Group Annual Report 2010

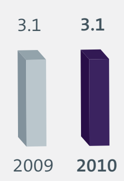
talanx.

Key figures of the Group segments

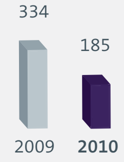
Industrial Lines

- HDI-Gerling Industrie Versicherung and foreign companies focusing on industrial business make up the segment
- Gross written premium maintained on the level of the previous year despite sale of a portfolio in Spain
- Deterioration in underwriting result but investment income stable

Gross written premium *
in EUR billion



Operating profit (EBIT) *
in EUR million

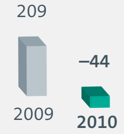


Retail Germany

- Segment combines German retail business transacted by HDI-Gerling and all German bancassurance activities
- Premium growth in life insurance leads to increased volume overall despite modest decline in property/casualty insurance products
- Sharply higher investment income fails to offset underwriting deficit

Gross written premium *
in EUR billion

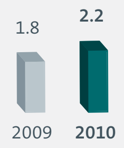
Operating profit (EBIT) *
in EUR million



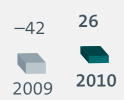
Retail International

- Segment encompasses the foreign activities of companies serving retail customers in property/casualty insurance, life insurance and bancassurance
- Key drivers of premium growth are Brazil and the Polish life company; exchange rate effects are also helpful
- EBIT influenced by various special effects, inter alia in Turkey and Mexico

Gross written premium *
in EUR billion



Operating profit (EBIT) *
in EUR million



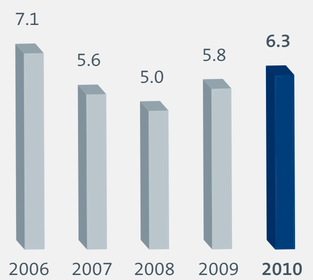
All figures as per IFRS

** Due to the restructuring in primary insurance only the figures for 2009 and 2010 can be shown for these segments*

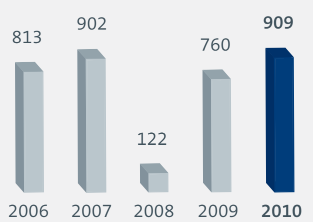
Non-Life Reinsurance

- Natural disasters and other loss events produce heavy claims expenditure
- EBIT grows by 20% thanks to healthy investment income and special effect associated with court decision
- Very good results in Germany and North America as well as in specialty lines

Gross written premium
in EUR billion



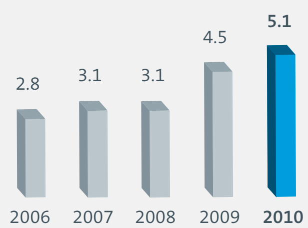
Operating profit (EBIT)
in EUR million



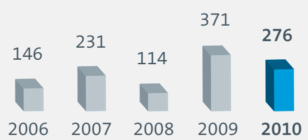
Life/Health Reinsurance

- Desired balance between conventional reinsurance and other pillars of the business is gradually being attained
- Position in key markets expanded on the back of premium growth of 12%
- EBIT satisfactory after a record result in the previous year that was shaped by special effects

Gross written premium
in EUR billion



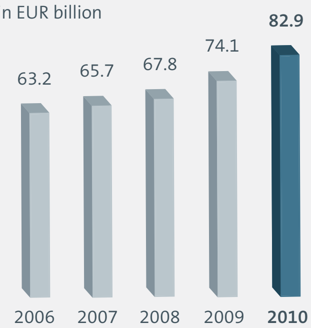
Operating profit (EBIT)
in EUR million



Corporate Operations

- Talanx Service AG and Talanx Systeme AG new to the segment, the focus of which remains on asset management and investment activities
- Cash inflow in retail funds business well above the market average
- Segment EBIT influenced by deficit of Talanx AG due to income contributions and provisions constituted for other segments

Assets under management
in EUR billion



Operating profit (EBIT)
in EUR million

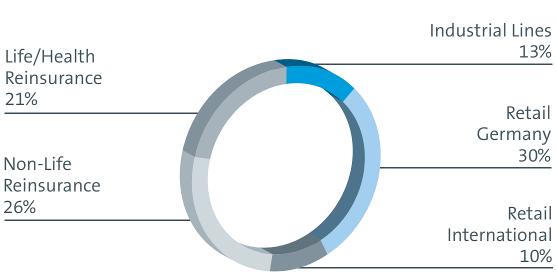
The Talanx Group is Germany's third-largest insurance group. Talanx operates as a multi-brand provider in the primary insurance and reinsurance sectors. Its brands include HDI and HDI-Gerling, providing insurance solutions for retail and industrial customers, Hannover Re, one of the industry's leading reinsurers, the bancassurance specialists Targo Versicherungen, PB Versicherungen and Neue Leben as well as the investment fund provider AmpegaGerling. The Group transacts business in the areas of property/casualty and life insurance as well as non-life and life/health reinsurance. Based in Hannover, Germany, the Group is active in 150 countries and enjoys excellent financial strength.

Group key figures		2010	2009	+/– %
IFRS				
Gross written premium	EUR m	22,869	20,923	+9.3
Net premium earned	EUR m	18,753	17,323	+8.3
Underwriting result	EUR m	–2,036	–1,031	–97.5
Combined ratio (property/casualty insurance and non-life reinsurance) [1]	%	100.9	96.7	+4.2 points
Net investment income	EUR m	3,177	2,658 [2]	+19.5
Operating profit (EBIT)	EUR m	1,032	1,497 [2]	–31.1
Net profit (after tax)	EUR m	670	893 [2]	–25.0
Group net income (after minorities)	EUR m	220	485 [2]	–54.6
Return on equity after tax [3]	%	4.6	11.8 [2]	–7.2 points
Policyholders' surplus	EUR m	10,782	9,156 [2]	+17.8
Total shareholders' equity	EUR m	4,956	4,574 [2]	+8.4
Minority interests	EUR m	3,035	2,579 [2]	+17.7
Hybrid capital	EUR m	2,791	2,003	+39.3
Investments under own management	EUR m	72,461	67,036 [2]	+8.1
Total investments	EUR m	83,422	76,385 [2]	+9.2
Return on investment [4]	%	4.2	3.7	+0.5 points
Total assets	EUR m	111,368	101,565	+9.7
Staff (full-time equivalents as at 31.12. of the financial year)		16,874	16,921	–0.3

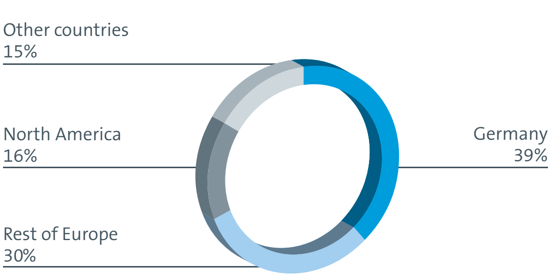
For mathematical reasons rounding differences of ± one unit may arise in the tables.

[1] Combined ratio adjusted for deposit interest received
[2] Adjusted on the basis of IAS 8
[3] Group net income for the period excluding minorities relative to average shareholders' equity excluding minority interests
[4] Investment income excluding deposit interest received relative to average investments under own management

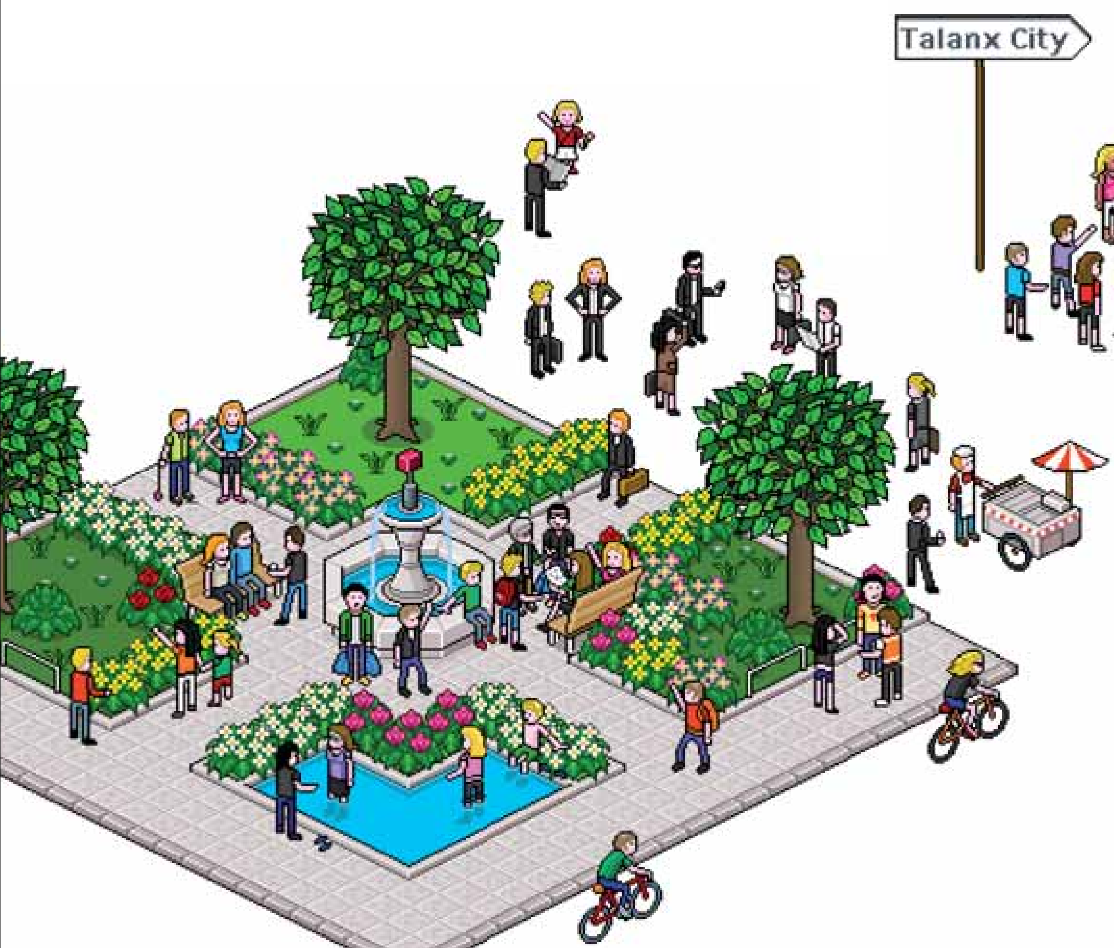
Gross premium by Group segments

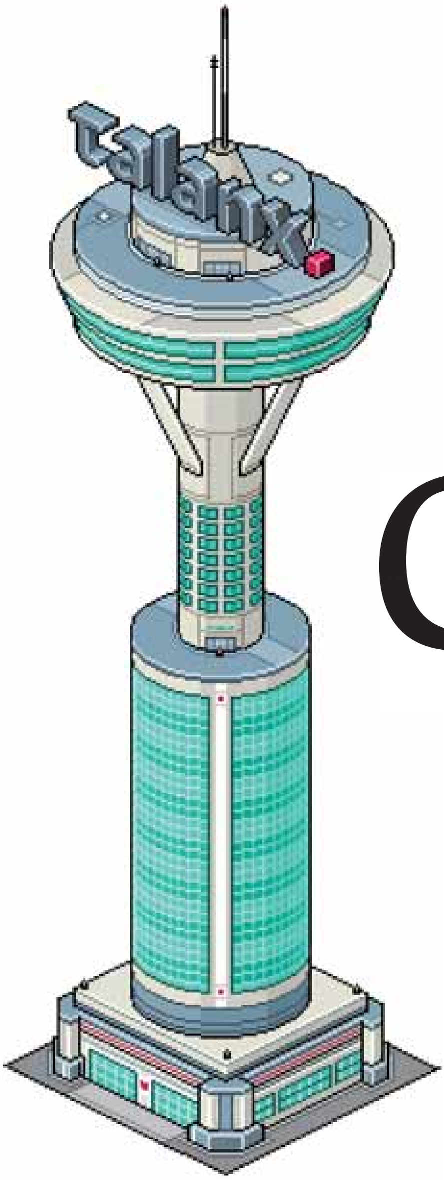


Gross premium by regions



The Talanx Group is a place where people come together on a daily basis. It is here that they work together for the company, delivering services for customers and creating value for investors. Yet the Talanx Group is also a place for living together, for co-existence, diversity and communication. Along with its basic function as a place of business, it is also at once a human habitat, social structure and cultural space – just like a city. Indeed, comparing Talanx with a city opens up some astonishing perspectives. Correlations within the Group suddenly appear in a fresh light and become clearer. The parallels with a city make it possible to capture in visual form just what Talanx is: we warmly invite you to join our city tour in this annual report!

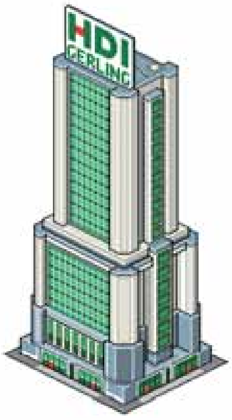


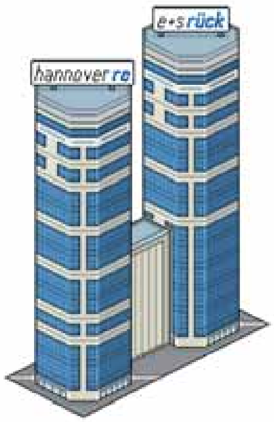


City Guide

The Talanx Group operates as a multi-brand provider in the insurance and financial services industry. Our major brands in primary insurance and reinsurance as well as for financial services are set out on the opposite page. As in the past, the Talanx brand stands for the company at the head of the Group – namely Talanx AG, which performs the functions of a management and financial holding company within the Group but is not itself active in insurance business.

A new feature, however, is that several other Group companies now also bear the Talanx name: they include the service companies Talanx Service AG and Talanx Systeme AG, the latter of which is still in the process of establishment. The divisional companies Talanx Deutschland AG and Talanx International AG bring together the operational companies operating under various brands in Germany and abroad. Similarly, the asset management and real estate management companies will also trade under the Talanx name going forward. Not only that: the Group's own professional reinsurance broker, handling the reinsurance business ceded by the Talanx Group, will in future operate under the Talanx brand: Protection Re is to become Talanx Reinsurance Broker.



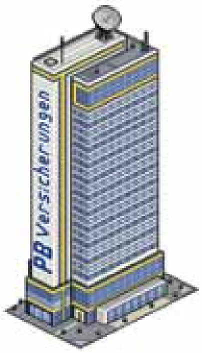


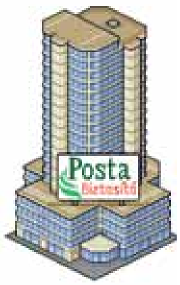
HDI-Gerling
HDI-Gerling operates worldwide in retail insurance and industrial lines. The product range extends from property, casualty and accident covers to life insurance, occupational retirement provision and individual solutions for old-age provision.

HDI
HDI Direkt Versicherung AG operates under this brand in the Retail Germany division. Some companies outside Germany transacting retail business and industrial lines also trade under the HDI name.

Hannover Re, E+S Rück
The Hannover Re Group, one of the largest and most profitable reinsurers in the world, transacts all lines of non-life and life/health reinsurance and maintains business relations with more than 5,000 insurance companies in around 150 countries. E+S Rück is a specialist reinsurer serving the German market.

AmpegaGerling
One of the largest independent asset managers in Germany, responsible for financial services within the Group. From funds business to asset management activities for private and institutional investors, AmpegaGerling covers the complete value-added chain in asset management.





