionary over the year. In the Eurozone, the ECB cut its base rate in July from 1.0% to 0.75% and announced that it would support the euro come what may. In the USA, the Fed expanded its “quantitative easing” programme and unexpectedly indicated that it intended to adhere to its zero interest rate policy until the unemployment rate drops to 6.5%. In the UK, the Bank of England further expanded its securities purchase programme in the third quarter to GBP 375 billion.

Inflation rates in the Eurozone were consistently higher than the ECB’s target range during the year, but dropped back down to 2.2% in November. In the USA, inflation rates were still running at just under 3% in the first quarter of 2012, but by the fourth quarter were down to 1.8%. In the UK, inflation also fell in the course of the year, from around 3.5% down to 2.7%.

Although the euro fell sharply in the first half of 2012 from around 1.35 USD/EUR to 1.21 USD/EUR, against the backdrop of the ongoing euro debt crisis, it subsequently recovered, particularly as a result of the ECB’s promise of support for the euro. In the final quarter it reached 1.32 USD/EUR. The euro’s relationship to sterling was similar. Having fallen to a low of 0.78 GBP/EUR, it recovered to 0.82 GBP/EUR. The Swiss central bank’s declaration that it would no longer tolerate an exchange rate below 1.20 CHF/EUR had an impact; in September, the euro moved from 1.20 CHF/EUR and by the turn of the year had reached around 1.21 CHF/EUR. Over the year, the euro lost just under 9% against the Polish zloty, and gained nearly 12% against the Brazilian real.

Capital markets

The European debt crisis and the liquidity and refinancing situation in the banking sector also dominated developments on the bond markets in the year under review. At the start of the year market participants displayed an appetite for risk, despite there being no visible signs of a sustainable solution to the crisis. Debate over debt write-downs in Greece was a constant negative factor until these were implemented at the beginning of March. Nevertheless, both of the ECB’s three-year tenders managed to calm the markets, at least with regard to liquidity considerations.

There was a very high level of new issue activity in various asset classes at the start of the year. Unsurprisingly the proportion of financial bonds being issued was significantly lower than in previous years as a result of alternative funding opportunities available through the ECB. Government bonds accounted for the lion’s share overall, mainly from Spain and Italy in the first quarter (particularly in January).

Investors focused on the Eurozone’s unresolved problems and the weak macroeconomic environment in the second quarter, becoming again considerably more risk averse. There was very little activity in new issues across much of the market, and bond markets were again much more volatile. Risk premiums increased and returns on German government bonds fell. Ten-year German government bonds reached an historic low of around 1.13% at the end of May.

Despite fears of the crisis worsening again, spreads were favourable on the whole in the third quarter. While hesitant and volatile in July, a relatively stable trend was established from August onwards in narrowing spreads on the credit markets, due principally to the ECB’s clear position on further bond purchases. In this climate issuers of corporate financial and covered bonds showed a keen interest in refinancing, which attracted considerable interest from investors. In terms of issuing business, an above-average level of activity in August was followed by even greater activity in September. Interest

in funding was particularly high in Spain and Italy. Ratings on the whole remained under pressure. In the third quarter there was a succession of downgrades of various banks and countries in the Eurozone (Spain, Italy, Slovenia, Cyprus).

The positive trend continued in the fourth quarter. Despite many unresolved problems, such as bank rescue operations in Spain, Greek bond repurchase, slowing reform in France, debate over the fiscal cliff in the USA, forthcoming political decisions such as the Italian election in February 2013 and further negative news (the downgrade of France to AA+ and the EFSF to Aa1), bond markets in general were very stable. Returns for three-year German government bonds were slightly negative at the end of the year. At the end of December, two-year German government bonds stood at -0.02% and five-year bonds at 0.29%, while the yield on ten-year German government bonds was 1.29%.

After significant investment gains in the first quarter – which were essentially driven by liquidity – stock markets came under considerable pressure in the second quarter. However, political measures such as base rate cuts in the Eurozone and China, the ECB's plans to buy up more government bonds and further quantitative easing by the Fed boosted share prices again in the third quarter. Robust US economic data and a recovery in early German and Chinese indicators helped provide further gains on European markets in the fourth quarter. The impending US fiscal cliff, involving automatic cuts in expenditure and increases in taxes, dampened activity on the American stock market in the final quarter. The Dax registered substantial growth of +29% on the previous year, while the performance of the EURO STOXX 50 at +14% was also remarkable. The Dow Jones increased by just over 7% on the beginning of the year.

Insurance industry

The German insurance industry faced a challenging economic environment in 2012. For the fifth year running the financial and debt crisis left its mark and had a debilitating effect on the European economic climate. Continued low interest rates

also posed a tough test for the industry – particularly for life insurers. Negative effects on our business and our clients were minimised thanks to a long term investment strategy, a broadly diversified range of investments with low exposure to crisis countries and sophisticated risk management. Business development in the German insurance industry has on the whole been stable in the year under review considering the difficult overall conditions. Premium income increased slightly, spanning various lines of business, reaching its highest level since 1990. Property and casualty insurance have not experienced such vigorous growth since 1994, and life insurance business with regular premium payments grew moderately for the second time in a row since the crisis began.

Property and casualty insurance were characterised in the financial year 2012 by healthy sales revenue and the highest premium growth since deregulation of the insurance industry in 1994. All branches of property and casualty insurance benefited from this development. The increase in premium income in motor insurance was particularly strong, driven by hikes in premiums in both existing and new business. The trend towards a hardening market, already apparent in the previous year, therefore continues but remains confined to motor insurance. The second highest growth rate, which was also the largest increase in ten years, was in property insurance. This trend can be attributed mainly to a rise in insured real estate values. High growth rates were also recorded in the smaller (based on premium volume) marine and aviation lines, and in credit insurance. Growth rates were slower in general liability insurance, private accident insurance and legal protection insurance.

Premium income growth was equalled in 2012 however by growth in benefits payable. Property and casualty insurers had to absorb a level of claims that was higher than in any previous year. Expenditure increased in almost all classes of insurance, the highest occurring in property insurance and credit insurance. In property insurance, heavy frosts at the beginning of the year and more domestic burglaries made

their presence felt. In industrial property insurance, Germany's greatest single loss in the fire line at EUR 335 million also took its toll. The jump in benefits payable in credit insurance was due mainly to number of insolvencies. In contrast, there was only a slight increase in claims expenditure in motor insurance. Across all lines of property and casualty insurance, the GDV expects the combined ratio to remain similar to that of the previous year, and anticipates a slight increase in underwriting profit.

In respect of premium income development in life assurance, single-premium business continued its return to normality in 2012, and there was moderate growth in business with regular premium payments. Premium income was slightly down overall. The industry had been expecting a drop in single premiums and in the event it was smaller than anticipated compared to the previous year, meaning that single premiums also remained at a high level in 2012. The structure of new business continued the trend evident since the start of the financial crisis, i.e. a noticeable shift towards traditional life insurance with guaranteed benefits at the expense of unit-linked policies. Whereas in 2008 the proportion of traditional policies for endowment contracts still constituted just under 60% of new business, this had risen by 2012 to just over three quarters. The figures for new business continue to reflect the great importance of annuity insurance. Based on the number of policies this accounts for almost half of new business, and on the basis of premiums payable, over two thirds. The life insurance and pension funds portfolio in the year under review was slightly below its 2011 level. Lapse rates remained at the comparatively low level of previous years.

A major challenge for life insurance remains the prolonged low level of interest rates, which shows no sign of ending in the short term. In this climate German life insurers have succeeded, even in the year under review, in achieving net returns that exceed guaranteed interest.

Business development of Talanx AG

Despite this challenging market 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 was lower than in the previous year. The Group restructuring in the Retail Germany division continued and is still ongoing. The goal is to align the business processes and organisation with the needs of the division's clientele and sales partners in order to create a particularly efficient insurer in Germany with a strong customer focus. The year under review took a charge from restructuring costs associated with the reorganisation of the Retail Germany division and with the acquisitions in Poland in the Retail International division.

Working in concert with our strategic partner Meiji Yasuda, we are striving to make the most of the available market opportunities in order to continue growing in foreign markets. In particular, the central focus here is on investments in Central and Eastern Europe as well as Turkey and Latin America. Our acquisitions of the Europa Group and WARTA in Poland, which closed on 1 June and 1 July 2012 respectively, were carried out jointly with Meiji Yasuda.

Talanx AG successfully completed its initial public offering in October 2012 when the share was listed for the first time on the Frankfurt Stock Exchange. Following implementation of the capital increase associated with the greenshoe option, around 11.2% of the shares of Talanx AG are in the free float while 6.5% of shares are held by Meiji Yasuda. The remaining 82.3% interest is held by the previous sole shareholder HDI V.a.G. The total volume of the transaction thus amounted to around EUR 817 million including the EUR 300 million subordinated bond held by Meiji Yasuda Life Insurance, which was converted into shares at the IPO price.

Talanx AG's invitation during the third quarter to repurchase selected bonds met with a very positive response. In total, investors offered the Company bonds with a nominal value of around EUR 204 million for repurchase, which Talanx redeemed in full on 11 July 2012.

Net assets, financial position and results of operations

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 euro-denominated interests which it holds in subsidiaries. Total assets grew by 13% to EUR 8.0 (7.1) billion. Along with the increase of 15% in the carrying amount of the shares in affiliated companies to EUR 7.1 (6.1) billion, the financial assets in the form of loans to affiliated companies (+EUR 154 million) rose disproportionately strongly. The proportion of total assets attributable to shares in affiliated companies remained consistently high at 89 (87)%.

Within the other assets, bank balances decreased by EUR 198 million to EUR 207 million.

The receivables from subsidiaries under profit transfer agreements were below the level of the previous year at EUR 170 (189) million. Other receivables in the form of income from long-term equity investments, on the other hand, increased to EUR 62 (2) million.

Talanx AG has concluded firm agreements with two consortiums of banks each providing for a floating-rate euro-denominated syndicated line of credit that may be drawn upon as necessary. One tranche of EUR 300 million and one amounting to EUR 200 million had been utilised as at the balance sheet date. The nominal amounts of the lines of credit were EUR 500 million and EUR 700 million as at the balance sheet date, meaning that a total of EUR 700 million had not been utilised. Terms of five years were agreed, and both lines of credit therefore mature in 2016. The floating rate is linked to the Euribor plus a margin.

Talanx AG uses off-balance sheet financing instruments and enters into various commitments. In this regard, outstanding commitments under existing capital participations (EUR 69 million) are of material significance to the assessment of its net assets; in addition, the other commitments amounted to EUR 25 million as at 31 December 2012.

The capital structure and the composition of the liabilities of Talanx AG are shaped by the nature of a holding company. The equity stood at EUR 5.1 billion (64% of total equity and liabilities), while the liabilities amounted to EUR 2.1 billion (26% of total equity and liabilities). The liabilities were split into liabilities to affiliated companies (75%) as well as bonds and liabilities to banks (25%). The other liabilities totalled EUR 790 million (10% of total equity and liabilities).

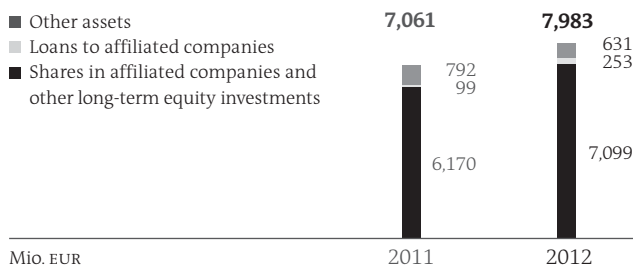
The liabilities to affiliated companies increased by EUR 308 million to EUR 1,563 million. The primary factor here was the passing on of the newly issued bond of Talanx Finanz (Luxemburg) S. A. with a volume of EUR 500 million to Talanx AG. This contrasted with reductions in the liabilities arising out of claims on the part of subsidiaries to results offsetting under profit and loss transfer agreements and in the liabilities relating to partial repayment of the first bond issued by Talanx Finanz (Luxemburg) S. A. as well as in connection with the elimination of the loan from Hannover Re (Bermuda) Ltd.

The bonds decreased by EUR 300 million because the subordinated bond issued by Talanx AG in the context of the initial public offering was converted into shares of Talanx AG at the issue price due to the contractual obligation.

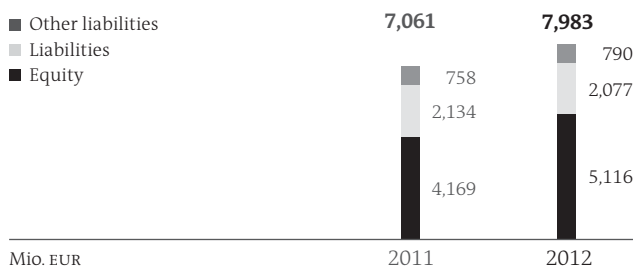
The other liabilities of EUR 789 million were somewhat higher than in the previous year; they consisted principally of provisions for pensions in an amount of EUR 595 (576) million and provisions for corporation and trade tax in an amount of EUR 128 (125) million.

Particularly as a consequence of the initial public offering, the equity ratio increased to 64.1 (59.0)%.

Assets



Liabilities



Financial position

The liquidity needed to meet current payment obligations is ensured by means of ongoing liquidity planning. This planning is carried out by Accounting at least once a month, and at shorter intervals if required. By means of regular liquidity planning and an investment strategy geared inter alia to liquidity requirements, we ensure that Talanx AG is at all times in a position to make the necessary payments.

The inflow of funds to Talanx AG derives principally from profit transfer agreements with affiliated companies, income from long-term equity investments and interest income on loans. As part of the liquidity 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 for the servicing of 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.

When it comes to selecting creditors, the Company pays close attention – as it always has in the past – to their long-term reliability and capital strength. In addition, the present debt crisis facing several member states of the Eurozone is putting some banks under strain. Constant monitoring of the capital strength of creditors – a task performed centrally by Talanx Asset Management GmbH – is therefore of growing relevance.

Results of operations

The profitability of our Company improved on the previous year with net income for the year of EUR 131 (76) million. We explain the development of the business result in a summary presentation that does justice to our Company's holding function (cf. inside cover "Talanx AG at a glance"). Talanx AG draws up its annual financial statements in euro. Given that the results booked by the subsidiaries also include income from long-term equity investments in foreign currencies, their result is indirectly influenced by fluctuations in exchange rates. A weaker euro tends to lead to higher net income from participations. A change in interest rates can also influence the result of Talanx AG. In view of the fact that the lines of credit mostly have floating interest rates, a rising interest rate level tends to result in higher interest expenses.

The net income from participations, 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 366 (247) million in the 2012 financial year. A primary reason for the increase was the booking of profits from Talanx Deutschland AG and Talanx International AG, after the losses assumed from both companies in the previous year. Talanx Deutschland AG was able to increase its net income from participations, which in 2012 consisted of a profit transfer and a distribution.

Improved net income from participations in relation to the subsidiaries of Talanx Deutschland AG, inter alia due to reduced restructuring costs as part of the reorganisation, played a part in the improvement in the year under review. In addition, the balance of merger gains and write-downs on the carrying amounts of participations improved on the previous year at Talanx Deutschland AG. Talanx International AG had been notable for write-downs on the carrying amounts of participations in the previous year, whereas in the year under review write-ups and proceeds from the merger of HDI Asekuracja Towarzystwo Ubezpieczeń S. A. into Towarzystwo Ubezpieczeń i Reasekuracja WARTA S. A. more than offset the write-downs. This contrasted with a reduction in the dividend recognised from Hannover Re, which fell to EUR 127 (139) million; this is equivalent to EUR 2.10 (2.30) per share. The profits booked from HDI-Gerling Industrie Versicherung AG also decreased, principally due to a higher allocation to the equalisation reserve.

Distributions made by other companies with which a profit transfer agreement does not exist were higher than in the previous year: this was especially true of Talanx Beteiligungs-GmbH & Co. KG with an amount of EUR 8 (1) million from the sale of shares as well as dividend income. In addition, a distribution was received for the first time from Talanx Reinsurance (Ireland) Ltd. in an amount of EUR 5 million.

The balance of interest income and expenses remained roughly on a par with the previous year at –EUR 146 (–144) million. Income from other long-term securities and loans increased by EUR 11 million to EUR 13 million, in part due to interest income from the repurchase of selected bonds and also due to an internally placed loan as well as income from shares. Other interest and similar income fell by EUR 12 million to EUR 9 million. The principal reasons here were the drop in the interest rate level for fixed deposits and overnight money during the year under review, the similarly reduced 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 – which had been carried out in the previous year only.

Interest and similar expenses remained on the previous year's level at EUR 168 (168) million. This item was pushed higher in particular by the interest expenses for a loan drawn in the context of a new bond issue by Talanx Finanz (Luxemburg) S. A. On the other hand, there was a reduction in the interest expenses resulting from a swap transaction and for drawn-down lines of credit. Non-recurring fees for credit lines incurred in the previous year no longer applied. Interest expenses on tax liabilities were lower. In addition, the interest expenses for the hybrid loan from Meiji Yasuda decreased owing to the conversion into shares as part of the initial public offering.

The other operating income fell by EUR 82 million in the year under review to EUR 21 million, although the previous year had been influenced by special effects. In 2011 income of EUR 42 million had been booked from the withdrawal of a block of securities from Talanx Beteiligungs-GmbH & Co. KG with a corresponding reduction in the carrying amount of the participation as well as income amounting to EUR 29 million from the release of provisions. In the year under review, on the other hand, the item includes income from the sale of subordinated debt of Talanx Finanz (Luxemburg) S. A.

The total amount of all other expenditures (personnel expenses, other operating expenses, amortisation, depreciation and write-downs, costs of the initial public offering) was EUR 101 (103) million in the year under review.

The profit on ordinary activities therefore increased to EUR 139 million, after EUR 102 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 income in the year under review resulted principally from the final tax assessment for 2009, while on the other hand the provisions constituted for tax risks were increased. The tax expense in the previous year had been attributable almost entirely to contributions to the provision for tax risks.

The net income for the financial year climbed by EUR 55 million year-on-year to EUR 131 (76) million. After addition of the retained profits brought forward from the previous year of EUR 377 million, the disposable profit amounted to EUR 508 (377) million.

Overall assessment of the economic situation

Bearing in mind the macroeconomic conditions and industry-specific environment, the management of Talanx AG assesses the development of business in 2012 as favourable. The net income for the year increased as expected. The net income from participations recorded in the previous year was boosted, interest income remained roughly on a par with the previous year and the profit on ordinary activities continued to improve. At the time when the management report was drawn up, the economic position of the Company continued to be good.

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 subject to reporting requirements occurred in the year under review.

Appropriation of the disposable profit

The Board of Management and Supervisory Board intend to propose to the General Meeting that the disposable profit of Talanx AG amounting to EUR 507,515,627.04 reported as at 31 December 2012 should be appropriated as follows:

- Distribution of a dividend of EUR 1.05 on each eligible share: EUR 265,256,966.00
- Retained profits brought forward: EUR 242,258,661.04

Development of the major participations

This section describes the development and 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 long-term equity investments 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 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 area of 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 overall by 11.1% in the year under review to reach EUR 3.0 (2.7) billion. The generally favourable development carried through right across the various

lines of business. Most notably, pleasing premium increases were achieved in the liability, motor, marine and aviation insurance lines despite a fiercely competitive market climate.

Reflecting the growth in gross premium, net premium earned increased by 25% to EUR 1.3 (1.1) billion.

Gross expenses for incurred claims contracted by 0.9% year-on-year to EUR 2.2 (2.2) billion. Overall, claims expenditure was in line with expectations. While expenditure on claims incurred in the financial year in direct written business, especially in the fire, all risks and marine insurance lines, was heavily influenced by a number of major losses, the run-off result in assumed reinsurance business was substantially better than in the previous year. The gross loss ratio retreated by 10.7 percentage points to 71.5 (82.2)% as a consequence of the favourable premium development. Net expenses for incurred claims increased by 2% to EUR 1.1 (1.0) billion.

Overall, the net loss ratio decreased to 79.3 (97.2)%. A key driver of the reduction in the net loss ratio was a sharp drop year-on-year in reinsurance premiums; this was due to the reclassification in the previous year of the provision for reinstatement premiums in an amount of EUR 179 million from the other technical expenses to the reinsurance premiums. Excluding this effect, the net loss ratio in the previous year would have been 83.2%.

Gross expenses for insurance operations climbed 13% to EUR 569 (503) million. Relative to the sharply higher gross premiums, the gross expense ratio nudged fractionally lower to 18.8 (18.9)%; the net expense ratio decreased by a somewhat more appreciable 4.0 percentage points to 21.5 (25.5)%. Reflecting the developments described above, the combined ratio stood at 90.3 (101.1)% gross and 100.8 (122.7)% net.

All in all, the company posted a net underwriting result of –EUR 15 (–101) million before allocations to the equalisation reserve; this represents an improvement of EUR 86 million on the previous year. After an allocation of EUR 81 million (previous year: withdrawal of EUR 159 million) to the equalisation reserve, the net underwriting result came in at –EUR 96 (58) million. The considerable withdrawal in the previous year had been influenced largely by the effect of the reclassification of the entire amount of the reinstatement premiums from the other technical expenses to the reinsurance premiums.

The result from ordinary activities totalled EUR 121 million and the profit transferred to Talanx AG amounted to EUR 82 million.

The investment result amounted to altogether EUR 268 (202) million before deduction of technical interest. The total net return for the year under review stood at 4.3 (3.3)%.

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, including 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 Lebensversicherung AG, HDI Versicherung AG, 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 its limited partner's interest of 94.9% in HNG Hannover National Grundstücksverwaltung GmbH & Co KG to HDI Lebensversicherung AG.

By way of a merger agreement dated 16 December 2011 HDI-Gerling Firmen und Privat Versicherung AG was merged into HDI Versicherung AG (formerly HDI Direkt Versicherung AG) with effect from 1 January 2012. As a consequence of the merger HDI-Gerling Firmen und Privat Versicherung AG ceased to exist as a legal entity. The value of the interest was thereby transferred to the interest in HDI Versicherung AG.

On the basis of a service agreement with subsidiaries and lower-tier subsidiaries, 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 59 (52) million in the year under review. The income from profit transfer agreements and from dividends received totalled EUR 110 (102) million in the year under review. In addition, a merger of two companies generated a merger gain, while write-downs had to be taken on three companies; on balance, therefore, these transactions gave rise to a charge to income of EUR 67 million.

Profitability was impacted in particular by expenses from loss assumptions totalling EUR 23 (76) million, primarily from HDI Versicherung AG. Other operating expenses amounted to EUR 49 (41) million in the previous year.

This produced a positive result of EUR 16 million before profit transfer (previous year: deficit of EUR 53 million before loss assumption), which was transferred in full to Talanx AG on the basis of the existing profit/loss transfer and control agreement. In addition, an amount of EUR 53 million was distributed to Talanx AG from the retained profits brought forward; in total, therefore, TD delivered a profit contribution of EUR 68 million.

HDI Lebensversicherung AG

HDI 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 contracted from EUR 401 million in the previous year to EUR 374 million. In a challenging market climate the decline resulted predominantly from regular new business premiums, which fell by 15% to EUR 158 million. Single premiums, on the other hand, were broadly maintained on the level of the previous year with a decrease of 1% to EUR 215 million. Whereas in the previous year new business growth derived equally from the area of conventional provision products and from unit-linked endowment and annuity policies, the year under review saw a sharp drop in unit-linked products – which declined by 14% to EUR 173 million. New business premiums from conventional provision products, on the other hand, rose by 1% to EUR 201 million. Appreciable increases were again recorded for risk-oriented products – term life and occupational disability –, with new business premiums posting growth of 10%

to reach EUR 26 million. As in the previous year, the development of disability insurance policies – which have been honoured with multiple awards – was vital in this respect: new business premiums here rose by 19% to EUR 18 million.

Gross written premium contracted by 2% relative to the previous year to stand at EUR 2.3 billion. The decline was largely offset by an increase in the premium retained for net account, as a consequence of which net premium earned remained unchanged at EUR 2.0 (2.0) billion.

The investment result amounted to altogether EUR 880 (884) million. The net return of 4.5% generated for the year under review was thus unchanged from the previous year. Overall, net income for the year of EUR 12 (8) million was achieved.

HDI Versicherung AG

The amounts reported below for the previous year have been adjusted because the figures for HDI-Gerling Firmen und Privat Versicherung AG and HDI Direkt Versicherung AG have been combined for the sake of comparison.

The gross premium written by the company totalled EUR 1.4 (1.3) billion in the year under review, a rise of 4%. The increase was driven primarily by business written in the motor and multi-risk lines as part of an underwriting consortium as well as by growth in the liability sector. Premium adjustments in the existing motor portfolio as well as tariff increases in new business also played a part here. This did, though, lead to a contraction in the new business volume in this line. Additionally, the gross premium volume grew by EUR 11 million owing to the reinsurance of assumed business. However, since this was entirely retroceded there was no effect on the net premium volume.

Net premium earned grew more vigorously than gross premiums because the level of reinsurance in the motor line was reduced by 1.5 percentage points. Net premiums increased to EUR 1.3 (1.2) billion.

The gross expenses for incurred claims improved slightly in the year under review, while the loss ratio decreased from 71.8% to 69.2%. This was due both to the gross premiums from new business assumed in the financial year and to the more profitable premiums in the motor line. In absolute terms, the expenses remained virtually unchanged for gross account at EUR 963 (964) million.

Net expenses for incurred claims rose to EUR 907 (885) million; the net loss ratio decreased from 72.8% to 71.4% owing to the larger premium volume. The achieved loss ratios are pleasing and reflect the expectations placed on the programmes initiated across a broad front to boost profitability.

Operating expenses climbed to EUR 447 (422) million for gross account and EUR 425 (399) million for net account. The expense ratios increased to 32.1 (31.4)% gross and from 32.8% to 33.4% net.

The combined ratios decreased from 103.2% to 101.3% gross and from 105.6% to 104.8% net. Overall, a net underwriting result of –EUR 82 (–37) million was reported after the allocations to the equalisation reserve. An amount of EUR 15 million (previous year: withdrawal of EUR 30 million) had to be allocated to the equalisation reserve.

The investment result amounted to EUR 112 (99) million. Overall, a net return of 3.7% was generated for the year under review.

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 2% to EUR 474 million. In this context, regular new business premiums fell by 19% to EUR 45 million. Single premiums, on the other hand, were boosted by 5% to EUR 429 million. This produces an Annual Premium Equivalent (regular new business premiums plus 10% of single premiums) of EUR 88 (96) 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 climbed by 22% to EUR 119 million, with the increase deriving both from regular premiums and single premiums. At EUR 118 million, unit-linked annuity insurance – including above all hybrid products – was a particularly significant growth driver. New business premiums from conventional provision products, on the other hand, fell by 3% to EUR 328 million. New business premiums from risk-oriented products – term life, credit life and occupational disability policies – were boosted by 3% to EUR 27 million.

Gross written premium climbed from EUR 1.0 billion in the previous year to EUR 1.1 billion in the year under review, corresponding to year-on-year growth of 2%. Net premium earned grew accordingly, rising to EUR 1.1 (1.0) billion.

The total investment result stood at EUR 372 (351) million, equivalent to a net return of 4.6 (4.5)% for the year under review. Overall, net income for the year before profit transfer of EUR 16 (18) million was generated. The profit of EUR 15 million remaining after the allocation to the statutory reserve was 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 participation of 49% in neue leben Pensionsverwaltung AG, which in turn is the sole owner of neue leben Pensionskasse AG. neue leben Holding AG continues to hold a 50% stake in nl-PS Betriebliche Vorsorge GmbH. 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 2012 additional interests have been held indirectly and directly by three Sparkasse savings institutions.

The net income for the year reported by neue leben Holding AG in the 2012 financial year contracted slightly by EUR 0.8 million to EUR 21 (22) million; this derived principally from the profit transfer of neue leben Lebensversicherung AG. neue leben Lebensversicherung AG generated a disposable profit of EUR 15 (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 6 (4) million. neue leben Pensionsverwaltung AG closed the financial year with a loss of EUR 0.1 million, which will be carried forward to new account after netting with retained profits brought forward from the previous year (EUR 0.5 million). After the allocation to retained earnings neue leben Holding AG reported a disposable profit of EUR 20 (21) 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 increased in the year under review to EUR 559 (491) million. This growth of 14% was disproportionately strong relative to the market as a whole. This positive development was driven crucially by the rise of 18% in single premiums to EUR 456 million. Regular new business premiums fell marginally to EUR 103 (106) million. Altogether, an Annual Premium Equivalent (regular new business premiums plus 10% of single premiums) of EUR 148.9 million was generated – growth of 3.0% relative to the previous year. Conventional provision products, which increased by 6% to EUR 93 million, played a key part in this growth. The Annual Premium Equivalent in the area of credit life policies climbed by 9% to EUR 38 million.

Gross written premium totalled EUR 944 (862) million in the year under review. This increase was driven mainly by single premiums in individual life business, which rose to EUR 154 (98) million. Premiums in credit life insurance were boosted by 5%. Regular gross premiums in direct written business showed an increase of 2% to reach EUR 436 million.

The investment result came in at altogether EUR 110 (105) million. As in the previous year, therefore, a net return on investment of 4.1% was achieved for the year under review. Overall, the company generated net income for the year of EUR 44 (42) 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.

The new business premiums of EUR 340 (315) million came in 8% higher than in the previous year. This favourable development was crucially driven by growth in single premiums, which similarly rose by 8% to EUR 290 (268) million. New business with a regular premium payment delivered growth of 6% to reach EUR 50 (47) million. Altogether, an Annual Premium Equivalent (regular new business premiums plus 10% of single premiums) of EUR 79 million was generated, equivalent to an increase of 7%.

The gross premium written by PB Lebensversicherung AG in the year under review totalled EUR 783 (759) million. Net premium earned amounted to EUR 747 million, after EUR 716 million in the previous year.

The investment result was again significantly boosted from EUR 165 million to EUR 225 million. A net return of 5.6 (4.6)% was achieved for the year under review. Net income remained on a par with the previous year at 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 currently present in 14 countries with 27 companies. 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, among others, the HDI brand. Talanx International AG assumes a pivotal role when it comes to evaluating new markets, acting on strategic options on the international level and thereby generating profitable organic and inorganic growth for the Talanx Group. The focus of Talanx International AG is on the strategic target regions of Latin America as well as Central and Eastern Europe, in each of which the division is present in the two largest high-growth core markets: in Latin America these are Brazil and Mexico, while in Central and Eastern Europe they are Poland and Turkey.