Targo Versicherungen
In the bancassurance sales channel the Targo insurers operate exclusively for their partner TARGOBANK and deliver a service for their customers that is geared to the easy and comfortable handling of all banking, financial and insurance transactions.

PB Versicherungen
The PB insurers are active in the bancassurance sales channel exclusively for their partner Postbank: embedded into its market profile and geared to the needs of its customers, they offer attractive insurance products at reasonable prices.

Neue Leben
The Neue Leben insurers are positioned in the bancassurance sales channel as provision specialists for Sparkasse savings institutions. They offer their customers and sales partners innovative insurance products on attractive terms.

Posta Biztosító
The high-growth bancassurance cooperation with the Hungarian postal service. The readily comprehensible and transparent range of products offering outstanding value for money spans the life and property/casualty lines.

Letter from the Chairman of the Board of Management

Ladies and Gentlemen,

When it comes to delivering a verdict on the Talanx Group's 2010 financial year, it is important not to base it simply on first appearances, but rather to look behind the façade: 2010 was not a bad year for Talanx, even though at first glance our result may suggest otherwise. Yet this appearance is deceiving – in operational and structural terms our Group took another major step forward!

That this is not evident at first glance can be attributed to two developments. In the first place, our insurance business was overshadowed by a considerably higher burden of losses than in the previous year: 2010 saw an accumulation of natural catastrophes and man-made major claims. The Talanx Group, too, was impacted by these losses – and the fact that the effect on our combined ratio was not more pronounced was thanks purely to our very prudent reserving policy and the resulting run-off profits.

What is more, in 2010 the Board of Management took extensive steps to establish risk provision for future years – which were adversely reflected in the result in a number of non-recurring charges. The most appreciable effect derived from the merger of Aspecta Lebensversicherung AG into HDI-Gerling Lebensversicherung AG. In this connection we commuted reinsurance treaties early and calculated future income flows from the former Aspecta portfolio considerably more prudently than in the past. In foreign retail business the confidence level of the loss reserves was adjusted at some companies in line with the reserving standard of the Talanx Group and units that were unable to fulfill our performance expectations were wound up. These two measures also led to one-off expenditures. The final item on this list is the expense associated with the restructuring of central functions and the accompanying IT costs. If these non-recurring charges – together with one-off tax income – are eliminated, the 2010 result posted by Talanx was on the level of the record figure generated in the previous year.

This second perspective reveals the economic reality of the Group: the true operational development of the Talanx Group shows that the 2010 result was not the consequence of structural deficiencies, but rather a reflection of targeted measures designed to position Talanx even better for the future and to further improve its capital market fitness. This is also evident from the premium income, investments and financing costs: the pleasing increase in premium income stems from areas in which we are seeking to grow strategically – international retail business and life/health reinsurance. Investment income was also boosted appreciably thanks to both larger asset holdings and improved extraordinary income. We were able to reduce our financing costs by buying back bonds that we had issued on favorable terms.

Talanx continues to rank among the financially strong insurers! The capital strength of the Group is demonstrated by the increase in Group shareholders' equity – which rose 12% to EUR 8 billion – and the further improvement in our solvency ratio, which was almost twice as high as the legally required level.

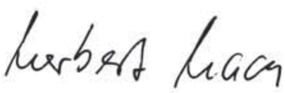
In structural terms, the Group again boosted its efficiency and performance capability in 2010. After just one and a half years of preparation and implementation, the primary insurance sector has been operating with joint central functions since January 2011. Not only does this bring efficiency enhancements, it also delivers appreciable cost savings.

We are continuing to follow this path systematically and have now begun to reorganize the Retail Germany division. The bywords here are benefits to the customer, efficiency and performance culture. In this division, too, our goal is to chart a course for long-term, profitable growth and to make the undertaking equally attractive to staff, customers and shareholders alike. With this in mind, we shall succeed in laying the foundation for successful development, since this division offers considerable potential for the future.

The first fruits of the restructuring will be evident in 2011, but overall they will not yet make themselves felt in the result. Heavy major losses will again make their mark on our performance in 2011. This is especially true of the devastating earthquake and tsunami in Japan, the human consequences of which are almost impossible to grasp. It is for this reason that in 2011 we again do not expect to match up to the excellent result of 2009. Yet we are by no means dissatisfied with the outlook. There are signs that conditions for insurers are improving across a broad front; both on the reinsurance side and in the motor and industrial insurance lines the markets would appear to be picking up. Similarly, early successes of our structural measures – such as the gratifying increase in new life insurance business – encourage us to look to 2011 with confidence.

I would like to take this opportunity to express my appreciation to all the members of staff who again worked with considerable dedication in the financial year just-ended. Not only that, my thanks are also due to our customers and cooperation partners for the trust that they again placed in us in 2010. Along with our commitment to continuing the successful development of Talanx, living up to this trust remains our paramount mission for 2011.

Yours sincerely,



Herbert K. Haas

Board of Management

Dr. Immo Querner

Herbert K. Haas

Dr. Thomas Noth


Dr. Christian Hinsch
Dr. Heinz-Peter Roß
Torsten Leue
Ulrich Wallin

Board of Management

		Responsible on the Talanx Board of Management for
Herbert K. Haas *Chairman*	Chairman of the Board of Management HDI Haftpflichtverband der Deutschen Industrie V. a. G., Hannover	■ *Corporate Development* ■ *Investor Relations* ■ *Public Relations* ■ *Legal Affairs* ■ *Internal Auditing* ■ *Executive Staff Functions/Compliance*
Dr. Christian Hinsch *Deputy Chairman*	Deputy Chairman of the Board of Management HDI Haftpflichtverband der Deutschen Industrie V. a. G., Chairman of the Management Board HDI-Gerling Industrie Versicherung AG, Hannover	■ *Division: Industrial Lines* ■ *Facility Management* ■ *Human Resources* ■ *Procurement* ■ *Reinsurance Purchasing*
Norbert Kox (until 31.05.2010)	Chairman of the Management Board PROACTIV Holding AG, Hilden	■ *Former Domestic and Foreign Bancassurance Division*
Torsten Leue (from 01.09.2010)	Chairman of the Management Board Talanx International AG, Hannover	■ *Division: Retail International*
Dr. Thomas Noth	Chairman of the Management Board Talanx Systeme AG, Hannover	■ *Information Services*
Dr. Immo Querner	Member of the Board of Management HDI Haftpflichtverband der Deutschen Industrie V. a. G., Hannover	■ *Finance/Participating Interests/ Real Estate* ■ *Investments* ■ *Controlling* ■ *Collections* ■ *Risk Management* ■ *Accounting/Taxes*
Dr. Heinz-Peter Roß	Chairman of the Management Board Talanx Deutschland AG, Hannover	■ *Division: Retail Germany* ■ *Business Organization*
Ulrich Wallin	Chairman of the Executive Board Hannover Rückversicherung AG, Hannover	■ *Division: Reinsurance*

Supervisory Board

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

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

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

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

Jutta Hammer
(from 01.02.2011)
Employee, HDI-Gerling Leben Betriebsservice GmbH,
Bergisch Gladbach
■

Hans-Ulrich Hanke
(until 31.01.2011)
Employee, HDI-Gerling Leben Betriebsservice GmbH,
Brühl
■

Gerald Herrmann
Trade union secretary,
Norderstedt
■

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

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

Otto Müller
Employee,
Hannover Rückversicherung AG,
Hannover
■

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

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

Katja Sachtleben-Reimann
Employee, Talanx Service AG,
Hannover
■

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

Bodo Uebber
Member of the Board of Management of Daimler AG,
Stuttgart
■

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

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

Supervisory Board Committees

Composition as at 31.12.2010

Finance and Audit Committee

Wolf-Dieter Baumgartl
Chairman

Dr. Thomas Lindner

Ralf Rieger

Prof. Dr. Eckhard Rohkamm

Dr. Erhard Schipporeit

Personnel Committee

Wolf-Dieter Baumgartl
Chairman

Prof. Dr. Eckhard Rohkamm

Dr. Michael Rogowski

Prof. Dr. Ulrike Wendeling-Schröder

Mediation Committee

Wolf-Dieter Baumgartl
Chairman

Ralf Rieger

Prof. Dr. Eckhard Rohkamm

Katja Sachtleben-Reimann

Nomination Committee

Wolf-Dieter Baumgartl
Chairman

Dr. Thomas Lindner

Dr. Michael Rogowski

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

Tasks of the committees

Finance and Audit Committee

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

Personnel Committee

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

Mediation 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

Report of the Supervisory Board

In the 2010 financial year the Supervisory Board performed its functions and duties at all times in accordance with statutory requirements, the Articles of Association and the Rules of Procedure. We considered at length the economic situation, risk position and strategic development of Talanx AG and its major subsidiaries. We advised the Board of Management on the direction of the company, monitored the management of business and were directly involved in decisions of fundamental importance.

In the year under review we came together for four ordinary meetings of the Supervisory Board, which were held on 26 March, 28 May, 31 August and 13 November 2010. As in the previous year, the Federal Financial Supervisory Authority (BaFin) exercised its legal powers and sent two representatives to attend one of these meetings. The Finance and Audit Committee of the Supervisory Board met four times and the Personnel Committee met on three occasions. The Mediation Committee formed in accordance with the requirements of the Co-Determination Act again had no reason to meet in 2010. The full Supervisory Board was briefed on the work of the various committees. In addition, we received quarterly written reports from the Board of Management on the course of business and the position of the company and the Group. At no point in the year under review did we consider it necessary to conduct audit measures pursuant to § 111 Para. 2 Sentence 1 German Stock Corporation Act (AktG). Insofar as transactions requiring approval arose between meetings, the Board of Management submitted these to us for a written resolution. The Chairman of the Supervisory Board also remained in constant contact with the Chairman of the Board of Management and was regularly advised of all important business transactions within the company and the Talanx Group. All in all, within the scope of our statutory responsibilities and those prescribed by the Articles of Association we assured ourselves of the lawfulness, expediency, regularity and efficiency of the actions of the Board of Management.

The Board of Management provided us with regular, timely and comprehensive information about the business and financial situation – including the risk situation and risk management –, about major capital expenditure projects and fundamental issues of corporate policy as well as about transactions that – while not subject to the approval of the Supervisory Board – nevertheless need to be reported in accordance with the requirements of the Rules of Procedure. At our meetings we considered at length the reports provided by the Board of Management and put forward suggestions and proposed improvements.

Key areas of discussion for the full Supervisory Board

The business development of the company and the individual Group segments, the reorientation of the Group and optimization of its structures as well as the planning for 2011 formed the primary focus of the reporting and were discussed in detail at our meetings. The reasons for divergences between the business experience and the relevant plans and targets in the financial year just-ended were explained to us, and we were able to satisfy ourselves accordingly with the explanations provided.

At the end of 2009, as part of the Group's reorientation and the optimization of its structures, we approved a modified allocation of responsibilities for the Board of Management – which came into effect progressively in the course of 2010 – and adopted the necessary resolutions for implementation of the target structure.

A further focus of our deliberations was risk management within the Group. The risk reporting by the Board of Management was a matter for discussion at each meeting of the Supervisory Board. In addition, we considered a number of acquisition, disposal and cooperation projects, which the Board of Management presented to us for discussion and adoption of a resolution. Specifically, reference may be made here to the sale of the US-based Clarendon National Insurance Company and its subsidiaries, the establishment of a cooperation arrangement with Meiji Yasuda Life Insurance Company, the purchase of an insurance company in the Netherlands and the acquisition of a minority stake in an Austrian investment company. Not only that, the strategic orientation of the new division of Retail Germany as well as the globalization strategy pursued in Industrial Lines were considered by the Supervisory Board. In this connection various acquisition projects were explored in 2010, inter alia in Vietnam, Canada and Argentina; we were kept informed of the status of these deliberations and discussions.

With an eye to § 87 Para. 1 Stock Corporation Act (AktG) as amended by the Act on the Adequacy of Management Board Remuneration (VorstAG), the full Supervisory Board considered the specification of the bonuses for the members of the Board of Management and reviewed the fixed remuneration of individual members of the Board of Management; in this context it drew inter alia on horizontal and vertical remuneration aspects and concepts as a means of comparison and orientation. Considerable attention was also devoted to the reorganization of the system of remuneration for the Board of Management and the adjustment of the contracts of service with the members of the Board of Management. These revisions were approved at the meeting of the Supervisory Board held on 13 November 2010. In addition, at this meeting the Supervisory Board was informed about the structure of the remuneration systems within the Group as required by § 3 Para. 5 of the Regulation on the Supervisory Law Requirements for Remuneration Schemes in the Insurance Sector (Versicherungs-Vergütungsverordnung).

The transactions and measures subject to approval in accordance with legal requirements, the company's Articles of Association and its Rules of Procedure were agreed with the Board of Management following examination and discussion. The Supervisory Board gave the necessary consent to the control and profit transfer agreement of Talanx AG with HDI-Gerling Gesellschaft für IT-Dienstleistungen mbH – now Talanx Systeme AG – on the basis of the written and verbal explanations provided by the Board of Management.

Work of the Committees

Along with preparations for discussion and adoption of resolutions in the full Supervisory Board, the Finance and Audit Committee of the Supervisory Board considered at length the company's quarterly financial statements compiled on a voluntary basis. Furthermore, the Finance and Audit Committee discussed the findings of an actuarial audit of the net loss reserves for non-life insurance business within the Talanx Group as well as the profitability trend at the individual Group companies as at 31 December 2009 and considered the internal control system, the risk reports, the work of the internal auditing department and the annual report submitted by the Chief Compliance Officer.

The Personnel Committee, together with external advisers, prepared the review of the remuneration system for the Board of Management – including the major contractual elements – at a number of meetings. It presented to the full Supervisory Board a proposal for the reorganization of the remuneration system with a view to satisfying, in the first place, the supervisory standards and, subsequently, in the course of 2010 – following the entry into force of the legal bases and specifications handed down by lawmakers – the new legal requirements as well. In a written procedure the Committee – following approval of the new remuneration system by the full Supervisory Board – defined the targets for the individual members of the Board of Management in the 2011 financial year. Furthermore, recommendations were made to the full Supervisory Board with respect to upcoming reappointments and in the context of the setting of bonuses and the review of the fixed remuneration for members of the Board of Management.

Corporate Governance

The Supervisory Board again devoted special attention to the issue of Corporate Governance. In accordance with the provisions of the German Corporate Governance Code, the existing Supervisory Board remuneration consisting exclusively of fixed components was extended to include a variable component and the amount of remuneration was reviewed with an eye to its appropriateness and brought more closely into line with the level of relevant competitors.

The deductibles in the D&O cover were revised and adjusted in line with the changed legal environment.

Audit of the annual and consolidated financial statements

The annual financial statements of Talanx AG submitted by the Board of Management, the financial statements of the Talanx Group – drawn up in accordance with International Financial Reporting Standards (IFRS) – as well as the corresponding management reports and the bookkeeping system were audited by KPMG AG, Wirtschaftsprüfungsgesellschaft, Hannover. The General Meeting appointed the auditors; the Finance and Audit Committee awarded the concrete audit mandate. In addition to the usual audit tasks, the Committee placed special emphasis on the implementation of the Act on the Modernization of Accounting Law (BilMoG) as well as – in the case of the consolidated financial statements – on the measurement of the deferred acquisition costs, the determination of the fair values of investments with a special eye to the fair value hierarchy and on taxes. The audit concentrations of the Financial Reporting Enforcement Panel (FREP) were also the subject of the audit procedures carried out by the auditors.