The most notable feature of the 2012 financial year was the acquisition and integration of the companies taken over in the target markets of Central and Eastern Europe as well as Latin America. The acquisition of the P&C and life insurer Metropolitana Compañía de Seguros S. A. de CV in Mexico closed at the very outset of the year. Effective 1 June the acquisition of 50% plus one share of the TU Europa Group, which similarly offers both life and property/casualty insurance products, was completed. The closing of the takeover of the TUIR WARTA Group from the Belgian KBC Group took place on 1 July. Effective 28 December 2012 the Polish P&C insurer HDI Asekuracja TU S. A. was merged into TUIR WARTA S. A. The Talanx Group thus became the second-largest player in the Polish insurance market. Our strategic partner Meiji Yasuda holds around 25% of the WARTA shares as well as a significant minority stake in the TU Europa Group. In October 2012 the life insurer ASPECTA Assurance International AG Liechtenstein was sold as part of the division's strategic reorientation.

The gross premium written by the subsidiaries climbed by altogether 31% compared to the previous year to EUR 3.3 (2.5) billion. The increase was driven above all by the inclusion for the first time of the new acquisitions in Poland and Mexico. As a further factor, the vast majority of the international companies were able to boost their premium volume year-on-year.

Talanx International AG generated income from dividend payments made by its participations in an amount of altogether EUR 32 (14) million. This contrasted with the balance of write-ups and write-downs on the carrying amounts of participations in an amount of EUR 3 million and holding company expenditures of altogether EUR 22 (21) million. On the basis of the existing control and profit transfer agreement, a profit of EUR 17 million was transferred to Talanx AG; a loss of EUR 36 million had been offset by Talanx AG in the previous year.

For the 2013 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.

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

Hannover Re is highly satisfied with the development of its business in 2012. For a financially strong reinsurer the market opportunities for profitable growth were good – both in non-life and life/health reinsurance. Despite a challenging capital market climate, a very healthy investment result was booked. As a further factor, the profit for the year benefited from the fact that strains from major losses – unlike in the previous year – were very much on the moderate side. Overall, markets were thoroughly attractive for Hannover Re, enabling the company to generate profitable growth in the year under review and enlarge its market share. Demand for reinsurance covers remained strong in the year under review. The greater importance attached to risk-based models and the requirements placed on primary insurers' equity resources were both factors here.

Gross written premium in total business grew by a pleasing 14.5% to EUR 10.5 (9.1) billion. The level of retained premium retreated slightly from 77.5% to 76.0%. Net premium earned increased by 12.1% to EUR 7.8 (7.0) billion.

Unlike in the previous year, the major loss situation was comparatively moderate in the year under review. The largest single loss event for the international insurance industry – at a cost of more than USD 20 billion – was Hurricane Sandy, which caused death and extensive devastation along the East Coast of the United States. The net strain for the parent company of the Hannover Re Group from this event was EUR 168.8 million. Hannover Re's marine business incurred a net loss of EUR 42.5 million from the wreck of the "Costa Concordia" cruise ship. The portfolio of agricultural risks also suffered a large loss: the most severe period of drought in decades in the United States resulted in a net strain for Hannover Re's account of EUR 34.6 million. These events, together with other less sizeable major losses, combined to produce net expenditure for the year under review of EUR 318.3 million; the previous year's figure had been EUR 552.0 million.

In the financial year just ended the company's life and health reinsurance business developed within the bounds of expectations despite the challenging situation on capital markets and the protracted period of low interest rates, which is putting the life insurance industry under particularly heavy strain. Growth in Asia was supported by the launch of an "Asia" busi-

ness center with regional responsibility. Going forward, this will enable Hannover Re to continue with its holistic market cultivation and profit from the promising business potential inherent in these high-growth economies. Hannover Re has responded to the growing significance of retirement provision, annuity and pension insurance products, especially in the industrial nations, by setting up a dedicated "Longevity" business center.

The underwriting result for total business (before changes in the equalisation reserve) improved to EUR 93.2 million after a deficit of EUR 151.9 million in the previous year. An amount of EUR 340.7 (292.6) million was allocated to the equalisation reserve and similar provisions.

The profit on ordinary activities climbed sharply in the year under review to EUR 546.0 (273.5) million. The 2012 reporting year closed with net income for the year of EUR 410.3 (270.2) million.

The portfolio of assets under own management grew in the year under review to EUR 19.5 (17.5) billion. This corresponds to an increase of 11.7% and can be attributed above all to cash inflows from the technical account. The balance of unrealised gains on fixed-income securities and bond funds amounted to EUR 798.3 (395.6) million as at year-end. Yield declines on US treasuries and European government bonds were a particularly significant factor here.

Ordinary investment income including deposit interest clearly surpassed the previous year at EUR 1.2 billion (EUR 912.4 million). Net gains of EUR 68.9 (64.0) million were realised on disposals. Write-downs of EUR 25.4 (33.1) million were taken on investments. Write-ups of EUR 29.6 (88.1) million were also made. Overall, the net investment result thus recorded a substantial increase to reach EUR 1.2 billion (EUR 953.9 million).

E+S Rückversicherung AG

Growth in international business caused the gross written premium of E+S Rück to increase by EUR 187.3 million overall to EUR 2.7 (2.5) billion. In keeping with its cycle management approach, E+S Rück wrote more business in markets with improved rates. In the life and health lines premium decreases were recorded in German business, although these were more than offset by stronger growth in the international portfolio.

Gross written premium in non-life reinsurance increased by 7.3% in 2012 to EUR 1.7 (1.6) billion. The share of E+S Rück's total premium volume attributable to non-life lines remained unchanged at 63%. The gross premium written in the life and health reinsurance lines climbed by 7.7% to EUR 1,008.0 (935.9) million.

E+S Rück's net premium earned grew only marginally more strongly than the gross premium, rising by 7.5% to EUR 2.1 (2.0) billion. Net expenses for incurred claims outpaced the increase in premiums, surging by 14.5% to EUR 1.8 (1.6) billion. Whereas in the previous year the impact of major losses from natural disasters on E+S Rück's account had been disproportionately low, higher basic losses were recorded in the year under review. Furthermore, the portfolio was affected by the following major losses: the wreck of the "Costa Concordia" cruise ship, earthquakes in Italy and Hurricane Sandy. These and other major losses resulted in net major loss expenditure for the year under review of EUR 77.5 (107.2) million.

Despite the increased loss expenditure, the net underwriting result closed in positive territory for the 2012 financial year at EUR 6.8 million – contrasting with the loss of EUR 48.7 million reported in the previous year. The significantly improved profit on ordinary activities of EUR 221.9 million (after EUR 156.9 million in the previous year) was due principally to a sharp rise of 13.8% in the investment result as well as a very favourable development with respect to the change in the equalisation reserve. Net income for the year under review came in at EUR 142.0 million, thus beating the previous year's level of EUR 133.0 million.

The ordinary investment income of EUR 317.5 million was on a par with the previous year (EUR 316.7 million) despite the overall decline in the level of interest rates. On the back of increased net realised gains the investment result of EUR 343.7 million in the year under review was comfortably higher than in the previous year (EUR 302.0 million). The portfolio of assets under own management grew by EUR 278.9 million in the year under review to reach EUR 5.6 (5.4) billion. Net unrealised gains on fixed-income securities stood at EUR 451.3 (218.9) million as at year-end.

Corporate Operations

The Corporate Operations segment encompasses Talanx AG and the internal service providers Talanx Service AG and Talanx Systeme AG, asset management activities, Talanx Reinsurance Broker AG and Talanx Reinsurance (Ireland) Limited in Dublin.

Talanx Asset Management GmbH – in cooperation with its subsidiary AmpegaGerling Investment GmbH – primarily handles the management and administration of securities portfolios of the Group companies and performs related services such as investment accounting and reporting. In the year under review the net income before profit transfer recorded by Talanx Asset Management GmbH amounted to EUR 40 (33) million, although it should be noted that this figure already includes the profit transfers from the subsidiaries AmpegaGerling Investment GmbH and Talanx Immobilien Management GmbH. 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. In 2012 the net income for the year booked by Talanx Immobilien Management GmbH amounted to EUR 1 (–1) million.

AmpegaGerling Investment GmbH is an investment company under German law pursuant to § 2 Para. 6 of the Investment Act (InvG). AmpegaGerling Investment GmbH is owned by Talanx Asset Management GmbH with a stake of 94.9% and Alstertor Erste Beteiligungs- und Investitionssteuerungs-GmbH & Co. KG with a share of 5.1%. AmpegaGerling Investment GmbH 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. As an investment company, AmpegaGerling Investment GmbH also manages public funds and special funds and performs financial portfolio management tasks for institutional clients. The primary focus is on portfolio management and the administration of assets for external clients

outside the Group. Its total volume of assets under management grew to EUR 14.0 billion, an increase of 10% compared to the level at the beginning of the year (EUR 12.7 billion). Of this, more than half – namely EUR 7.9 (7.1) billion – was managed on behalf of Group companies via special funds and direct investment mandates. The remaining portion was attributable to institutional third-party clients – at EUR 2.8 (2.5) billion – and retail business – with a volume of EUR 3.3 (3.1) billion. The latter is offered both through the Group's own sales channels and products, such as unit-linked life insurance, and through external investment managers and banks. The net income generated by AmpegaGerling Investment GmbH in the year under review totalled EUR 10 (8) million.

Talanx Reinsurance Broker AG, which is wholly owned by Talanx AG, handles the complete spectrum of the reinsurance business process for Group cedants. The reinsurance capacities required for all Group cedants served by Talanx Reinsurance Broker AG were again successfully obtained for 2013 on the world market. The net income before profit transfer recorded by the company for the year under review came in at EUR 16 (13) million.

Events of special significance after the balance sheet date

Events that could have an influence on our financial position, results of operations or net assets are described in the following forecast and opportunities report and in the subsection of the Notes entitled “Events after the balance sheet date”, page 104.

Risk report

Risk strategy

Derived from our corporate strategy, our risk strategy formulates the objectives and structure 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. It is, in conjunction with value-oriented steering, an integral component of our entrepreneurial activities and is reflected in the detailed strategies of the various divisions.

As the parent company of 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 based on adequate information.

Functions within the risk management system

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

Controlling elements	Key risk management tasks
Supervisory Board	<ul style="list-style-type: none"> ■ Advising and monitoring the Board of Management in its management of the company, inter alia with respect to risk strategy and risk management
Board of Management	<ul style="list-style-type: none"> ■ Overall responsibility for risk management ■ Defining the risk strategy ■ Responsibility for proper functioning of risk management
Risk Committee	<ul style="list-style-type: none"> ■ Risk-monitoring and coordinating body, charged especially with the following tasks: <ul style="list-style-type: none"> ■ 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	<ul style="list-style-type: none"> ■ Responsible for holistic risk monitoring across divisions (systematic identification and assessment, control/monitoring and reporting) of all risks that are material from the Group perspective ■ Chairman of the Risk Committee ■ Right to participate in meetings of the Board of Management
Central Risk Management	<ul style="list-style-type: none"> ■ Group-wide, independent risk monitoring function ■ Methodological competence, inter alia for <ul style="list-style-type: none"> ■ 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	<ul style="list-style-type: none"> ■ Risk monitoring function in the divisions ■ Observance of the centrally defined guidelines, methods and processes and systems of limits and thresholds that serve as a framework for local implementation, monitoring and reporting
Internal Auditing	<ul style="list-style-type: none"> ■ 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 (for Solvency II), the Group is responsible for risk categories that are of Group-wide relevance, and to a large extent for the operative running of models for these risk categories.

By contrast, the divisions operate those models that map risks relating to specific risk carriers. These models are developed jointly by both levels, ownership of the models being vested with the Group holding company. The Group auditing department and Group Risk Management carry out dedicated audits to verify the adequacy of the models used and their compliance with Group guidelines.

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

We identify risks throughout the Group using appropriate indicators and various risk surveys. The introduction of a standardised software tool for identification of risks in the year under review allows qualitative risks to be identified systematically Group-wide. Risks spanning several divisions, such as compliance risks, are addressed by involving the segments or experts concerned. A comprehensive risk categorisation system that is specific to Talanx is in place, to ensure that all risks are identified. This categorisation forms the basis of risk identification and ensures that risks are classified systematically at the Group. The applicable methods and procedures are documented and are subject to in-house adequacy checks and reviews by Internal Auditing.

In addition to this software-based risk identification procedure, Group Risk Management holds quarterly meetings with local risk management experts 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 and the divisions. An upward referral procedure has been arranged for bringing significant changes in the risk position to the attention of Group Risk Management, 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 central and local risks that have been identified with the aid of an internal risk capital model, which enables us to assess the risks. Since 2012, risk measurement has also been based on the internal TERM model (Talanx Enterprise Risk Model), whereby measurement in 2013 is to be based on both TERM and the old risk capital model – a refined version of the standard GDV (German Insurance Association) model. The Talanx Group has been in the preliminary application phase for approval of its internal model in accordance with Solvency II since 2008. The Federal Financial Supervisory Authority (BaFin) has been conducting extensive audits at Talanx AG and in various divisions as part of this preliminary application phase, a process that is still ongoing. Risks that are not considered material from the Group's perspective are in some cases modelled in TERM on a simplified basis, using standard methods in accordance with Solvency II. 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.

With respect to risk limitation within our central (currently not yet TERM-based) system of limits and thresholds, key indicators have been specified for managing and monitoring risks that could threaten the survival of the Group. 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. The switch to a TERM-based limit and threshold system is to take place in 2013.

In the area of risk monitoring, we make a distinction 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 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 re-

porting 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 immediately.

The potential implications of risks are not only to be documented but must also be incorporated into the annual planning of Group companies, thereby making it possible to allow for the risks of future development and to take appropriate countermeasures in a timely manner. Plans drawn up by all Group segments and the Group as a whole are discussed and approved by the Board of Management and Supervisory Board of Talanx AG, which 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. Both operational and strategic considerations are factored into planning in the context of the performance management cycle.

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, but also extend to the preparation and examination of annual and consolidated financial statements, the internal control system and the use of planning and controlling tools.

Standard & Poor's upgraded our risk management activities in the area of primary insurance from "adequate with positive trend" to "strong" in the year under review, and once again assessed Hannover Re's risk management as "strong".

Talanx Asset Management GmbH and AmpegaGerling Investment GmbH were certified to US standard SAS No. 70 ("Statement on Auditing Standards No. 70") in 2009 and 2010. Certification attests to an adequately configured control system and effective implementation of controls. The SAS 70 audit was replaced by an audit pursuant to international standard ISAE 3402 in 2011, which was carried out again in 2012.

Internal control and risk management system in the context of financial reporting

Risk management within the Talanx Group and hence also at Talanx AG is characterised by its local organisational structure. Responsibilities are split between local risk management at the level of the divisions and central risk management at Group level.

Talanx AG uses the Group's central internal service provider Talanx Service AG to meet its financial reporting obligations. This service provider is contractually required to implement all obligations incumbent upon Talanx AG conscientiously and comprehensively. Talanx AG ensures this by way of appropriate guidelines (including German Commercial Code [HGB] accounting information as well as general and special working instructions) and regular checks. These measures are codified in an internal control system (ICS).

The purpose of the ICS is to enable working processes and processes for data generation to run reliably and on a quality-assured basis. It consists of systematically structured organisational and technical measures and controls within the company. A further element here is that access rules in the accounting systems are clearly regulated and safeguarded by means of authorisation concepts. These serve, among other things, to ensure compliance with guidelines and minimise risks. The features of the ICS with respect to financial reporting include, for example:

- documentation of the controls within processes, especially in bookkeeping, including follow-up, analysis and elimination of any errors that may occur. Differentiated materiality thresholds are in place for the performance of appropriate internal controls
- principle of dual control for booking and payment processes
- separation of functions
- technical plausibility checks and systematic access authorisations in the uniform financial accounting system SAP-FI
- standardised interfaces

In the area of financial reporting, processes with unambiguous and clear controls under fast close conditions ensure that the financial statements are complete and correct. These processes relating to the organisation and execution of year-end closing tasks and the preparation of the financial statements are documented.

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
- risks associated with investments
- functional risks

Global risks encompass risks associated with changes in the political environment, economic climate or provisions of tax law. They are discussed 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.

The performance of Talanx AG – as a holding company – is crucially determined by income from long-term equity investments and profit/loss transfers from the individual companies. Through profit transfer agreements and dividend payments Talanx AG participates directly in the business development and risks of subsidiaries. This gives rise to participation risks for Talanx AG, which result in particular from the performance of individual subsidiaries, the stability of results in the portfolio of participating interests and a potentially inadequate balance in the business. What is more, negative results trends at the subsidiaries can prompt a need to write down the carrying amounts of participations at Talanx AG.

We use appropriate tools in the areas of controlling, internal auditing and risk management to counter risks arising from the development of results at subsidiaries. A standardised reporting system regularly provides decision-makers with up-to-date information about the Group and business trends at all major subsidiaries, enabling them to intervene at any time to control risks. Risks associated with a lack of stability in the re-

sults 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. Risks at the subsidiaries that can result in the materialisation of participation risks at Talanx AG are identified, monitored and steered in the risk management systems of the subsidiaries. They are described in the following sections.

Solvency II may lead to regulatory risks, particularly in connection with subsidiaries in which Talanx or HDI V. a. G., which is determinative for the purposes of group supervision, own a stake of less than 100%. In line with the draft requirements, risks arising from such participating interests are in future to be allowed for in full when calculating the required Group solvency capital, while own funds are subject to restrictions on transferability and are eligible at Group level only to a limited extent (“haircuts”). This risk may increase as a result of further foreign acquisitions with the involvement of our partner Meiji Yasuda as the minority shareholder. Discussions about this are still ongoing in connection with the finalisation of Solvency II, and the outcome is uncertain.

Differences of opinion may naturally arise in our joint activities with Meiji Yasuda. These may lead to deadlock situations, which are typical of joint ventures, owing to the minority shareholder’s legal and contractual rights of protection. Share transfers to the Talanx Group carried out to overcome this problem in extreme cases would of course then put a strain on liquidity.

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 reasonably possible through detailed due diligence tests conducted with the involvement of risk management and independent professional consultants and auditors as well as through intensive monitoring of the business development. An M&A guideline sets out the process for Mergers & Acquisitions (M&A), along with interfaces and responsibilities. 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 liquidity calculations 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 profit transfer agreements and dividend payments. The leverage of Talanx AG is consequently subject to regular review. In 2012 the ratio of provisions and liabilities to total assets stood at 40.9 (40.9)%. A large proportion of the provisions relates to provisions set aside for pensions, since Talanx AG has assumed pension obligations. A need to establish additional provisions may arise for Talanx AG in this regard if interest rates fall or if ongoing lawsuits relating to the fact that pensions have not been adjusted make further allocations necessary. Furthermore, rising inflation may cause additional expenditures if it means that pension adjustments higher than those factored into the calculations are necessary. Talanx has the adequacy of the actuarial bases regularly reviewed in order to counteract the risk of insufficient allocations to the pension provisions (e.g. due to changes in mortality, inflation and the interest rate trend). We counteract potential liquidity risks of Talanx AG caused by low profit transfers from the subsidiaries by means of regular liquidity planning and with appropriate lines of credit. (On the possible contraction in bank lending see also the section below on the effects of the economic and partial sovereign debt crisis).

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.

Given that the risk situation of Talanx AG is crucially influenced by the risks of the subsidiaries, their risks and associated risk management measures are described in greater detail below. The risk position of the subsidiaries is based on the following risk categories:

- underwriting risks
- default risks in insurance business
- risks associated with investments
- operating risks
- other risks

The explanatory remarks on these risk categories will be preceded by a discussion of the effects of the economic and partial sovereign debt crisis.

Effects of the economic and partial sovereign debt crisis

The sovereign debt crisis in parts of the Eurozone, fears of a global decline in economic growth, the stability of the banking sector and the low interest rate policy associated with the cause of all these concerns are continuing to shape the market environment.

The German economy was very stable as at the end of 2012, despite high levels of sovereign debt and the difficulties encountered in efforts to reschedule or write off debts in the Eurozone. A slowdown is nevertheless now noticeable in Germany, due to the global economy's weaker growth and doubts as to the long-term financial viability of some countries.

Problems resulting from the Eurozone's sovereign debt crisis remain largely unresolved. The deep and persistent recession, combined with further increases in public spending, is impeding the urgently necessary consolidation of state-sector budgets in Greece in particular. The market value of the Talanx Group's holdings of Greek government bonds on the balance sheet date of 31 December 2012 was EUR 4 million. The debt write-down legislation approved by the Greek Parliament in February 2012 gave rise to the risk of further write-downs on this issuer exposure for the Talanx Group. Given our very modest holding, however, the write-downs required in 2012 had only a minimal influence on the Group's net investment income.

As at 31 December 2012, the Talanx Group held government bonds with a market value of EUR 1.0 billion from the GIIPS countries (including Greece at EUR 4 million, Italy at EUR 647 million, Spain at EUR 88 million, Ireland at EUR 235 million and Portugal at EUR 26 million, excluding unit-linked investments for the account and risk of holders of life insurance policies), which may lead to rating-related impairments. Thanks to support measures at European level (the European "rescue package"), however, there is currently no elevated risk of default on bonds from the GIIPS countries, with the exception of Greece.

With its system of limits and thresholds, together with investment guidelines, Talanx is subject to precisely defined limits that aim to prevent risks relating to individual debtors that could jeopardise the company's survival. In the light of the banking and economic crisis on capital markets, the risk limits that previously applied at the Talanx Group have been tightened up in key respects.

The crisis and the prospect of regulatory innovations are increasingly driving a tendency on international markets towards more exacting capital requirements on the part of supervisory authorities. This trend could also affect some individual foreign Group subsidiaries and make it necessary to boost their capital. Moreover, companies whose collapse would have unforeseeable consequences for the entire financial and insurance sector, and which in this respect are therefore relevant to the system, will face considerably tighter regulatory requirements in future, particularly with regard to their capitalisation. This is in line with a resolution passed on 4 November 2011 in Cannes by the G20 group of key industrialised and emerging countries with respect to 29 banks mentioned by name. The International Association of Insurance Supervisors (IAIS) has been given the task of verifying whether specific conventional insurance companies should also be given the "globally system-relevant" stamp. It has been asked to develop appropriate test criteria, and, where necessary, identify these top global insurance players. The results of this investigation are expected in the second quarter of 2013. According to press reports, it is also possible that regulations may be introduced that would prevent an insurer from becoming relevant to the system. However, no decision has been made as yet on specific measures. If the general thrust of 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 facing additional capital requirements. The Group's growth could also be restricted by regulators under some circumstances. However, press reports suggest that the IAIS does not currently expect classic insurance business to cause the same kind of risks to the system as banking business.

Should the current low interest rate level be sustained or indeed should further interest rate cuts ensue, this would give rise to a reinvestment risk (mapped in MCEV calculations according to structure) for life insurance companies offering traditional guarantee products, since it would become increasingly difficult to generate the guaranteed return – even if the Group reduces this interest guarantee risk primarily by means of interest rate hedges (see "Material underwriting risks"). Moreover, decreases may be seen in the Market Consistent Embedded Value (MCEV)* of primary life insurers, especially in the context of further declines in interest rates and higher volatilities. The MCEV for 2012 will be calculated in the first half of 2013.

** A special method of valuing life insurance companies which can be used to capture the long-term nature of life insurance business and the associated risks*

The financial crisis has led to a contraction in bank lending and possible associated problems with raising cash. Further concerns have arisen in the banking sector, not only with regard to potential losses on bonds and loans to European peripheral countries (GIIPS), but also owing to much stricter regulatory requirements for risk capital, which are forcing banks to seek substantial amounts of fresh capital and/or to contract their balance sheets. A cut-back in lending by banks could also affect Talanx AG and constitute a liquidity risk. However, for reasons associated with the business model, the liquidity risk is of less significance to the Talanx Group (compared with the banking industry), because regular premium payments and interest income from investments, together with its liquidity-conscious investment policy, provide Talanx with an adequate supply of liquid funds. Extensive unused lines of credit are also available. Liquidity risks may arise, however, particularly as a consequence of illiquid capital markets and – in the life insurance sector – due to a run of cancellations by policyholders, if this makes it necessary to liquidate a large volume of additional investments at short notice.

Material underwriting risks

Underwriting risks in property and casualty insurance are considered separately from those in life insurance, because of the considerable differences between the two sectors.

Underwriting risks in **property/casualty business (primary insurance and reinsurance)** derive principally from premium/loss risk and reserving risk. Premium/loss risk arises because insurance premiums fixed in advance are used to pay indemnifications at some stage in the future, although the amount of such payments is initially unknown. 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 the size of claims are subject to random factors, and 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 diagnostic risk and 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 are available regarding claims from previous insurance periods. The forecasting risk refers to the risk that the probability distribution of 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 review of the claims experience and by taking recourse to appropriate reinsurance cover. External actuaries regularly analyse the effects of possible stress scenarios on the Talanx Primary Group, so that the impact of an unexpected change in inflation rates on the Group's loss reserves can be assessed in more detail. Hannover Re has taken out inflation swaps (zero coupon swaps in USD and EUR) to hedge some inflation risks. These derivative financial instruments hedge some of the loss reserves against inflation risks.

The second underwriting risk in property/casualty business, namely reserving risk, refers to the possibility that 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, 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). In addition, the level of reserves is regularly reviewed – not only internally but also by external actuaries – and external expert assessments of the reserves are commissioned in order to minimise the reserving risk.

Comprehensive scenario calculations are performed first and foremost for the Hannover Re Group in order to identify natural hazards accumulation risks – particularly for net account – at an early stage. Simulation models are used to analyse the worldwide implications of natural disasters due to climate change, for example. These analyses determine the maximum

exposure that Hannover Re should run for such risks and the retrocession cover needed. Retrocession – i.e. passing on risks to other carefully selected reinsurers of long-standing financial quality – is another vital tool for limiting underwriting risks.

Typical risks in **life insurance** are associated with the fact that policies grant guaranteed long-term benefits. While the premium for a given benefit is 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 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 and regularly analyse the situation with regard to cancellations. They also regularly match and control the dura-

tion of their assets and liabilities. Furthermore, receivables due from insurance agents in the event of cancellation may be lost if the refunds receivable from intermediaries cannot be collected. Insurance intermediaries are therefore carefully selected. Cancellation may also create a cost risk if new business drops off significantly and fixed costs – unlike 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 valuation reserves upon termination of the policy. To generate this guaranteed return, insurance premiums must be invested at appropriate terms on the capital market. However, the capital market fluctuates over time, which means that future investments are subject to the risk of poorer terms. Moreover, 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 lead to unrealised losses. If contracts were terminated prematurely, policyholders would be entitled to the guaranteed surrender values but would not share in any unrealised losses incurred. Upon disposal of the corresponding investments, the unrealised losses would have to be borne by the life insurers, and in theory it is possible that the fair value of the investments may not suffice to cover the guaranteed surrender values. In addition, 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 through regular reviews of its assets and liabilities and by constantly monitoring the investment portfolios and capital markets and taking appropriate countermeasures. Interest rate hedging instruments such as receiver swaptions, book yield notes and forward purchases are also used to a degree. For a large part of our life insurance portfolio, the interest guarantee risk is reduced through contractual provisions that enable the surplus participations paid in addition to the guaranteed

interest rate to be adjusted to the situation on the capital market. Under unit-linked life insurance policies, investment risks are borne by policyholders, who also profit from the associated opportunities. However, investment risks could be shifted back onto life insurers as a consequence of adverse legal developments.

A protracted low level of interest rates poses a risk to life insurers within the Group that draw up financial statements according to German HGB, in that they may need to boost provisions for interest payments. The Federal Ministry of Finance (BMF) has amended the Mathematical Provisions Ordinance (Deckungsrückstellungsverordnung) to change the reporting and regulatory requirements for allocations to provisions. The amendment came into effect in March 2011. As of that date, provisions must be set up for an insurance portfolio with an actuarial interest rate of 4% as soon as the long-term average market interest rate drops beneath 4%. On the basis of planning assumptions and further interest rate analyses, this leads to a need to allocate additional provisions in the 2012 financial year and in subsequent years. To broaden safety margins in the regulatory legacy portfolio, some allocations had already been made in the 2011 financial year.

The biometric risks described above are especially important in **life and health reinsurance**, particularly in the context of catastrophic events such as pandemics. Reserves in life and health reinsurance are based mainly on the information provided by our ceding companies. Reliable biometric actuarial bases are used to check the plausibility of these figures. Further quality assurance measures ensure that reserves calculated by ceding companies in accordance with local financial reporting 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. Specific underwriting guidelines give due consideration to the particular features of individual markets. By monitoring compliance with these underwriting guidelines, the Group minimises the credit risk associated with the potential insolvency or deterioration in the financial status of cedants. Regular reviews and holistic analyses are performed whenever new business activities are launched or international portfolios taken over (e.g.

with a focus on lapse risks). The interest guarantee risk that is so important in life primary insurance is of little 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 areas where the Group is exposed and provide pointers as to which areas to focus on from a risk management perspective.

Default risks in insurance business

Receivables due under insurance business always entail a risk of default. 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 risk of default by 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. Limits and thresholds are defined according to rating categories for all reinsurers as part of the Talanx limit and threshold system in order to limit the reinsurance default risk. Furthermore, in order to limit concentrations, an upper cap is set for each reinsurance group's share of the total loss reserves. Depending upon the nature and expected run-off period of the reinsured business and subject to a required minimum capital adequacy, reinsurers and retrocessionaires are selected on the basis of our own credit assessments and the minimum ratings assigned by the rating agencies Standard & Poor's and A. M. Best. A rating information system has been set up for the inclusion of rating data.

The default risk for policyholders is countered first and foremost by means of an effective dunning process and the reduction of outstandings. Agents are subject to credit checks. General bad debt provisions are also established to allow for the default risk.

Material risks associated with investments

Investment risks must be considered in the context of the investment policy. This is governed within the Talanx Group by investment guidelines and the regulatory framework that applies to each individual company. Particularly in the interests of policyholders and with a view to accommodating future capital market requirements, the investment policy is essentially guided by the following goals:

- 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. maintaining a distinction between Portfolio Management, Settlement and Risk Controlling. Risk Controlling is organisationally and functionally separate from Portfolio Management and is responsible primarily for monitoring all risk limits and evaluating financial products. Management and control mechanisms are geared closely to the standards adopted by the Federal Financial Supervisory Authority (BaFin) and the respective local regulators.