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

The financial statements and the audit reports of KPMG were distributed to all the members of the Supervisory Board in due time. They were examined in detail at a meeting of the Finance and Audit Committee on 16 May 2011 and at a meeting of the Supervisory Board on 17 May 2011. The auditor took part in the deliberations of the Finance and Audit Committee and of the full Supervisory Board regarding the annual and consolidated financial statements, reported on the conduct of the audits and was available to provide the Supervisory Board with additional information. In accordance with the final outcome of our own examination of the annual financial statements, the consolidated financial statements, the corresponding management reports and the audit reports, we concurred with the opinion of the auditors and approved the annual and consolidated financial statements drawn up by the Board of Management.

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

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

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

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

Changes on the Board of Management and Supervisory Board

With effect from 1 September 2010 Mr. Torsten Leue was appointed as a new member of the company's Board of Management; from this date onwards he assumed responsibility for the newly formed Retail International division. In addition, the Supervisory Board decided to renew the Board mandates of Dr. Hinsch, Dr. Querner and Dr. Noth – which were due to expire in 2011 – as well as to renew the mandate of Mr. Haas, which was set to expire at the beginning of 2012.

With effect from the end of 31 January 2011 Mr. Hans-Ulrich Hanke stepped down from the company's Supervisory Board as a representative of the employees. The Supervisory Board expressed its appreciation and recognition of his constructive and dedicated contribution. With effect from 1 February 2011 Ms. Jutta Hammer succeeded him as a member of the Supervisory Board for the remainder of the current term of office.

Word of thanks to the Board of Management and staff

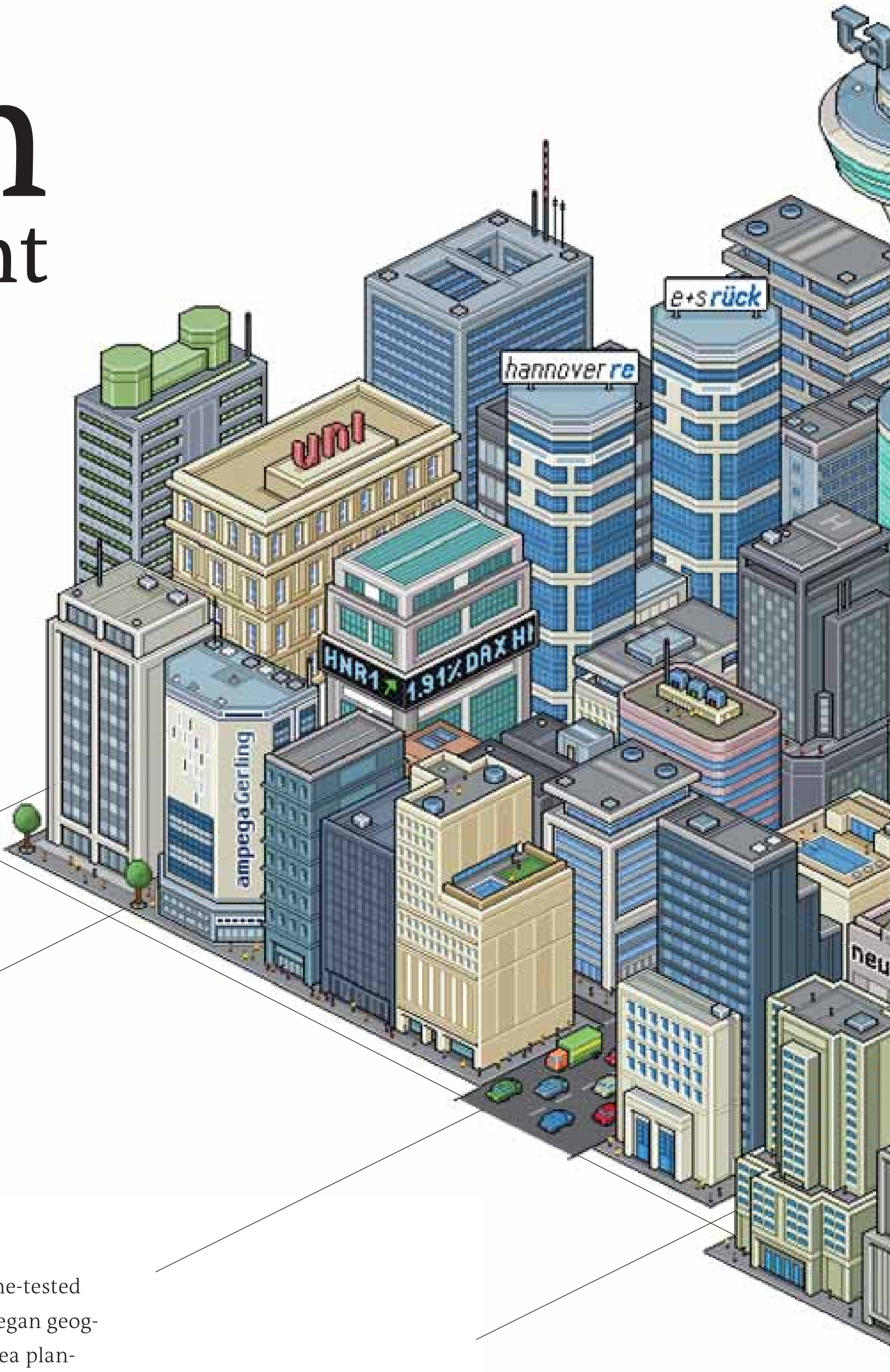
The Board of Management and staff worked and acted with dedication and prudence in an environment that continued to be challenging. The Supervisory Board would like to express its special appreciation of their efforts.

Hannover, 17 May 2011

For the Supervisory Board

Wolf-Dieter Baumgartl
(Chairman)

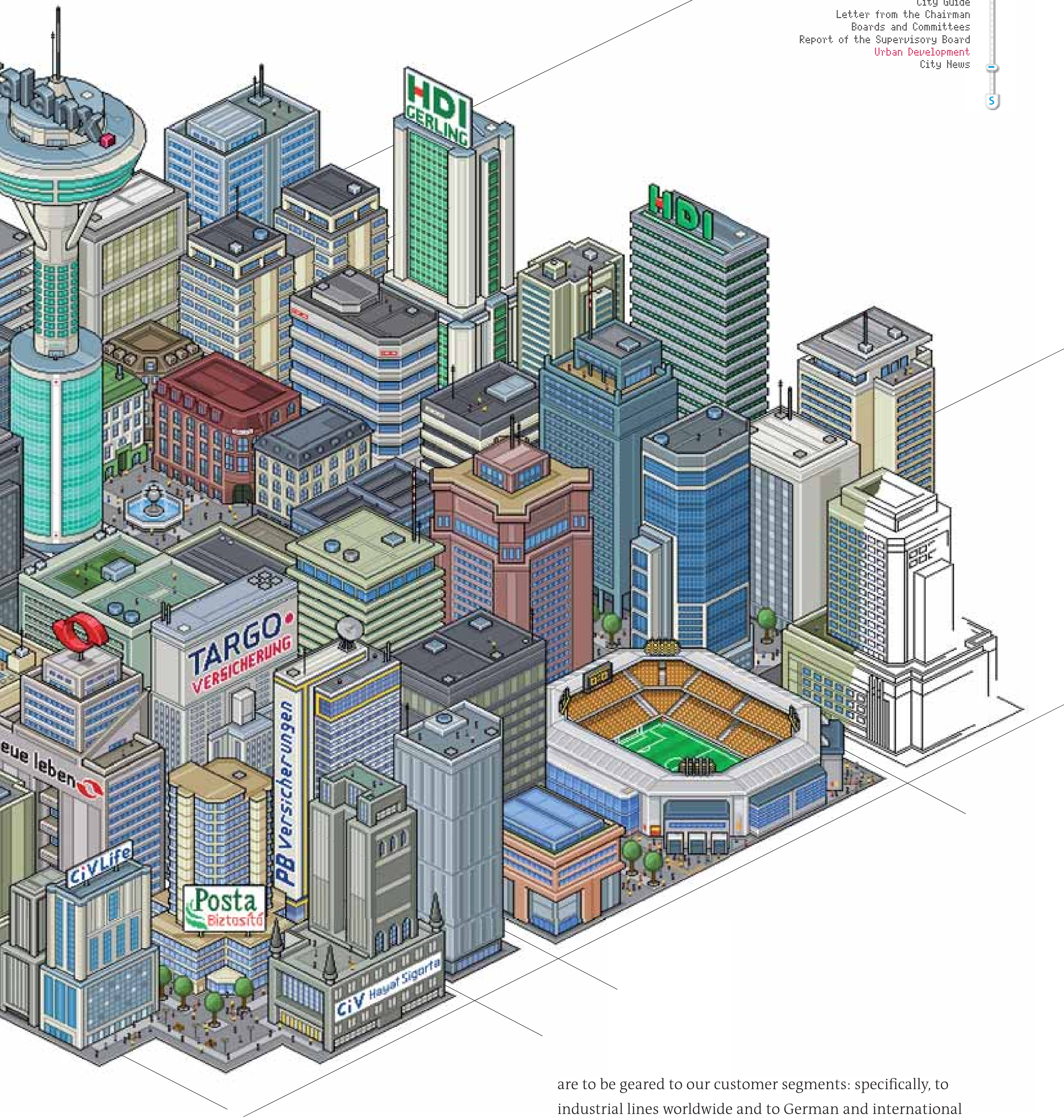
Urban
development



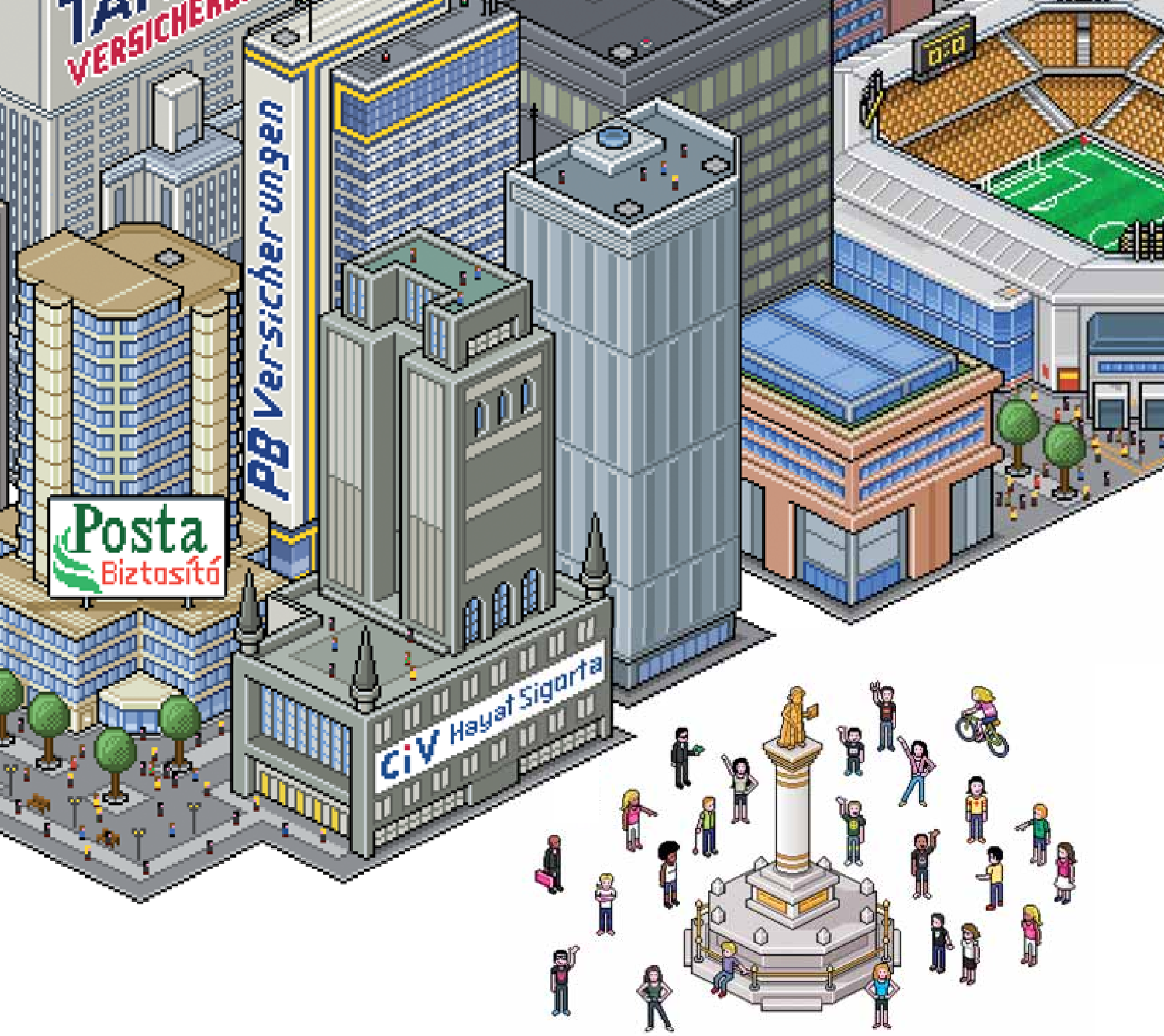
Urban planning needs a strategy

Urban planning and urban development are time-tested cultural techniques. Long before our calendar began geographers, architects, engineers, landscape and area planners have dedicated themselves to the art of how a place of coexistence should look and what role it should play in a larger geographical space. They have drawn up plans as to how the place should be designed and how it must be further developed in order to offer a secure and pleasant quality of life while at the same time serving as a center of attraction for people.

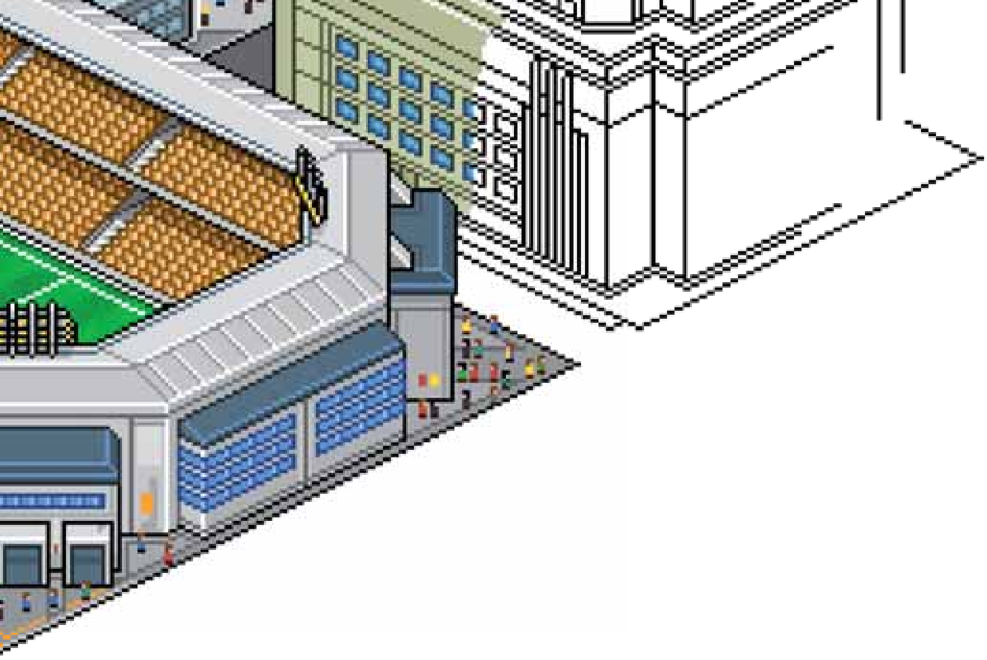
Talanx stands on a solid financial foundation, exerts considerable appeal and has excellent financial strength! With a view to making sure that this remains the case, plans for the future of Talanx City are already in place. Urban development means managing the entire development of the city, i.e. also with an eye to social, economic, cultural and ecological considerations. City planners work on an interdisciplinary and integrated basis with a forward-looking gaze. This also applies to the Group strategy, which shows the way forward for the entire Group and defines clear goals. Building upon this foundation, each division – each district – has a development plan tailored exactly to its needs – one which enhances the particular locality and helps the city as a whole to perform more successfully in the competitive environment.