Detailed investment guidelines are in force for individual companies, compliance with which is constantly monitored. These investment guidelines define the framework for the investment strategy and are guided by the principles set out in § 54 of the Insurance Supervision Act (VAG), with the aim of achieving the greatest possible level of security and profitability while ensuring liquidity at all times and preserving an appropriate mix and spread within the portfolio. The risk controlling department of Talanx Asset Management GmbH and the Chief Financial Officer of each company monitor the quotas and limits set out in these guidelines. Any significant modification of the investment guidelines and/or investment policy requires the approval of the Board of Management of the company concerned and must be brought to the attention of its Supervisory Board.

Risks associated with investments consist most notably of market price, creditworthiness and liquidity risks.

Market price risks

Market price risks derive from potential losses due to adverse changes in market prices and may be attributable to changes in interest rates, equity prices and currency exchange rates. These can lead to impairments or result in losses being realised upon disposal of financial assets.

Our portfolio of fixed-income securities is exposed to the interest rate risk. Declining market yields lead to increases and rising market yields to decreases in the market value of the fixed-income securities portfolio. The credit spread risk should also be mentioned. The credit spread refers to the interest rate differential between a bond entailing a risk and a risk-free bond of the same quality. As with changes in pure market yields, changes in these risk premiums, which are observable on the market, result in changes in the market values of the corresponding securities. A drop in interest rates can also lead to lower investment income. The Group reduces the resulting interest guarantee risk in life insurance primarily by means of interest rate hedges (see “Material underwriting risks”).

(Unsecured) equity price risks derive from unfavourable changes in the value of equities, equity derivatives or equity index derivatives held in the portfolio.

Currency risks result from exchange rate fluctuations – especially if there is a currency imbalance between the technical liabilities and the assets. When it comes to managing the currency risk, we check that matching currency cover is maintained at all times. Risk is limited by investing capital wherever possible in those currencies in which obligations under our insurance contracts are to be fulfilled.

Investments in alternative asset classes such as private equity and hedge funds are limited and regularly monitored using a conservative control mechanism. The hedge funds are entirely transparent for individual companies and are reviewed daily with an eye to liquidity, leverage and exposure.

Real estate risks may result from unfavourable changes in the value of real estate held either directly or through fund units. They may be caused by a deterioration in the qualities of a particular property or by a general downside in market values (such as a real estate crash). In the case of direct investments

in real estate, the yield and other key performance indicators (e.g. vacancies and arrears) are measured regularly at the level of individual properties and the portfolio as a whole. Risk controlling for indirect real estate investments, as with private equity funds, is based on regular monitoring of the development and performance of funds.

We reduce potential market price risks through a variety of risk-controlling mechanisms. One important measure for monitoring and steering market price risks is constant analysis of the value at risk (VaR), which is evolving more and more from an assets-side measurement approach into an asset/liability concept. The VaR is determined on the basis of historical data, e.g. the volatility of market values and the correlation between risks. As part of these calculations, the potential decline in the market value of our portfolio is simulated with a given probability and within a certain period. Stress tests are further vital risk controlling tools. Experts at Talanx Asset Management GmbH simulate possible market changes that can result in significant price and interest rate losses for the bulk of our securities. In addition, market price risks are identified using enterprise-specific stress tests and those required by regulators with the corresponding prescribed stress test parameters.

Risks associated with derivative financial instruments

The Talanx Group enters into derivative transactions, in particular to hedge against price risks or interest rate risks affecting existing assets, to prepare for the subsequent purchase of securities or to generate additional earnings on existing securities. The Group also uses OTC derivatives on a minor scale, which may involve a counterparty risk. In addition, Hannover Re has used inflation swaps to hedge some inflation risks arising from technical loss reserves.

The Group companies' full Boards of Management decide on the nature and scope of investments in derivative financial instruments.

Selection of counterparties with a good credit rating prevents a significant credit risk. Internal guidelines also regulate the use of derivative products, to ensure the most efficient and risk-free use of forward purchases, derivative financial ins-

truments and structured products and to satisfy regulatory requirements. The use of such instruments is thus subject to very strict limits. We constantly monitor the parameters of investment guidelines and statutory provisions governing the use of derivative financial instruments and structured products. Derivative positions and transactions are specified in detail in reporting. The risk of financial default by the counterparties concerned arising from the use of OTC derivatives is reduced by netting and by means of collateral security agreements.

Credit risks

Default or credit risks refer to a potential deterioration in the financial situation of debtors, resulting in the risk of their becoming unable to make contractually agreed payments in full as they fall due, or to declines in the value of financial instruments due to impaired creditworthiness of the issuer. In the case of profit-participating loans, there is a particular risk of default on interest payments.

Credit ratings assigned by agencies such as S&P and Moody's are a key pointer for investment decisions taken by Portfolio Management. If a rating cannot be obtained in this way, an in-house rating is determined. This is done by applying mark-ups and mark-downs to the issuer's rating or to the ratings for other instruments from the same issuer.

The counterparty default risk within the Talanx Group is characterised at the level of the individual counterparty using the following principal risk components:

- probability of default (PD) is based on an internal rating and describes the probability that a debtor will default within a defined period
- loss given default (LGD) shows the anticipated loss in the event of default on the investment. It relates to the specific issue and is influenced by the nature and degree of security and the seniority of claims
- exposure at default (EAD) shows the anticipated amount of the receivable at the time of default
- duration of the exposure

In addition, correlation and concentration effects are taken into account at the portfolio level. An absolute amount for the loss given default is calculated for the exposure, taking into account the expected loss rate. Factoring in the rating and probability of default assigned to the investment, this produces an expected loss for the position. In addition, at the portfolio level, an unexpected loss (i.e. possible deviation from the expected loss) and a credit value at risk (credit VaR) are calculated. The credit VaR takes into account specific features for individual credit risk assessment, as well as portfolio concentrations (sectors, countries, debtor groups) and correlations between individual levels. The credit VaR shows the loss that with a defined probability will not be exceeded within one year. The procedure for risk calculation defined in this way ensures that higher-risk investments account for a correspondingly larger share of the total credit VaR. The risk indicators thereby established are grouped together on the various steering levels and form the basis for monitoring and steering of credit risks.

Counterparty default risks are controlled by applying various limits at the portfolio, rating class, issuer and issue levels. Risk concentrations are similarly limited in this way. Any violation of these limits triggers defined escalation measures.

Liquidity risks

We understand liquidity risks as the risk of being unable to convert investments and other assets into cash when they are needed to meet our financial obligations as they fall due. For example, it may not be possible to sell holdings (at least not without delay) or to close open positions (without accepting price mark-downs) due to the illiquidity of the markets. As a rule, the Group continuously generates significant liquidity positions because premium income normally accrues well before claims payments and other benefits need to be rendered. We counteract liquidity risks through regular liquidity planning and by continuously matching the maturities of our investments to our financial obligations. A liquid asset structure ensures that the Group is able to make the necessary payments at all times. Planning for insurance-related payment obligations is based, for example, on the expected due dates, making allowance for the run-off pattern of reserves.

As an aid to monitoring liquidity risks, each type of security is assigned a liquidity code that indicates how easily the security can be converted into cash at market prices. Risk Controlling at Talanx Asset Management GmbH reviews these codes regularly. Plausibility checks are carried out, taking into account market data and the assessment of Portfolio Management, and the codes are modified where necessary. The data are then included in the standardised portfolio reporting provided to the Chief Financial Officers of the local units. Specific minimum limits are in place at individual Group companies for holdings of highly liquid securities, as well as maximum limits for holdings of securities that are not very liquid. The minimum limits, in particular, are based on the timeframe of insurance-related payment obligations. Owing to the shorter terms of their insurance-related payment obligations, the Group's property/casualty insurers generally have higher minimum limits for holdings of highly liquid securities than life insurers, for which the terms of insurance-related payment obligations are usually longer. Overstepping of any risk limits is immediately reported to the Chief Financial Officers and Portfolio Management.

The Group also optimises the availability of liquid funds using cash pools within the various Group companies, which facilitate management of their cash inflows and outflows.

Material operating risks

In our understanding, this category encompasses the risk of losses occurring due to the inadequacy or failure of internal processes or as a result of events triggered by employee-related, system-induced or external factors. Operating risk also includes risks relating to data protection and antitrust law and other legal risks.

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

Legal risks may arise in connection with contractual agreements and the broader legal environment, especially with respect to business-specific imponderables of commercial and tax law as they relate to an internationally operating life/health and property/casualty insurer/reinsurer. Insurers and reinsurers are also dependent on general political and economic conditions prevailing on their respective markets. Talanx's Board of Management monitors these external risks continuously 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 part of the cost of the banking crisis. There is a risk of such a tax also affecting our Group.

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 of 21 December 2012, Talanx subsidiaries will therefore offer only rates that take this change into account in new business. The impact on company pension schemes is still being discussed. To avoid liability risks, however, only corresponding rates will be offered in new business with company pension schemes as of 21 December 2012. The granting of an option for the entire 2012 rate generation to switch to the new 2013 generation of rates means that there is a risk that some Talanx subsidiaries may need to establish additional reserves. This could also be the case for the new business tranche in 2013 if the actual proportion of women is higher than the proportion that has been allowed for. It remains to be seen whether this court ruling 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 that could have implications for the entire German insurance industry and hence also for the Talanx Group once their outcome is legally final. This applies in particular to the area of life insurance. Such issues that are to be decided before the courts include, for example, the question of how to deal with a monthly, quarterly or half-yearly method of payment in insurance contracts. Higher court decisions handed down with regard to the treatment of surcharges for instalment payments vary widely. In one individual lawsuit the Federal Court of Justice ruled in favour of the insurer that had been sued in a decision of 6 February 2012. Other actions are still pending before the Federal Court of Justice. Aspects that have so far been challenged in court have been adjusted in new business out of caution and for reasons of consumer-friendliness. This is not possible for in-force business on practical grounds. The Federal Court of Justice ruled in 2012 that the general conditions of insurance for the rate generations from 2001 to 2007 are invalid with regard to the calculation of surrender values and non-contributory benefits if the process that is intended to be used for offsetting acquisition costs (zillmerisation) leads to disproportionately low values. In addition, the Federal Court of Justice has drawn up new guidelines for the effective agreement of lapse discounts. This new court ruling means that subsequent settlement will regularly be necessary for contracts in this generation of rates that have already been repurchased and made non-contributory. The ruling has thus been taken into account with a reserve in the financial statement as at 30 September 2012 (IFRS). We believe there is still a slight residual risk that the reserves that have been built up may not be adequate, and are therefore continuing to monitor this risk.

In accordance with § 153 III 3 of the Insurance Contract Act (VVG), policyholders are entitled to a share in valuation reserves as well as the surplus paid on an ongoing/annual basis and the surplus paid upon termination of the policy, provided that no exclusion applies. The majority of life insurers grant a “minimum share in valuation reserves”, which becomes due upon termination of the policy irrespective of the actual amount of the valuation reserves. If the valuation reserves are relatively high, the customer will receive a share in valuation reserves in addition to the minimum share upon termination of the policy. If the valuation reserves are low, it is possible that only the minimum share will be paid. This practice is coming under increasing criticism from consumer protection groups and customers. Proceedings are also already underway against an insurance company, and the outcome could have far-reaching consequences. If the outcome of the lawsuit is negative, (subsequent) settlement in favour of the policyholder may lead to “losses”. Valuation reserves would have to be paid in the event of occurrence, despite the presence of a notional minimum share (possibly estimating an amount for valuation reserves for the following month).

Legislation in other countries can also give rise to new risks. The “Foreign Account Tax Compliance Act” (FATCA) was passed in the USA in March 2010 and takes effect on 1 January 2013. The new FATCA provisions tighten US tax reporting by non-US financial institutions (including insurance companies) and are intended to combat evasion of US taxes via investments abroad. It is not yet fully clear which insurance products will be covered by the intended reporting requirements. As things stand, term life insurance, property insurance and reinsurance are to be exempt from the new requirements, whereas all so-called “cash-value products” and insurance agreements with investment components are to be included. The issue remains under observation. Talanx is also obtaining external advice in connection with this, particularly with regard to the question of whether foreign jurisdictions will be able to lay the foundations in time at national level to enable the information that must be provided in accordance with FATCA to be supplied legally. FATCA requirements are currently still coming into conflict with national regulatory standards (such as data protection laws) in some countries.

We are closely monitoring further potential developments in rulings of the Federal Court of Justice and changes in the law that could affect Group companies. Irrespective of the question of whether they are legally binding, individual court rulings can lead to reputational risks. Like the entire insurance industry, the Talanx Group is also facing far-reaching changes against the backdrop of impending and in some instances already implemented reforms of regulatory standards, especially in the context of IFRS and Solvency II. We are tracking the accounting and regulatory changes closely and we have identified the associated more exacting requirements and taken steps to refine our risk management accordingly. This will enable us to satisfy the more complex and extensive standards in future.

Along with legal risks, other operating risks include failure of data processing systems and data security. Ensuring the availability of computer-based applications and protecting the confidentiality and integrity of data are of vital importance to the Talanx Group. Since information is increasingly shared worldwide via electronic data transfer, data exchange is also vulnerable to computer viruses. Dedicated 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 shortage of the skilled experts and managers needed for running an increasingly complex business with a strong client focus and for implementing important projects. Talanx therefore attaches great importance to further and advanced training activities. Personalised development plans and targeted skills enhancement opportunities enable staff to keep abreast of the latest market requirements. In addition, state-of-the-art management tools – where permissible under collective wage agreements – such as appropriate incentive schemes (both monetary and non-monetary) foster strong employee motivation. At Talanx, in-house guidelines governing areas of competence and workflows and regular checks and audits by experts counter the risk of staff committing fraudulent acts to the detriment of the company.

We reduce risks arising from problems with buildings infrastructure that may cause interruptions to operations by complying with safety/maintenance standards and by implementing fire safety measures. In addition, emergency plans enable us to return to normal operations as quickly as possible in the event of a disruption. We have set up task forces both at the level of Talanx and at individual Group companies, to manage and coordinate measures to restore normal operations.

Risks arising from outsourced functions or services are in principle incorporated into the risk management process. These are identified, assessed, managed and monitored and included in risk reporting. We also conduct initial risk analyses before outsourcing activities/areas.

On the marketing side, the Talanx Group works together not only with its own field service but also with external agents, brokers and a number of cooperation partners. In this respect there is, of course, always a risk that marketing agreements may be impacted by external influences, with corresponding potential for the loss of new business and erosion of in-force portfolios.

Other material risks

Other risks of material importance to our company primarily include emerging risks, strategic risks and reputational risks.

The defining trait of emerging risks (such as those in the field of nanotechnology or in connection with climate change) is that their risk content cannot yet be reliably assessed – especially as regards their impact on our in-force portfolio. Such risks evolve gradually from weak signals to unmistakable trends. It is therefore vital to recognise these risks at an early stage and then assess their relevance. For the purpose of early detection, we have developed an efficient process that spans our divisions and ensures link-up to risk management, thereby making it possible to pinpoint any measures required (e.g. ongoing observation and evaluation, exclusions in insurance contracts, or designing new [re]insurance products).

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

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 clients, business partners, government agencies). Our well-established communication channels, a professional approach to corporate communications, tried and tested processes for defined crisis scenarios and our firm Code of Conduct help us to manage this risk.

Summary assessment of the risk situation

Particularly with respect to the economic and partial 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 net 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.

Corporate Governance

Declaration on Corporate Governance and Corporate Governance report

Declaration on Corporate Governance pursuant to § 289a of the German Commercial Code (HGB)

Declaration of conformity pursuant to § 161 of the German Stock Corporation Act (AktG)

The Board of Management and Supervisory Board submitted the following declaration of conformity with the German Corporate Governance Code for Talanx AG prior to approval of the annual financial statements:

The German Corporate Governance Code (DCGK) sets out major statutory requirements governing the management and supervision of German listed companies and contains both internationally and nationally recognised standards for good and responsible enterprise management. The purpose of the Code is to foster the trust of investors, customers, employees and the general public in German enterprise management. Under § 161 AktG it is incumbent on the boards of management and supervisory boards of German listed companies to provide an annual declaration of conformity with the recommendations of the German Corporate Governance Code Government Commission published by the Federal Ministry of Justice, or to explain which recommendations of the Code were/are not being applied and for which reasons ("comply or explain").

The Board of Management and Supervisory Board declare pursuant to § 161 AktG that Talanx AG, which has been a listed company – since 2 October 2012, in its implementation of the German Corporate Governance Code has diverged in two respects from the recommendations of the Code contained in the version of the DCGK dated 15 May 2012:

Item 4.2.3 Para. 4 DCGK

(caps on severance payments in Management Board contracts)

Premature termination of a Management Board 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 DCGK, 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 DCGK.

Item 5.2 Para. 2 DCGK

(Chairmanship of the Audit Committee)

The current Chairman of the Finance and Audit Committee is also the Chairman of the full Supervisory Board. Although other members of the Finance and Audit Committee also have special knowledge and experience of the application of accounting principles and internal control procedures, the current Chairman of the Committee is the only member to have spent his whole career in the insurance sector. He can look back on 29 years on the boards of management of insurance companies and insurance holding companies, of which 20 years were spent as Chairman of the Board of Management, sharing direct responsibility for the income situation of the company concerned and the presentation of this income on the balance sheet. In his double role as Chairman of the Finance and Audit Committee and of the full Supervisory Board, he coordinates the work of both committees single-handedly and can thus optimise the efficiency of their activities. His position does not lead to a concentration of power on either the Finance and Audit Committee or the full Supervisory Board, as he has only one vote on each committee, like the other members. The company therefore believes that the current Chairman of the Supervisory Board is the most suitable person to act as Chairman of the Finance and Audit Committee. It is thus in the company's interest to deviate from the recommendation in Item 5.2 Para. 2 DCGK.

We are in compliance with all other recommendations.

Hannover, 20 March 2013

On behalf of the
Board of Management

On behalf of the
Supervisory Board

The declaration of conformity and other information on corporate governance at Talanx is also available on the website at <http://www.talanx.com/investor-relations/corporate-governance>.

Corporate Governance report pursuant to Item 3.10 of the German Corporate Governance Code (DCGK)

Our understanding of corporate governance

The Board of Management and Supervisory Board take 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 investors, our business partners and employees, and the public at large. We also attach great 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, and to open and transparent corporate communications. Our understanding of good corporate governance is summarised in Talanx AG's Corporate Governance Principles, which were agreed by the Board of Management and Supervisory Board in August 2012 (<http://www.talanx.com/investor-relations/corporate-governance>).

Corporate constitution

Good corporate governance is indispensable if Talanx AG is to achieve its goal of sustainably enhancing the value of the company. The company is therefore guided by the principles of the DCGK, and this year submitted a declaration of conformity pursuant to § 161 of the German Stock Corporation Act (AktG) for the first time following its flotation on 2 October 2012. This forms part of the Declaration on Corporate Governance on page 44.

Talanx AG is a stock corporation under German stock corporation law. It has three corporate bodies, the Board of Management, the Supervisory Board and the 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 the Supervisory Board.

Board of Management

The Board of Management leads the company on its own responsibility and defines goals and corporate strategy. In accordance with § 8 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. The Supervisory Board's Rules of Procedure state that it should appoint only persons who are not yet 65 years old to the Board of Management. The term of their appointment should be chosen to end not later than in the month in which the Board member turns 65.

The current composition of the Board of Management and the areas of responsibility of individual members are set out on page 8 et seq. of this Annual Report.

The working practice of the Board of Management is governed by Rules of Procedure for the Board of Management of Talanx AG adopted by the Supervisory Board. These define the areas of responsibility of the individual members of the Board of Management. Notwithstanding his overall responsibility, each member of the Board heads up the area(s) assigned to him on his own responsibility within the scope of the resolutions of the full Board of Management. However, each member of the Board of Management has a duty in accordance with the Rules of Procedure to inform the other members of the Board of Management of important plans, transactions and developments in his division.

In addition, the Rules of Procedure set out the matters reserved for the full Board of Management and the required voting majorities. The full Board of Management 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. It reports regularly, promptly and comprehensively to the Supervisory Board on the development of business, the company's financial position and results of operations, planning and goal accomplishment and current opportunities and risks. The Supervisory Board has stipulated the Board of Management's information and reporting obligations in more detail. Documents on which a decision must be made, particularly the individual financial statements, consolidated financial statements and auditor's reports, are forwarded to members of the Supervisory Board immediately.

The Board of Management may carry out certain transactions that are of special importance or strategic significance only with the approval of the Supervisory Board. Some of these reservations of approval are prescribed by law, while others are governed by the Rules of Procedure of the Board of Management. For instance, the following actions and transactions require the Supervisory Board's prior approval:

- adoption of strategic principles and objectives for the company and the Group
- adoption of the annual planning for the company and the Group
- conclusion, 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 take on other activities, in particular posts on supervisory boards outside the Group, only with the consent of the Chairman of the Supervisory Board.

Supervisory Board

The Supervisory Board advises and monitors the Board of Management's activities. It is also responsible, in particular, for the appointment and the contracts of members of the Board of Management and for examining and approving the individual company and consolidated financial statements. The Chairman of the Supervisory Board is in constant contact with the Chairman of the Board of Management to discuss the company's strategy, business development and important transactions. The Supervisory Board has introduced Rules of Procedure for its work, which govern membership of the Supervisory Board and its internal organisation and contain general and specific rules for the committees to be formed by the Supervisory Board in accordance with the Rules of Procedure.

The Supervisory Board consists of 16 members. Half of these are chosen by the shareholders and the other half are elected by the company's staff. The composition of the Supervisory Board and its committees is set out on page 5 et seq. of this Annual Report.

The Supervisory Board holds ordinary meetings regularly, at least twice every six months. Extraordinary meetings are also convened as required, and the committees hold regular meetings.

A quorum exists when all members of the Supervisory Board have been invited or asked to vote and at least half of all Supervisory Board members are involved in adopting the resolution. All decisions shall be passed with a simple majority, unless another majority is prescribed by law. If voting results in a tie, a further vote shall be held on the same subject; if this also results in a tie, the Chairman shall have two votes.

To assist the Supervisory Board in performing its tasks effectively, it 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 remit and decide in lieu of the Supervisory Board on the matters assigned to the remit of the committee by the Rules of Procedure. The chairman of each committee reports to the Supervisory Board regularly on the work of the respective committee.

The Finance and Audit Committee (FAC) monitors the financial reporting process, including the effectiveness of the internal control system and of the risk management and internal audit systems. It discusses quarterly reports and deals with issues relating to compliance and reporting to the Supervisory Board. Moreover, it prepares for the Supervisory Board's review of the annual financial statements, the Management Report, the Board of Management's proposal for the appropriation of disposable profit, and the consolidated financial statements and Group Management Report. In this context, the FAC informs itself in detail of the Auditor's opinion as to the net assets, financial position and results of operations and has the effects of any changes in accounting and recognition methods on the net assets, results of operations and financial position, and possible alternatives, explained to it. It deals with issues concerning the requisite independence of the Auditor, the awarding of the audit mandate, focal points to be addressed in the audit and the Auditor's fees. Not only the Board of Management, but also the Head of Internal Auditing, the Chief Risk Officer and the Chief Compliance Officer report directly to the FAC.

The Personnel Committee prepares decisions of the Supervisory Board relating to members of the Board of Management and decides in lieu of the Supervisory Board on the content and conclusion of, amendments to and termination of service

contracts with members of the Board of Management, with the exception of remuneration issues and their implementation. It is responsible for granting loans to the persons referred to in §§ 89 Para. 1, 115 AktG and persons assigned similar status in § 89 Para. 3 AktG, and for approving contracts with Supervisory Board members pursuant to § 114 AktG. It exercises the powers deriving from § 112 AktG on behalf of the Supervisory Board and attends to long-term Board membership planning together with the Board of Management.

The Nomination Committee advises the Supervisory Board on suitable candidates to be proposed to the General Meeting for election to the Supervisory Board.

To ensure that candidates fulfil the relevant selection criteria, the Nomination Committee has drawn up a statement of requirements for Supervisory Board members, one of the aims of which is to make sure that the Supervisory Board has the necessary expertise to cover all areas of business at the Group. The Supervisory Board's Rules of Procedure state that it may not include more than two former members of the company's Board of Management, to guarantee the independence of Supervisory Board members. Furthermore, members of the Supervisory Board may not hold positions on bodies of, or provide individual advisory services to, any significant competitors of the company, of a Group company or of the Talanx Group.

Further details on the activities of the Supervisory Board committees are given in the Supervisory Board's report beginning on page 2 of this Annual Report.

When candidates are chosen to be proposed to the General Meeting for election to the Supervisory Board, it is ensured that they have the necessary knowledge, skills and professional experience. The principle of diversity is also taken into account in the selection. The Supervisory Board currently includes five women, which means that the company is meeting its target of at least four women in accordance with the Supervisory Board's Rules of Procedure. Supervisory Board members ensure that they have sufficient time available for their activities and avoid potential conflicts of interest. The Supervisory Board's Rules of Procedure state that Supervisory Board members should be under 72 years of age at the time they are elected. With regard to the number of independent Supervisory Board members that the Supervisory Board considers appropriate, the Board has decided that it should include two

independent members as defined by Item 5.4.1 DCGK. The Supervisory Board currently meets this target. This does not take into account employee representatives on the Supervisory Board.

Remuneration of the Board of Management and Supervisory Board

The remuneration report on page 50 et seqq. contains a detailed description of the structure of remuneration for the Board of Management and Supervisory Board, as well as for directors and managers, and of the payment of part of the variable remuneration as Talanx share awards.

Directors' dealings

Members of the Board of Management and Supervisory Board, authorised representatives of Talanx AG and related parties are legally obliged to disclose the acquisition or disposal of shares in Talanx AG or financial instruments relating to these if the value of transactions in one calendar year reaches or exceeds EUR 5,000.00. Talanx AG not only ensures that it complies with the publications and announcements required pursuant to § 15a Para. 4 of the Securities Trading Act in connection with this, but also publishes directors' dealings on its website.

Shareholdings of the Board of Management and Supervisory Board

The total holdings of shares in Talanx AG or related financial instruments of all members of the Board of Management and Supervisory Board came to under 1% of all shares issued by the company as at 31 December 2012.

Compliance

Compliance with the law and internal company guidelines and ensuring that Group companies observe these is an essential part of management and monitoring at Talanx. We have had a separate compliance department since the beginning of 2011, which is structuring and expanding the existing Group-wide compliance organisation as part of an ongoing compliance project. In terms of staff, Talanx's compliance organisation consists of the Chief Compliance Officer and other compliance officers who are responsible for individual divisions (with the exception of the Hannover Re subgroup, which has its own compliance organisation). The number of staff involved in compliance is to be increased in connection with the abovementioned compliance project, to ensure that the future requirements of Solvency II are fulfilled.

Internal Group compliance regulations are governed by a code of conduct, in which the Talanx Group commits to strict ethical and legal requirements. The code was updated in the last financial year, to reflect developments in legislation and legal practice that had occurred in the meantime. It is available on the website. The code of conduct sets standards to ensure that employees act with integrity at all levels of the Group. Each employee at the Group must ensure that he acts in accordance with the code of conduct and the laws, guidelines and instructions governing his area of work.

Another element in ensuring Group-wide compliance is a whistleblower system that can be contacted from anywhere in the world, which employees and third parties can use to report significant breaches of the law and the rules of conduct. This can be done anonymously if they wish. This enables Compliance to take action, contain the damage and avoid further harm.

The Board of Management submitted the compliance report for the 2012 calendar year, which sets out Talanx's structure and its various activities in connection with this, to the Finance and Audit Committee before the annual financial statements were approved.

Risk monitoring and steering

The Group-wide risk management system of Talanx AG is based on our risk strategy, which in turn is derived from our corporate strategy. A core component is systematic and comprehensive tracking of all risks that from today's perspective could conceivably jeopardise the company's profitability and continued existence. Further details of this are given in the risk report on page 29 et seqq. of this Annual Report.

Information of relevance to acquisitions and explanations

Breakdown of common shares

The breakdown of common shares is explained in the Notes under "Notes to the balance sheet – liabilities".

Restrictions on voting rights and transfer

In connection with its IPO, the company has promised the consortium banks that it will not, either directly or indirectly, offer, pledge, assign, issue, sell or promise to sell any shares in its capital stock or securities that can be converted into or exchanged for shares in its capital stock or that entitle the holder to purchase the latter, or sell a corresponding call option or purchase agreement, purchase a corresponding call option or contract aimed at sale, grant or otherwise transfer or sell any call option, right of purchase or promise to buy, or conclude any swap or other agreement that transfers the economic risk associated with ownership of a share in the capital stock in whole or in part to another party, within a period of six months after the date on which shares in the company are admitted to trading on the stock exchange, without the prior approval of the joint global coordinators.

HDI V.a.G. has promised the consortium banks in the takeover agreement that it will not, without the prior approval of the joint global coordinators, within 24 months of the date on which shares in the company are admitted to trading on the stock exchange:

- a) either directly or indirectly, offer, pledge, assign, issue, sell or promise to sell any shares in its capital stock or securities that can be converted into or exchanged for shares in its capital stock or that entitle the holder to purchase the latter, or sell a corresponding call option or purchase agreement, purchase a corresponding call option or contract aimed at sale, or grant or otherwise transfer or sell any call option, right of purchase or promise to buy,
- b) conclude any swap or other agreement that transfers the economic risk associated with ownership of a share in the capital stock in whole or in part to another party, irrespective of whether a transaction referred to in (a) or (b) is to be fulfilled through the provision of shares in the company or other such securities, in cash or otherwise,
- c) demand the registration of shares in the company or securities that can be converted into or exchanged for shares in the company or that entitle the holder to purchase the latter, in accordance with the securities legislation of the USA, or exercise any right relating to this.

The above restrictions on sale (lock-up) do not apply to transfers of shares between HDI V.a.G. and one of its subsidiaries, provided that the subsidiary concerned assumes the obligations towards the joint global coordinators for the remaining

portion of the lock-up period, or to transactions and participations of HDI V. a. G. in relation to or in connection with the issuing of convertible bonds, warrant bonds, participating bonds and profit-sharing rights in accordance with the authorisation granted by the company's Annual General Meeting and their conversion into newly issued shares in the company in accordance with the corresponding contingent capital II or III, provided that this transaction or participation takes place after a period of six months from the date on which the new shares are admitted to trading on the stock exchange.

In an agreement with the joint global coordinators, Meiji Yasuda Life has promised the joint global coordinators that it will not, without the prior written approval of the joint global coordinators (which is not to be unreasonably refused or delayed), within 24 months of the date on which shares in the company are admitted to trading on the stock exchange:

- a) either directly or indirectly, offer, pledge, assign, issue, sell or promise to sell any shares in its capital stock or securities that can be converted into or exchanged for shares in its capital stock or that entitle the holder to purchase the latter, or sell a corresponding call option or purchase agreement, purchase a corresponding call option or contract aimed at sale, or grant or otherwise transfer or sell any call option, right of purchase or promise to buy,
- b) conclude any swap or other agreement that transfers the economic risk associated with ownership of a share in the capital stock in whole or in part to another party, irrespective of whether a transaction referred to in (a) or (b) is to be fulfilled through the provision of shares in the company or other such securities, in cash or otherwise,
- c) demand the registration of shares in the company or securities that can be converted into or exchanged for shares in the company or that entitle the holder to purchase the latter, in accordance with the securities legislation of the USA, or exercise any right relating to this.

The above restrictions on sale (lock-up) do not apply to transfers of shares between Meiji Yasuda Life and an affiliate of Meiji Yasuda Life, provided that the purchaser concerned assumes the obligations towards the joint global coordinators for the remaining portion of the lock-up period, or to the sale of shares in connection with a public takeover bid or if and to the extent that the existing shareholder is released from its lock-up obligations by the joint global coordinators.

Participating interests in capital that exceed 10% of the voting rights

Details of direct and indirect participating interests in capital that exceed 10% of the voting rights are provided in the Notes under the "Notes to the balance sheet – liabilities".

Shares with special rights that grant authority to control

There are no shares with special rights that grant authority to control.

Type of voting control in the event of employee participation in capital

No employees hold participations in capital as defined by § 289 Para. 4 No. 5 of the German Commercial Code (HGB).

Legal regulations and statutory provisions regarding the appointment and removal of members of the Board of Management and amendments to the Articles of Association

The appointment and removal of members of the Board of Management of Talanx AG are regulated in §§ 84 and 85 AktG, § 31 MitbestG and § 5 of the Supervisory Board's Rules of Procedure. Pursuant to § 8 of the Articles of Association of Talanx AG, the Board of Management must consist of at least two persons; the Supervisory Board shall otherwise determine the number of members on the Board of Management.

The Supervisory Board appoints members of the Board of Management for a period of up to five years. Reappointments for a maximum period of five years in each case are permitted. A simple majority of votes cast by the Supervisory Board is required for the appointment of members of the Board of Management. If a ballot results in a voting tie, and a further ballot also results in a tie, the Chairman shall have two votes in the second ballot (§ 7 of the Supervisory Board's Rules of Procedure).

In accordance with German regulatory law, members of the Board of Management must be trustworthy and professionally qualified to run an insurance holding company (§ 13e VAG). Anyone who is already a director at two insurance companies, pension funds, insurance holding companies or special purpose entities for insurance cannot be appointed as a member of the Board of Management. However, the supervisory authorities can permit more posts to be held if companies belonging to the same insurance group or group of companies are

involved (§ 7a VAG). The Federal Financial Supervisory Authority must be notified of plans to appoint a member of the Board of Management (§ 13e VAG).

The Annual General Meeting resolves on amendments to the Articles of Association (§ 179 AktG). Unless otherwise stipulated by binding legal regulations, resolutions of the Annual General Meeting shall be passed with a simple majority of votes cast and, if a majority of the capital is required, the majority of the capital stock represented at the meeting at which the resolution is passed (§ 16 Para. 2 of the Articles of Association). A larger majority is required by law in the case of a change to the corporate purpose, for example (§ 202 Para. 2 AktG). Pursuant to § 179 Para. 1 Sentence 2 AktG in conjunction with § 11 of the Articles of Association of Talanx AG, the Supervisory Board can amend the wording of the Articles of Association.

Authority of the Board of Management to issue or buy back shares

The authority of the Board of Management to issue and buy back shares is regulated by the company's Articles of Association and in §§ 71 et seqq. AktG. The Annual General Meeting of the company on 29 September 2012 authorised the Board of Management in connection with this, pursuant to § 71 Para. 1 No. 8 AktG, to acquire treasury shares under certain conditions for a period of five years, i.e. up to 28 September 2017.

Material agreements of Talanx AG with change-of-control clauses

In accordance with Talanx AG's contracts relating to syndicated credit facilities, lenders may terminate the credit line if there is a change of control, i.e. if a person or group of persons acting in concert other than HDI Haftpflichtverband der Deutschen Industrie V.a.G. acquires direct or indirect control over more than 50% of the voting rights or share capital of Talanx AG.

The cooperation agreements with Deutsche Postbank AG dated 18 July 2007 each contain a clause that, in the event of the direct or indirect acquisition of control of one of the parties to the contract by a third company not affiliated with the parties, grants the other contractual party an extraordinary right of termination.

The cooperation agreements for Turkey and Russia concluded on the basis of the general agreement with Citibank dated December 2006 each contain a clause that, in the event that the controlling majority of shares or the business operations of one of the parties to the contract are acquired by a company not affiliated with the parties, grants the other contractual party an extraordinary right of termination.

Compensation arrangements in the event of a takeover bid

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

Remuneration report

The remuneration report describes and explains the basic features of the remuneration structure for the Board of Management of Talanx AG, the amount of the remuneration of the Board of Management and the criteria for its calculation. The description covers payments made to the Board of Management in the 2012 financial year in respect of activities of members of the Board of Management on behalf of Talanx AG and its consolidated companies with the exception of the Hannover Re Group. It also explains the structure and amount of remuneration paid to the Supervisory Board of Talanx AG and the basic principles for remuneration of directors and managers below the level of the Group Board of Management.

The remuneration report follows the recommendations of the German Corporate Governance Code. Pursuant to German commercial law, the information also contains mandatory items of the Notes (§ 285 [9] and [10] HGB) and the Management Report (§ 289 [5] HGB), all of which are discussed in this remuneration report and are also summarised in the Notes in accordance with the applicable statutory provisions.

The remuneration scheme complies with the provisions of the German Act on the Appropriateness of Executive Remuneration (VorstAG) and of the Insurance Supervision Act (VAG) in conjunction with the regulation on the supervisory law requirements for remuneration schemes in the insurance sector (VersVergV). We have also taken the more specific rules of German Accounting Standard DRS 17 (as amended in 2010) "Reporting on the Remuneration of Members of Governing Bodies" into account in this report.

Remuneration of the Board of Management

The Supervisory Board decides on the amount of remuneration for the Board of Management and reviews and discusses the remuneration structure and the appropriateness of remuneration at regular intervals.

The Supervisory Board has fundamentally realigned the remuneration system for the Board of Management on the basis of current statutory and regulatory provisions for executive remuneration with effect from the 2011 financial year.

Structure of remuneration for the Board of Management

The aim of the remuneration system for the Board of Management is to pay Board members a reasonable fee. The remuneration of the Board of Management takes into account the size and activity of the company, its economic and financial situation, its success and future outlook, and the comparability of remuneration in the light of the peer environment (horizontal) and remuneration levels for the rest of the company's staff (vertical). It also takes into consideration the tasks and duties of individual members of the Board of Management, their personal performance and the performance of the Board of Management as a whole. Overall, 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 comprises an annual fixed component and a variable component based on a multi-year assessment. The proportion of variable remuneration within the overall remuneration package differs in each individual case and ranges from 35% to 60% for 100% achievement of the Board members' personal targets.

Fixed remuneration

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 fixed remuneration regularly, but at least every two years.

Non-cash/fringe benefits

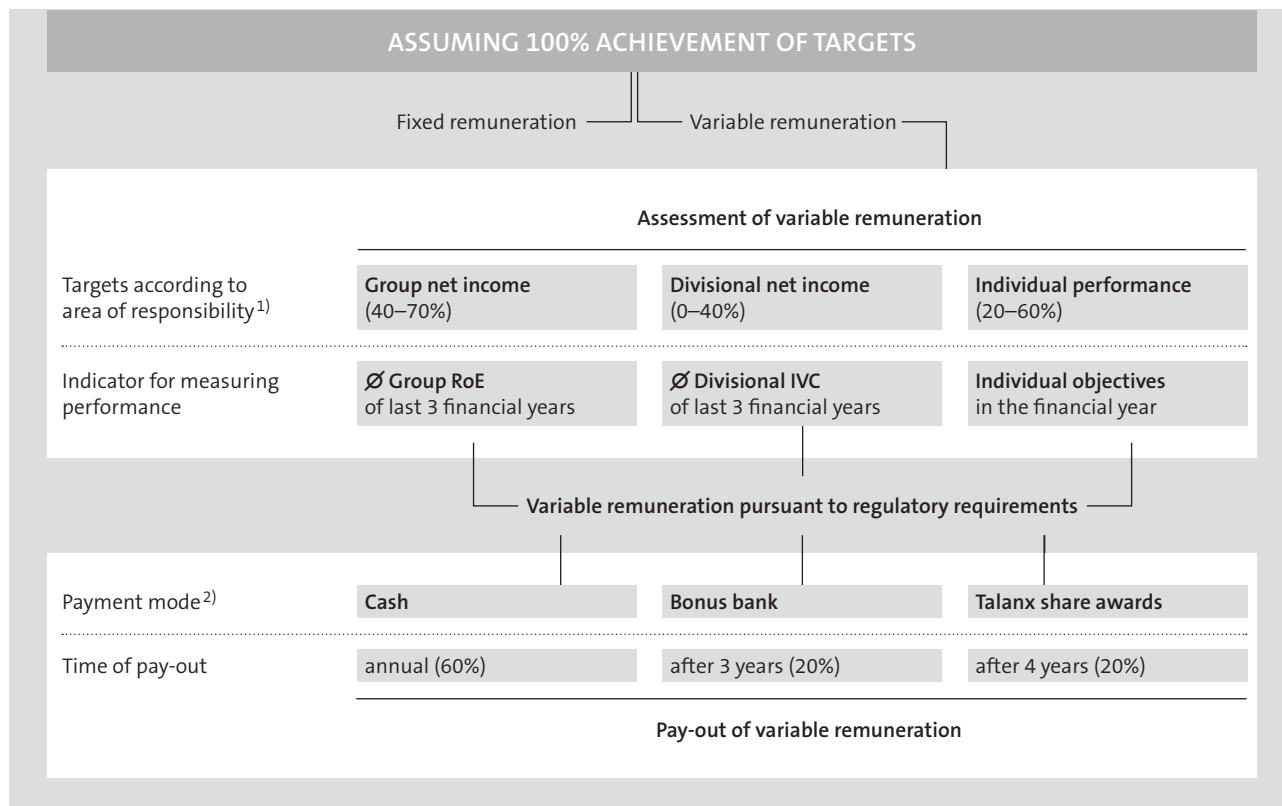
Members of the Board of Management also receive certain non-performance-related fringe benefits in line with common market practice, which are reviewed at regular intervals. They are given a car for business and private use for the duration of their membership of the Board. The individual Board member is responsible for paying tax on the monetary value of the private use of the company car. The company also grants its Board members insurance cover on a reasonable scale (liability, accident and luggage insurance). Non-cash and fringe benefits are reported at cost value in the financial statements.

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

Assessment of variable remuneration

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

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 variable remuneration

<i>Remuneration component</i>	<i>Assessment basis/parameters</i>	<i>Preconditions for payment</i>
Group bonus		
<p><i>Percentage of variable remuneration</i> Chief Executive Officer and Chief Financial Officer: 70% Deputy Chief Executive Officer: 50% Chief Information Officer: 40% Division Managers: 40%</p>	<ul style="list-style-type: none"> ■ 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) ■ Basis of calculation: 12.8% RoE (= 100%) ■ Cap max.: 200% ■ Cap min.: -100% (penalty) ■ 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 according to IFRS (without non-controlling interests) at the start and end of the financial year 	<ul style="list-style-type: none"> ■ Average RoE > risk-free interest rate
Divisional bonus		
<p><i>Percentage of variable remuneration</i> Chief Executive Officer, Chief Financial Officer and Chief Information Officer: 0% Deputy Chief Executive Officer: 30% Division Managers: 40%</p>	<ul style="list-style-type: none"> ■ Evaluation of intrinsic value creation (IVC) of the business areas within the individual's area of responsibility ■ Criteria: relative change in IVC versus previous year, absolute amount of IVC, comparison of IVC with target, distribution or profit transfer ratio, general market environment ■ From 2013: criteria: gross written premium, net combined ratio in property/casualty insurance and value of new business in life insurance, EBIT margin, return on equity, profit transfer/dividend; each compared against target (for 2013, only FY 2013 as assessment period, for 2014 average for FY 2013 and 2014, from 2015 three-year average) ■ 100% = targets achieved in full ■ Cap max.: 200% ■ Cap min.: EUR 0; from 2013: Cap min.: -100% (penalty) 	<ul style="list-style-type: none"> ■ Achievement of targets for the year/three-year targets ■ Supervisory Board determines the degree of target achievement at its prudent discretion
Individual bonus		
<p><i>Percentage of variable remuneration</i> Chief Executive Officer and Chief Financial Officer: 30% Chief Information Officer: 60% Deputy Chief Executive Officer and Division Managers: 20%</p>	<ul style="list-style-type: none"> ■ Individual qualitative and quantitative targets; personal contribution to overall result, leadership skills, innovation, entrepreneurial skills, specific remit factors ■ 100% = targets achieved in full ■ Cap max.: 200% ■ Cap min.: EUR 0 	<ul style="list-style-type: none"> ■ Achievement of targets for the year ■ Supervisory Board determines the degree of target achievement at its prudent discretion
Breakdown of pay-out of variable remuneration		
Short term	Medium term	Long term
<ul style="list-style-type: none"> ■ 60% of variable remuneration with the next monthly salary payment following the resolution by the Supervisory Board 	<ul style="list-style-type: none"> ■ 20% of variable remuneration allocated to the bonus bank ■ 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 	<ul style="list-style-type: none"> ■ Automatic allocation of virtual Talanx share awards to a value equivalent to 20% of 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: un-weighted arithmetic mean of Xetra closing prices over a period of five trading days before to five trading days 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 share awards by on aggregate 10% or more due to structural measures trigger adjustment
<p>Negative total of variable bonuses = pay-out of EUR 0 of variable remuneration. A negative value for the total variable bonuses in any financial year is transferred in full to the bonus bank (see "Medium term" column).</p>		

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) for the last three financial years exceeds a risk-free interest rate. If the average return on equity is below the risk-free interest rate or turns 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 geared towards the average intrinsic value creation (IVC) of the division for which the Board member is responsible over the previous three-year period. Work is currently still in progress to fine-tune a universally applicable concept for measuring the IVC. The new procedure for calculating the performance of divisions is to be applied for the first time to the 2013 financial year.

Arrangements up until 31 December 2012

The divisional bonus for the 2012 financial year will be determined by the Supervisory Board at its prudent discretion. In this context, the Supervisory Board will take into account 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,

distribution ratio or profit transfer ratio of the division relative to the target value, general market environment. The individually defined amount for 100% criteria fulfilment is payable if the criteria are achieved in full. Additions or deductions will be made if criteria are exceeded or not met. The minimum divisional bonus amounts to EUR 0, while the maximum is double the bonus payable on complete fulfilment of the criteria.

Arrangements from 1 January 2013

From the 2013 financial year onwards, the divisional bonus will be calculated on the basis of the following criteria in relation to target values for the respective divisions: gross written premium, development of net combined ratio in property/casualty insurance and development of the value of new business in life insurance, EBIT margin, return on equity and profit transfer/dividend. The Supervisory Board will calculate the divisional bonus at its prudent discretion based on the extent to which these criteria have been fulfilled. Only the 2013 financial year will be used as the assessment period for the achievement of targets for 2013. For 2014, the average achievement of targets in 2013 and 2014 will be used, and from 2015 onwards the bonus will be based on average achievement of targets for the last three financial years. The individually defined amount for 100% achievement of targets is payable if the targets are met in full. Additions or deductions will be made if the defined targets are exceeded or not met. The maximum divisional bonus is twice the bonus payable if the targets are met in full, while the minimum bonus is a penalty corresponding to -100% achievement of targets.

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 be the individual Board member's personal contribution to achieving the overall business result, their leadership skills, power of innovation and entrepreneurial abilities, and other quantitative or qualitative personal goals, making special allowance for the particular features associated with their area of responsibility within the Board. The degree to which goals have been attained is determined by the Supervisory Board at its prudent discretion at the Supervisory Board meeting at which the consolidated financial statements for the financial year are approved. The amount payable for 100% goal attainment is established on a personal basis. Additions or deductions will be made if goals are exceeded or not met. The minimum individual bonus amounts to EUR 0, while the maximum is double the bonus payable on complete attainment of the defined goals.

Total amount of variable remuneration

The total amount of variable remuneration is arrived at by adding the amounts for the individual remuneration components. If this sum is negative, variable remuneration amounts to EUR 0 (in other words, there can be no negative variable remuneration). However, negative amounts are taken into account in the calculation of the bonus bank (see next section on "Payment of variable remuneration").

The amount of variable remuneration is set at the Supervisory Board meeting at which the consolidated financial statements are approved. The Supervisory Board decides regularly, and in exceptional circumstances at its prudent discretion, whether variable remuneration needs to be adapted or payouts restricted.

Payment of variable remuneration

60% of the total amount of variable remuneration is paid out in cash in the month following the Supervisory Board meeting that approves the consolidated financial statements. The remaining 40% of the total variable remuneration is initially withheld and is paid out only after a reasonable retention period. Of the withheld portion, half (i.e. 20% of the total variable remuneration) is allocated to a bonus bank, while the other half is granted in the form of share awards to take account of the longer-term development of the value of the company in accordance with the procedure described below.

Bonus bank

Each year, 20% of the defined variable remuneration is allocated to the bonus bank, where it is held interest-free for a period of three years. If the calculated amount of variable remuneration in any year is negative, 100% of this negative amount is allocated to the bonus bank, reducing the balance in the bonus bank accordingly. A positive balance in the bonus bank after deduction of any amounts paid out is carried forward to the next year, but a negative balance is not carried forward. The amount allocated to the bonus bank in each year is paid out after three years, provided and to the extent that it is covered by the balance present at that time after all credits/debits up to and including those for the most recent financial year. Any portion of variable remuneration due for disbursement that is not covered by the balance in the bonus bank is forfeited.

Share Awards

The other 20% of the total defined variable remuneration is granted as a share-based entitlement in the form of virtual share awards. The total number of share awards allocated depends 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 days after the meeting of the Supervisory Board of Talanx AG that approves the consolidated financial statements. Share awards are allocated automatically, without the need for a declaration by Talanx AG or the Board member. Before Talanx went public, the value per share of Talanx AG was taken as the book value of shareholders' equity per share obtained from the consolidated financial statements 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 nearest full share. For each share award, the value of one Talanx share calculated (using the same procedure as for allocation) on the disbursement date, plus an amount equal to the dividend if dividends are paid out to shareholders, is paid out after expiry of a vesting period of four years. The Board member is not entitled to demand crediting of actual shares.

Protection against dilution

In the event of a change in the share capital of Talanx AG or of restructuring measures during the term of the share award programme that have a direct impact on the company's share capital or the total number of shares issued by Talanx AG, resulting in a cumulative change of 10% or more in the value

of the share awards, the Supervisory Board will adjust the number of share awards or the method used to calculate the value of individual share awards, to offset the change in value of the share awards caused by structural measures.

Such a case occurred during the year under review, due to the share split carried out at Talanx AG and the capital increase implemented in connection with the company's IPO. To offset the resulting change in value of Talanx share awards held by members of the Board of Management, the number of existing Talanx share awards was adjusted accordingly during the year.

Payment in the case of incapacitation

If any member of the Board of Management is temporarily unable to attend to his or her duties, the fixed portion of the annual salary will continue to be paid unchanged for the duration of the incapacitation, but not beyond termination of their contract.

If the Board member becomes permanently incapacitated during the term of their contract, the contract will be terminated at the end of the sixth month after permanent incapacitation was ascertained, but no later than upon expiry of the contract term. A Board member shall be deemed to be permanently incapacitated if he or she will presumably be unable to attend to his or her duties without restriction within the foreseeable future.

Early termination of membership of the Board of Management

If a member of the Board of Management terminates their membership of their own accord, if their contract is terminated/revoked by the company on material grounds or if the Board member rejects an offer to extend their contract on the same or better terms (except if the Board member is at least 60 years old and has served two terms of office on the Board of Management), all rights to payment from holdings in the bonus bank and share awards are forfeited. If the member's contract ends normally before expiry of the vesting period for the bonus bank or share awards without the member being offered a contract extension, the Board member retains his or her entitlement to payment from the bonus bank and to any share awards already allocated.

Entitlement to payment of amounts into the bonus bank or to allocation of share awards after the Board member has left the company is ruled out, except if the Board member has left the company due to non-reappointment, retirement or death, and then only in respect of entitlements to variable remuneration earned by the Board member in the last year – or part thereof – of their activity on behalf of the company.

The contracts of members of the Board of Management contain no provisions in respect of benefits in the event of early termination of their membership of the Board of Management as a result of change of control over the company or on other grounds.

The contracts of members of the company's Board of Management do not include caps on severance payments as recommended by Item 4.2.3 Para. 4 of the German Corporate Governance Code. Please see our remarks in the declaration of conformity in the section of this report entitled "Declaration on Corporate Governance".

Other activities of members of the Board of Management

Members of the Board of Management require the approval of the Supervisory Board if they wish to commence any additional work. This ensures that neither the payment provided for this nor the time required leads to conflict with their duties as a member of the Board of Management. If additional work involves posts on supervisory boards or on similar bodies, these are listed in Talanx AG's Annual Report. Remuneration for posts at Group companies and other offices linked to the company is counted towards variable remuneration.

Special payment in connection with the IPO

Members of the Board of Management of Talanx AG have been granted an additional special payment for their commitment in connection with the preparation for and implementation of the company's IPO. This special remuneration, which totalled 2.2% of the placement proceeds (after deduction of placement costs), was distributed to members of the Board of Management in accordance with their respective involvement in the preparation for and implementation of the flotation. 30% of the special payment totalling EUR 1,720 thousand was paid out in cash to members of the Board of Management in the year under review. The remaining 70% was paid as share-based remuneration in the form of Talanx share awards.

Amount of remuneration for the Board of Management

The total remuneration of all active members of the Board of Management in respect of their activities on behalf of Talanx was EUR 10,850 (7,883) thousand. The table below shows a breakdown into the components according to DRS 17.

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

Name		Non-performance-based remuneration		Performance-based remuneration ¹⁾	
		I	II	Short-term	
				III	IV
		Fixed remuneration	Non-cash compensation/fringe benefits	Variable remuneration payable	Thereof remuneration from seats with Group bodies ²⁾
Figures in EUR thousand					
Herbert K. Haas	2012	714	21	694	273
	2011	714	21	708	468
Dr. Christian Hinsch	2012	504	15	505	4
	2011	504	14	430	45
Torsten Leue ⁹⁾	2012	560	113	474	—
	2011	560	113	415	11
Dr. Thomas Noth	2012	535	17	243	—
	2011	500	17	196	—
Dr. Immo Querner	2012	544	18	428	119
	2011	544	9	436	204
Dr. Heinz-Peter Roß ⁹⁾	2012	560	165	474	29
	2011	560	165	415	83
Ulrich Wallin ¹⁰⁾	2012	—	—	162	—
	2011	—	—	126	—
Total ¹¹⁾	2012	3,417	349	3,084	425
	2011	3,382	339	2,348	811

¹⁾ As at the 2012 balance sheet date, no Board resolution was available regarding the amount of performance-based remuneration for 2012.

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 2012

³⁾ The nominal amount is stated; full or partial payment is made in 2016, 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 for work in the year under review is stated; the equivalent amount of the share awards will be paid out in 2017 at the relevant value prevailing at that time

⁵⁾ Valued at the Xetra closing price for Talanx shares as at the balance sheet date (EUR 21.48 per share); when Talanx share awards were granted, the issuing price of Talanx shares on 2 October 2012 (EUR 18.30 per share) was taken as the basis

⁶⁾ Total of I, II, III, V, VI, VII, VIII, IX

⁷⁾ Estimate of number of Talanx share awards to be granted for 2012; the Xetra closing price of Talanx shares as at the balance sheet date (EUR 21.48 per share) was used as the basis. The actual number of Talanx share awards will be calculated on the basis of the arithmetic mean of Xetra closing prices for Talanx shares over a period of five trading days before to five trading days after the Supervisory Board meeting that approves the consolidated financial statements of Talanx AG in March 2013

⁸⁾ For actual 2011 figures. Shares of Talanx AG were not yet listed in the 2011 financial year. The presentation in the 2011 Annual Report was based on the book value of shareholders' equity per share obtained from the consolidated financial statements for 2011, drawn up in accordance with international financial reporting standards as defined by § 315a of the Commercial Code (HGB). The number of existing Talanx share awards has been adjusted due to the share split in the year under review and the capital increase in connection with Talanx AG's IPO, based on the issuing price of Talanx shares (EUR 18.30 per share) (protection against dilution). The figures shown for 2011 are therefore different from the figures in the 2011 Annual Report

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 by Hannover Re and E+S Rückversicherung AG to Mr. Wallin for his work at these companies

¹¹⁾ A total of EUR 202 (–336) thousand more was paid out than reserved for performance-based remuneration in 2011. The total amount for performance-based remuneration in 2012 was increased accordingly (variable remuneration payable: +EUR 104 thousand, allocation to bonus bank and allocation of Talanx share awards: +EUR 41 thousand each)

Performance-based remuneration ¹⁾		Special payment for IPO		Total remuneration ⁶⁾	Number of Talanx share awards ^{7), 8)}	Number of Talanx share awards as special payment for IPO
Medium-term	Long-term	Short-term	Long-term			
V	VI	VIII	IX			
Allocation to bonus bank ³⁾	Talanx share awards granted ⁴⁾	Cash payment	Talanx share awards granted ⁵⁾			
231	231	117	321	2,329	10,773	14,955
236	236	—	—	1,915	13,242	—
168	168	70	193	1,623	7,844	8,973
143	143	—	—	1,234	8,776	—
158	158	59	161	1,683	7,349	7,478
138	138	—	—	1,364	7,726	—
81	81	59	161	1,177	3,769	7,478
65	65	—	—	843	3,778	—
143	143	94	257	1,627	6,637	11,964
145	145	—	—	1,279	7,916	—
158	158	59	161	1,735	7,349	7,478
138	138	—	—	1,416	7,819	—
54	54	59	161	490	2,508	7,478
42	42	—	—	210	2,576	—
1,034	1,034	517	1,415	10,850	46,229	65,804
907	907	—	—	7,883	51,833	—

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⁾	Special cash payment for IPO	Total
Figures in EUR thousand					
Herbert K. Haas	2012	714	603	117	1,434
	2011	714	1,263	—	1,977
Dr. Christian Hinsch	2012	504	450	70	1,024
	2011	504	647	—	1,151
Torsten Leue	2012	660	413	59	1,132
	2011	660	178	—	838
Dr. Thomas Noth	2012	535	207	59	801
	2011	500	275	—	775
Dr. Immo Querner	2012	544	380	94	1,018
	2011	544	623	—	1,167
Dr. Heinz-Peter Roß	2012	725	375	59	1,159
	2011	725	564	—	1,289
Ulrich Wallin	2012	—	141	59	200
	2011	—	55	—	55
Total	2012	3,682	2,569	517	6,768
	2011	3,647	3,605	—	7,252

¹⁾ Performance-based remuneration paid out in the year under review for the previous year

The following table shows expenses for share-based remuneration for members of the Board of Management. This table should be viewed separately from the presentation of total remuneration received by active members of the Board of Management pursuant to DRS 17.

Total expenses for share-based remuneration for members of the Board of Management

Name		Expenses for new Talanx share awards granted ¹⁾	Expenses for Talanx share awards as special payment for IPO ¹⁾	Allocations to provisions for Talanx share awards ²⁾ from the previous year	Total
Figures in EUR thousand					
Herbert K. Haas	2012	197	286	52	535
	2011	201	—	—	201
Dr. Christian Hinsch	2012	143	171	46	360
	2011	122	—	—	122
Torsten Leue	2012	134	143	30	307
	2011	118	—	—	118
Dr. Thomas Noth	2012	69	143	17	229
	2011	56	—	—	56
Dr. Immo Querner	2012	121	229	27	377
	2011	124	—	—	124
Dr. Heinz-Peter Roß	2012	134	143	32	309
	2011	118	—	—	118
Ulrich Wallin	2012	46	143	14	203
	2011	36	—	—	36
Total	2012	844	1,258	218	2,320
	2011	775	—	—	775

¹⁾ The expense for share awards is recognised pro rata in the year under review depending upon the remaining term of the respective contract of employment

²⁾ The allocation to provisions for Talanx share awards from the previous year is calculated based on the share split carried out in the year under review and the capital increase at Talanx AG in connection with the company's IPO (protection against dilution) and the distribution of expenses for share awards to the remaining terms of individual contracts

Retirement provisions

Contracts between members of the Board of Management and Talanx AG – with one exception granting an annual pension fund contribution based on the member's fixed remuneration – provide for an annual retirement pension calculated as a percentage of 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 at the time of scheduled retirement at or after the age of 65. A non-pensionable component of fixed remuneration was introduced in connection with the new remuneration structure as of the 2011 financial year.

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

In both types of contract ("defined benefit" and "defined contribution"), income from other sources during the pension payment period may under certain circumstances (e.g. in the event of incapacity or termination of the contract before the age of 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, the surviving spouse, and in the absence thereof any eligible children, is entitled to continued payment of the monthly fixed salary for the month in which the Board member died and the following six months, but not beyond the expiry date of the contract. If a Board member 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 dependent children.

The widow's pension is 60% of the retirement pension 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 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 maximum period for which the orphan's pension will be paid is until the child turns 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 pensions paid

Pension commitments for active members of the Board of Management totalled EUR 1,230 (1,289) thousand. Expenditures on retirement provision (adjustment of the amount recognised for pension commitments pursuant to the German Accounting Law Modernisation Act [BilMoG]) for active members of the Board of Management amounted to EUR 929 (816) thousand.

Total payments made to former members of the Board of Management and their surviving dependants, for which there were 12 (11) individual commitments in force in the year under review, amounted to EUR 335 (362) thousand. Provisions set up in respect of pension obligations towards this group of persons totalled EUR 20,974 (20,818) thousand.