This planning is intended to ensure that Talanx City preserves its appeal and continues to handle its tasks efficiently and successfully. This is precisely what constitutes the backdrop for our latest urban planning activities. Following the rapid and successful incorporation of the Gerling companies, the most pressing task facing the city fathers was to optimize the structure of the Talanx Group. At the core of this planning is a reconfiguration of the city's districts, the various parts that make up its primary insurance business. They are to be geared to our customer segments: specifically, to industrial lines worldwide and to German and international retail business, in the latter cases spanning the various lines of insurance. The city fathers have identified here a great opportunity to strengthen the characteristic features of each new district as well as the unchanged district of reinsurance and to further enhance their appeal to visitors and residents alike – i.e. to customers, investors and employees. For the city as a whole, this means that its power of attraction will continue to grow and it will climb higher in the rankings relative to its rivals.



Hot spot



Diversity promotes attraction

The city as a tourist attraction

What gives a city its power to draw people? Its name must fill us with longing, since it is not for nothing that the mere mention of Vienna, Paris and Rome conjures up certain connotations in our minds. It must represent a culture. Every district must have its own sights, and it must know how to profile them correctly to specific target groups. What the zoo means to children, the opera means to lovers of classical music.

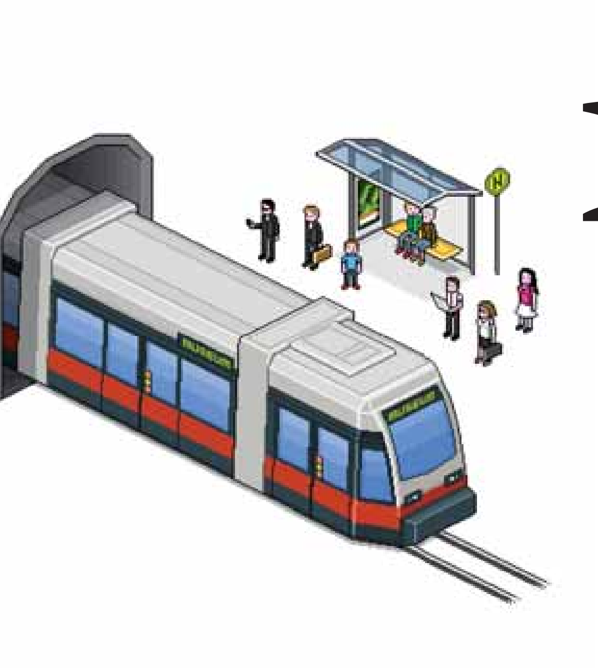
Talanx City has tailored its urban development to precisely fit its target groups, investors and defined customer segments:

The Reinsurance district is home to some 2,100 people. It is planned that Hannover Re will continue to expand the attractions that investors and clients so value: it will strive to remain not only one of the most effective and largest non-life reinsurers in the world, but also one of the most profitable. In life and health reinsurance it plans to become one of the three major, globally operating players of above-average profitability within the next five years.

In the Industrial Lines district, roughly 2,000 employees in 29 markets all around the globe are already working to keep their customers satisfied – something which they do in more than 130 countries. The plan for further enhancing the appeal of this district envisages the creation of a global player present and able to act throughout the world on the basis of its own resources.

Some 6,600 people live in the Retail Germany district. This part of town is facing quite an upheaval: the market share is to be profitably enlarged, the expense ratio made more competitive and the value to the customer optimized. This is to be accomplished by rebuilding structures to suit today's requirements. Only in this way can appropriate solutions geared to specific target groups be developed in this district – solutions that will make it a real crowd puller.

The Retail International district also has an ambitious urban plan: home to some 5,200 residents, this area is expected to grow in the strategic target markets of Central and Eastern Europe as well as Latin America, to optimize its activities in existing markets and to tap into new markets. In this part of town, despite all the differences between the target markets, it is possible to transfer experiences, approaches and products to other markets. Through its familiarity with a broad range of international retail markets, this district will evolve into a know-how carrier and hence find it easier to expand its business or enter lucrative new markets.



Urban network

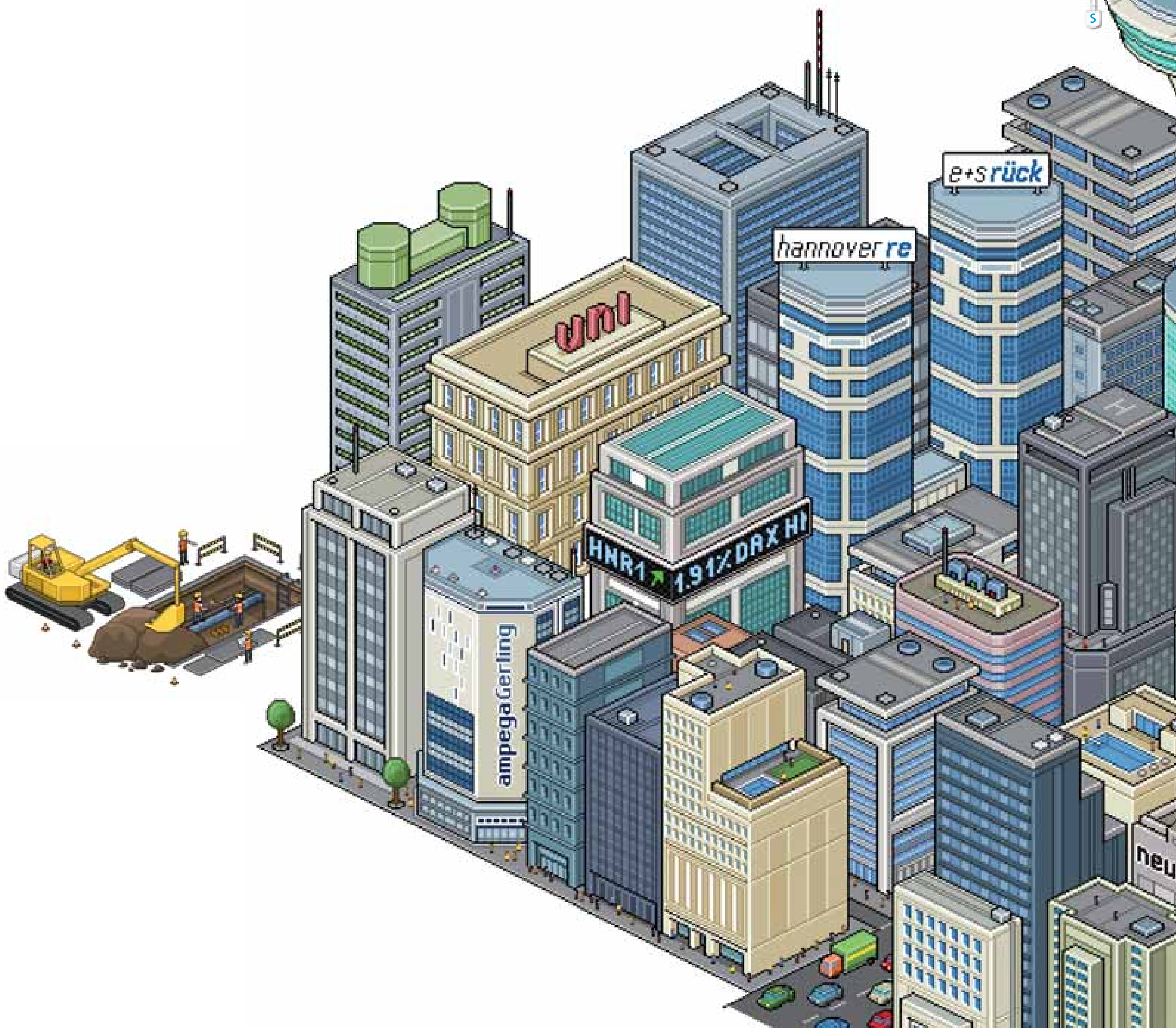
Integrated infrastructure

At best, a city without functioning infrastructure quickly loses its appeal. At worst, it collapses. An inadequate infrastructure obstructs the city's growth and smooth co-existence. A poorly developed health system with no efficient hospitals or lack of specialist physicians, traffic jams, a public transport system that fails to work, inadequate supply and disposal networks for water, sewage, electricity, gas, telecommunications and garbage not only have a diminishing effect on the quality of life. In the long run, such symptoms cause stress and illness. What is more, they have a detrimental impact on business.

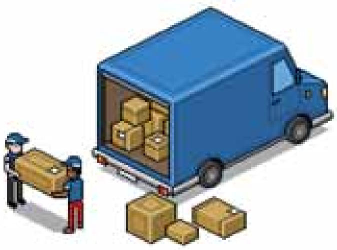
This is why it is vital for an urban center such as Talanx City to ensure through efficient central functions that its infrastructure is state-of-the-art or – even better – a little ahead of its time. Talanx is therefore overhauling the infrastructure for its central functions: when it comes to the Group's most valuable internal commodity, namely information, the transportation system – the information technology – simply has to work. That is the job of the IT departments, which are to be concentrated in the course of the year at Talanx Systeme AG. Working in cooperation with the various districts, it will be ensured through development and space utilization plans that the districts are able to fulfill their tasks and objectives and boost their performance capability.

Equally indispensable for the proper functioning of the city are efficient processes in other key infrastructure tasks – a role covered by Talanx Service AG. As the central pivot point in primary insurance business, it will enhance the efficiency of the original functions in the districts, harmonize, render transparent and standardize services for users and provide the districts with consistent financial data. The districts will, however, retain certain service functions that are particularly closely related to their operational business. For it remains the case going forward, as in the past, that full profit and cost responsibility rests with the districts.

Talanx AG is extending its function from that of a pure financial holding company to a financial and management holding company. This means that the city will be directed more closely from Talanx AG. The latter will continue to exercise its previous strategic functions, but it will also exert a greater influence on the positioning and performance of the divisions in order to safeguard adherence to the overall strategy.



Goods and data must be moved around if the city is to function smoothly



Quality of life

The city as a human habitat

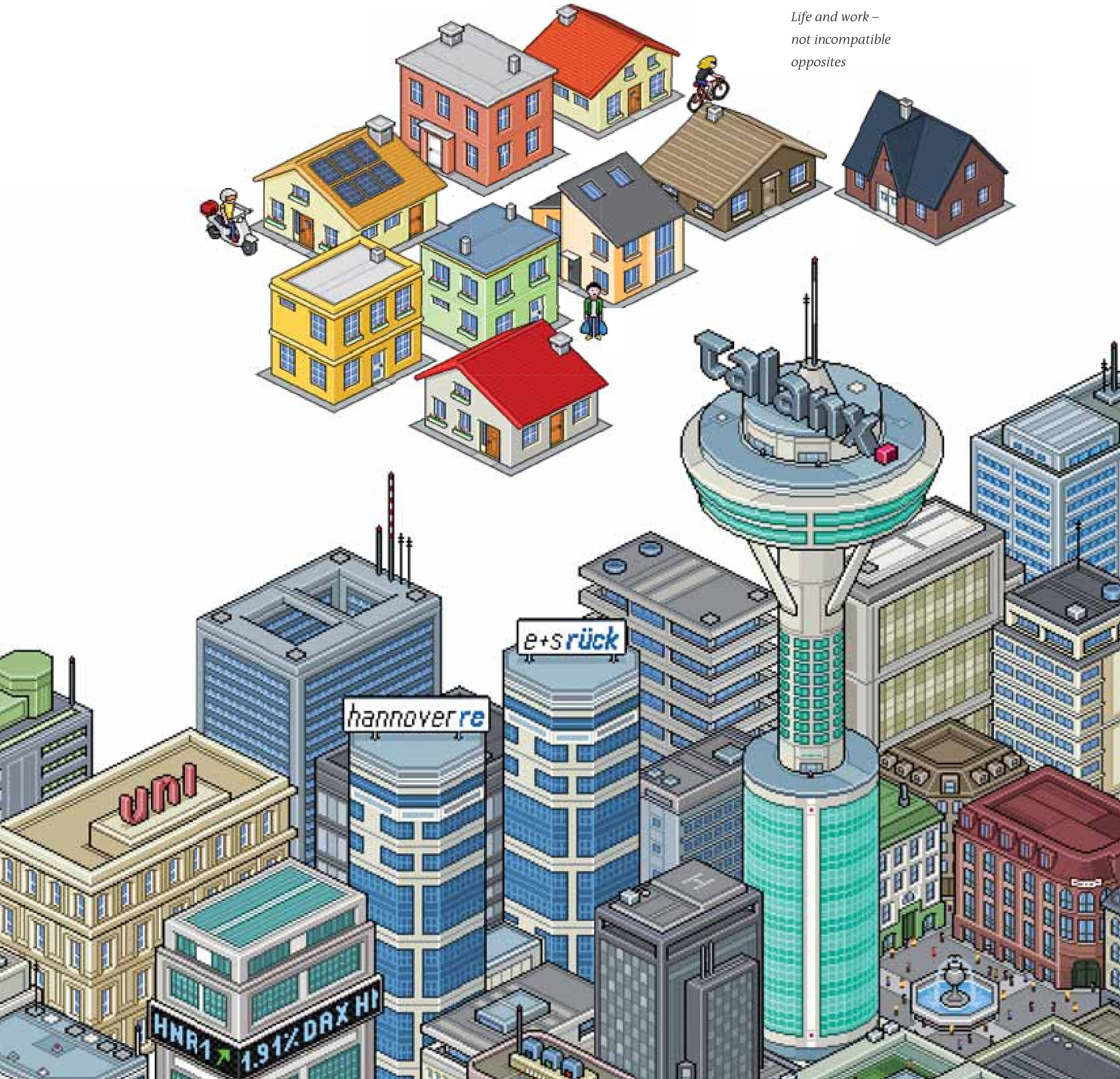
A city and its inhabitants have a symbiotic relationship – the city shapes its residents, the residents shape their city and in this way enhance its appeal to people who would like to live there. And those who enjoy living in their city also take pride in it.

With a population of 17,000, Talanx City ranks among Europe's largest "insurance metropolises". The inhabitants are a thoroughly international mix – people from 40 countries and five continents live in Talanx City. For the German residents – and only for this part of the population detailed surveys are available – the proportion of female employees stood at 47%, the average age was 43.5. Both these figures are slightly above the average. The period of residence, i.e. the length of service with the company, is also above average at 14.2 years and testifies to just how much people enjoy living in Talanx City.

What must a city offer its residents? Pleasant living conditions, a healthy environment, good infrastructure, cultural life. To put it another way, good working conditions, appropriate remuneration, adequate opportunities for training and development, a healthy working atmosphere. Conditions such as these attract highly skilled, well educated, creative and motivated people.

In the future, Talanx City wants to further boost its appeal as it competes with other "cities" for this clientele. The districts and head office have therefore developed a series of measures designed to publicize largely undiscovered career openings and interesting entry opportunities and hence attract immigrants. In addition to enhancing its attraction for new settlers, the city is also working constantly on improvements for its current residents. Even now, a broad variety of part-time working models are intended to make work and family life more compatible – inter alia by increasingly ensuring that childcare facilities are available in the immediate vicinity of the workplace. Yet the city also supports its residents in their leisure time: Talanx City sponsors numerous team sports events by covering registration fees and supplying jerseys; the inhabitants of all parts of the city are only too happy to take up such offers of assistance.

Life and work – not incompatible opposites



Urban culture

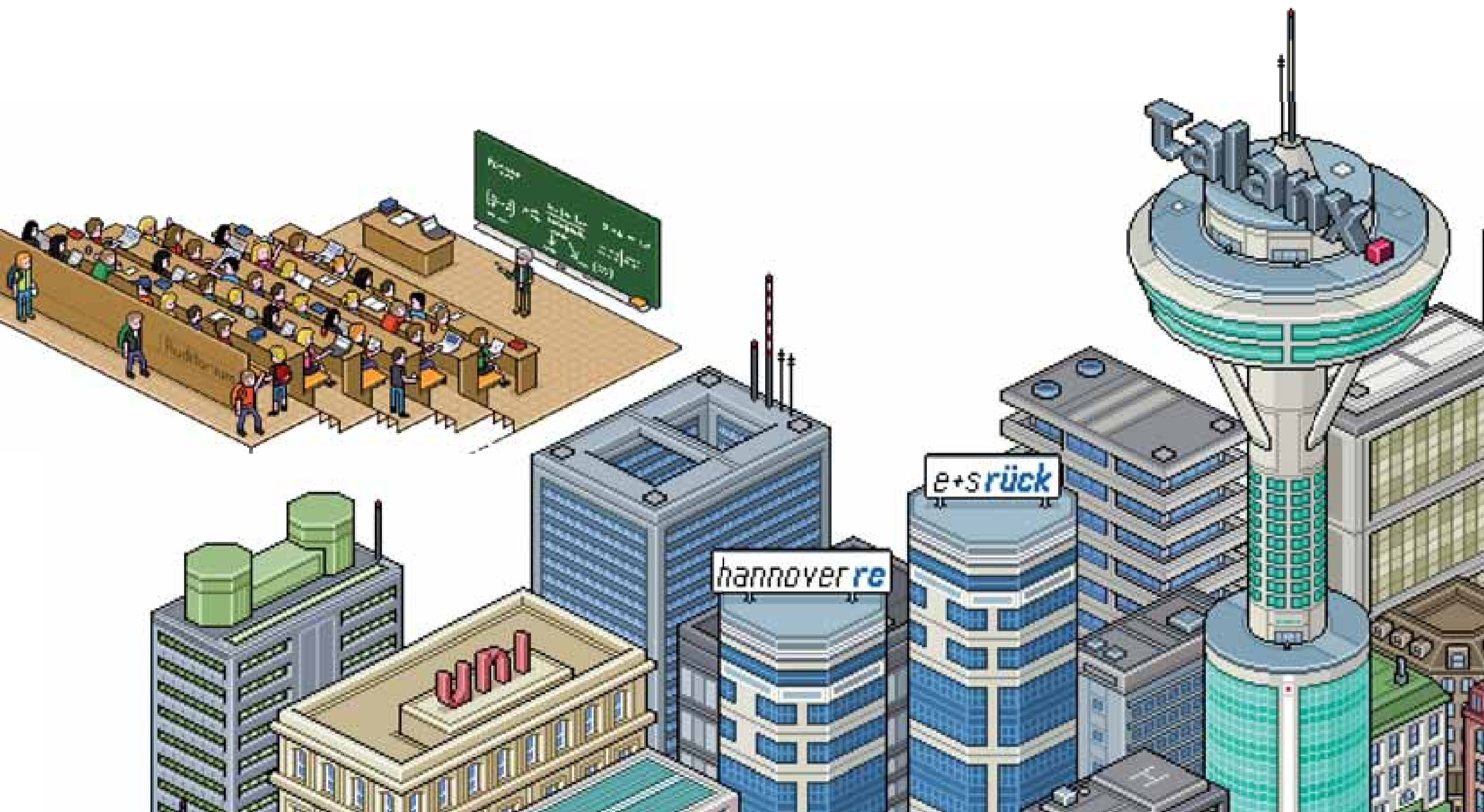
Life in society

The highly diverse cultural offerings of a large city can be crucial to a resident's decision to live there rather than moving out into the countryside or a small town. The opportunities for education and training – from primary school to university level – can also be richer.

In Talanx City training and personnel development activities are included among the measures designed to make urban life more promising. Members of staff receive targeted support for their demanding duties with the aim of consolidating and extending their above-average skills set. In this way, the idea is to optimally prepare the city for fresh competitive challenges. In addition to the fostering of specialist qualifications, wide-ranging training activities in methodological and social skills are regularly offered right across all the districts.

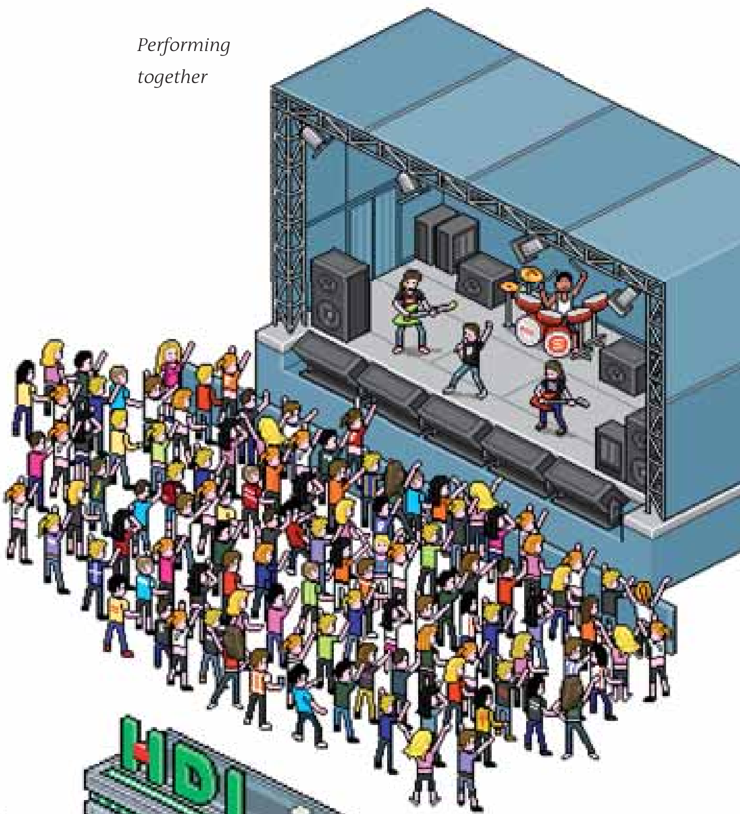
On the Group level the most notable innovation is the establishment of the Talanx Corporate Academy. Working in cooperation with leading European business schools, this offers a particularly high-caliber training program for senior managers at all Group companies worldwide. Supplementing the offerings of the divisions and national companies, the Corporate Academy serves in particular to convey the strategy and management methods of Talanx. Professors from highly reputed business schools and members of the Talanx Board of Management complement one another as speakers and discussants.

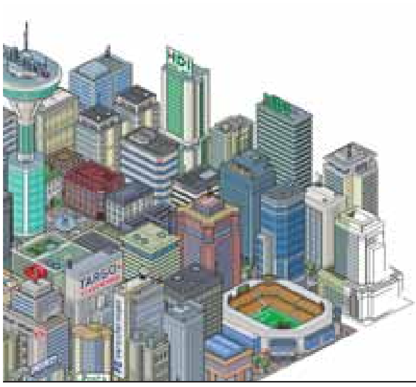
Considerable importance also attaches to initial training in Talanx City: for young people, solid training is essential for getting off to a successful start in working life. For the city, it means an enduring supply of skilled, qualified and motivated residents.



Education and training is a matter of such fundamental importance to Talanx that it has placed it front and center of its responsibility to society. As a key element in its range of corporate social responsibility activities, the Group has set up the Talanx Foundation. This makes funds available for the awarding of scholarships to students. And so we already find ourselves right in the midst of the diverse array of measures relating to corporate social responsibility, a concern that is perceived within the city in three ways: operating according to sustainable business practices, developing products that promote environmental protection, efficient energy consumption or social responsibility, and observing such criteria in our own investments. Each of these considerations is reflected in numerous examples – whether it be power-saving measures in our own buildings, solutions that respond to environmental concerns such as photovoltaic systems or fuel-efficient vehicles, or investment products that take account of sustainability or ecological aspects.

Performing together





City News

Newspaper for the Talanx Group and its Subsidiaries

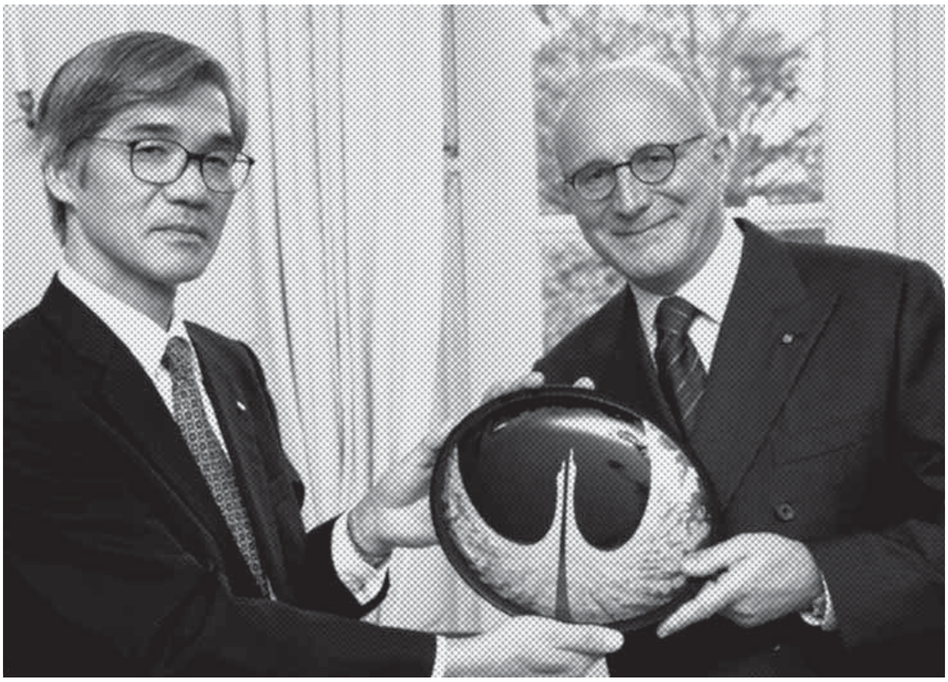
PUBLISHED BY THE TALANX GROUP 1 € TAL WWW.TALANX.COM

AmpegaGerling takes stake in asset manager C-QUADRAT

Cologne, 13 October. AmpegaGerling Asset Management GmbH is acquiring a stake in C-QUADRAT Investment AG. AmpegaGerling will hold an interest of 25.1% in C-QUADRAT on a long-term basis. An independent quantitative asset manager, C-QUADRAT is promisingly positioned and has won multiple awards for its outstanding management of investment funds.

Talanx Foundation awards scholarships

Essen, 19 March. The Talanx Foundation, which was established in 2009, has awarded its first ten scholarships. The recipients are top-flight students from various insurance-related disciplines at selected universities. The scholarship funding lasts for 12 months and may be extended until the end of the regular period of study. In launching this program Talanx AG is actively taking responsibility for the emphasis that it has chosen to place on "Education and training".



Hiroakai Tonooka (Senior Managing Executive Officer Meiji Yasuda) and Herbert K. Haas (CEO Talanx)

Talanx: strategic cooperation with Japanese life insurer

Hannover/Tokyo, 4 November. The fourth-largest Japanese life insurer Meiji Yasuda and Talanx AG are sealing a long-term strategic cooperation with the goal of leveraging joint business opportunities in foreign markets. Meiji Yasuda is entering into a capital participation of EUR 300 million in Talanx AG. To this end, it is buying a convertible bond that converts to common shares of Talanx if the company goes public. Meiji Yasuda Life will then become a major shareholder of Talanx AG. The special feature of the bond is its recognition as regulatory Tier 1 capital (equity substitute) under Solvency II. With this bond issue the Talanx Group has succeeded in pulling off a true capital market innovation.

Assekurata gives very good rating to Targo Lebensversicherung

Hilden/Dusseldorf, 7 October. Assekurata has given Targo Lebensversicherung a rating of A+ for the seventh consecutive time. The company's security was singled out for special praise. This is reflected in above-average own funds and unrestricted surplus funds, which at 21.99% are more than double the market figure of 8.89%. The company's risk management is also assessed as excellent.

City News 2010

Insurance. Finance.

Hannover Re supports modeling of global earthquake risks

Hannover/Pavia, 23 September. Hannover Re has entered into a partnership agreement with the "Global Earthquake Model" (GEM) Foundation. It will contribute EUR 1 million and technical expertise in support of the development of the first global earthquake risk model on an open-source basis. GEM, which was launched by the OECD in 2009, is working on a global model that will provide a diverse user community with consistent information on seismic hazards, earthquake risks and the socioeconomic effects of earthquakes. Hannover Re can incorporate this data into its risk management and its assessment of earthquake risks.

Standard & Poor's confirms very good rating for HDI-Gerling

Cologne, 22 November. The highly reputed rating agency Standard & Poor's has confirmed HDI-Gerling Lebensversicherung AG's long-standing very good rating. With a grade of "A+" with "stable" outlook the company was able to reassert both its financial strength and credit status.

Award-winning children's policy

Cologne, 12 May. The children's provision product KÄNGURU.invest offered by HDI-Gerling Lebensversicherung has been rated "very good" by the Institut für Vorsorge und Finanzplanung. The criteria considered were security, flexibility, return and transparency.

CiV Versicherungen becomes Targo Versicherungen

Hilden, 22 February. With immediate effect Citibank is to begin trading as TARGOBANK. As the exclusive insurance partners of TARGOBANK, the former CiV insurers have also taken on the bank's new name. The Targo insurers will continue to offer their customary insurance protection products.

TARGO•VERSICHERUNG
Schutz und Vorsorge

Hannover Re bond issue successful

Hannover, 7 September. Hannover Re is placing a subordinated bond of EUR 500 million on the European capital market. The hybrid bond carries a fixed coupon of 5.75% p.a. (return of 5.75%) in the first ten years, after which the interest basis changes to a floating rate of 4.235% above 3-month EURIBOR. Hannover Re is making the most of the favorable interest rate level to raise additional hybrid capital, further optimize its capital structure and back future growth with capital resources.

Topping-out ceremony at Hannover's largest building site

Hannover, 2 December. Almost exactly one year after the foundation stone was laid for the new building on Riethorst, HDI-Gerling is holding its topping-out ceremony. Jörg Bode, Minister for Economics of the state of Lower Saxony, expressed his satisfaction that Germany's third-largest insurance group is headquartered in Hannover.

The new head office will use renewable energy resources: by way of example, natural geothermic energy will cover basic energy needs for heating and cooling. In the fall of 2011 some 1,900 staff will move into the new premises.

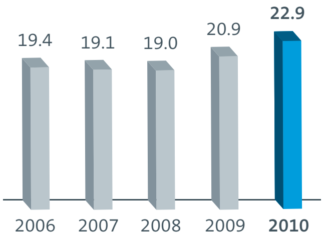
HDI-Gerling
receives fleet award from trade journal "Autoflotte"

Hannover, 12 April. The insurer HDI-Gerling has been honored as the best motor fleet insurer in 2010. More than 6,000 readers of the trade journal "Autoflotte" voted on the best vehicles, products and service providers in the fleet industry and crowned HDI-Gerling as best fleet insurer.