Pension entitlements of active members of the Board of Management

Name		Pension commitment ¹⁾	Present value (BilMoG) ²⁾ as at 31.12.2011	Expenses for retirement provision ³⁾
Figures in EUR thousand				
Herbert K. Haas	2012	390	5,584	373
	2011	390	5,211	348
Dr. Christian Hinsch	2012	275	3,806	267
	2011	275	3,539	218
Torsten Leue	2012	225	441	187
	2011	225	254	180
Dr. Thomas Noth ⁴⁾	2012	—	—	112
	2011	—	—	100
Dr. Immo Querner	2012	191	1,499	-133
	2011	250	1,632	-140
Dr. Heinz-Peter Roß	2012	149	384	123
	2011	149	261	110
Ulrich Wallin ⁵⁾	2012	—	—	—
	2011	—	—	—
Total	2012	1,230	11,714	929
	2011	1,289	10,897	816

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 of the pension commitments recognised pursuant to the German Accounting Law Modernisation Act (BilMoG). The amount allocable to the provisions for current pensions, pension entitlements and similar commitments which is not disclosed in the balance sheet and is spread over 15 years (BilMoG transition) totalled altogether EUR 3,165 thousand as at the closing date

³⁾ The change in the amount recognised for pension commitments pursuant to the BilMoG relative to the previous year is stated

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 112 (100) thousand is stated here

⁵⁾ The pension commitment of Mr. Wallin is granted by Hannover Re and E+S Rückversicherung AG. The corresponding pension provisions are also established at these companies

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. By resolution of the General Meeting of Talanx AG on 4 June 2010, members of the Supervisory Board receive, in addition to reimbursement of their expenses, an annual fixed remuneration (basic remuneration) and a performance-based variable remuneration, which is also linked to the company's long-term success. To make allowance for their considerable extra workload, the Chairman receives 2.5 times and his deputies 1.5 times these emoluments.

In the year under review, the annual basic remuneration is EUR 50,000 per Supervisory Board member. The basic remuneration of the Chairman is EUR 125,000, that of the deputy chairpersons EUR 75,000 each. In addition, starting with the 2010 financial year, each member of the Supervisory Board receives annual variable remuneration of EUR 55 for each full EUR million by which the average Group net income of the last three financial years, after non-controlling interests, exceeds the minimum return pursuant to § 113 Para. 3 Stock Corporation Act (AktG) (4% of 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 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 average Group net income of the last three financial years, after non-controlling interests, falls short of the minimum return pursuant to § 113 Para. 3 Stock Corporation Act (AktG), variable remuneration is forfeited. By calculating this perfor-

mance-related payment component based on average Group net income for the last three financial years, we ensure that variable remuneration is geared towards the sustainable development of the company.

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

The total annual remuneration payable to any Supervisory Board member (including remuneration for membership of Supervisory Board committees) is limited to a maximum of three times the basic remuneration for each member.

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

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

The total remuneration for all active members of the Supervisory Board amounted to EUR 1,802 (1,821) thousand. The details are given in the following table.

Individual remuneration of members of the Supervisory Board

Name	Function	Type of remuneration	2012 ^{1), 2)}	2011 ^{1), 2)}
Figures in EUR thousand				
Wolf-Dieter Baumgartl	<ul style="list-style-type: none"> ■ Chairman of the Supervisory Board ■ Personnel Committee ■ Finance and Audit Committee ■ Nomination Committee ■ Standing Committee 	Basic remuneration	125	125
		Variable remuneration	61	51
		Remuneration for committee activities	100	100
		Attendance allowances	14	14
			300	290
Ralf Rieger	<ul style="list-style-type: none"> ■ Deputy Chairman of the Supervisory Board ■ Member of the Finance and Audit Committee ■ Standing Committee 	Basic remuneration	75	75
		Variable remuneration	36	31
		Remuneration for committee activities	25	25
		Attendance allowances	12	9
			148	140
Prof. Dr. Eckhard Rohkamm	<ul style="list-style-type: none"> ■ Deputy Chairman of the Supervisory Board ■ Member of the Personnel Committee ■ Finance and Audit Committee ■ Standing Committee 	Basic remuneration	75	75
		Variable remuneration	36	31
		Remuneration for committee activities	50	50
		Attendance allowances	12	13
			173	169
Antonia Aschendorf	<ul style="list-style-type: none"> ■ Member of the Supervisory Board 	Basic remuneration	50	17
		Variable remuneration	24	7
		Attendance allowances	4	2
	78	26		
Karsten Faber	<ul style="list-style-type: none"> ■ Member of the Supervisory Board 	Basic remuneration	50	50
		Variable remuneration	24	20
		Attendance allowances	4	5
	78	75		
Jutta Hammer	<ul style="list-style-type: none"> ■ Member of the Supervisory Board 	Basic remuneration	50	46
		Variable remuneration	24	19
		Attendance allowances	4	5
	78	70		
Hans-Ulrich Hanke	<ul style="list-style-type: none"> ■ Member of the Supervisory Board (until 31 January 2011) 	Basic remuneration	—	4
		Variable remuneration	—	2
		Attendance allowances	—	—
	—	6		
Gerald Herrmann	<ul style="list-style-type: none"> ■ Member of the Supervisory Board 	Basic remuneration	50	50
		Variable remuneration	24	20
		Attendance allowances	4	5
	78	75		
Dr. Thomas Lindner	<ul style="list-style-type: none"> ■ Member of the Supervisory Board ■ Finance and Audit Committee ■ Nomination Committee 	Basic remuneration	50	50
		Variable remuneration	24	20
		Remuneration for committee activities	25	25
		Attendance allowances	12	10
	111	105		
Jutta Mück	<ul style="list-style-type: none"> ■ Member of the Supervisory Board 	Basic remuneration	50	50
		Variable remuneration	24	20
		Attendance allowances	4	5
	78	75		
Otto Müller	<ul style="list-style-type: none"> ■ Member of the Supervisory Board 	Basic remuneration	50	50
		Variable remuneration	24	20
		Attendance allowances	4	5
	78	75		
Dr. Hans-Dieter Petram	<ul style="list-style-type: none"> ■ Member of the Supervisory Board 	Basic remuneration	50	50
		Variable remuneration	24	20
		Attendance allowances	4	4
	78	74		

Individual remuneration of members of the Supervisory Board

Name	Function	Type of remuneration	2012 ^{1), 2)}	2011 ^{1), 2)}
Figures in EUR thousand				
Dr. Michael Rogowski	<ul style="list-style-type: none"> ■ Member of the ■ Supervisory Board ■ Personnel Committee ■ Nomination Committee 	Basic remuneration	50	50
		Variable remuneration	24	20
		Remuneration for committee activities	25	25
		Attendance allowances	6	10
			105	105
Katja Sachtleben-Reimann	<ul style="list-style-type: none"> ■ Member of the ■ Supervisory Board ■ Standing Committee 	Basic remuneration	50	50
		Variable remuneration	24	20
		Attendance allowances	4	5
			78	75
Dr. Erhard Schipporeit	<ul style="list-style-type: none"> ■ Member of the ■ Supervisory Board ■ Finance and Audit Committee 	Basic remuneration	50	50
		Variable remuneration	24	20
		Remuneration for committee activities	25	25
		Attendance allowances	12	9
			111	104
Bodo Uebber	<ul style="list-style-type: none"> ■ Member of the Supervisory Board (until 31 August 2011) 	Basic remuneration	–	33
		Variable remuneration	–	14
		Attendance allowances	–	1
			–	48
Prof. Dr. Ulrike Wendeling-Schröder	<ul style="list-style-type: none"> ■ Member of the ■ Supervisory Board ■ Personnel Committee 	Basic remuneration	50	50
		Variable remuneration	24	20
		Remuneration for committee activities	25	25
		Attendance allowances	6	9
			105	104
Werner Wenning	<ul style="list-style-type: none"> ■ Member of the Supervisory Board 	Basic remuneration	50	50
		Variable remuneration	24	20
		Attendance allowances	4	5
			78	75
Total³⁾			1,802	1,820

¹⁾ 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 on the basis of estimates are stated for variable remuneration

²⁾ Plus the value-added tax payable on remuneration and attendance allowances that is reimbursed by the company

³⁾ The total values reflect remuneration for all active members of the Supervisory Board during the period under review. In total, EUR 44 (126) thousand (plus VAT) more was paid out than reserved for 2011 remuneration. The total amount for 2012 remuneration was increased accordingly

Loans to members of 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 Lebensversicherung AG (formerly HDI-Gerling Lebensversicherung AG) in an amount of EUR 49 (64) thousand. EUR 15 (15) thousand was repaid in the year under review; the remaining term of the loan is three 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 directors and managers below the Group Board of Management

The Talanx Group's remuneration strategy is geared towards the goal of sustainably enhancing the value of the Group. The remuneration structure described above for members of the Group Board of Management therefore also applies in principle to directors and managers below the Group Board of Management who are able to exert a material influence on the overall risk profile (risk carriers).

Remuneration for those directors and managers below the Group Board of Management who are not among the risk carriers consists of a fixed and a variable component in all divisions. Variable remuneration in 2012 accounted on average for 30% of total remuneration. However, different remuneration systems applied to individual divisions in primary insurance. The standardisation of these systems was a key focal point of the Group's human resources work in 2012. As a result, a consistent remuneration system is now in place for risk carriers and managers at the first reporting level in primary insurance with effect from 1 January 2013. Remuneration for this group of persons comprises a fixed component and a performance-related component. It is in line with the market and competitive, and promotes the sustainable development of the company.

Target salary forms the basis of the performance-related remuneration system. This means the total gross salary for the year that can be achieved with good performance. The target salary is composed of a fixed component and a variable remuneration component that depends on responsibility and the function level of the individual position. Variable remuneration accounts on average for a share of 30% to 35% of the target salary.

The variable remuneration is calculated based on the extent to which certain targets in the categories of Group net income, divisional result and personal accomplishment have been achieved. These three target categories for variable remuneration are weighted differently for managers in the primary insurance divisions and in Corporate Operations.

In reinsurance, a harmonised remuneration system has been in place for all Group managers worldwide since 1 January 2012.

Remuneration for managers below the level of the Board of Management consists of a fixed annual salary and a variable component, which in turn comprises a short-term variable component, the annual cash bonus, and a long-term share-based payment, the share award programme. Here, too, the assessment of variable remuneration is based on the elements of Group net income, divisional targets and personal objectives. The elements are weighted depending on whether responsibility is borne in the market or in the service sector. The divisional targets and personal objectives, and the extent to which they have been accomplished, are agreed upon as part of the management-by-objectives process.

Non-financial performance indicators

Human resources

In total, an average of 212 (187) staff were employed in the financial year just-ended. The number of staff as at year-end was 223 (200), corresponding to 201.2 (182.2) full-time equivalents (FTEs).

The workforce was thus slightly larger than in the previous year. As part of the 2011 restructuring of Talanx AG into the financial and management holding company, additional positions were filled and in particular the functional areas relating to Solvency II, compliance, risk management and internal auditing were strengthened.

With a view to responding to the changes taking place at ever shorter intervals in the economic, technological, cultural and social environments 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-wide 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 primary focus was on preparing for the measures planned in the coming year to realign the Retail Germany division and on consolidating the centralisation of cross-divisional functions undertaken in 2011 as part 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, has awarded up to 15 study scholarships (previously ten) per semester since the winter semester 2012/13.

In the year under review altogether 22 new students received support from the Talanx Foundation. 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 is again assisting ten students at the University of Hannover under the National Scholarship Program ("Deutschlandstipendium"). Along with the financial support, scholarships recipients are regularly offered the opportunity to attend events and workshops at the Company. The topics covered range from specialist presentations to training sessions in so-called key competencies. 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 year under review was notable above all for the initial public offering of Talanx. The employees in all divisions of Talanx AG played a vital part in its success. The Board of Management thanks all the members of staff at Talanx AG for their dedication and exceptional efforts in the financial year just-ended.

Public relations and advertising

The Talanx brand is aimed primarily at the financial community – analysts, banks, fund managers and also since the initial public offering Talanx's own shareholders. As a holding company, Talanx AG does not offer insurance products under its own name; it therefore places hardly any traditional advertising and does not conduct any marketing activities of its own. Similarly, the subsidiaries that include Talanx as part of their name 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 and Talanx Reinsurance Ireland, which operate under this brand on the international reinsurance market. The operational Group companies and the consumer-oriented brands of the Talanx Group carry out marketing campaigns in various media that target their own specific clientele.

Forecast and opportunities report

Economic environment

The Eurozone economy is still being driven by the sovereign debt crisis. The ECB's intervention, albeit only verbal, has had a positive effect on the capital markets and also managed to improve public perception. The critical factor in determining the course of the crisis will be the extent to which initial reports of successful restructuring in crisis-stricken Eurozone countries are able to support this more optimistic view. Currently, we detect only a cautious trend towards European stabilisation that may possibly harden in the current year.

The latest improved US figures are without doubt good news for the global economy. Nevertheless, the case for US budget consolidation is becoming increasingly urgent, as was demonstrated by the tough fiscal cliff negotiations at the turn of the year. The USA could return in 2013 to being the main driver of the global economy following signs of an upwards trend. The economies of emerging countries, particularly China, are likely to regain momentum, which may well shore up global economic conditions.

In our opinion, the current highly expansionary monetary policy is unlikely to lead to a significant rise in inflation in the current year, since liquidity created by the central banks has not yet filtered into the real economy. The risk of inflation will only become critical if the economy then also picks up speed.

Capital markets

It is still uncertain whether sustained stability in the general risk situation is achievable, even though market sentiment at the end of the year could be described as "healthy scepticism". The diluted Basel 3 liquidity provisions do ease pressure on the banks, and the reduced refinancing needs of banks and companies do coincide with continuing high investor demand for investments and returns. Nevertheless, the structural problems of the euro debt crisis are still very much in existence. All sorts of disruption are possible including, for example, unexpected political or rating agency decisions. We anticipate, therefore, that yields and risk premiums will remain volatile, and that for the time being interest rates will continue to be low. The ECB is adopting a "wait and see" position for now with regard to forthcoming decisions on interest rates. Our expectation is that we are unlikely to see a cut in the prime rate to 0.5% before the second quarter of 2013. The USA has more or less committed itself to leaving the prime rate over the next two years at its current low level. There has been more discussion recently as to whether measures introduced by the Fed should be withdrawn prematurely, and new initiatives are increasingly being linked with labour market growth.

We anticipate that the European debt crisis will continue to exert a negative influence on the equity markets. Nevertheless, our current expectations are that liquidity-driven trends in the year under review will continue in 2013, as long as ECB loans remain freely available and the Fed maintains its expansionary policy. In our opinion this will be the case for some time. This view is supported by the fact that markets – particularly the European market – are still not fundamentally overpriced from a historical perspective, and that dividend yields remain attractive relative to bond markets. There are also the first indications that profit expectations are stabilising, particularly in the Eurozone, after months of significant downward revisions. We assume at present that these trends will be further confirmed in the coming months and that profits will begin to grow again. Overall, our assessment is that the signs are increasingly and predominantly positive, particularly in the European equity market. Nevertheless, sudden declines will still follow short-term liquidity spikes unless price gains are underpinned by a more stable global macroeconomic situation.

Future state of the industry

The following comments on the future state of the insurance industry are based primarily on publications by the German Insurance association (GDV), the ifo Institut, and Swiss Re.

Our forecasts are generally subject to revision, in view of long-standing economic risk factors that persist in 2013. However, the German insurance industry has remained stable in the current environment, and there is no reason why this should fundamentally change over the next two years. Assuming that the macroeconomic situation does not significantly deteriorate, the insurance industry should achieve premium growth in 2013 of around the same level as the year under review. The GDV reports that demand for insurance services is basically stable, although a few factors are having a negative impact. Basic challenges facing the insurance sector overall include greater competition, changes to regulatory frameworks, increasingly differentiated client groupings, and demographic change. The sector is meeting these challenges, and will continue to do so in future, through strategies such as reallocating the market positioning of individual providers, changing product ranges and further diversifying sales structures.

We expect **property and casualty business** development to remain stable in the coming year, although it might lose momentum in comparison to the year under review. Due to the high level of market penetration already achieved in many lines of property and casualty insurance there are only limited opportunities for further growth. Motor insurance, where price increases have been possible, is likely to continue the positive trend already apparent over the last two years – albeit more slowly. Business development is also influenced by general economic growth: current expert opinion is that the situation will stabilise in 2013.

It is anticipated that **life insurance business** development will continue to be influenced by difficult conditions. Based on labour market and disposable income growth, the current assumption is that the economic situation for private households in 2013 will continue to improve. However, various factors in the coming year will have a negative impact on demand. An example is general public uncertainty and reluctance to invest long term, a factor which has been apparent for some time now. This caution has been further exaggerated by the financial and economic crisis and debate over the future of the euro, and runs contrary to the need to build up capital-

funded private provision for old age. A further serious challenge for life insurers are prolonged low interest rates which impact negatively on total returns and to which there is still no end in sight. The German life insurance industry is soundly capitalised and has built up considerable reserves. In addition, it has now prematurely extended the residual term of its investments to over ten years. As a result, it should be in a position to cope with low interest rates, if necessary, for a few more years.

Orientation of the Company over the next two financial years

The earnings outlook and forecasting certainty for 2013 and 2014 remain negatively affected by the continuing simmering sovereign debt crisis and the crisis in the financial markets. Nevertheless, we still strive towards further improvement in the Group results for these years. We expect a particularly significant contribution to be made by the Retail International division, which is driving integration of newly acquired companies. The Talanx Group intends to optimise its financing structure using all suitable means, for example, by issuing corporate securities.

An important focus in the next two years will be the elimination of cost disadvantages, particularly in German retail business. To enable this segment to meet future requirements, we need to make its processes more efficient and implement shared solutions across the company. Restructuring of the division should be complete by 2015 and potential savings fully realised from 2016 onwards. In international retail business we are aiming for profitable growth in our strategic target markets of Latin America and Central and Eastern Europe.

Market orientation:

- taking a holistic approach to the client
- strengthening retail business in Germany and internationally

Increased efficiency within the organisation:

- reducing complexity in Group structure
- exploiting potential synergies

Forecast versus actual result for 2012

In the Annual Report 2011 our goal for the Talanx Group was further improvement in profitability for 2012; we achieved this goal as anticipated.

Anticipated profitability and financial position of the company

Profit trend

The profit generated by Talanx AG is determined essentially by income from long-term equity investments and profit transfers from its subsidiaries. For the 2013 financial year we expect net income from participations in excess of EUR 400 million, and a further increase is planned for 2014. The change in the net income from participations is driven by developments within the Talanx Group. Despite the ongoing simmering sovereign debt and financial market crises and the low level of interest rates, we are seeking to further boost profitability for the Talanx Group over the next two financial years. This will be supported in particular by the Retail International division, which continues to move forward with the integration of acquired companies.

Financial position

The cash and liquidity position of Talanx AG are geared to the foreseeable payment flows. From 2013 onwards a regular cash outflow is also anticipated from a dividend payment to shareholders. The financial position of Talanx AG is supported by various available lines of credit. In addition, further optimisation of the capital resources and hence the financial position is planned by way of appropriate measures – including for example the issue of corporate bonds. With a view to replacing existing financing arrangements, therefore, a senior unsecured bond with a volume of EUR 750 million, a fixed coupon of 3.125% and a term of ten years was successfully placed on 6 February 2013. In this way Talanx AG assured itself of long-term funding while making the most of the current low interest rate environment.

Assumptions/Premises

When considering the future development of the Talanx Group we have made the following assumptions:

- moderate global economic growth
- steady inflation rates
- continuing low interest rates
- no sudden upheavals on the capital markets
- no significant fiscal or regulatory changes
- catastrophe losses in line with expectations

Opportunities management

Identifying, steering and taking advantage of 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 years. We see consistent exploitation of available opportunities as a basic entrepreneurial challenge that is crucial to achieving our corporate objectives. The core element of our opportunities management process is an integrated performance metric constructed along the lines of a balanced scorecard. This is applied across all levels of hierarchy – from senior Group management down to individual functions at Group companies. It also forms the link between our strategic and operative opportunities management.

In strategic opportunities management, the annual performance management process begins by Group management evaluating strategic targets and specific strategic core issues identified on the basis of our umbrella strategy and breaking them down into targets for the divisions. The divisions then use these as a basis to develop specific targets and strategic action programmes as part of their own strategic programme planning. Following a strategy dialogue between Group management and the respective divisional Boards of Management, individual strategic programmes are put together to form a strategic programme for the entire Group that forms the starting point and framework for the operative part of opportunities management.

In operative opportunities management, strategic inputs are translated into operative targets and a detailed activities schedule, and put into place as mandatory agreed targets, at all levels up to and including division level. The integrated performance metric again comes into play here. Whether and to what extent opportunities and possibilities actually result in operative success is reviewed and followed up in mid-year and end-of-year performance reviews. In turn, these reviews generate feed-forward inputs to the next opportunities management cycle.

Two essential aspects of opportunities management at the Talanx Group, therefore, are shifting the focus away from short-term performance and purely financial results towards the success factors and actions required for long-term excellence, and monitoring the successful implementation of these value-drivers in a regular integrated control and verification process.

Assessment of future opportunities and challenges

Opportunities associated with developments in the business environment

Demographic change in Germany: Triggered by demographic change, the emergence of two markets offering considerable growth potential can currently be observed: firstly, a market for senior-citizen products and, secondly, a market for young customers needing to make additional personal provision in response to the diminishing benefits afforded by social welfare systems. It is evident that today's senior citizens can no longer be equated with the "traditional pensioners" of the past. Not only are these customers making more use of services, for which they are very willing and able to pay, but, even more significantly, this customer group is increasingly active and therefore devoting more attention than previous generations to finding the necessary financial cover for various risks. This means that it is not enough for providers simply to add assistance benefits onto existing products; instead, they have to offer innovatively designed products to cater for these newly emerging needs. Examples might include products for second homes and extensive foreign travel, for sporting pursuits

conducted well into advancing years, and passing on assets to heirs. At the same time, younger customers are also becoming increasingly aware of the issue of financial security in old age. It is possible to tap into this potential via a range of (state-subsidised) private retirement products and attractive company pension schemes. We currently expect to see a trend in this client group towards increased demand for retirement provision products with flexible saving and dissaving phases. Thanks to their comprehensive range of products with innovative solutions and sales positioning, the Group's life insurance companies may be able to profit disproportionately strongly from the senior citizen and young customer markets.

Turnaround in energy policy: Germany has decided in principle to meet its future energy demand primarily from renewable sources. The German Government's decision to abandon nuclear power by 2022 has set the course for this objective. This reversal of energy policy is a major societal challenge: it means 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 important opportunity to strengthen Germany as a business location by stimulating innovation and technological progress. As an insurance group, we actively support this change. We offer our industrial clients tailor-made solutions for developing, marketing and using renewable energy resources. Expanding the electric power grid is of crucial importance, alongside subsidies for wind farms, photovoltaic installations, biomass and hydro-electric power plants. We have continued our investing activities relating to the energy policy turnaround. In summer 2012, together with other institutional investors, the Group made an indirect investment in the Luxembourg electricity and gas network operator Enovos. Since 2011, as part of an insurance consortium, we have had an investment in the former RWE network operator Amprion. We see these investments as sustainable commitments, and intend to make more such investments in future.

Financial market stability: Turbulence on the financial markets has severely shaken clients' trust in banks. Policyholders are also experiencing great uncertainty as a result of today's low interest levels and volatility on the stock markets. However, this macro-economic environment also offers opportunities for insurance companies to develop innovative products designed specifically to address these new concerns. In Europe, the USA and Asia, life insurers had been concentrating increasingly on selling modern, versatile and stock-market-indexed products. Traditional German life insurance, which gives guarantees for the entire term of the policy, has been put to the test. Given the high equity requirements for this business, it is conceivable in principle that guarantees could be limited in future to a certain period of time.

Regulatory and financial reporting changes: Against a backdrop of 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 deluge of associated European and German implementation provisions. We are following the financial reporting and regulatory changes closely, have identified the associated stricter requirements, and taken action accordingly. At the same time, this situation offers us an opportunity to develop our risk management appropriately to meet the more complex and extensive future requirements. We are currently implementing and refining an in-house, Solvency II-compliant stochastic risk capital model. Already at the pre-application stage with BaFin, its purpose is to evaluate risk categories and the Group's overall risk position, and thus enable the use of in-house models across the Talanx Group.

In Europe, reinsurance companies may benefit from increased demand by cedants for reinsurance solutions as a result of higher capital requirements under Solvency II; this is because the transfer of risk to reinsurers with good ratings offers an economically attractive alternative.

Opportunities created by the Company

We are currently in the process of realigning the Retail Germany segment in order to improve the Group's future viability and competitiveness, and to eliminate cost disadvantages in the German retail business. Our ultimate aim is to reduce complexity and make our procedures more efficient. Action is based on four areas: benefit for the client, profitable growth, efficiency, and performance culture. We will only be successful if our clients are fully satisfied, and we are therefore working on making it as simple as possible for end clients and sales partners alike to make their decisions – our aims are clear language, speedy solutions and convincing products. As a result, a new modular structure has been introduced for some products, and there are plans for rolling out other products. The modular product structure enables clients to put together individual insurance cover – while strictly defined components enable us to reduce administrative costs. In addition, we are improving in-house cooperation. If we wish to achieve positive development in premiums and results, we need to align our business with clear-cut risk and profit targets, and fully exploit opportunities in the market. For that reason it is important for us to review each individual product for sustainable profitability. Again with regard to profitability, we are working on ways to make more systematic cross-divisional use of existing client contacts. We consider ourselves to be operating efficiently if resources in use are reasonably proportionate to results achieved. In this context we have already launched a number of initiatives to simplify complex processes and reduce cost disadvantages. Thus, in the Operations and Claims Division we are in the process of introducing a new SAP portfolio management system and digital case processing. This realignment requires the firm belief that the way we think and act must be consistently geared towards a performance benchmark. We actively wish to encourage this culture, and have therefore developed a Group-wide variable remuneration system for first-level managers that is due to be launched in 2013. In addition, annual appraisal reviews with all employees should contribute to achieving a structured discussion of mutual expectations.

Promising sales channels

Bancassurance: Selling insurance products over the bank counter, under the name of bancassurance, has become an established practice in recent years. Bancassurance has been a great success in the Talanx Group, and shows encouraging prospects for the future. The basis of this success is a special business model, whereby the insurance business is fully integrated into the banking partner's business structures. The insurance companies design and develop the insurance products – in return, banks, savings banks and post offices provide a variety of sales outlets. The Talanx Group bancassurance sales channel is not only established in Germany, but is especially strong in Hungary, Turkey and Russia. Further bancassurance sales channels were gained in Poland as a result of purchasing TU Europa and the WARTA Group. We see the use of this model outside Germany basically as a means of promoting profitable growth, oriented towards the European markets. The success of Talanx's bancassurance model with regard to the current Group companies stems essentially from three core factors. Firstly, exclusive long-term partnership cooperation agreements with terms of up to 30 years are drawn up, enabling the insurance products to be sold via the cooperating partner's sales outlets. Secondly, the highest possible degree of integration is required, together with excellent products and services: cooperation is part and parcel of the partner's strategic focus. The insurance companies design exclusive tailor-made products for the bank's client segments, and thus form an integral part of the respective market presence. Integration into the partner's IT systems also makes it easier to provide allround advice when selling banking and insurance products. Thirdly, success depends on providing customised sales support to the partner. The bank's sales staff are given personal training and exclusive guidance by sales coaches from the insurance companies. In this way they obtain product expertise and advice on sales approaches. The insurance companies also supply readily understandable and supporting sales materials. The companies acquired in Poland in the year under review also market their established products via sales cooperation agreements, but via different banks and without full integration into their partner's market presence.

Internet: Increasing digitalisation and associated easy access to information have led to a situation in which by far the majority of consumers consult the internet for information before taking out an insurance policy. The internet offers particularly good opportunities for reaching younger target groups, and has become an important medium for clients and insurance companies alike. With this in mind, HDI Versicherung AG has joined together with other insurers to set up a consumer portal, Transparo, that allows potential customers to compare insurance, financial and energy services. The core constituents of Transparo are several web-based calculators that compare prices and services of all available tariffs. We hope to be able to generate further growth via this sales channel in the future.

Brokers: Despite the increasing importance of internet sales, personal contact with the client will also continue to remain a major factor for success. Sales via brokers have a particularly high potential for future growth. Talanx AG has developed a close partnership with Swiss Life and, as part of the cooperation, will become a key partner in supplying products to the financial service provider AWD, that will be trading in future under the name of Swiss Life Select. The Talanx Group also has a participating interest in the financial services provider MLP. Both MLP and the AWD group, which belongs to Swiss Life, are important partners in brokered marketing. These participating interests give us the opportunity to strengthen and further expand existing business links with the brokers concerned.

Annual financial statements. Balance sheet as at 31 December 2012

Assets	31.12.2012	31.12.2011
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	5,295	4,225
2. Prepayments	851	143
	6,146	4,368
II. Tangible fixed assets		
1. Other equipment, operating and office equipment	675	742
2. Prepayments and assets under construction	—	6
	675	748
III. Long-term financial assets		
1. Shares in affiliated companies	7,074,442	6,143,323
2. Loans to affiliated companies	252,924	99,081
3. Other long-term equity investments	24,545	26,878
4. Long-term securities	62,292	62,292
	7,414,203	6,331,574
B. Current assets		
I. Receivables and other assets		
1. Receivables from affiliated companies – thereof due after more than one year: EUR 2,246 thousand (previous year: EUR 2,151 thousand)	247,063	204,944
2. Other receivables and other assets – thereof due after more than one year: EUR 18,255 thousand (previous year: EUR 21,023 thousand)	102,801	110,878
	349,864	315,822
II. Bank balances	206,816	405,293
C. Deferred and accrued items	5,080	2,808
D. Excess of plan assets over post-employment benefit liability	34	38
Total assets	7,982,818	7,060,651

Total equity and liabilities	31.12.2012	31.12.2011
Figures in EUR thousand		
A. Equity		
I. Subscribed capital	315,782	260,000
II. Capital reserves	1,390,397	629,529
III. Revenue reserves	2,902,758	2,902,758
IV. Disposable profit	507,516	376,599
	5,116,453	4,168,886
B. Provisions		
1. Provisions for pensions and similar obligations	594,678	576,187
2. Provisions for taxes	128,254	125,160
3. Other provisions	65,476	54,706
	788,408	756,053
C. Liabilities		
1. Bonds	9,000	309,000
– thereof convertible: EUR 0 (previous year: EUR 300,000 thousand)		
– thereof due within one year: EUR 9,000 thousand (previous year: EUR 0)		
2. Liabilities to banks	500,556	550,428
– thereof due within one year: EUR 500,556 thousand (previous year: EUR 550,428 thousand)		
3. Trade payables	137	188
– thereof due within one year: EUR 137 thousand (previous year: EUR 188 thousand)		
4. Liabilities to affiliated companies	1,563,159	1,255,132
– thereof due within one year: EUR 847,053 thousand (previous year: EUR 289,496 thousand)		
5. Other liabilities	4,646	19,587
– thereof taxes: EUR 263 thousand (previous year: EUR 257 thousand)		
– thereof social security: EUR 2,278 thousand (previous year: EUR 1,805 thousand)		
– thereof due within one year: EUR 3,887 thousand (previous year: 18,258 thousand)		
	2,077,498	2,134,335
D. Deferred and accrued items	459	1,377
Total equity and liabilities	7,982,818	7,060,651

Statement of income for the period from 1 January to 31 December 2012

	31.12.2012	31.12.2011
Figures in EUR thousand		
1. Income from long-term equity investments		
– thereof from affiliated companies: EUR 195,189 thousand (previous year: EUR 146,325 thousand)	196,010	147,047
2. Income from profit transfer agreements	170,294	189,218
3. Other operating income		
– thereof currency translation gains: EUR 180 thousand (previous year: EUR 1,188 thousand)	20,709	102,661
4. Personnel expenses		
a. Wages and salaries	21,946	19,190
b. Social security, post-employment and other employee benefit costs	–4,219	14,493
– cost of post-employment benefits: –EUR 6,472 thousand (previous year: EUR 12,600 thousand)		
5. Amortisation and write-downs of intangible fixed assets, depreciation and write-downs of tangible fixed assets	1,538	1,753
6. Other operating expenses		
– thereof currency translation losses: EUR 425 thousand (previous year: EUR 252 thousand)	80,559	67,735
7. Income from other securities and long-term loans	13,289	2,053
– thereof from affiliated companies: EUR 10,282 thousand (previous year: EUR 1,945 thousand)		
8. Other interest and similar income	9,190	21,010
– thereof from affiliated companies: EUR 1,923 thousand (previous year: EUR 6,761 thousand)		
– thereof from discounting: EUR 242 thousand (previous year: EUR 422 thousand)		
9. Write-downs of long-term financial assets and securities classified as current assets	1,156	–
10. Interest and similar expenses	168,343	167,539
– thereof to affiliated companies: EUR 82,833 thousand (previous year: EUR 54,444 thousand)		
– thereof accrued interest: EUR 38,022 thousand (previous year: EUR 38,607 thousand)		
11. Cost of loss absorption	758	89,260
12. Result from ordinary activities	139,411	102,018
13. Extraordinary expenses	14,009	14,009
14. Extraordinary result	–14,009	–14,009
15. Taxes on income	–5,519	12,101
16. Other taxes	4	–
17. Net income for the financial year	130,917	75,907
18. Retained profits brought forward	376,599	300,691
19. Disposable profit	507,516	376,599

Notes to the financial statements.

General information

The annual financial statements for the 2012 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 and operating and office equipment were recognised at cost less amortisation applied in accordance with their customary useful lives. Prepayments were recognised at cost in the balance sheet. Depreciation was applied according to the straight-line method; the periods of useful life range from 3 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 written down when applicable 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 operating companies. For life insurance companies, the market value is determined mainly on the basis of updated embedded values. The market value for various private equity and real estate companies was determined on the basis of the net asset value. 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 and long-term securities were recognised at cost or the nominal amount and are written down when applicable to the permanently lower fair value as at the balance sheet date. Securities intended to be held to maturity to support business operations were valued according to the modified lower of cost or market principle in accordance with § 253 Para. 3 HGB. The market value of the loans to affiliated companies was determined with the aid of product- and rating-specific yield curves. The spreads used make allowance for special constellations such as deposit guarantee, guarantor liability or subordination.

Other long-term equity investments are carried at cost less repayments of capital and write-downs to the permanent fair value. Market values are determined using an income approach.

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 under “Other assets” 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” as “Sundry provisions”.

The deferred and accrued items were carried at the nominal amounts unless a lower fair value – if applicable – was to be recognised.

The line item “Excess of plan assets over post-employment benefit liability” constitutes the excess amount remaining after netting of the pension obligations with the assets covering such obligations (principally pension plan reinsurance).

Measurement: Total equity and liabilities

With respect to the pension obligations, the option afforded by § 67 Para. 1 sentence 1 of the Introductory Act to the German Commercial Code (EGHGB) – namely to distribute the required addition to the provisions for pensions over the maximum of 15 years and recognise it in each case as an extraordinary expense – was utilised.

Pursuant to § 253 Para. 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 Para. 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; RückAbzinsV). 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 1.00% p.a.

It should otherwise be noted that the calculation was based on the following assumptions:

Salary increase rate:	2.75%
Pension increase rate:	2.06%
Interest rate:	5.07% as at 31 December 2012

The interest rate applied as at 31 December 2012 was fixed in accordance with the rate published by the Bundesbank as at the measurement date of 30 September 2012.

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 Para. 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.

Provisions for anniversary bonuses were recognised depending on tenure with the Company and existing eligibility requirements, taking the increase in eligibility into account. In this context, the same assumptions are used to make allowance for salary increases and fluctuation probabilities. The interest rate used for discounting is 5.5%.

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 4.00% 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.

The provisions for taxes and other provisions take all recognisable risks and contingent liabilities into account and were carried at the settlement amount required according to the principles of commercial prudence.

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 RückabzinsV.

The subordinated liabilities were recognised at their nominal amount.

Other liabilities are recognised at their settlement amounts.

Income received prior to the closing date is recognised under the deferred and accrued items if it relates to a specific period thereafter.

Currency translation

If items of the balance sheet or statement of income contain amounts denominated in foreign currency, they were translated at the officially established average exchange rates as at 31 December 2012 for balance sheet items and at transaction rates for items in the statement of income. Shares in affiliated companies recognised at amortised cost using historical exchange rates are an exception in this regard.

Statement of income

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

Disclosures on the balance sheet – assets

Statement of changes in fixed assets	Cost 31.12.2011	Additions
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	7,943	2,365
2. Prepayments	143	708
3. Total A.I.	8,086	3,073
A. II. Tangible fixed assets		
1. Other equipment, operating and office equipment	1,621	213
2. Prepayments and assets under construction	6	—
3. Total A.II.	1,627	213

Statement of changes in long-term financial assets	Portfolio – carrying amounts 31.12.2011	Currency translation difference – revaluation 1.1.2012	Portfolio – revalued 1.1.2012	Additions
Figures in EUR thousand				
A. III. Long-term financial assets				
1. Shares in affiliated companies	6,143,323	—	6,143,323	957,709
2. Loans to affiliated companies	99,081	—	99,081	203,955
3. Other long-term equity investments	26,878	—	26,878	—
4. Long-term securities	62,292	—	63,301	—
5. Total A.III.	6,331,574	—	6,332,583	1,161,664

Disclosures on the balance sheet – total equity and liabilities

Other provisions	As at 1.1.2012
Figures in EUR thousand	
B. 3. Other provisions	
Remuneration of Board of Management members	2,153
Remuneration of Supervisory Board members	1,874
Variable compensation/bonuses	1,886
Vacation claims	352
Anniversary bonuses	328
Credit balances in flextime accounts	78
Partial retirement	385
Obligations assumed	18,131
Consulting costs	2,907
Employers' Liability Association (Berufsgenossenschaft)	41
Compensating levy for non-employment of severely handicapped persons	21
Restructuring	63
Costs for the preparation of the annual financial statements	939
Interest portion from provisions for taxes	23,402
Other	2,146
Total B.3.	54,706

The settlement amount of the provisions for partial retirement totalled EUR 609 thousand. The market value of the funds held to cover this liability amounted to EUR 173 thousand as at 31 December 2012. The amortised cost amounted to EUR 149 thousand.

Deletions	Reclassifications	Write-ups	Amortisation, depreciation and write-downs, accumulated	Carrying amount 31.12.2012	Carrying amount 31.12.2011	Amortisation, depreciation and write-downs 2012
—	—	—	5,013	5,295	4,225	1,295
—	—	—	—	851	143	—
—	—	—	5,013	6,146	4,368	1,295
163	6	—	1,002	675	742	243
—	-6	—	—	—	6	—
163	—	—	1,002	675	748	243

Deletions	Reclassifications	Write-ups	Amortisation, depreciation and write-downs	Currency translation difference 31.12.2012	Carrying amounts 31.12.2012	Carrying amounts 31.12.2011	Market values 31.12.2012	Valuation reserves 31.12.2012
26,590	—	—	—	—	7,074,442	6,143,323	12,087,527	5,013,085
48,956	—	—	1,156	—	252,924	99,081	262,084	9,160
2,333	—	—	—	—	24,545	26,878	24,545	—
—	—	—	—	—	62,292	62,292	80,826	18,534
77,879	—	—	1,156	—	7,414,203	6,331,574	12,454,982	5,040,779

Use	Reversal	Addition	Accrued interest/ interest rate change	Offset (carried forward)	Carrying amount 31.12.2012
1,229	—	3,145	41	—	4,110
1,874	—	1,963	—	—	1,963
1,886	—	2,078	—	—	2,078
352	—	312	—	—	312
34	—	33	17	—	344
78	—	133	—	—	133
295	—	337	23	-14	436
—	—	548	—	—	18,679
2,609	298	7,625	—	—	7,625
41	—	58	—	—	58
21	—	28	—	—	28
—	63	—	—	—	—
930	8	918	—	—	919
—	—	4,004	—	—	27,406
1,779	272	1,290	—	—	1,385
11,128	641	22,472	81	-14	65,476

Income of EUR 15 thousand from the plan assets covering the provisions for partial retirement was netted in the statement of income with expenses of EUR 23 thousand from interest accruing on the provisions for partial retirement.

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 5,295 thousand was recognised for purchased software.

A.III.1. Shares in affiliated companies

The addition reflects voluntary contributions to capital reserves at Talanx International AG in the amount of EUR 897,709 thousand and at Talanx Reinsurance (Ireland) Ltd. in the amount of EUR 60,000 thousand. Decreases resulted from withdrawals at Talanx Beteiligungs-GmbH & Co. KG in the amount of EUR 26,279 thousand and at Alstertor Erste Beteiligungs- und Investitionssteuerungs-GmbH & Co. KG in the amount of EUR 311 thousand, which served to reduce the carrying amounts.

1. Shares in affiliated companies in Germany	Share of capital ¹⁾ in %	Equity ²⁾ in EUR thousand	Result before profit transfer ²⁾ in EUR thousand
Alstertor Erste Beteiligungs- und Investitionssteuerungs-GmbH & Co. KG, Hamburg ¹²⁾	100.00	4,490	579
Alstertor Zweite Beteiligungs- und Investitionssteuerungs-GmbH & Co. KG, Hamburg ¹²⁾	100.00	28,462	-34
AmpegaGerling Investment GmbH, Cologne ^{3), 12)}	100.00	7,936	8,273
Bureau für Versicherungswesen Robert Gerling & Co. GmbH, Cologne ^{3), 12)}	100.00	26	-2
CiV Grundstücksgesellschaft mbH & Co. KG, Hilden ^{8), 12)}	100.00	24,878	-229
CiV Immobilien GmbH, Hilden ¹²⁾	100.00	29	1
Credit Life International Lebensversicherung AG, Hilden ^{3), 17)}	100.00	7,496	-1,646
Credit Life International Versicherung AG, Hilden ^{3), 17)}	100.00	4,944	-2,431
E+S Rückversicherung AG, Hannover ¹⁷⁾	63.69	733,413	142,000
Funis GmbH & Co. KG, Hannover ¹⁵⁾	100.00	24,353	-10,687
GERLING Pensionsenthaftungs- und Rentenmanagement GmbH, Cologne ¹²⁾	100.00	4,631	-827
GERLING Sustainable Development Project-GmbH, Cologne ¹²⁾	100.00	55	-3
Hannover America Private Equity Partners II GmbH & Co. KG, Cologne ¹⁵⁾	100.00	205,314	20,299
Hannover Beteiligungsgesellschaft mbH, Hannover ¹²⁾	100.00	5,703	910
Hannover Euro Private Equity Partners II GmbH & Co. KG, Cologne ¹⁵⁾	100.00	8,709	8,422
Hannover Euro Private Equity Partners III GmbH & Co. KG, Cologne ¹⁵⁾	100.00	43,175	6,394
Hannover Euro Private Equity Partners IV GmbH & Co. KG, Cologne ¹⁵⁾	100.00	86,192	3,542
Hannover Insurance-Linked Securities GmbH & Co. KG, Hannover ¹⁵⁾	100.00	55,855	5,036
Hannover Life Re AG, Hannover ^{3), 17)}	100.00	1,582,596	109,139
Hannover Re Euro PE Holdings GmbH & Co. KG, Hannover ¹⁵⁾	100.00	83,826	1,219
Hannover Re Euro RE Holdings GmbH, Hannover ¹²⁾	100.00	181,975	1,163
Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover ^{3), 17)}	100.00	2,071,855	253,867
Hannover Rückversicherung AG, Hannover ¹⁷⁾	50.22	1,832,716	410,254
Hannoversch-Kölnische Beteiligungsgesellschaft mbH, Hannover ¹²⁾	50.00	26	1
HAPEP II Holding GmbH, Hannover ¹⁵⁾	100.00	30,305	8,638
HAPEP II Komplementär GmbH, Hannover ¹⁵⁾	100.00	27	—
HDI Direkt Service GmbH, Hannover ^{3), 12)}	100.00	51	700
HDI Kundenservice AG (formerly: HDI-Gerling Leben Betriebservice GmbH), Cologne ^{7), 17)}	100.00	149	5
HDI Lebensversicherung AG (formerly: HDI-Gerling Lebensversicherung AG), Cologne ¹⁷⁾	100.00	395,547	12,000
HDI Pensionsfonds AG (formerly: HDI-Gerling Pensionsfonds AG), Cologne ¹⁷⁾	100.00	5,526	141
HDI Pensionskasse AG (formerly: HDI-Gerling Pensionskasse AG), Cologne ¹⁷⁾	100.00	29,448	1,200
HDI Versicherung AG (formerly: HDI Direkt Versicherung AG), Hannover ^{3), 12)}	100.00	162,088	-11,277
HDI Vertriebs AG (formerly: HDI-Gerling Vertrieb Firmen und Privat AG), Hannover ^{7), 12)}	100.00	4,083	-9,279

	Share of capital ¹⁾ in %	Equity ²⁾ in EUR thousand	Result before profit transfer ²⁾ in EUR thousand
1. Shares in affiliated companies in Germany			
HDI-Gerling Friedrich Wilhelm Rückversicherung AG, Cologne ^{3), 17)}	100.00	826,551	-396
HDI-Gerling Industrie Versicherung AG, Hannover ^{3), 12)}	100.00	406,536	133,102
HDI-Gerling Schadenregulierung GmbH, Hannover ^{3), 12)}	100.00	25	-2
HDI-Gerling Sicherheitstechnik GmbH, Hannover ¹²⁾	100.00	3,393	1,518
HDI-Gerling Welt Service AG, Hannover ^{3), 12)}	100.00	91,304	3,826
HEPEP II Holding GmbH, Cologne ¹⁵⁾	100.00	4,539	4,508
HEPEP II Komplementär GmbH, Cologne ¹⁵⁾	100.00	26	-1
HEPEP III Holding GmbH, Cologne ¹⁵⁾	100.00	9,546	393
HEPEP III Komplementär GmbH, Cologne ¹⁵⁾	100.00	19	-1
HEPEP IV Komplementär GmbH, Cologne ¹⁵⁾	100.00	21	-
HG Sach AltInvest GmbH & Co. KG, Cologne ¹⁶⁾	100.00	30,495	699
HG-I Alternative Investments Beteiligungs-GmbH & Co. KG, Cologne ¹²⁾	100.00	24,542	-31
HILSP Komplementär GmbH, Hannover ¹⁵⁾	100.00	25	-1
HNG Hannover National Grundstücksverwaltung GmbH & Co KG, Hannover ^{8), 12)}	100.00	46,850	2,217
HR GLL Central Europe GmbH & Co. KG, Munich ¹⁰⁾	90.91	-	-
International Hannover Holding AG, Hannover ²¹⁾	100.00	44	-3
IVEC Institutional Venture and Equity Capital AG, Cologne ¹²⁾	100.00	145,867	7,739
Nassau Assecuranzkontor GmbH, Cologne ^{3), 12)}	100.00	25	-
neue leben Holding AG, Hamburg ¹⁷⁾	67.50	55,622	20,401
neue leben Lebensversicherung AG, Hamburg ^{3), 17)}	100.00	50,237	14,791
neue leben Unfallversicherung AG, Hamburg ^{3), 17)}	100.00	3,596	5,794
Oval Office Grundstücks GmbH, Hannover ¹⁷⁾	100.00	59,657	1,804
PB Lebensversicherung AG, Hilden ¹⁷⁾	100.00	81,210	26,105
PB Pensionsfonds AG, Hilden ^{3), 17)}	100.00	5,038	471
PB Pensionskasse AG, Hilden ¹⁷⁾	100.00	12,894	6,514
PB Versicherung AG, Hilden ¹⁷⁾	100.00	10,895	4,425
Riethorst Grundstücksgesellschaft AG & Co. KG, Hannover ^{8), 12)}	100.00	173,400	540
Shamrock Marine-Insurance Agency GmbH, Hamburg ^{3), 12)}	100.00	25	-2
SSV Schadensschutzverband GmbH, Hannover ^{3), 12)}	100.00	200	740
Talanx Asset Management GmbH, Cologne ^{7), 12)}	100.00	83,600	33,357
Talanx Beteiligungs-GmbH & Co. KG, Hannover ^{8), 12)}	100.00	110,601	-3,282
Talanx Deutschland AG, Hannover ^{7), 17)}	100.00	2,386,981	15,690
Talanx Deutschland Bancassurance Communication Center GmbH, Hilden ^{7), 17)}	100.00	630	750
Talanx Deutschland Bancassurance GmbH, Hilden ^{7), 12)}	100.00	1,089,419	82,670
Talanx Deutschland Bancassurance Kundenservice GmbH, Hilden ^{7), 17)}	100.00	75	-286
Talanx Immobilien Management GmbH, Cologne ^{7), 12)}	100.00	2,837	-1,223
Talanx International AG, Hannover ^{7), 17)}	100.00	1,638,846	16,581
Talanx Pensionsmanagement AG (formerly: HDI-Gerling Pensionsmanagement AG), Cologne ^{7), 12)}	100.00	6,414	-913
Talanx Reinsurance Broker AG, Hannover ^{7), 12)}	100.00	388	13,101
Talanx Service AG, Hannover ^{7), 12)}	100.00	1,746	9,681
Talanx Systeme AG, Hannover ^{7), 12)}	100.00	140	127
TAM AI Komplementär GmbH, Cologne ¹⁰⁾	100.00	-	-
TARGO Lebensversicherung AG, Hilden ¹⁷⁾	100.00	77,248	43,593
TARGO Versicherung AG, Hilden ^{3), 17)}	100.00	9,492	16,504
TD Real Assets GmbH & Co. KG, Cologne ¹⁰⁾	100.00	-	-
TD-BA Private Equity GmbH & Co. KG, Cologne ¹⁰⁾	100.00	-	-
TD-BA Private Equity Sub GmbH, Cologne ¹⁰⁾	100.00	-	-
TD-Sach Private Equity GmbH & Co. KG, Cologne ¹⁰⁾	100.00	-	-
VES Gesellschaft für Mathematik, Verwaltung und EDV mbH, Gevelsberg ^{3), 12)}	100.00	195	-925

	Share of capital ¹⁾ in %		Equity ²⁾ in thousand		Result before profit transfer ²⁾ in thousand
2. Shares in affiliated companies outside of Germany					
11 Stanwix LLC, Wilmington, USA ^{6), 16)}	100.00	USD	30,139	USD	546
1225 West Washington LLC, Washington, USA ^{6), 16)}	100.00	USD	22,162	USD	31
300 South Orange Avenue LLC, Wilmington, USA ^{6), 16)}	100.00	USD	55,104	USD	1,209
402 Santa Monica Blvd. LLC, Wilmington, USA ^{6), 16)}	100.00	USD	31,358	USD	706
465 Broadway LLC, Wilmington, USA ^{6), 16), 20)}	100.00	USD	-1,085	USD	13,757
5115 Sedge Boulevard LP, Chicago, USA ^{6), 16), 19)}	84.00	USD	-1,574	USD	-1,622
5115 Sedge Corporation, Chicago, USA ^{6), 16)}	100.00	USD	564	USD	-1,075
975 Carroll Square LLC, Washington, USA ^{6), 16)}	100.00	USD	60,519	USD	431
ASPECTA Assurance International Luxembourg S.A., Luxembourg, Luxembourg ¹²⁾	100.00	EUR	7,525	EUR	-1,680
Atlantic Capital Corporation, Wilmington, USA ^{4), 16), 19)}	100.00	USD	-111,867	USD	—
Cargo Transit Insurance (Pty) Ltd., Helderkruijn, South Africa ⁵⁾	80.00	ZAR	-4,499	ZAR	-1,977
CiV Hayat Sigorta A.Ş., Istanbul, Turkey ¹²⁾	100.00	TRY	12,650	TRY	21
Clarendon Insurance Group, Inc., Wilmington, USA ⁴⁾	100.00	USD	221,640	USD	—
Compass Insurance Company Ltd., Johannesburg, South Africa ⁵⁾	100.00	ZAR	109,595	ZAR	229
Construction Guarantee (Pty) Ltd., Parktown, South Africa ^{5), 20)}	60.00	ZAR	—	ZAR	6,969
Desarollo de Consultores Profesionales en Seguros S.A. de CV, León, Mexico ¹²⁾	100.00	MXN	50	MXN	—
Envirosure Underwriting Managers (Pty) Ltd., Durban, South Africa ⁵⁾	60.00	ZAR	-415	ZAR	1,275
Film & Entertainment Underwriters SA (Pty) Ltd., Northcliff, South Africa ⁵⁾	51.00	ZAR	-1,444	ZAR	35
Garagesure Consultants and Acceptances (Pty) Ltd, Johannesburg, South Africa ⁵⁾	80.00	ZAR	955	ZAR	1,614
Gem & Jewel Acceptances (Pty) Ltd., Johannesburg, South Africa ⁵⁾	60.00	ZAR	974	ZAR	3,116
Gente Compañía de Soluciones Profesionales de México, S.A. de C.V., León, Mexico ¹²⁾	100.00	MXN	17,609	MXN	4,769
Gerling Insurance Agency, Inc., Chicago, USA ^{12), 21)}	100.00	USD	—	USD	—
Gerling Norge A/S, Oslo, Norway ¹²⁾	100.00	NOK	248	NOK	10
Glencar Underwriting Managers, Inc., Itasca, USA ¹²⁾	95.90	USD	1,789	USD	-713
GLL HRE Core Properties LP, Wilmington, USA ^{6), 16)}	99.90	USD	198,698	USD	38,168
GLL Terry Francois Blvd. LLC, Wilmington, USA ^{6), 16), 20)}	50.95	USD	4,823	USD	51,980
H.J. Roelofs Assuradeuren B.V., Rotterdam, Netherlands ¹²⁾	100.00	EUR	159	EUR	87
Hannover Finance (Luxembourg) S.A., Luxembourg, Luxembourg ¹⁷⁾	100.00	EUR	30,475	EUR	-1,304
Hannover Finance (UK) Limited, Virginia Water, United Kingdom ¹⁷⁾	100.00	GBP	131,102	GBP	19
Hannover Finance Inc., Wilmington, USA ^{9), 16)}	100.00	USD	509,913	USD	9,087
Hannover Life Re Consultants, Inc., Orlando, USA ¹²⁾	100.00	USD	201	USD	2
Hannover Life Re of Australasia Ltd., Sydney, Australia ¹⁷⁾	100.00	AUD	336,480	AUD	38,073
Hannover Life Reassurance (UK) Ltd., Virginia Water, United Kingdom ¹⁷⁾	100.00	GBP	38,751	GBP	2,834
Hannover Life Reassurance Africa Ltd., Johannesburg, South Africa ⁵⁾	100.00	ZAR	416,212	ZAR	-7,678
Hannover Life Reassurance Bermuda Ltd., Hamilton, Bermuda	100.00	EUR	202,559	EUR	29,928
Hannover Life Reassurance Company of America, Orlando, USA ¹⁷⁾	100.00	USD	180,976	USD	9,378
Hannover Re (Bermuda) Ltd., Hamilton, Bermuda ¹⁷⁾	100.00	EUR	1,056,837	EUR	169,716
Hannover Re (Guernsey) PCC Ltd., St. Peter Port, United Kingdom ¹⁷⁾	100.00	EUR	254	EUR	2
Hannover Re (Ireland) Public Limited Company, Dublin, Ireland ¹⁷⁾	100.00	EUR	1,318,616	EUR	106,336
Hannover Re Consulting Services India Private Limited, Mumbai, India ¹³⁾	100.00	INR	58,620	INR	7,973
Hannover Re Real Estate Holdings, Inc., Orlando, USA ^{9), 16)}	100.00	USD	377,855	USD	32,023
Hannover Re Services Italy S.r.L., Milan, Italy	100.00	EUR	485	EUR	103
Hannover Re Services Japan K.K., Tokyo, Japan ¹⁷⁾	100.00	JPY	94,533	JPY	1,683
Hannover Re Services USA, Inc., Itasca, USA	100.00	USD	872	USD	27
Hannover Reinsurance Africa Ltd., Johannesburg, South Africa ⁵⁾	100.00	ZAR	781,523	ZAR	145,608
Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg, South Africa ⁹⁾	100.00	ZAR	210,017	ZAR	154,417
Hannover Reinsurance Mauritius Ltd., Port Louis, Mauritius ⁵⁾	100.00	MUR	50,178	MUR	3,785
Hannover ReTakaful B.S.C. (c), Manama, Bahrain ¹⁷⁾	100.00	BHD	41,070	BHD	6,768
Hannover Risk Consultants B.V., Rotterdam, Netherlands ¹²⁾	100.00	EUR	-741	EUR	-34
Hannover Rückversicherung AG Escritorio de Representação no Brasil Ltda., Rio de Janeiro, Brazil ¹²⁾	100.00	BRL	320	BRL	-58
Hannover Services (México) S.A. de C.V., Mexico City, Mexico ¹²⁾	100.00	MXN	10,777	MXN	225
Hannover Services (UK) Ltd., Virginia Water, United Kingdom	100.00	GBP	666	GBP	4
HDI Assicurazioni S.p.A., Rome, Italy ¹²⁾	100.00	EUR	139,441	EUR	-1,506