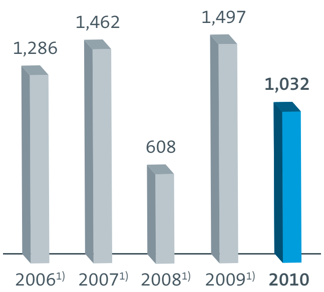
2010 was a year of light and shade for the Talanx Group. Gross premium income again showed vigorous growth, although the rate of increase varied widely across the different divisions. Investment income was also sharply higher thanks to enlarged asset holdings and improved extraordinary income. The operating profit (EBIT) failed to keep pace, however, and fell well short of the level of previous years. This was due in part to heavy loss expenditure from natural catastrophes and man-made major claims. In addition, extensive steps towards risk provision for future years also left their mark on the result.

The restructuring of central functions similarly gave rise to one-off charges, among other things owing to IT costs. Over the mid- to long-term, though, this means good news: the new structure will boost the Group's efficiency and performance capability. This will bring appreciable cost savings going forward.

Gross written premium
in EUR billion

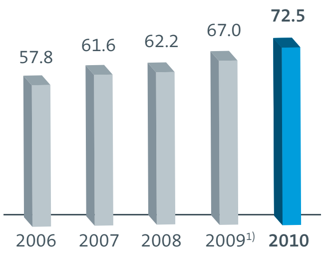


Operating profit (EBIT)
in EUR million



[1] *Adjusted on the basis of IAS 8*

Investments (excluding funds held by ceding companies)
in EUR billion



[1] *Adjusted on the basis of IAS 8*

Management report. Contents

The Talanx Group

Business operations

The Talanx Group is the third-largest German insurance group measured by gross premium income and operates as a multi-brand provider in the insurance and financial services sector. At the end of 2010 we employed around 18,000 staff worldwide. The Group is headed by the Hannover-based financial and management holding company Talanx AG, the sole owner of which is HDI V.a.G., a mutual insurance company that can look back on more than a hundred years of history.

Group companies transact the insurance lines and classes specified in the Ordinance Concerning the Reporting by Insurance Undertakings to the Federal Insurance Supervisory Office (BerVersV), in some cases in direct written insurance business and in some cases in reinsurance business, with various areas of concentration: life insurance, accident insurance, liability insurance, motor insurance, aviation insurance (including space insurance), legal protection insurance, fire insurance, burglary insurance, water damage insurance, plate glass insurance, windstorm insurance, comprehensive householders insurance, comprehensive homeowners insurance, hail insurance, livestock insurance, engineering insurance, omnium insurance, marine insurance, credit and surety business (reinsurance only), extended coverage for fire and fire loss of profits insurance, business interruption insurance, travel assistance insurance, aviation and space liability insurance, other property insurance, other indemnity insurance.

Talanx is represented by its own companies or branches in 40 countries worldwide. Including its cooperation arrangements, the Group is active in altogether 150 countries. In retail business Germany is one area of concentration, while internationally the principal focus markets are the growth regions of Central and Eastern Europe as well as Turkey and Latin America. Industrial lines and especially reinsurance are also transacted in a number of other markets, including for example North America, South Africa, Australia and some Asian countries.

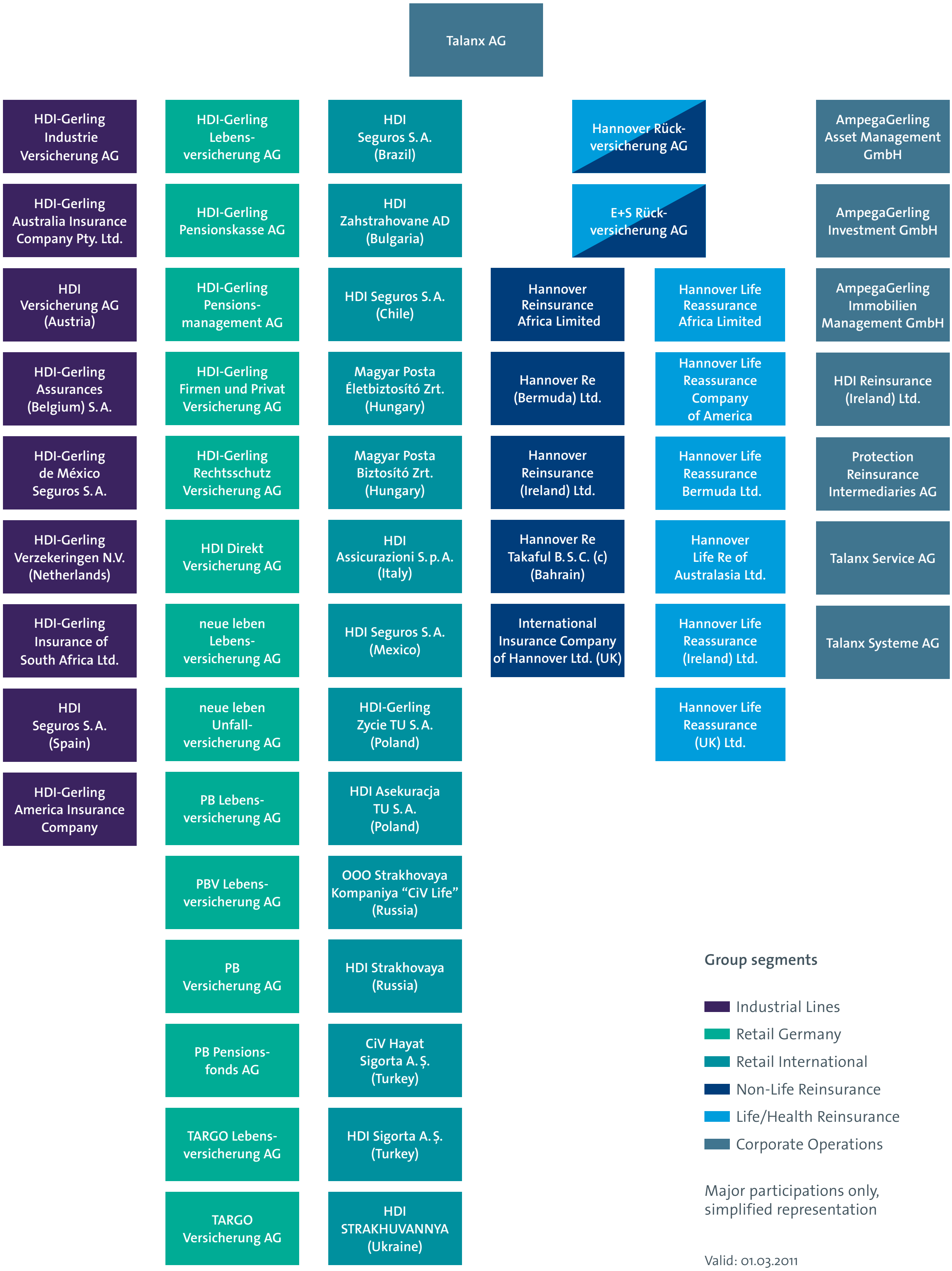
Group structure

The configuration of the segments changed substantially in the year under review in comparison with the previous year. The organization, which had become highly complex as a consequence of several intermediate holding companies and operating/sales companies, had to be put on a competitive footing for the future in order to ensure that growth and profitability targets could be successfully accomplished. Functions which had previously been performed in multiple parts of the Group are now being concentrated with the clear goal of working more efficiently.

Primary insurance – previously split into the Property/Casualty Primary Insurance and Life Primary Insurance segments – was therefore split into three divisions oriented towards customer segments that span the various lines of business: Industrial Lines, Retail Germany and Retail International. One member of the Talanx Board of Management takes responsibility for each of these divisions.

Industrial Lines will be the platform for a Global Player that is present and able to act worldwide on the basis of its own resources: as independent as possible from third parties and equipped with the capability to lead international consortia. Such a player must be in a position to leverage economies of scale in portfolios and it must have sufficient financial resources to make substantial insurance capacities available on a sustained basis.

The German companies transacting business with private and commercial customers are interlinked in the Retail Germany segment. The traditional line-of-business distinctions between life insurance and property/casualty insurance are being eliminated in order to become even more attractive to policyholders through comprehensive customer management: processes will be optimized, and the brand and product strategy will be tailored more closely to customer needs.


Talanx AG
HDI-Gerling Industrie Versicherung AG
HDI-Gerling Australia Insurance Company Pty. Ltd.
HDI Versicherung AG (Austria)
HDI-Gerling Assurances (Belgium) S. A.
HDI-Gerling de México Seguros S. A.
HDI-Gerling Verzekeringen N.V. (Netherlands)
HDI-Gerling Insurance of South Africa Ltd.
HDI Seguros S. A. (Spain)
HDI-Gerling America Insurance Company
HDI-Gerling Lebensversicherung AG
HDI-Gerling Pensionskasse AG
HDI-Gerling Pensionsmanagement AG
HDI-Gerling Firmen und Privat Versicherung AG
HDI-Gerling Rechtsschutz Versicherung AG
HDI Direkt Versicherung AG
neue leben Lebensversicherung AG
neue leben Unfallversicherung AG
PB Lebensversicherung AG
PBV Lebensversicherung AG
PB Versicherung AG
PB Pensionsfonds AG
TARGO Lebensversicherung AG
TARGO Versicherung AG
HDI Seguros S. A. (Brazil)
HDI Zahstrahovane AD (Bulgaria)
HDI Seguros S. A. (Chile)
Magyar Posta Életbiztosító Zrt. (Hungary)
Magyar Posta Biztosító Zrt. (Hungary)
HDI Assicurazioni S. p. A. (Italy)
HDI Seguros S. A. (Mexico)
HDI-Gerling Zycie TU S. A. (Poland)
HDI Asekuracja TU S. A. (Poland)
OOO Strakhovaya Kompaniya "CiV Life" (Russia)
HDI Strakhovaya (Russia)
CiV Hayat Sigorta A. Ş. (Turkey)
HDI Sigorta A. Ş. (Turkey)
HDI STRAKHUVANNYA (Ukraine)
Hannover Rückversicherung AG
E+S Rückversicherung AG
Hannover Reinsurance Africa Limited
Hannover Re (Bermuda) Ltd.
Hannover Reinsurance (Ireland) Ltd.
Hannover Re Takaful B. S. C. (c) (Bahrain)
International Insurance Company of Hannover Ltd. (UK)
Hannover Life Reassurance Africa Limited
Hannover Life Reassurance Company of America
Hannover Life Reassurance Bermuda Ltd.
Hannover Life Re of Australasia Ltd.
Hannover Life Reassurance (Ireland) Ltd.
Hannover Life Reassurance (UK) Ltd.
AmpegaGerling Asset Management GmbH
AmpegaGerling Investment GmbH
AmpegaGerling Immobilien Management GmbH
HDI Reinsurance (Ireland) Ltd.
Protection Reinsurance Intermediaries AG
Talanx Service AG
Talanx Systeme AG
Group segments
Industrial Lines
Retail Germany
Retail International
Non-Life Reinsurance
Life/Health Reinsurance
Corporate Operations
Major participations only, simplified representation
Valid: 01.03.2011

The Retail International segment is charged with growing in the strategic target markets of Central and Eastern Europe as well as Latin America both through its own efforts and by way of acquisitions; it is also tasked with optimizing activities in existing markets and cultivating new markets. Despite the differences in the various target markets, experience, practices and products can be transferred to other markets. This division will thus evolve into a source of know-how that will find it easier to expand its business or enter lucrative new markets.

The Reinsurance segment, led by Hannover Re, remains unchanged.

The Corporate Operations segment has been enlarged through the addition of two companies: the service company Talanx Service AG and the IT service provider Talanx Systeme AG, which is to commence operational activities in the course of 2011. As before, the segment also includes the Financial Services sector, which along with the Group's own internal reinsurance broker Protection Reinsurance Intermediaries consists primarily of the asset management companies. Talanx AG, which is also assigned to this segment, is extending its function from that of a pure financial holding company to a financial and management holding company as part of the restructuring. Going forward, then, the Group will be steered more centrally from Talanx AG. The latter will continue to perform its previous strategic tasks, but will also exert a greater influence on the positioning and performance of the divisions in order to ensure adherence to the overall strategy.

Strategy

The Talanx Group is internationally active in primary insurance (with the exception of the health and credit lines) and reinsurance business. In its domestic market our Group is a major player in shaping the insurance industry. At Talanx, we optimize the interplay of insurance and reinsurance as an integral component of our business model with the aim of consistently enhancing the opportunity/risk profile, increasing capital efficiency and leveraging growth and profit opportunities more flexibly. What is more, this composition of the Group portfolio ensures that even in difficult market phases our Group has at its disposal sufficient independent risk capacities to support its clients reliably and over the long term, tap into interesting markets and thereby safeguard and enhance the independence and underlying value of the Group for investors and employees on a lasting basis.

The Group is headed by Talanx AG as a financial and management holding company. Its primary task is to lead and steer the Group. In its management of the Group, Talanx AG relies on the organizational principle of centralized Group steering functions and concentrated Group service functions, on the one hand, combined with local profit responsibility on the part of the divisions, on the other. The success enjoyed by the Talanx Group is attributable in special measure to this organizational structure, which accords the individual divisions a very high level of entrepreneurial freedom and profit responsibility. In this way the various units are best able to act on their growth and profit opportunities.

While the Talanx brand – as the name given to the financial and management holding company, the service companies and the management companies of individual divisions – is oriented exclusively towards the capital market, on the operating side our considerable international product expertise, our forward-looking underwriting policy and our distribution resources are reflected in a multi-brand strategy. This enables us to optimally align ourselves with the needs of different customer groups, regions and cooperation partners. Furthermore, it promotes the efficient integration of new companies and/or business sectors into the Group. Not only that, this structure facilitates a highly developed capacity for cooperation which can be harmonized with a diverse range of partners and business models.

A crucial factor in the success of our multi-brand strategy is the optimal support that it is given through lean, efficient and standardized business processes combined with a state-of-the-art and – as far as possible – uniform IT structure.

Strategic objectives of Talanx

The paramount strategic objectives of the Talanx Group are safeguarding a lasting majority interest of HDI V.a.G. and hence extensive independence from unsustainable capital market interests with a short-term orientation as well as focusing on stakeholder value. This is driven by the firm conviction that only on this basis can the Group's policy be geared to reliable continuity, above-average profitable growth and hence long-term value enhancement. This is done with the intention of living up to the interests of both shareholders and – so to speak as a prerequisite – customers and staff in a balanced manner and generating the greatest possible benefit for these groups. We accomplish these aspirations through a strong Talanx Group that is continuously able to provide the best possible risk protection by consistently consolidating and optimizing its equity base and capital allocation. As a mandatory guiding principle, these strategic objectives form the basis from which all other Group goals are derived.

Our strategy for human resources management is described at length in the section "Non-financial performance indicators", pages 74 et seqq. while the management of opportunities and risks is described in the "Opportunity and risk report" pages 83 et seqq. These two aspects are therefore not discussed further here.

Profit target

The Talanx Group strives for continual, above-average value enhancement of the invested capital in keeping with the risk exposure. We seek to rank among the five most profitable of Europe's 20 largest insurance groups – measured by our return on equity under IFRS. Our Group's minimum target in relation to the Group net profit after tax and before minorities is an IFRS return on equity 750 basis points in excess of the average risk-free interest rate. This is defined as the average market rate over the past five years for 10-year German government bonds.

The utilization of the Group net income is geared both to any necessary strengthening of the Group's capital base and to the distribution expectations of investors. Reinforcement of our capital base makes us less dependent upon movements on primary and reinsurance markets and enables us to generate a sustainable attractive dividend yield commensurate with market standards. The distribution policy of the divisions is centrally managed by Talanx AG in compliance with the pertinent legal framework conditions, always guided by the twin goals of optimizing capital efficiency at the Group companies and satisfying the liquidity and capital requirements of the Group and Talanx AG. Building upon this, we are able to pay our shareholders an attractive competitive dividend on a sustained basis.