	Share of capital ¹⁾ in %		Equity ²⁾ in thousand		Result before profit transfer ²⁾ in thousand
2. Shares in affiliated companies outside of Germany					
HDI Gerling Insurance of South Africa Ltd., Johannesburg, South Africa ¹²⁾	100.00	ZAR	41,747	ZAR	947
HDI HANNOVER International España, Cía de Seguros y Reaseguros S.A., Madrid, Spain ¹⁶⁾	100.00	EUR	57,111	EUR	10,364
HDI Immobiliare S.r.l., Rome, Italy ¹²⁾	100.00	EUR	65,821	EUR	677
HDI Seguros S.A., Santiago, Chile ¹²⁾	100.00	CLP	7,211,127	CLP	920,997
HDI Seguros S.A., São Paulo, Brazil ¹²⁾	100.00	BRL	641,533	BRL	66,096
HDI Seguros S.A. (formerly: L'UNION de Paris Compañía Argentina de Seguros S.A.), Buenos Aires, Argentina ¹²⁾	100.00	ARS	99,088	ARS	3,955
HDI Seguros S.A. de C.V., León, Mexico ¹²⁾	99.47	MXN	482,848	MXN	42,667
HDI Seguros S.A., Montevideo, Uruguay ¹²⁾	100.00	UYU	104,134	UYU	10,332
HDI Sigorta A.Ş., Istanbul, Turkey ¹²⁾	100.00	TRY	64,288	TRY	-17,259
HDI STRAKHUVANNYA (Ukraine), Kiev, Ukraine ¹²⁾	99.28	UAH	45,865	UAH	-18,001
HDI Versicherung AG, Vienna, Austria ¹²⁾	100.00	EUR	44,979	EUR	6,380
HDI Zastrahovane AD, Sofia, Bulgaria ¹²⁾	94.00	BGL	8,384	BGL	278
HDI-Gerling America Insurance Company, Chicago, USA ¹²⁾	100.00	USD	131,337	USD	11,144
HDI-Gerling Assurances S.A., Brussels, Belgium ¹²⁾	100.00	EUR	40,404	EUR	5,249
HDI-Gerling Assurances SA Luxembourg, Luxembourg, Luxembourg ¹²⁾	100.00	EUR	5,883	EUR	250
HDI-Gerling de México Seguros S.A., Mexico City, Mexico ¹²⁾	100.00	MXN	186,020	MXN	4,741
HDI-GERLING Financial Services GmbH, Vienna, Austria ¹²⁾	100.00	EUR	837	EUR	56
HDI-Gerling Services S.A., Brussels, Belgium ¹²⁾	100.00	EUR	170	EUR	24
HDI-Gerling Verzekeringen N.V., Rotterdam, Netherlands ¹²⁾	100.00	EUR	197,756	EUR	25,843
HDI-Gerling Welt Service AG Escritório de Representação no Brasil Ltda. (formerly: Gerling-Konzern Panamericana Ltda.), São Paulo, Brazil ¹²⁾	100.00	EUR	610	EUR	-105
HDI-Gerling Zycie Towarzystwo Ubezpieczeń S.A., Warsaw, Poland ¹²⁾	100.00	PLN	44,991	PLN	-9,926
Hospitality Industrial and Commercial Underwriting Managers (Pty) Ltd., Johannesburg, South Africa ⁵⁾	90.00	ZAR	2,375	ZAR	2,472
HR Hannover Re Correduria de Reaseguros S.A., Madrid, Spain ¹⁷⁾	100.00	EUR	266	EUR	35
InChiaro Assicurazioni S.p.A., Rome, Italy ¹²⁾	51.00	EUR	5,719	EUR	-4,776
InLinea S.p.A., Rome, Italy ¹²⁾	70.00	EUR	784	EUR	71
Integra Insurance Solutions Limited, Bradford, United Kingdom ¹³⁾	74.99	GBP	509	GBP	636
Inter Hannover (No. 1) Ltd., London, United Kingdom ¹⁷⁾	100.00	GBP	-4,265	GBP	1
International Insurance Company of Hannover Ltd., Bracknell, United Kingdom ¹⁷⁾	100.00	GBP	121,759	GBP	6,259
International Mining Industry Underwriters Ltd., London, United Kingdom ¹⁷⁾	100.00	GBP	480	GBP	70
Inversiones HDI Limitada, Santiago, Chile ¹²⁾	100.00	CLP	12,433,385	CLP	299,143
Joint-stock Company Towarzystwo Ubezpieczeń EUROPA.UA Życie, Lviv, Ukraine ¹²⁾	92.00	UAH	16,312	UAH	-10
Joint-stock Company Towarzystwo Ubezpieczeń EUROPA.UA, Lviv, Ukraine ¹²⁾	90.00	UAH	10,857	UAH	-24
Kaith Re Ltd., Hamilton, Bermuda ¹⁷⁾	88.00	USD	95	USD	-291
L&E Holdings Limited, London, United Kingdom ¹⁷⁾	100.00	GBP	9	GBP	82
Landmark Underwriting Agency (Pty) Ltd., Bloemfontein, South Africa ⁵⁾	75.50	ZAR	2,586	ZAR	-361
Leine Investment General Partner S.à.r.l., Luxembourg, Luxembourg ¹⁰⁾	100.00	EUR	—	EUR	—
Leine Investment SICAV-SIF, Luxembourg, Luxembourg ¹⁰⁾	100.00	USD	—	USD	—
Lireas Holdings (Pty) Ltd., Johannesburg, South Africa ⁵⁾	51.00	ZAR	189,537	ZAR	21,353
London & European Title Insurance Services Limited, London, United Kingdom ¹⁷⁾	100.00	GBP	80	GBP	-283
LRA Superannuation Plan Pty Ltd., Sydney, Australia ^{12), 21)}	100.00	AUD	—	AUD	—
Magyar Posta Biztosító Részvénytársaság, Budapest, Hungary ¹²⁾	66.93	HUF	1,762,106	HUF	195,540
Magyar Posta Életbiztosító Részvénytársaság, Budapest, Hungary	66.93	HUF	3,287,451	HUF	216,433
Mediterranean Reinsurance Services Ltd., Hong Kong, China ^{18), 20)}	100.00	USD	125	USD	—
Metropolitana Compañía de Seguros S.A., Mexico City, Mexico ¹²⁾	100.00	MXN	515,636	MXN	12,812
Micawber 185 (Pty) Ltd., Johannesburg, South Africa ⁵⁾	100.00	ZAR	17,976	ZAR	2,121
MUA Insurance Acceptances (Pty) Ltd., Cape Town, South Africa ⁵⁾	80.00	ZAR	2,207	ZAR	-2,168
MUA Insurance Company Ltd., Cape Town, South Africa ⁵⁾	100.00	ZAR	10,332	ZAR	547
Nashville (Tennessee) West LLC, Wilmington, USA ^{6), 16)}	100.00	USD	30,611	USD	-217
One Winthrop Square LLC, Wilmington, USA ^{6), 16)}	100.00	USD	22,196	USD	630
OOO Strakhovaya Kompaniya "HDI Strakhovanie", Moscow, Russia ¹²⁾	100.00	RUR	167,584	RUR	-2,414
OOO Strakhovaya Kompaniya CIV Life, Moscow, Russia ¹²⁾	100.00	RUB	291,521	RUB	50,451

2. Shares in affiliated companies outside of Germany	Share of capital ¹⁾ in %		Equity ²⁾ in thousand		Result before profit transfer ²⁾ in thousand
Open Finance Absolute Return Fundusz Inwestycyjny Zamknięty, Warsaw, Poland ¹⁰⁾	99.99	PLN	—	PLN	—
Open Life Towarzystwo Ubezpieczeń Życie S.A., Warsaw, Poland ¹²⁾	51.00	PLN	29,686	PLN	10,972
Peachtree (Pty) Ltd., Parktown, South Africa ^{5), 20)}	100.00	ZAR	—	ZAR	—
Protecciones Esenciales S.A., Buenos Aires, Argentina ¹⁶⁾	100.00	ARS	110,508	ARS	11,848
Saint Honoré Iberia S.L., Madrid, Spain ¹²⁾	100.00	EUR	185	EUR	1,665
Scandinavian Marine Agency A/S, Oslo, Norway ¹²⁾	52.00	NOK	6,179	NOK	1,792
Secquaero ILS Fund Ltd., Georgetown, Cayman Islands ¹⁶⁾	74.09	USD	73,651	USD	2,884
Secquaero Re Vinyard IC Limited, St. Peter Ports, Guernsey ¹⁰⁾	100.00	USD	—	USD	—
SUM Holdings (Pty) Ltd., Johannesburg, South Africa ⁵⁾	72.20	ZAR	19,068	ZAR	3,418
Svedea AB, Stockholm, Sweden ¹⁷⁾	53.00	SEK	4,630	SEK	-44,890
Talanx Finanz (Luxemburg) S.A., Luxembourg, Luxembourg ¹⁶⁾	100.00	EUR	9,223	EUR	2,392
Talanx Reinsurance (Ireland) Ltd. (formerly: HDI Reinsurance (Ireland) Ltd.), Dublin, Ireland ¹²⁾	100.00	EUR	60,495	EUR	9,386
Thatch Risk Acceptances (Pty) Ltd., Cape Town, South Africa ⁵⁾	90.00	ZAR	1,466	ZAR	2,219
Towarzystwo Ubezpieczeń Europa S.A., Wrocław, Poland ¹²⁾	50.00	PLN	598,699	PLN	91,575
Towarzystwo Ubezpieczeń i Reasekuracji WARTA S.A., Warsaw, Poland ¹²⁾	75.00	PLN	1,241,162	PLN	119,886
Towarzystwo Ubezpieczeń na Życie Europa S.A., Wrocław, Poland ¹²⁾	100.00	PLN	565,413	PLN	81,909
Towarzystwo Ubezpieczeń na Życie WARTA S.A., Warsaw, Poland ¹²⁾	100.00	PLN	230,979	PLN	18,846
Transit Underwriting Managers (Pty) Ltd., Cape Town, South Africa ⁵⁾	100.00	ZAR	991	ZAR	185
Warta 24 plus Sp. z o.o. w likwidacji, Warsaw, Poland ¹²⁾	100.00	PLN	11,035	PLN	2,701
Warta Nieruchomości Sp. z o.o. w likwidacji, Warsaw, Poland ¹²⁾	100.00	PLN	16,818	PLN	685
Woodworking Risk Acceptances (Pty) Ltd., Pietermaritzburg, South Africa ⁵⁾	60.00	ZAR	540	ZAR	-970

3. Shares in special and public funds (in Germany) pursuant to § 285 No. 26 HGB	Share of fund assets ¹⁾ in %	Fund assets ²⁾ in EUR thousand	Change in fund assets, incl. inflows and outflows of funds ²⁾ in EUR thousand
Ampega Real Estate Value 1, Cologne ¹⁰⁾	100.00	—	—
Ampega Real Estate Value 2, Cologne ¹⁰⁾	100.00	—	—
Ampega Real Estate Value 3, Cologne ¹⁰⁾	100.00	—	—
Ampega-nl-Euro-DIM-Fonds, Cologne ¹¹⁾	100.00	439,098	-70
Ampega-nl-Global-Fonds, Cologne ¹¹⁾	100.00	40,940	-2,205
Ampega-nl-Rent-Fonds, Cologne ¹¹⁾	100.00	516,516	7,599
GERLING EURO-RENT 3, Cologne ¹¹⁾	100.00	675,010	5,061
Gerling Immo Spezial 1, Cologne ¹¹⁾	100.00	262,891	-2,144
GKL SPEZIAL RENTEN, Cologne ¹¹⁾	100.00	600,932	-7,755
HDI Gerling-Sach Industrials, Cologne ¹¹⁾	100.00	235,407	4,917
HG-I Aktien VC Strategie, Cologne ¹⁰⁾	100.00	—	—
HG-I Commodity Strategie, Cologne ¹⁰⁾	100.00	—	—
HG-I Real Estate EURO, Cologne ¹⁰⁾	100.00	—	—
HG-I Real Estate USD, Cologne ¹⁰⁾	100.00	—	—
HGLV-Financial, Cologne ¹¹⁾	100.00	1,066,089	-14,774
PBVL-Corporate, Cologne ¹¹⁾	100.00	112,756	927
Talanx Deutschland Real Estate Value, Cologne ¹⁰⁾	100.00	—	—
TAL-Corp Rentenspezial, Cologne ¹⁰⁾	100.00	—	—
terrAssisi Aktien I AMI, Cologne ¹¹⁾	59.73	7,112	-296

4. Shares in special and public funds (outside of Germany) pursuant to § 285 No. 26 HGB	Share of fund assets ¹⁾ in %		Fund assets ²⁾ in thousand		Change in fund assets, incl. inflows and outflows of funds ²⁾ in thousand
Ampega-Vienna-Bonds-Fonds, Vienna, Austria ¹¹⁾	100.00	EUR	270,575	EUR	6,278
BNP-HDI Credit FI Renda Fixa Credito Privado, São Paulo, Brazil ¹¹⁾	100.00	BRL	82,956	BRL	16,488
Credit Suisse HDI RF Crédito, São Paulo, Brazil ¹¹⁾	100.00	BRL	57,959	BRL	-3,172
FRACOM FCP, Paris, France ¹¹⁾	100.00	EUR	877,017	EUR	25,935
Fundo Invest Cotas Fundos Invest Multimercado Cred Priv HDI Estrategia, São Paulo, Brazil ¹⁰⁾	100.00	BRL	—	BRL	—
Fundo Invest Renda Fixa Credito Privado JPM HDI BRASIL, São Paulo, Brazil ¹⁰⁾	100.00	BRL	—	BRL	—
HSBC FI Renda Fixa Hannover, São Paulo, Brazil ¹¹⁾	100.00	BRL	129,721	BRL	33,758
HSBC Performance HDI RF Crédito, São Paulo, Brazil ¹¹⁾	100.00	BRL	78,678	BRL	8,557
KBC ALFA Specjalistyczny Fundusz Inwestycyjny Otwarty, Warsaw, Poland ¹¹⁾	70.00	PLN	1,425	PLN	-37
UBS Pactual HDI RF Crédito, São Paulo, Brazil ¹¹⁾	100.00	BRL	81,972	BRL	16,580

5. Other long-term equity investments	Share of capital ¹⁾ in %		Equity ²⁾ in thousand		Result before profit transfer ²⁾ in thousand
Ampega C-QUADRAT Fondsmarketing GmbH, Frankfurt, Germany ¹⁰⁾	50.00	EUR	—	EUR	—
ASPECTA Assurance International AG, Vaduz, Liechtenstein ¹²⁾	30.00	CHF	15,964	CHF	6,297
Camargue Underwriting Managers (Pty) Ltd., Parktown, South Africa ⁵⁾	26.00	ZAR	7,274	ZAR	3,168
Capital System GmbH, Hannover, Germany ¹²⁾	49.00	EUR	211	EUR	-64
Clarendon Transport Underwriting Managers (Pty) Ltd., Johannesburg, South Africa ^{5), 17)}	32.66	ZAR	21,400	ZAR	44,794
Commercial & Industrial Acceptances (Pty) Ltd., Johannesburg, South Africa ⁵⁾	40.00	ZAR	14,460	ZAR	23,236
C-QUADRAT Investment AG, Vienna, Austria ¹⁵⁾	25.10	EUR	25,146	EUR	560
Credit Life International Services GmbH, Neuss, Germany ¹²⁾	50.00	EUR	-76	EUR	-140
DFA Capital Management, Inc., Wilmington, USA ¹²⁾	25.37	USD	477	USD	-1,073
Energi, Inc., Peabody, USA ¹²⁾	28.50	USD	6,758	USD	-884
Firedart & Construction Guarantee Underwriting Managers (Pty) Ltd., Johannesburg, South Africa ⁵⁾	49.90	ZAR	11,321	ZAR	6,473
Hannover Care AB, Stockholm, Sweden ¹²⁾	30.00	SEK	446	SEK	-1,363
HANNOVER Finanz GmbH, Hannover, Germany ¹²⁾	25.00	EUR	70,674	EUR	7,194
Hannoversch-Kölnische Handels-Beteiligungsgesellschaft mbH & Co. KG, Hannover, Germany ¹²⁾	50.00	EUR	28,313	EUR	2,059
Iconica Business Services Limited, Bradford, United Kingdom ¹⁰⁾	25.01	GBP	—	GBP	—
IGEPA Gewerbepark GmbH & Co. Vermietungs KG, Munich, Germany ¹²⁾	37.50	EUR	-12,134	EUR	7,790
ITAS Vita S. p. A., Trento, Italy ¹²⁾	34.88	EUR	76,354	EUR	55
Magma HDI General Insurance Company Limited, Kolkata, India ¹⁷⁾	25.50	INR	2,064,781	INR	-15,529
neue leben Pensionsverwaltung AG, Hamburg, Germany ¹⁷⁾	49.00	EUR	15,986	EUR	-73
nI-PS Betriebliche Vorsorge GmbH, Erlangen, Germany ¹²⁾	50.00	EUR	-31	EUR	-56
Petro Vietnam Insurance Holdings, Hanoi, Vietnam ¹²⁾	31.82	VND	5,690,097,872	VND	347,627,235
PlaNNet Guarantee (SAS), Saint-Ouen, France ¹²⁾	23.58	EUR	651	EUR	-797
Sciemus Power MGA Limited, London, United Kingdom ¹²⁾	25.00	GBP	1	GBP	—
transparo AG (formerly: aspect online AG), Augsburg, Germany ¹⁴⁾	22.50	EUR	6,062	EUR	-18,549
VOV Verwaltungsorganisation für Vermögensschadenhaftpflicht-Versicherungen für Mitglieder von Organen juristischer Personen GmbH, Cologne, Germany ¹²⁾	35.25	EUR	1,329	EUR	214
WeHaCo Unternehmensbeteiligungs-GmbH, Hannover, Germany ¹²⁾	40.00	EUR	87,625	EUR	5,314
XS Direct Holding Ltd., Dublin, Ireland ¹²⁾	25.00	EUR	1,741	EUR	-3,129

6. Long-term equity investments in large corporations in which the equity interest exceeds 5% of the voting rights (large corporations within the meaning of § 341a HGB)	Share of capital ¹⁾ in %		Equity ²⁾ in thousand		Result before profit transfer ²⁾ in thousand
Acte Vie S. A. Compagnie d'Assurances sur la Vie et de Capitalisation, Strasbourg, France ¹²⁾	9.38	EUR	8,404	EUR	140
Extremus Versicherungs-AG, Cologne, Germany ¹²⁾	13.00	EUR	66,540	EUR	2,400
MLP AG, Wiesloch, Germany ¹²⁾	9.89	EUR	416,051	EUR	28,755
Swiss Life Holding AG, Zurich, Switzerland ¹²⁾	9.26	CHF	4,750,000	CHF	237,857

- 1) The percentage of shares held is determined as the sum of all shares held directly or indirectly according to the criteria in § 16 Para. 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) Simplification pursuant to § 264 Para. 3 HGB was elected
- 8) The exemption pursuant to § 264b HGB was elected
- 9) The entity prepares separate sub-group financial statements
- 10) The entity was formed during the reporting period – an annual report/financial statements are not yet available
- 11) Information as at the end of the 2011 financial year
- 12) Information as at 31 December 2011
- 13) Information as at 31 March 2012
- 14) Information as at 30 June 2012
- 15) Information as at 30 September 2012
- 16) Figures as per IFRS
- 17) Preliminary/unaudited figures
- 18) Last annual financial statements issued as at 31 December 1999
- 19) 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
- 20) The entity is in liquidation
- 21) 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 90,333 thousand issued by Talanx Finanz (Luxemburg) S. A. and in the amount of EUR 111,591 thousand issued by HDI-Gerling Industrie Versicherung AG. In addition, a subordinated loan in the amount of EUR 51,000 thousand was extended in connection with the assumption of pension liabilities from HDI Lebensversicherung AG.

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

This total includes an amount of EUR 24,545 thousand for the equity interest held in IGEPa Gewerbepark GmbH & Co. Vermietungs KG taking scheduled capital repayments into account.

B.I.1. Receivables from affiliated companies

	31.12.2012	31.12.2011
Figures in EUR thousand		
	247,063	204,944

This line item consists largely of receivables arising out of profit and loss transfer agreements and income from long-term equity investments as well as receivables from current business transactions.

B.I.2. Other assets

	31.12.2012	31.12.2011
Figures in EUR thousand		
Other receivables	102,801	110,878

The largest item consists of receivables due from the tax authorities.

C. Deferred and accrued items

	31.12.2012	31.12.2011
Figures in EUR thousand		
	5,080	2,808

In addition to accrued administrative expenses, this item includes a discount of EUR 1,377 thousand arising from loans taken out at HDI-Gerling Industrie Versicherung AG and at HDI 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

	31.12.2012	31.12.2011
Figures in EUR thousand		
	34	38

The provisions for partial retirement and the securities segregated for this purpose are netted in accordance with § 246 Para. 2 HGB.

Notes to the balance sheet – liabilities**A.I. Subscribed capital**

	2012	2011
Figures in EUR thousand		
Balance as at the start of the financial year	260,000	260,000
Capital increase	55,782	—
Balance as at the end of the financial year	315,782	260,000

The stock split (amendment to the Articles of Association) resolved by the Annual General Meeting of Talanx AG on 30 March 2012 became effective upon its entry in the commercial register on 2 May 2012. The share capital of Talanx AG remained unchanged thereafter at EUR 260,000 thousand and is divided into 208,000,000 (previously 260,000) registered no-par value shares. The share capital is fully paid up.

As a result of the increase in the number of common shares made necessary by the initial public offering on 2 October 2012, and as a result of the use of authorised capital (cf. our remarks below under “Capital increases”), the subscribed capital now amounts to EUR 315,782 thousand divided into 252,625,682 registered no-par value shares. The subscribed capital is fully paid up.

Contingent capital

On 15 November 2010 the Extraordinary General Meeting resolved to contingently increase the share capital by up to EUR 26,000 thousand through the issuance of up to 20,800,000 new no-par value shares (contingent capital). The contingent capital increase is designed to grant no-par value shares to bondholders, which, on the basis of the aforementioned authorisation, Talanx AG or a subordinate Group company will issue in exchange for cash in satisfaction of the contingent conversion obligation. The amendment to the Talanx AG Articles of Association became effective upon its entry in the commercial register on 6 April 2011 and 2 May 2012, respectively. In connection with the initial public offering and the associated conversion of Talanx AG subordinated convertible bonds, contingent capital was used as intended.

On 15 May 2012 the Extraordinary General Meeting resolved to contingently increase the share capital by up to EUR 78,000 thousand through the issuance of up to 62,400,000 new no-par value shares (contingent capital II). The contingent capital increase is designed to grant no-par value shares to bondholders, which, on the basis of the authorisation conferred on the Board of Management by virtue of a resolution adopted by the General Meeting on the same date, Talanx AG or a subordinate Group company will issue by 14 May 2017 in exchange for cash in satisfaction of the contingent conversion obligation. The amendment to the Talanx AG Articles of Association became effective upon its entry in the commercial register on 4 June 2012.

On 28 August 2012 the Extraordinary General Meeting resolved to contingently increase the share capital by up to EUR 26,000 thousand through the issuance of up to 20,800,000 new no-par value shares with a pro-rata amount of share capital of EUR 1.25 each (contingent capital III). The contingent capital increase is designed to grant no-par value shares to holders of convertible bonds, warrant bonds and participating bonds with conversion or warrant rights, and profit-sharing rights with conversion or warrant rights, which, on the basis of the aforementioned authorisation, Talanx AG or a subordinate Group company will issue by 27 August 2017 in exchange for cash in satisfaction of the contingent conversion obligation. In addition, § 8 of the Articles of Association (Transfer of Shares) was deleted, thus eliminating the restricted transferability of shares. The amendment to the Talanx AG Articles of Association became effective upon its entry in the commercial register on 5 September 2012.

Authorised capital

By virtue of a resolution adopted by the Extraordinary General Meeting on 21 November 2011, the Board of Management was authorised, subject to the approval of the Supervisory Board, to increase the share capital by 18 November 2016 in one or more tranches, but up to a total amount of EUR 130,000 thousand, through the issuance of new registered no-par value shares in exchange for cash or contribution in kind. Subject to the approval of the Supervisory Board, shareholders were able to be precluded from exercising subscription rights for certain enumerated purposes connected with cash capital increases, provided the pro-rata amount of share capital attributable to the new shares does not exceed 10% of the share capital. Subject to the approval of the Supervisory Board, EUR 1,000 thousand of this was able to be used to issue employee shares. Subject to the approval of the Supervisory Board, the exercise of subscription rights was able to be precluded for contribution-in-kind capital increases if such exclusion is in the Company's predominant interest. On 29 September 2012 the Extraordinary General Meeting resolved to rescind the authorised capital under § 7 Para. 1 of the Talanx AG Articles of Association as amended by the General Meeting on 21 November 2011, and to replace it with a new § 7 Para. 1 which authorises the Board of Management, subject to the approval of the Supervisory Board, to increase the share capital by 28 September 2017 in one or more tranches, but up to a total amount of EUR 146,000 thousand, through the issuance of new registered no-par value shares in exchange for cash or contribution in kind.

Subject to the approval of the Supervisory Board, shareholders may be precluded from exercising subscription rights for certain enumerated purposes connected with cash capital increases, provided the pro-rata amount of share capital attributable to the new shares does not exceed 10% of share capital. Subject to the approval of the Supervisory Board, EUR 1,000 thousand of this may be used to issue employee shares. Subject to the approval of the Supervisory Board, the exercise of subscription rights may be precluded for contribution-in-kind capital increases if such exclusion is in the Company's predominant interest. The amendment became effective upon its entry in the commercial register on 1 October 2012. When the Greenshoe option was exercised on 8 October 2012, it was reduced to EUR 143,000 thousand in accordance with the Articles of Association.

Capital increases in connection with the initial public offering

At the Extraordinary General Meeting on 29 September 2012 it was resolved to increase the subscribed capital of Talanx AG by EUR 31,875 thousand to EUR 291,875 thousand through the issuance of 25.5 million no-par value shares of EUR 1.25 each, with total capital as increased being divided into 233,500,000 registered no-par value shares. The cash contributions were immediately paid in full. The amendment to the Talanx AG Articles of Association became effective upon its entry in the commercial register on 1 October 2012.

On 2 October 2012 Talanx AG launched its initial public offering (ISIN: DE000TLX1005). In connection with this IPO, the General Meeting resolved to increase capital by issuing shares to satisfy the conversion right of subordinated bonds of Talanx AG (ISIN: DE000A1E83Z3) and to further increase capital by using authorised capital to satisfy the Greenshoe option held by banks engaged to handle the initial public offering.

On the basis of authorisation by the General Meeting on 15 November 2010, the Company issued mandatorily convertible perpetual subordinated bonds in the amount of EUR 300,000 thousand to Meiji Yasuda Life Insurance Company on 18 November 2010. All conditions for the mandatory conversion of these bonds were fulfilled with the initial listing on the regulated market of the Frankfurt Stock Exchange on 2 October 2012. According to Section 3(2) of the controlling Subscription and Conversion Agreement and § 11(1)(b) of the terms and conditions for the bonds, the date following the day on which the conversion conditions have been fulfilled is the "Conversion Closing Date". The number of shares to be delivered is determined by dividing the nominal value of the bonds by the final IPO offer price, with fractions to be paid in cash. The Company has the right to choose whether to satisfy the conversion obligation using the contingent capital resolved on 15 November 2010 (§ 6 Para. 1 of the Articles of Association) or instead using existing shares. The delivered shares must have the same features and be furnished with the same rights as the shares offered in connection with the initial public offering. With occurrence of the conversion condition on 2 October 2012, the Talanx bonds (ISIN: DE000A1E83Z3) were converted into 16,393,442 new shares with a pro-rata amount of share capital of EUR 1.25 per no-par value share using the contingent capital under § 6 Para. 1 of the Articles of Association, and the shares were then issued. This resulted in the share capital being increased by EUR 20,492 thousand. By way of the conversion, the contingent capital under § 6 Para. 1 of the Articles of Association was eliminated without replacement.

On 8 October 2012 Deutsche Bank AG and Joh. Berenberg Gossler & Co. KG exercised the Greenshoe option (one half each) in connection with the initial public offering of Talanx AG. The option consisted of 2,732,240 new shares with a pro-rata amount of share capital of EUR 1.25 per no-par value share, which corresponds to an amount of EUR 3,415 million. This capital increase was made out of authorised capital under § 7 Para. 1 in the amount of EUR 146,000 thousand. The resolutions necessary for this were adopted on 29 September 2012. This capital increase was recorded on 22 October 2012 and thus became effective. Taking into account the final IPO offer price, the total equivalent value of the Greenshoe option amounts to EUR 50,000 thousand.

In connection with the initial public offering, the equity of Talanx AG increased by a total of EUR 816,650 thousand, prior to booking directly attributable equity costs. Of this amount, the Company received EUR 516,650 thousand in cash. After allowing for directly attributable equity costs paid out in cash, the inflow amounted to EUR 485,809 thousand. After conclusion of the capital measures, HDI V.a.G. held 82.3% of the share capital of Talanx AG, and Meiji Yasuda 6.5%, with 11.2% of the shares being in free float.

A.II. Capital reserves

	2012	2011
Figures in EUR thousand		
Balance as at the start of the financial year	629,529	629,529
Capital increase	760,868	—
Balance as at the end of the financial year	1,390,397	629,529

For explanatory remarks on the capital increase please see the comments under A.I. Subscribed capital.

A.III. Revenue reserves

	2012	2011
Figures in EUR thousand		
Balance as at the start of the financial year	2,902,758	2,902,758
Contribution to other revenue reserves	—	—
Withdrawal from other revenue reserves	—	—
Balance as at the end of the financial year	2,902,758	2,902,758

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

A.IV. Disposable profit

	31.12.2012	31.12.2011
Figures in EUR thousand		
	507,516	376,599

This line item breaks down into the disposable profit for 2011 of EUR 376,599 thousand, which was carried forward to the following year by resolution of the Annual General Meeting on 30 March 2012, and EUR 130,917 thousand as profit for the current year.

The total amount restricted from distribution is equivalent to EUR 24 thousand. It is derived from the capitalisation of assets at fair value. The free reserves exceed this amount.

B.1. Provisions for pensions and similar obligations

	31.12.2012	31.12.2011
Figures in EUR thousand		
	594,678	576,187

This item represents the portion of the provisions for pensions that was not offset against assets eligible for netting. The line item as at 31 December 2012 is calculated as follows:

	31.12.2012
Figures in EUR thousand	
Employer-financed provisions for pensions as at 31 December 2011	576,180
Change	-19,257
Accrued interest/interest rate change	37,954
Pension plan reinsurance assets eligible for netting	-208
Total	594,669

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 Para. 4 sentence 4 HGB 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 605,330 thousand. The market value as at 31 December 2012 was EUR 10,662 thousand.

	31.12.2012
Figures in EUR thousand	
Employee-financed provisions for pensions as at 31 December 2011	7
Change	53
Accrued interest/interest rate change	20
Pension plan reinsurance assets eligible for netting	-71
Total	9

The settlement amount for the employee-funded provisions for pensions was EUR 458 thousand. The market value of the insurance obtained as cover for this settlement amount as at 31 December 2012 was EUR 449 thousand.

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 § 67 Para. 1 sentence 1 EGHGB are equal to EUR 168,114 thousand.

The shortfall due to pension obligations not recognised on the balance sheet within the meaning of § 28 Para. 2 EGHGB amounts to EUR 23 thousand.

In the year under review income of EUR 18 thousand from plan assets covering pension liabilities was netted with expenses of EUR 37,954 thousand from interest accruing on the provision for employer-funded pension liabilities.

C.1. Bonds

The amount stated for this line item relates to 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.

C.2. Liabilities to banks

	31.12.2012	31.12.2011
Figures in EUR thousand		
	500,556	550,428

Talanx AG has entered into agreements regarding two syndicated credit facilities with various financial institutions as lenders: one for EUR 500,000 thousand with Barclays as the facility agent and one for EUR 700,000 thousand with the Royal Bank of Scotland as the facility agent. EUR 500,000 thousand thereof was utilised on the balance sheet date. Accrued interest is also shown.

C.4. Liabilities to affiliated companies

	31.12.2012	31.12.2011
Figures in EUR thousand	1,563,159	1,255,132

Talanx AG has issued bearer bonds at market interest rates that were subscribed by various Group companies. The carrying amount as at 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 at the balance sheet date, the remaining amount outstanding on the loan was EUR 216.1 million.

On 4 April 2012 Talanx Finanz (Luxemburg) S. A. issued subordinated bonds with a term of 30 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 at the balance sheet date, the remaining amount outstanding on the loan was EUR 500.0 million.

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 716.1 million.

C.5. Other liabilities

	31.12.2012	31.12.2011
Figures in EUR thousand	4,646	19,587

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

D. Deferred and accrued items

	31.12.2012	31.12.2011
Figures in EUR thousand	459	1,377

The amount stated refers to a premium from the increase made in 2005 to the bearer bond issued in 2003.

Notes to the statement of income

1. Income from long-term equity investments

	2012	2011
Figures in EUR thousand		
Dividend distributions from affiliated companies		
Alstertor Erste Beteiligungs- und Investitionssteuerungs-GmbH & Co. KG, Hamburg	579	1,814
Hannover Rückversicherung AG, Hannover	127,184	139,297
IGEPA Gewerbepark GmbH & Co. Vermietungs KG, Munich	821	722
Talanx Beteiligungs-GmbH & Co. KG, Hannover	7,616	1,429
Talanx Deutschland AG, Hannover	52,587	—
Talanx Finanz (Luxemburg) S.A., Luxembourg	—	1,648
Talanx Reinsurance (Ireland) Ltd., Dublin	5,000	—
TARGO Lebensversicherung AG, Hilden	2,223	2,137
	196,010	147,047

2. Income from profit transfer agreements

	2012	2011
Figures in EUR thousand		
	170,294	189,218

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

3. Other operating income

	2012	2011
Figures in EUR thousand		
Income from services rendered	15,717	9,876
Disposal gain from loans to affiliated companies	4,229	—
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	641	29,502
Other income	122	2,760
	20,709	102,661

The rise in income from services rendered derives principally from increased on-debiting to subsidiaries under pension assumption agreements. The aforementioned disposal gain was realised from the sale of subordinated bonds of Talanx Finanz (Luxemburg) S.A.