Capital management

The capital management of the Talanx Group is geared to an optimized risk-adequate capital structure in order to reinforce the Group's financial strength.

This is achieved in two ways: firstly, we optimize the capital structure by using appropriate equity substitutes and financing instruments; secondly, we align our equity resources such that they at least meet the requirements of Standard & Poor's capital model for an "AA" rating. Equity resources in excess of this requirement are established to boost our earnings potential above and beyond the return on reinvested funds, e.g. through improved provision of risk capacity and protection or through greater independence from reinsurance and retrocession markets.

Capital resources are, as a general principle, allocated to those areas that promise the highest risk-adjusted post-tax profit over the medium term. In this context we make allowance for the desired portfolio diversification and the required risk capital as well as the general regulatory framework. Allocation is based on the expected intrinsic value creation (IVC), arrived at from coordinated business plans.

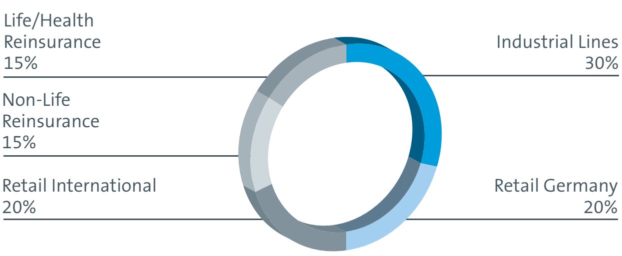
Enterprise management

In recent years Talanx AG has opened up to the capital market in order to be able to boost its financial strength even before going public. The next logical step as part of this progressive capital market orientation is an initial public offering (IPO) with the aim of placing a maximum 49.9 percent of the voting equity of Talanx AG on the stock market. This stock market flotation will be implemented by way of a capital increase in order to maximize the strengthening of our asset base and the resulting strategic options.

Growth target

In order to preserve and further improve our competitiveness, we strive for profit-oriented growth within the Talanx Group while preserving the optimal segmental and regional diversification of the portfolio and keeping a close eye on the risk-adjusted return. This is achieved organically, by way of strategic and complementary acquisitions as well as through cooperation arrangements.

The target structure, measured by the value contribution of the individual divisions to the total value of the Group after minorities, breaks down as follows:



In the medium term it is envisaged that the proportion of gross premium from primary insurance generated outside Germany (Industrial Lines and Retail) should amount to half the total gross premium volume in primary insurance.

In view of the varying risk profiles of our divisions we set ourselves exclusively profit targets in volatile segments. In less risk-exposed segments we define both profit and volume targets.

More extensive elaboration of this strategic framework – in terms of products, customer groups, sales channels and countries – is provided by our individual divisions.

Within the Talanx Group we have set ourselves the following core tasks, which must be fulfilled on a sustained basis: providing reliable support for our customers, maintaining sufficient independent capacity in all market phases, cultivating new markets and safeguarding as well as increasing the intrinsic value of the Group for stakeholders for the long term. At the same time, the extent of the requirements placed on insurance groups by the regulatory environment and by capital markets and rating agencies is growing. The point of departure determined by these internal and external influencing factors causes us to define the following goals:

- Increase profitability and create value
- Make optimal use of capital
- Optimize 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 Group's various divisions: capital management, performance management, risk management and mergers & acquisitions (M&A).

Performance management

Performance management is the centerpiece of our array of steering tools. Under our systematic approach a clear strategy geared to ensuring the Group's long-term survival and the consistent implementation of this strategy are fundamental to efficient enterprise and group management. Since instances of mismanagement are very often due to the inadequate implementation of strategy, we devote particularly close attention to the process steps that enable targeted alignment of our entrepreneurial actions with the strategic objectives.

The major stages of strategy implementation consist of the drawing up of strategic program planning, i.e. the breaking down of the strategic objectives into subgoals, and the subsequent breaking down of these subgoals into operational goals that are backed by concrete measures.

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

- The Board of Management of Talanx AG (holding company) sets out strategic indications as a framework for the planning and orientation of business activities. The focus is on the Group's core management ratios and on Group-wide strategic initiatives. The target indications set by the holding company thus define the Group's aspirations to economic value creation, profitability, level of security and growth initiatives.
- The holding company and segments/divisions use a consistent performance metric to manage their business. The performance metric not only encompasses purely financial core management ratios but also other relevant operational management ratios from four different perspectives: the financial perspective, the market/customer perspective, the process perspective and the staff perspective.
- Performance is discussed and assessed in regular meetings between the Board members with responsibility for the holding company and the segments/divisions on the basis of this performance metric.

We link our strategic planning with the operational planning using the performance metric by setting out our strategy measurably in structured overviews and monitoring its execution.

Core management ratios

From Group parameters and strategic program planning of the segments/divisions:

IVC, xRoCC

Dividend

Risk budget,
capital adequacy ratio (CAR)

Operational management ratios

Operational requirements from the segments/divisions:

Financial perspective
Finance

Market and customer perspective
Market/Customers

Internal perspective
Processes

Learning and development perspective
Staff

Our five core management ratios:

- **IVC – Intrinsic Value Creation**
  Value creation of the segment/division in accordance with value-based management (as an absolute amount)
- **xRoCC – Excess Return on Company's Capital**
  Value creation of the segment/division in accordance with value-based management (relative to the company's capital)
- **Dividend/profit transfer of the segment/division**
- **Risk budget**
  Definition of available risk capital per segment/division
- **Capital adequacy ratio (CAR)**
  Minimum solvency level of the segment/division (ratio of company's capital to risk-based capital)

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

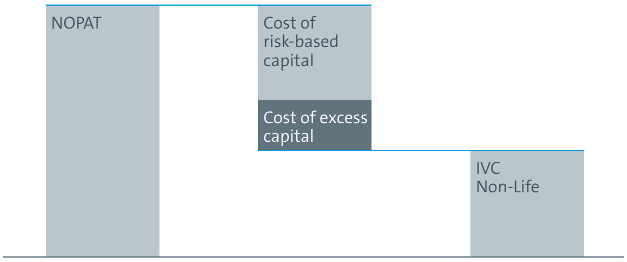
Management indicators

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

The IVC enables us to record and consistently allocate the value contributions of the Group on different hierarchical levels – Group, segment/division and company. The IVC and its methodological determination form the basis on which the value contributions of the segments/divisions and of the individual operational units can be measured in a comparable manner – 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 optimize the allocation of capital and resources, pinpoint risks and opportunities and initiate further measures.

Our value-based management tools were continuously refined and anchored in the Group-wide management process in 2010. A key point of emphasis – one that should also be viewed in conjunction with the relevant initiatives to regulate remuneration systems in the insurance sector – was conceptualizing the operationalization of value-based management on the levels of areas of Board responsibility, companies and lines of business. The methodological determination of the IVC – and hence of the economic value creation – is carried out unchanged according to the basic scheme for the life and non-life companies. Under this approach, the intrinsic value creation constitutes the economic net income for the period less the cost of capital.

The IVC is calculated differently for "life" and "non-life" on the basis of distinct specific ratios:



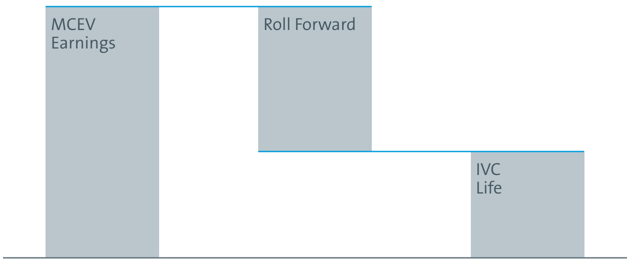
In non-life business (i.e. property/casualty insurance and non-life reinsurance) the IVC measures the difference between the NOPAT (net operating profit after adjustments and tax) and the cost of capital for risk-based capital and excess capital.

The NOPAT is an economically informative performance and management ratio for the reporting period in question. It is comprised of the Group net income recognized under IFRS after tax and fair value adjustments that arise out of the change in differences between present values and carrying amounts in the balance sheet (loss reserve discount, excess loss reserves, fair value changes not recognized in income).

The cost of capital consists of the costs for the allocated risk-based capital and the costs of excess capital. While the risk-based capital is divided between the profit centers in a manner commensurate with the risk using the Talanx risk model on the basis of a 99.97 percent Value at Risk, the excess capital is arrived at as the difference between the risk-based capital and the company's capital. The costs for the risk-based capital are determined from the following components: a risk-free basic interest rate*, frictional costs** and a risk margin to reflect the market in question. For the excess capital, on the other hand, only the risk-free interest rate and the frictional costs are used, since the capital involved here is not at risk. On the basis of our currently

** In the context of the risk-based capital: calculated as the three-year average of ten-year swap rates*

*** Opportunity costs incurred by shareholders as a consequence of the fact that they invest their capital not directly in the capital market but rather by a "roundabout route" through a company and the capital is tied to the company rather than being freely fungible* applicable determination of the cost of capital, the investor incurs opportunity costs for the risk-based capital that are 600 basis points above the risk-free interest rate. Value is created above this rate of return. The targeted return-on-equity for the Group of at least 750 basis points above "risk-free" defined in our umbrella strategy thus already includes a not inconsiderable aspiration to intrinsic value creation.



Value creation in life business (i.e. life insurance and life/health reinsurance) is measured on the basis of the change in the Market Consistent Embedded Value (MCEV), which is expressed in the MCEV earnings. The MCEV earnings are thus equivalent to the NOPAT. The MCEV is defined as the value of the undertaking, which is measured as the discounted present value of future earnings until final run-off of the in-force portfolio plus the fair value of equity, making allowance for capital commitment costs. We chose the MCEV as the basis for value-based management of the life insurance business because it constitutes the value of the undertaking inherent in the already transacted insurance portfolio from the standpoint of the shareholder. The IVC Life is determined as the difference between the MCEV earnings and the roll forward; the latter corresponds to the expected cost of capital after allowance for the risk exposure in relation to capital market risks.

In order to measure the comparable return delivered by business units or divisions of varying size, the IVC is considered in relation to the corresponding available capital. 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.

Research and development

As a holding company, Talanx AG does not conduct any product-related research and development of its own. However, we continuously work to refine methods and processes that are necessary in order to fulfill the business purpose, especially in the area of risk management. In the various divisions we analyze trends such as demographics or climate change and develop products tailored to our markets and customers.

Markets, business climate and legal environment

Overall economic development

The hallmarks of 2010 were the global economic recovery and the sovereign debt crisis. The picture around the world was a very mixed one: emerging markets as well as developed countries – first and foremost Germany – linked with them through strong export relationships enjoyed a vigorous upturn. Growth in some countries on the Eurozone periphery, however, was curtailed by the spreading sovereign debt contagion and corresponding austerity efforts.

The eruption of the sovereign debt crisis was triggered by the downgrading of Greece's credit rating and the rapid increase in risk premiums for Spain, Portugal and Ireland too – as well as Italy as the year progressed. The European Union and the International Monetary Fund (IMF) approved a bailout package for Greece and additionally agreed upon a safety net – comprised of credit commitments – for Eurozone countries at risk. Ireland was the first country to avail itself of this assistance, taking out loans of EUR 85 billion in November.

Unemployment in the United States remained stubbornly at a historic high of 9.4%, just 0.5% lower than at the end of 2009. Convincing corporate profits across all reporting seasons provided a ray of light, and hence the US generated third-quarter growth of 3.2% year-on-year. The figure for the Eurozone was 1.9%. Germany took over as the driver of growth within the Eurozone, recording an increase of 3.6% for the full year.

Change in real gross domestic product relative to the previous year [1)]

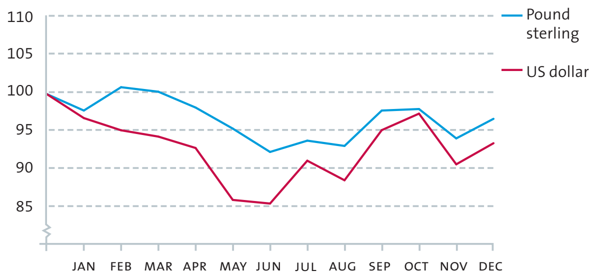
	2010 [1)]	2009
% change relative to the previous year		
USA	+2.9	–2.6
Eurozone	+1.7	–4.0
Germany	+3.6	–4.7
United Kingdom	+1.7	–4.9
Japan	+4.2	–6.3

[1)] *Source: Commerzbank, Economic and Market Monitor, valid: 17 January 2011; 2010: provisional figures*

Despite monetary policy intervention by the US Federal Reserve and the European Central Bank on a massively expansionary scale, inflation in both regions remained on a modest level. The inflation rate in the United States in November 2010 stood at 1.1% relative to the previous year, while in the Eurozone the figure was 1.9% and in the United Kingdom it was 3.3%. In the latter case, however, an increase in value-added tax and exchange rate effects both played a significant role. Core inflation reached historic lows in 2010, standing at 0.8% in the US in November, 1.1% in the Eurozone and 2.5% in the UK.

Movement of the euro relative to other currencies

31.12.2009 = 100



The euro depreciated against the US dollar from 1.43 USD/EUR to 1.19 USD/EUR. The bailout package for Greece and the subsequent establishment of a rescue fund for affected Eurozone countries gave the single currency some breathing space, as a result of which it had recovered to 1.34 USD/EUR by year-end. The movement of the rate against the pound sterling was almost a mirror image: the rate slipped from 0.89 GBP/EUR as the year progressed to 0.81 GBP/EUR and then recovered by year-end to 0.86 GBP/EUR.

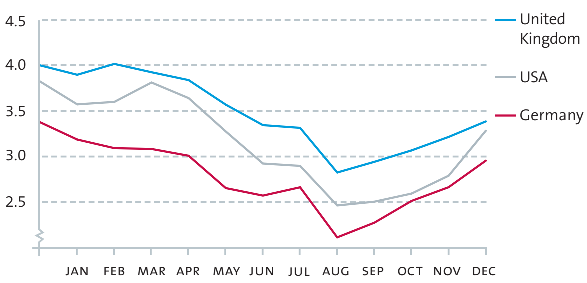
Capital markets

Central banks in the United States and the Eurozone pressed ahead with their extremely relaxed monetary policy in 2010. The US Federal Reserve left its key interest rate unchanged at virtually zero. In the third quarter the decision was taken to invest funds from maturing instruments in US treasury bonds. This was followed in November by the announcement of further monetary policy expansion through the additional purchase of government bonds. Altogether, the Federal Reserve is looking to buy up the equivalent of roughly USD 900 billion by the summer of 2011. These unprecedented steps were prompted by the fear that the US economy could slip back again into recession.

Similarly, the European Central Bank also kept its foot on the gas in 2010. The prime rate was left unchanged at 1% and tender transactions were awarded in full. Not only that, the ECB also began to buy up government bonds. As justification for this move, hitherto unprecedented in the history of the ECB, the temporary impairment in the proper functioning of the markets was cited: the purpose of these measures is not to extend the money supply, but rather to hold it on a constant level through offsetting transactions.

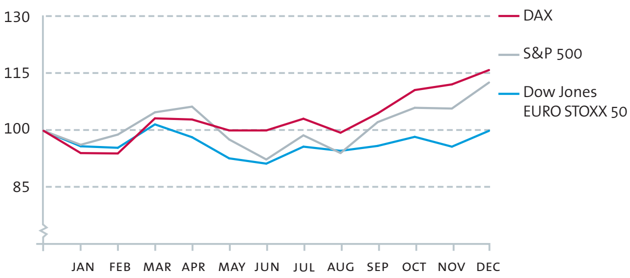
After an untroubled first quarter in which yields moved sideways, the debt crisis affecting countries on the Eurozone periphery took center stage in the following months. This prompted a flight to low-risk asset classes among market players. The market for government bonds issued by AAA-rated core countries, especially Germany, profited from this development. The risk aversion displayed by market participants caused yields on 10-year government bonds in the Eurozone to fall to levels barely above 2% on multiple occasions between April and August. Parallel to this, risk premiums for government bonds issued by peripheral Eurozone countries increased sharply. While the extensive bailout packages repeatedly served to calm markets for the short term in the period that followed, the skepticism prevailing among market players remains very high overall to this day.