4. Personnel expenses

	2012	2011
Figures in EUR thousand		
	17,727	33,683

This item represents remuneration for the Board of Management and salaries, social insurance contributions and pension payments. The change in the provisions for pensions, including guarantees for pension commitments, was netted. The sharp decrease was attributable largely to reimbursements of pension expenditures by subsidiaries.

6. Other operating expenses

	2012	2011
Figures in EUR thousand		
Remuneration of Supervisory Board members and meeting allowances	2,168	2,114
Internal transfer pricing expenses	14,815	15,229
Travel expenses	787	929
Audit and consulting expenses	19,974	28,840
Advertising expenses	513	1,533
External services incl. rating fees	30,543	4,901
Sales promotion contributions	—	1,307
Other expenses	11,759	12,882
	80,559	67,735

The major portion of the consulting services and external services is connected with the initial public offering.

7. Income from other securities and long-term loans

	2012	2011
Figures in EUR thousand		
	13,289	2,053

The amount stated relates principally to interest income on loans extended to affiliated companies.

8. Other interest and similar income

	2012	2011
Figures in EUR thousand		
	9,190	21,010

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.

9. Write-downs of long-term financial assets and securities classified as current assets

	2012	2011
Figures in EUR thousand		
	1,156	—

The amount shown refers to the reversal pro rata temporis of a premium on the subordinated bond of HDI-Gerling Industrie Versicherung AG acquired in the middle of the year on the secondary market. This involves an impairment pursuant to § 253 Para. 3 HGB.

10. Interest and similar expenses

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.

11. Cost of loss absorption

	2012	2011
Figures in EUR thousand		
	758	89,260

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

14. Extraordinary result

	2012	2011
Figures in EUR thousand		
	-14,009	-14,009

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).

The extraordinary result does not give rise to any tax effects.

15. Taxes on income

	2012	2011
Figures in EUR thousand		
Taxes, current financial year	46	133
Taxes, previous years	-5,565	11,968
	-5,519	12,101

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. The tax income (previous year: tax expense) is attributable exclusively to the result from ordinary activities.

Talanx AG, 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 and other long-term equity investments (because of differences in the amounts recognised for shares in partnerships), were offset against deferred tax assets related in particular to the balance sheet item provisions for claims not yet settled. In accordance with the option afforded by § 274 Para. 1 sentence 2 HGB, deferred tax assets in excess of this offset are not recognised. An excess of deferred tax liabilities did not arise.

Other disclosures

Important agreements

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

- Talanx Deutschland AG dated 14 June 2001
- Talanx Reinsurance Broker AG dated 27 June 2003, amended on 2 December 2008
- Talanx Service AG dated 27 November 2003 (effective 1 January 2004)
- Talanx Asset Management GmbH dated 26 February 2004
- Bureau für Versicherungswesen Robert Gerling & Co. GmbH dated 2 December 2008
- Talanx International AG dated 21 March 2007. The agreement was carved out from Talanx Service AG in 2010 and spun off to Talanx AG.
- HDI-Gerling Industrie Versicherung AG dated 21 March 2007. This agreement was likewise carved out from Talanx Service AG in 2010 and spun off to Talanx AG.
- Talanx Systeme AG dated 6 December 2010.

Upon closing of the takeover offer made jointly with its cooperation partner Meiji Yasuda Life Insurance Company (Meiji Yasuda) on the Warsaw Stock Exchange, Talanx International AG (TINT) became the owner of 50% plus one share of the Polish company Towarzystwo Ubezpieczeń Europa S.A. (TU Europa) on 1 June 2012. TINT and Meiji Yasuda had committed to the takeover offer in an agreement with the then majority shareholder Getin Holding S.A. on 19 December 2011; in return, Getin Holding S.A. had committed to accept the takeover offer with 50% plus one share. The funds needed for payment of the purchase price were made available to TINT by Talanx AG through a contribution to the capital reserves. Following the takeover offer TINT, Meiji Yasuda and Getin Holding S.A. implemented a squeeze-out procedure and delisted the shares of TU Europa – after the elimination of the minority shareholders – from trading on the Warsaw Stock exchange with effect from 23 October 2012. In addition to TINT with its stake of 50% plus one share, the shareholders now are Meiji Yasuda with 33.46% and Getin Holding S.A. with an interest of 16.54%.

Upon closing of the purchase agreement between TINT and the Belgian company KBC Verzekeringen NV (KBC) dated 19 January 2012 (including the supplementary agreement dated 28 June 2012), TINT became the owner of 100% of the shares of the Polish company Towarzystwo Ubezpieczeń i Reasekuracji WARTA S.A. (WARTA) with effect from 1 July 2012. Effective 3 July 2012 TINT transferred 30% of the shares in WARTA to Meiji Yasuda in accordance with an agreement between the two cooperation partners also dated 19 January 2012 (back-to-back SPA) that largely reflected the purchase agreement with KBC. The purchase price payable to KBC was paid by Meiji Yasuda directly to KBC in the amount of the purchase price agreed in the back-to-back SPA for 30% of the shares and the remainder was made available to TINT by Talanx AG through a contribution to the capital reserves.

Existing lines of credit

The existing line of credit available to Talanx AG, with a nominal volume of EUR 1.5 billion and total utilisation of EUR 700 million, was completely rescheduled with effect from 31 July 2012. In accordance with contracts concluded by Talanx AG, two syndicated variable-interest credit lines with a total nominal volume of EUR 1,200 million and five-year terms are available to the Company for short- to medium-term financing. Total utilisation as at 31 December 2012 was EUR 500 million. The existing syndicated credit lines can be terminated by the lenders if there is a change of control, i.e. if a person or persons acting jointly other than HDI Haftpflichtverband der Deutschen Industrie V.a.G. gains direct or indirect control over more than 50% of the voting rights or share capital of Talanx AG.

Employees

Average number of employees during the year	31.12.2012	31.12.2011
Full-time employees	190	164
Part-time employees	22	23
Total	212	187

Boards and Officers

The names of the members of the Supervisory Board and of the Board of Management are found in the management report under "Boards and Officers".

Remuneration paid to executive bodies of the Company

The remuneration of the members of the Board of Management totalled EUR 10,850 thousand. The remuneration of the Supervisory Board members totalled EUR 1,802 thousand. The remuneration of former members of the Board of Management and their survivors totalled EUR 335 thousand. A total of EUR 20,974 thousand 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-arm's length transactions with related parties that were relevant to an assessment of the financial position or results of operations.

Total audit fees

The fees for the financial auditor – broken down into expenses for audit services, 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

Valuation units

Talanx AG avails itself of the option to set up valuation units pursuant to § 254 HGB. Derivative financial instruments are used solely to hedge balance sheet items in accordance with the provisions of § 254 HGB. Micro-valuation units set up as at the balance sheet date for various equity instruments hedge the general price risk. Price-induced changes in the value of securities are almost entirely offset by the performance of corresponding hedges in the form of swaps. In addition, in order to hedge currency risks a foreign currency liability to an affiliated company is included in the valuation unit. With a view to hedging the currency risk from currency derivatives with affiliated companies (currency options, forward exchange transactions), the Company has taken out opposing currency derivatives with counterparties outside the Group. The resulting opposing changes in value, which – aside from negligible counterparty risks – offset each other entirely, are also recognised as micro-valuation units. The effectiveness of the valuation units for hedging the price risk is demonstrated prospectively and retrospectively using the dollar offset method. With respect to currency hedging using the liability and in relation to the currency derivatives taken out with external banks, effectiveness is measured on the basis of the critical terms match method. All valuation units are recognised using the net hedge presentation method. In this context, the offsetting changes in value of the individual transactions combined into a valuation unit are not recognised in the statement of income. The valuation units in relation to price hedging and the foreign currency liability have a term until January 2017. The term of the currency derivatives ends in January 2013. The carrying amount of the underlying for hedging amounted to EUR 62.3 million (previous year: EUR 62.3 million) as at the closing date; the trading volume of the hedging transaction was EUR 62.3 million (previous year: EUR 62.3 million) and the carrying amount of the liability was equivalent to EUR 57.8 million. The nominal volume of the currency derivatives totalled EUR 82.2 million (previous year: EUR 81.9 million); the carrying amounts of the corresponding underlying totalled EUR 1.6 million (previous year: EUR 1.6 million).

All hedging instruments are recognised in valuation units.

Contingent liabilities and other financial liabilities

In connection with the initial public offering, Talanx AG committed under the underwriting agreement dated 19 September 2012 to indemnify all banks involved in the IPO against any liability arising from it. In this regard, Talanx AG provided customary guarantees and assurances. As things currently stand, Talanx AG does not believe that any claims will be made under this agreement.

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 2012 Talanx Finanz (Luxemburg) S. A. had repurchased and voided a portion of the bond issue with a nominal value of approximately EUR 141 million, so that the remaining nominal value of the bond at the end of the reporting period was only approximately EUR 209 million. Talanx AG has partly repaid the loan granted to it by Talanx Finanz (Luxemburg) S. A. The remaining loan amount of approximately EUR 216 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 90 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 capital increases at its subsidiaries TARGO Lebensversicherung AG (EUR 59.0 million) and TARGO 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 Service-holding 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 at 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 15 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.

The total amount of financial obligations is EUR 83.6 million.

Notifications pursuant to § 21 Para. 1, 1a of the Securities Trading Act (Wertpapierhandelsgesetz; WpHG)

Notification from HDI V.a.G. dated 1 October 2012

Talanx Aktiengesellschaft
4 October 2012

Publication of voting right notifications pursuant to § 26 Para. 1, § 21 Para. 1a WpHG (Notification of admittance for the first time to trading on a stock exchange)

HDI Haftpflichtverband der Deutschen Industrie Versicherungsverein auf Gegenseitigkeit, Riethorst 2, 30659 Hannover, Germany, informed us pursuant to § 21 Para. 1a WpHG that its share of the voting rights in Talanx Aktiengesellschaft, Riethorst 2, 30659 Hannover, Germany, on 1 October 2012, the date when shares of Talanx Aktiengesellschaft were admitted for the first time to trading on the stock exchanges in Frankfurt/Main and Hannover, was 89.08% (208,000,000 voting rights).

Talanx Aktiengesellschaft

The Board of Management

Talanx Aktiengesellschaft
Riethorst 2
30659 Hannover
Germany
Internet: www.talanx.com

Notification from Meiji Yasuda Life Insurance Company dated 5 October 2012

Talanx Aktiengesellschaft
9 October 2012

Meiji Yasuda Life Insurance Company, Tokyo, Japan, informed us on 5 October 2012 pursuant to § 21 Para. 1 WpHG that its share of the voting rights in Talanx Aktiengesellschaft, Riethorst 2, 30659 Hannover, Germany, on 4 October 2012 exceeded the reporting thresholds of 3% and 5% due to the acquisition of shares with voting rights and amounted to 6.56% (16,393,442 voting rights).

Talanx Aktiengesellschaft

The Board of Management

Talanx Aktiengesellschaft
Riethorst 2
30659 Hannover
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Internet: www.talanx.com

Notification from Deutsche Bank Aktiengesellschaft dated 5 October 2012

Talanx Aktiengesellschaft
9 October 2012

Talanx Aktiengesellschaft, Riethorst 2, 30659 Hannover, Germany, received the following voting rights notifications on 5 October 2012 pursuant to § 21 Para. 1 and 1a WpHG:

1. Deutsche Bank Aktiengesellschaft, Frankfurt/Main, Germany, informed us pursuant to § 21 Para. 1a WpHG that its share of the voting rights in Talanx Aktiengesellschaft on 1 October 2012, the date when shares of Talanx Aktiengesellschaft were admitted for the first time to trading on the stock exchange, was 5.46% (12,750,000 voting rights).
2. In the same notification Deutsche Bank Aktiengesellschaft informed us pursuant to § 21 Para. 1 WpHG that its share of the voting rights in Talanx Aktiengesellschaft on 4 October 2012 fell below the thresholds of 5% and 3% and amounted to 0.00% (zero voting rights).

Talanx Aktiengesellschaft

The Board of Management

Talanx Aktiengesellschaft
Riethorst 2
30659 Hannover
Germany
Internet: www.talanx.com

Notification from Joh. Berenberg, Gossler & Co. KG dated 5 October 2012

Talanx Aktiengesellschaft
9 October 2012

Talanx Aktiengesellschaft, Riethorst 2, 30659 Hannover, Germany, received the following voting rights notifications on 5 October 2012 pursuant to § 21 Para. 1 and 1a WpHG:

1. Joh. Berenberg, Gossler & Co. KG, Hamburg, Germany, informed us pursuant to § 21 Para. 1a WpHG that its share of the voting rights in Talanx Aktiengesellschaft on 1 October 2012, the date when shares of Talanx Aktiengesellschaft were admitted for the first time to trading on the stock exchange, was 5.46% (12,750,000 voting rights).
2. In the same notification Joh. Berenberg, Gossler & Co. KG informed us pursuant to § 21 Para. 1 WpHG that its share of the voting rights in Talanx Aktiengesellschaft on 4 October 2012 fell below the thresholds of 5% and 3% and amounted to 0.00% (zero voting rights).

Talanx Aktiengesellschaft

The Board of Management

Talanx Aktiengesellschaft
Riethorst 2
30659 Hannover
Germany
Internet: www.talanx.com

Consolidated financial statements

The Company is a member company of HDI Haftpflichtverband der Deutschen Industrie Versicherungsverein auf Gegenseitigkeit, Hannover. HDI (the parent company) prepares consolidated financial statements for the Group according to § 341i HGB that includes the Company within the scope of consolidation. As the parent company of the Talanx Group, Talanx AG is also required to draw up consolidated financial statements pursuant to § 290 HGB. These consolidated financial statements are prepared on the basis of § 315a Para. 1 HGB pursuant to Article 4 of Regulation (EC) No. 1606/2002 in accordance with International Financial Reporting Standards (IFRS) in the form adopted for use in the European Union. The consolidated financial statements are published in the German electronic Federal Gazette (elektronischer Bundesanzeiger).

Declaration of conformity pursuant to § 161 German Stock Corporation Act (AktG)

The declaration of conformity with the German Corporate Governance Code pursuant to § 161 of the German Stock Corporation Act has been submitted and is permanently available to investors on the website of Talanx AG, as described in the Board of Management's declaration on Corporate Governance in the Group Management Report (Chapter: "Declaration on Corporate Governance and Corporate Governance report").

Events after the balance sheet date

Talanx AG placed a senior unsecured bond on 13 February 2013 with a volume of EUR 750 million. The euro-denominated bond has a fixed coupon of 3.125% and is due on 13 February 2023. The issue price is 99.958%. The cash inflow will be used principally to replace existing financing arrangements. The bond is rated “A-” by rating agency Standard & Poor’s and is listed on the Luxembourg Stock Exchange. During the issue of the bond, Talanx AG provided customary guarantees and assurances based on the Subscription Agreement dated 11 February 2013 vis-à-vis all of the banks associated with the issue. As things currently stand, Talanx AG does not believe that any claims will be made under this agreement.

Hannover, 26 February 2013

Talanx Aktiengesellschaft

The Board of Management



Herbert K. Haas,
Chairman



Dr. Christian Hinsch,
Deputy Chairman



Torsten Leue



Dr. Thomas Noth



Dr. Immo Querner



Dr. Heinz-Peter Roß



Ulrich Wallin

Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the net assets, financial position and results of operations of the Company, and the Management Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal opportunities and risks associated with the expected development of the Company.


Hannover, 26 February 2013

Talanx Aktiengesellschaft

The Board of Management



Herbert K. Haas,
Chairman



Dr. Christian Hinsch,
Deputy Chairman



Torsten Leue



Dr. Thomas Noth



Dr. Immo Querner



Dr. Heinz-Peter Roß



Ulrich Wallin

Auditor's report

To Talanx Aktiengesellschaft, Hannover:

We have examined the annual financial statements – comprising the balance sheet, the statement of income 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 2012. 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 Association 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 financial 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 Association 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, 20 March 2013

KPMG AG
Wirtschaftsprüfungsgesellschaft

Dr. Ellenbürger
Wirtschaftsprüfer
(German Public Auditor)

Husch
Wirtschaftsprüfer
(German Public Auditor)

Glossary and definition of key figures. A–D

Acquisition costs, deferred

(also: acquisition expenses)

Costs/expenses incurred by an insurance company when insurance policies are taken out or renewed (e.g. new business commission, costs of proposal assessment or underwriting). The capitalisation of acquisition costs causes costs to be distributed over the policy period.

Acquisition expenses

> Acquisition costs, deferred

Asset class

The capital market is divided into different classes of financial instruments, which are subject to similar risk factors. These include, for example, shares, bonds, real estate, energy and commodities.

Asset management

Supervision and management of investments according to risk and return considerations.

Assets under own management

Investments that do not come from either investment contracts or funds withheld by ceding companies in insurance business. They are generally acquired or sold independently by Group companies at their own risk and are managed either by the company or by an investment company on the company's behalf.

Back-to-back SPA

SPA = Sales and Purchase Agreement.

Share purchase agreement of 19 January 2012 concluded between Talanx International AG as the seller and Meiji Yasuda Life Insurance Company as the purchaser with regard to 30% of the shares in TUIR WARTA S.A.

Bancassurance

Partnership between a bank/postal service partner and an insurance company for the purpose of selling insurance products through the banking/postal service partner's branches. The linkage between insurer and bank often takes the form of a capital participation or a long-term strategic cooperation between the two partners.

Benefit reserve

Value arrived at using mathematical methods for future liabilities (present value of future liabilities minus present value of future incoming premiums), especially in life and health insurance.

Cedant (also: ceding company)

Primary insurer or reinsurer that passes on (cedes) shares of its insured risks to a reinsurer in exchange for a premium.

Combined ratio

Sum of the > loss ratio and > expense ratio (net) after allowance for interest income on funds withheld and contract deposits, as a proportion of net premium earned. In the calculation of the adjusted combined ratio, the interest income on funds withheld and contract deposits is offset against the losses and loss adjustment expenses. This ratio is used by both property/casualty insurers and non-life reinsurers.

Compliance

Statutory regulations and undertaking-specific rules governing the responsible and lawful actions of an undertaking and its employees.

Corporate Governance

System that serves to ensure responsible management and supervision of enterprises and is intended to foster the trust of investors, clients, employees and the general public in companies.

Credit status

Also creditworthiness. Ability of a debtor to meet its payment commitments.

Derivative

Financial products derived from underlying primary instruments such as equities, fixed-income securities and foreign exchange instruments, the fair value of which is determined inter alia on the basis of the underlying security or reference asset. Derivatives include > swaps, options and futures.

Disposable profit

Net income for the financial year less contribution to other revenue reserves plus retained profits brought forward.

Dividend yield

Percentage of interest payable on the capital bound up in a share. This yield indicator is calculated by dividing the dividend by the current share price and multiplying the result by 100.

D–G

Due diligence audit

Auditing of a participating interest in the run-up to an acquisition or merger. It encompasses, in particular, a systematic analysis of the strengths and weaknesses of the proposition, analysis of the risks associated with the acquisition and a well-founded valuation of the item in question.

Duration

Ratio in investment mathematics that shows the average commitment period of the present value of a financial instrument and is thus a measure of the interest rate risk associated with a financial instrument.

Earned premium

Proportion of written premium attributable to the insurance protection in the financial year.

Earnings per share, diluted

Ratio calculated by dividing the Group net income attributable to shareholders of Talanx AG by the average weighted number of shares in circulation. Diluted earnings per share take into account subscription rights that have been exercised or that have not yet been exercised when calculating the number of shares.

Equalisation reserve

Provision constituted to offset significant fluctuations in the loss experience of individual lines over a number of years. Under IFRS, this is recognised within equity.

Equity

Funds put up by the owners of an undertaking for its internal financing or left in the undertaking as generated profit (realised/unrealised). The investors are entitled to a profit participation in return for providing equity, e.g. in the form of a dividend. The equity is liable for a corporation's debt.

Expense ratio

Ratio of acquisition costs and administrative expenses (net) to net premium earned.

Exposure

Level of danger inherent in a risk or portfolio of risks.

Extraordinary investment income

Income from realised and unrealised gains and losses including write-ups and impairment/write-downs.

Extraordinary result

Balance of expenses and income that are not allocable to ordinary activities, including for example adjustments to the provisions for pensions in accordance with the German Accounting Law Modernisation Act (BilMoG).

Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

For own account

In insurance: after deduction of passive reinsurance.

Free float

Shareholdings distributed among several, usually smaller, investors.

GIIPS countries

Acronym that refers to the five Euro countries Greece, Italy, Ireland, Portugal and Spain.

Gross

In insurance: before deduction of > passive reinsurance.

I–N

Incurred but not reported (IBNR)

Provisions for losses that have already occurred but have not yet been reported.

International Financial Reporting Standards – IFRS

International accounting standards formerly known as IAS (International Accounting Standards), applied at Talanx since 2004.

Issuer

Public entity or private enterprise that issues securities, e.g. the federal government in the case of German government bonds or a stock corporation in the case of shares.

Lapse rate for life insurance products

Sum of cancelled policies and other premature withdrawals in relation to the average business in force (GDV index).

Life insurance

Collective term covering those types of insurance which are concerned in a broader sense with risks associated with the uncertainties of life expectancy and life planning. These include death and disability, retirement provision as well as marriage and education.

Long-term financial assets

Shares in affiliated companies, loans to affiliated companies, other long-term equity investments and long-term securities.

Loss ratio

Net loss ratio shown in the balance sheet: proportion of claims expenditure (net) relative to the (net) premium earned.

Major claim (also: major loss)

Claim that reaches an exceptional amount compared with the average claim for the risk group in question and exceeds a defined claims amount. Until 2011, this was defined as natural catastrophes and other major losses over EUR 5 million gross (reinsurance, industrial liability insurance, industrial fire insurance), over EUR 2.5 million gross (industrial marine insurance, industrial engineering insurance) and over EUR 1 million gross (all other lines) for the portion of the Talanx Group. Since 2012, a major claim has been defined as natural catastrophes and other major losses over EUR 10 million gross for the portion of the Talanx Group.

Market Consistent Embedded Value – MCEV

A special method of valuing life insurance companies or life/health insurance portfolios, which can be used to show the long-term nature of life insurance business and the associated risks. In particular, the use of calculation methods that are consistent with the market aims to ensure better comparability. A valuation that is consistent with the market is obtained by using risk-neutral assumptions with regard to expected capital gains and the discounting method. The swap curve is also introduced as a risk-neutral interest structure.

Matching currency coverage

Coverage of technical liabilities in foreign currencies by means of corresponding investments in the same currency in order to avoid exchange-rate risks.

Net

In insurance: after deduction of > passive reinsurance.

Net expenditure on insurance claims

Total of claims paid and provisions for loss events that have occurred during the financial year, plus the result from processing provisions for loss events from previous years, in each case after deduction of own reinsurance figures.

N–R

Net income for the financial year

Result from ordinary activities plus the extraordinary result less taxes.

Net income from participations

Income from long-term equity investments and profit transfers less expenses from losses absorbed from subsidiaries.

Net interest income

Balance of interest income and interest expenses.

Net return on investments

Net investment income, not including interest income on funds withheld and contract deposits and not including income from > investments under investment contracts, in relation to the average investments under own management.

Operating profit (EBIT)

Sum of the net investment income, underwriting result and other income and expenses before interest for other debt capital borrowed for financing purposes (financing costs) and before tax (taxes on income).

OTC

Over the counter. In the case of securities: not traded on a stock exchange.

Other operating expenses and write-downs

Expenses for ordinary activities, e.g. personnel and material expenses, amortisation, depreciation and write-downs, realised losses on investments, foreign exchange losses, expenses for services.

Other operating income

Income from ordinary activities, such as realised gains on investments, foreign exchange gains or income from services.

Passive reinsurance

Existing reinsurance programmes of > primary insurers for their own protection against underwriting risks.

Portfolio

- a) All risks assumed by a primary insurer or reinsurer as a totality or in a defined segment.
- b) Group of investments categorised according to specific criteria.

Premium

Agreed compensation for the risks accepted by the insurer.

Primary (also: direct) insurer

Company which accepts risks in exchange for an insurance premium and which has a direct contractual relationship with the policyholder (private individual, company, organisation).

Private equity

Investment capital raised by private investors.

Property/casualty insurance

All insurance lines with the exception of life insurance and health insurance: all lines in which the insured event does not trigger payment of an agreed fixed amount, but rather the incurred loss is reimbursed.

Provision

Liability item as at the balance sheet date to discharge obligations which exist but whose extent and/or due date is/are not known. Technical provisions, for example, are for claims which have already occurred but which have not yet been settled, or have only been partially settled (= provision for outstanding claims, abbreviated to: loss reserve).

Reinsurer

Company that accepts risks or portfolio segments from a > primary insurer or another reinsurer in exchange for an agreed premium.

Result from ordinary activities

Profit or loss for the period before the extraordinary result and before taxes.

R–V

Retail business

AmpegaGerling: business involving investment funds that are designed essentially for private, non-institutional investors, although such funds are also open for investments of Group companies.

Retention

The part of the accepted risks which an insurer/reinsurer does not reinsure, i.e. carries > net. Net written premium in relation to gross written premium (excluding savings elements of premiums under unit-linked life and annuity insurance policies).

Retrocession

Ceding by a reinsurer of its risks or shares in its risks to other reinsurers.

Risk management system

The complete set of rules and measures used to monitor and protect against risks.

Solvency II

Project of the European Commission to reform and harmonise European insurance regulations, particularly solvency regulations for equity resources of insurance companies.

Stress test

Form of scenario analysis used to be able to make quantitative statements about the loss potential of > portfolios in the event of extreme market fluctuations.

Surplus participation

Legally required, annually determined participation of policyholders in the surpluses generated by life insurers.

Swap

Agreement between two counterparties to swap payments at contractually defined conditions and times. Virtually any type of cash flow can be exchanged. This makes it possible to systematically hedge financial risks associated with a portfolio or to add new risks to a portfolio in order to optimise returns.

Underwriting

Process of examining and assessing (re)insurance risks in order to determine a commensurate premium for the risk in question. The purpose of underwriting is to diversify the underwriting risk in such a way that it is fair and equitable for the (re)insured and at the same time profitable for the (re)insurer.

Underwriting (also: technical) result

Balance of income and expenditure allocated to the insurance business: balance of > net premium earned and claims and claims expenses (net), acquisition costs and administrative expenses (net) and other technical result (net), including amortisation of the shareholders' portion of the PVFP but excluding consolidation differences from debt consolidation (technical). > PVFP

Unit-linked life insurance

Life insurance under which the level of benefits depends on the performance of an investment fund allocated to the policy in question.

Value at risk

Potential losses that with a certain probability will not be exceeded in a given period.

Volatility

Measure of variability with respect to stock/bond prices, exchange rates and interest rates, and also insurance lines that can have a sharply fluctuating claims experience.

Contact information

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Published on 21 March 2013

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

Konzernstruktur Group Structure

Talanx AG				
Geschäftsbereich Industrierversicherung <i>Industrial Lines Division</i>	Geschäftsbereich Privat- und Firmenversicherung Deutschland <i>Retail Germany Division</i>	Geschäftsbereich Privat- und Firmenversicherung International <i>Retail International Division</i>	Geschäftsbereich Rückversicherung <i>Reinsurance Division</i> Schaden- Rückversicherung <i>Non-Life Reinsurance</i> Personen- Rückversicherung <i>Life and Health Reinsurance</i>	Konzernfunktionen <i>Corporate Operations</i>
HDI-Gerling Industrie Versicherung AG	Talanx Deutschland AG	Talanx International AG	Hannover Rückversicherung AG	Talanx Asset Management GmbH
HDI Versicherung AG (Austria)	HDI Versicherung AG	HDI Seguros S.A. (Argentina)	Hannover ReTakaful B.S.C. (c) (Bahrain)	AmpegaGerling Investment GmbH
HDI-Gerling Assurances (Belgique) S.A.	HDI Lebensversicherung AG	HDI Seguros S.A. (Brazil)	Hannover Re (Bermuda) Ltd.	Talanx Immobilien Management GmbH
HDI-Gerling Welt Service AG	Talanx Pensionsmanagement AG	HDI Zastrahovane AD (Bulgaria)	E+S Rückversicherung AG	Talanx Service AG
HDI-Gerling de México Seguros S.A.	HDI Pensionskasse AG	HDI Seguros S.A. (Chile)	Hannover Re (Ireland) Plc	Talanx Systeme AG
HDI-Gerling Verzekeringen N.V. (Netherlands)	neue leben Lebensversicherung AG	Magyar Posta Biztosító Zrt. (Hungary)	Hannover Reinsurance Africa Limited	Talanx Reinsurance Broker AG
HDI-Gerling Insurance of South Africa Ltd.	neue leben Unfallversicherung AG	Magyar Posta Életbiztosító Zrt. (Hungary)	International Insurance Company of Hannover Ltd. (UK)	Talanx Reinsurance (Ireland) Ltd.
HDI Seguros S.A. (Spain)	PB Lebensversicherung AG	HDI Assicurazioni S.p.A. (Italy)	Hannover Life Re of Australasia Ltd	
HDI-Gerling America Insurance Company	PB Versicherung AG	HDI Seguros S.A. (Mexico)	Hannover Life Reassurance Bermuda Ltd.	
	PB Pensionsfonds AG	Metropolitana Cia. de Seguros S.A. (Mexico)	Hannover Life Reassurance Africa Limited	
	TARGO Lebensversicherung AG	HDI-Gerling Zycie TU S.A. (Poland)	Hannover Life Reassurance (UK) Ltd.	
	TARGO Versicherung AG	TUIR WARTA S.A. (Poland)	Hannover Life Reassurance Company of America	
		TU Europa S.A. (Poland)		
		TU na Zycie Europa 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)		

Nur die wesentlichen Beteiligungen
Main participations only

Stand / As at: 31.12.2012

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