Yields on 10-year government bonds in 2010
%



In conjunction with implementation of a Bank Reorganization Act in Germany at the beginning of November, the market segment for financial bonds also saw a significant increase in risk premiums. Since developments on the economic side were looking brighter, particularly in Germany, yields rose sharply in this period on the interest rate front. 10-year German federal government bonds listed just below 3% at year-end. All relevant euro bond markets closed the year with a positive performance.

Movements on equity markets in 2010
31.12.2009 = 100



Movements on equity markets in the developed countries were driven by the sovereign debt crisis in 2010. A brief period of consolidation at the beginning of the year was followed by an upward movement from February onwards, although this quickly came to an end as the second quarter got underway owing to the emerging sovereign debt issues. Prices then moved sideways until the end of the third quarter. The closing quarter of 2010 ushered in a year-end rally in which almost all indices reached new highs.

The varying economic developments were reflected in the equity indices. The strong performance of the German economy carried over to the DAX, which closed the year with a performance of +16%. The EURO STOXX 50, on the other hand, performed weakly in the course of the year on the back of the sovereign debt crisis affecting Eurozone peripheral countries and recorded a negative performance of –2%. The S&P500 Total Return beat the previous year by 14%.

While economic worries proved to be a drag on stock markets, the abundant supply of liquidity provided by central banks as well as – most significantly – surprisingly strong corporate profits and increased M&A activities were positive drivers. The successful outcome of the stress tests performed on banks at the start of the second half-year was also a source of relief.

International insurance markets

The dominant influencing factor on international insurance markets in 2010 was the global economic recovery, which offered insurance enterprises a good opportunity to replenish their capital resources after the slumps prompted by the worldwide financial and economic crisis. The broadly positive development of business was, however, adversely affected by disruptive effects such as the sovereign debt crisis and protracted political turmoil in several regions of the world along with the associated instabilities. Steadily growing importance also attaches to the requirements – which have become increasingly exacting in recent years – placed by regulators on insurers and financial services providers; these are giving rise to a broad spectrum of new management and supervision processes that need to be implemented. The sustained low interest rate environment continues to present an enormous challenge to the ability of companies to fulfill insurance contracts, some of which remain in force over decades. Measured by international standards, even though the shock waves of the financial crisis have still not entirely dissipated, the insurance sector nevertheless once again proved to be a major stabilizing factor in 2010. The security and provision concepts that it offered again constituted an indispensable element of the macroeconomic cycle. As one of the most prominent investors around the globe, the international insurance industry plays a key role in growing prosperity for private households and the business community. Life insurance markets continued to recover from the setbacks of the financial crisis in 2010, which had taken a particularly heavy toll on certain products such as unit-linked life and annuity insurance. The resurgence of new business helped boost premium income worldwide. On the other hand, the diminished returns in the investment sector served to curtail the profitability of life insurers. On the life reinsurance side, products for longevity risks and sizeable block assumption transactions served as growth drivers in the industrialized nations, while sales of products covering the risks of death and disability were flat. Demand for individual retirement provision and coverage for surviving dependants nevertheless remains strong, since the earliest possible and continuous accumulation of funded individual retirement provision constitutes an essential component of long-term wealth management.

The picture on the non-life insurance and reinsurance markets was a mixed one in 2010. Although the primary sector profited from rising demand as the economic gloom lifted, premium growth – especially in saturated markets – was limited. The continued soft market conditions, particularly in the industrial and motor insurance lines, led to a worsening of the underwriting result in 2010 that reflected an increase in the combined ratios based on claims for the financial year. This was equally true of the US and major European markets. Reinsurance markets, on the other hand, were in a comparatively better state. Along with the positive run-off results from well-priced prior years and broadly intact underwriting discipline combined with an adequate rate level, this produced satisfactory results overall despite increased spending on catastrophe losses.

On the climate front 2010 will go down in the books as the warmest year since measurements began around 160 years ago. With 950 natural catastrophes – roughly 90% of them weather-related – it also recorded the second-highest number of major loss events since 1980. The probability of a correlation between the clearly measurably trend towards global warming and the increased proliferation of natural disasters to record levels is now assessed as high by georesearchers and risk researchers. It should also be noted that the number and severity of earthquakes has also grown steadily in recent years.

Compared to the previous year, the volume of total economic losses climbed in 2010 by around USD 60 billion to roughly USD 130 billion worldwide, of which approximately USD 37 (2009: 22) billion were attributable to insured losses. What is more, 2010 saw the third-most severe hurricane season – measured by number and intensity – in the past 100 years, although it produced relatively low insured losses in the order of USD 150 million owing to the fact that the hurricanes raged almost exclusively on the open seas. The rising population density and concentration of values around the world, sharply growing traffic and shipping volumes and the close interlinking of goods and services internationally are reflected in a steadily increasing vulnerability of people and infrastructure to natural catastrophes and man-made disasters. Despite the alarming numbers, therefore, it may be concluded that 2010 passed off reasonably innocuously.

German insurance industry

Development of premium income in the individual insurance lines in Germany

	2010[1]	2009
in % compared to previous year		
Property/casualty insurance	+0.7	+0.2
Life insurance/ occupational retirement provision	+6.8	+7.1
Private health insurance	+6.0	+3.8
Total	**+4.7**	**+4.2**

[1] *Provisional figures*

With growth of a good 4% in 2010 – another slight increase on the previous year – the German insurance industry impressively maintained its positive premium trend of recent years. It should, however, be borne in mind that a not inconsiderable part of this growth derives from so-called single-premium business in life insurance. This is a product group that consists, firstly, of annuity insurance products and, secondly, of so-called capitalization products under which investors are able to park capital at attractive interest rates. Although there was no mistaking an appreciable caution among broad groups of buyers – especially with respect to a long-term commitment such as for retirement provision –, the German insurance industry presented an exceptionally stable picture – even without the growth effect stemming from single-premium business. Despite the limited growth potential due to the high level of market saturation in Germany, the capital and reserves of the German insurance industry make it – now more than ever – a reliable guarantor for protection against the diverse risks faced in both private and business life.

In German property and casualty insurance the upturn in business was further consolidated – insofar as this was possible given the degree of market saturation reached in most lines – and led to premium growth of just under 1%. Motor insurance, the largest single line, continues to be of crucial importance to the business development in property and casualty insurance as a whole. Massive price competition had raged in this key line for numerous years; with the premium level no longer adequate, however, most providers have now begun to rethink their approach with an eye to greater commercial sense, and this has been reflected in corresponding tariff increases for new business. This marks a first step towards bringing about the urgently needed turnaround in average premiums – which are currently still falling – in motor business in the foreseeable future. The growth recorded in motor insurance in 2010 was generated above all by own damage insurance, while premiums for liability coverage continued to decline slightly. In the other property and casualty insurance lines, too, premium increases are to be expected for 2010 – with the exception of marine and general liability insurance. The picture on the claims side shows – compared with the burden of losses incurred in previous years and also with an eye to the premium growth – a disproportionately marked increase, which can be attributed not least to the major loss events recorded in the year under review (including winter storm “Xynthia”). The underwriting results are therefore likely to reflect a rise of 1–2 percentage points in the combined ratio, which could not be offset by investment income on account of the low interest rate environment.

For the second consecutive year the German life insurance industry generated significant premium growth in 2010. With an increase of 7% German life insurers (excluding providers of occupational retirement provision in the form of Pensionskassen and Pensionsfonds) boosted their gross written premium to around EUR 87 billion. As in the previous year, a significant portion of this gratifying growth derived from single-premium business, which recorded a gain of some 30% to reach a volume of EUR 26 billion. Single-premium business was assisted by the prevailing climate and capital market conditions. The funds available for investment were only able to attract very low interest rates in bank deposits, as a consequence of which considerable amounts were invested in products offered by insurers ranging from immediate and deferred private annuities through so-called "Riester" and "basic" pensions to capitalization products. Capitalization products – normally short-term financial investments similar to savings accounts – at times enjoyed very brisk demand, at least as long as an appealing above-average return was offered. Since the fourth quarter of 2010, however, the growth momentum of this form of single-premium business has slowed appreciably – a reflection of interest rate reductions and the wide-ranging restriction of such product offerings to the maturity benefits of providers' own existing customers. In contrast to single-premium business, new business with regular premium payments fell away sharply owing to the fact that the willingness to enter into longer-term contracts evidently has still to re-establish itself across a broad front in the wake of the shock inflicted by the financial crisis. Nevertheless, customers remain keenly interested in security. This need dovetails with the core competence of German life insurers, who are able to satisfy the diverse spectrum of return and security expectations with their extensive product range.

Despite the protracted low interest rate environment, which continues to put German life insurers to an endurance test that must be taken seriously, and despite policyholder bonuses that are sinking market-wide, maturity benefits in profit-sharing new endowment and annuity business declined only very moderately, if at all. In this respect, policyholders benefited from the fact that the fixing of the interest rate for the interest paid on credit balances constitutes only one of several factors that determine the total amount of surplus participation.

Legal and regulatory environment

Particularly in the sphere of international and national supervisory law, the year under review again confronted the Group with a large number of new and sometimes complex developments in the legal environment that were not always adequately coordinated on the international level.

Most notable on the European level was the fact that the European Commission moved forward with its "Omnibus II Directive" proposal; on the one hand, this contains wide-reaching Solvency II transitional measures, while, on the other, it is intended – as an omnibus directive – to make amendments to other directives in order to bring them into line with the new EU regulatory architecture for financial supervision.

The new European regulatory agency for the insurance industry, the Frankfurt-based European Insurance and Occupational Pensions Authority (EIOPA), commenced its work on 1 January 2011. It forms part of the newly implemented European System of Financial Supervision (ESFS), which encompasses the European Systemic Risk Board (ESRB), the three new regulatory bodies – namely the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA) – and, last but not least, the national regulatory bodies.

Even though EIOPA probably will not, as a general principle, have any powers for operational supervision of the Group, its influence on our regulatory environment will be significant. In the first place, going forward it is envisaged that national regulators will have to justify divergences from EIOPA recommendations to EIOPA. Secondly, the "Omnibus II Directive" proposal includes powers to adopt so-called binding technical standards, on the basis of which EIOPA would like to develop a "single rule book" EU-wide by the end of 2011.

In general terms, particularly on the international level, an unchanged tendency – for example on the part of the Financial Stability Board – could again be observed in the year under review towards applying to the insurance sector considerations relating to the avoidance of crises in the banking sector without any discernible appreciation of the considerable material differences. The Group is closely tracking these tendencies and adds its appropriate critical input to the ongoing discussions.

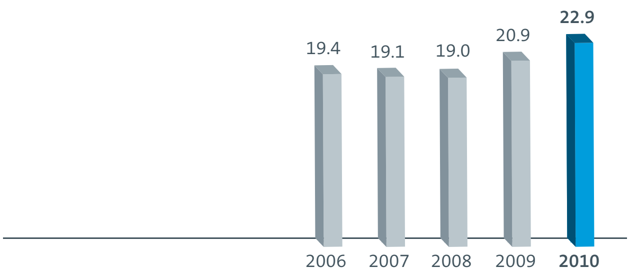
Developments on the national level in the year under review included, for example, the replacement of the Requirements for Remuneration Systems in the Insurance Industry initially published in December 2009 in the form of a Circular by the Federal Financial Supervisory Authority (BaFin) with the Regulation on the Supervisory Law Requirements for Remuneration Schemes in the Insurance Sector (VersVergV), which entered into force on 13 October 2010. The legal basis for adoption of such a Regulation had been lacking in 2009; the legislator created it in the year under review in the form of the new § 64 b Para. 5 Sentences 1–4 of the Insurance Supervision Act (VAG). The content of the Regulation leans very heavily on the BaFin Circular on Requirements for Remuneration Systems in the Insurance Industry published in the previous reporting period. Essentially, it remains the case that the aim of legislators with the remuneration rules is to avoid negative incentives through inappropriate variable remuneration components.

The protracted period of low interest rates in the year under review has demonstrated that the stipulations contained in § 153 Paragraph 3 of the Insurance Contract Act (VVG) governing the participation of insureds in the valuation reserves need to be adjusted. Under the current legal regulations, such low-interest rate phases lead to excessive participation of departing policyholders in the area of long-dated bonds; this is not compatible with considerations of fairness within the collective of policyholders or with the imperative that the risk-bearing capacity of life insurers should be preserved. In the year under review the Group took an active part in discussions with lawmakers regarding the urgent need for immediate adjustment of the legal situation.

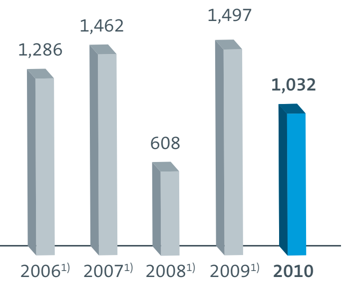
Business development

The Talanx Group recorded single- to double-digit percentage growth for a number of key indicators in 2010: specifically, gross written premium – especially in foreign markets –, new business and investment income. The increased premium and improved investment performance did not, however, offset the decline in the underwriting result, as a consequence of which the operating profit (EBIT) fell well short of the previous year. The reasons are varied in nature, but are associated in particular with considerably high risk provision at German life insurers and in international retail business, most notably with an eye to future capital market measures. Despite this, the Group's financial strength – expressed in terms of its solvency ratio – was boosted.

Gross written premium
in EUR billion



Operating profit (EBIT)
in EUR million



[1)] *Adjusted on the basis of IAS 8*

First steps in the restructuring completed

As planned, the first steps in the restructuring of the Talanx Group's primary insurance sector launched in September 2009 have been completed and agreed upon with the social partner. What is more, they are already bearing the first fruit: in Germany the Group was able to expand its new business in 2010 despite challenging market conditions. The fact that our measures are already working shows that we have reached our first milestone in the Group restructuring without losing sight of the market. Yet we have not yet accomplished our goal. The next steps in the Group restructuring for 2011 will focus on German retail lines. Intensive preparations are already being made in order to get this division fit for the future. The aim is to gear business processes and the organization to the needs of customers and sales partners and, with this in mind, to develop product, sales and service strategies that span the various lines of business.

Advances in international business

The Group can report unusually strong organic growth in foreign markets, most notably in Latin America – and here especially Brazil.

The agreement of a cooperation arrangement with the Japanese life insurer Meiji Yasuda marked another success for the Group. In this connection Talanx AG issued a Solvency II-compliant bond subject to mandatory conversion at the time of the planned initial public offering of Talanx AG. Meiji Yasuda Life took up this capital participation in a volume of EUR 300 million; at the same time the two companies entered into a strategic partnership. The pooling of both partners' strengths increases the prospects for each of them to access new markets. Joint investments are envisaged in the focus markets of Poland and Turkey. What is more, by putting in place an institutional anchor shareholder even before going public Talanx enjoys greater security in its financial planning.

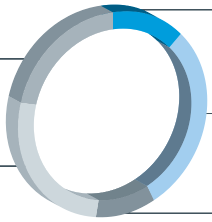
Business experience of the Group

Gross written premium including savings elements of premium under unit-linked life and annuity policies grew by 9% to EUR 22.9 (20.9) billion. The increase stemmed from reinsurance business as well as the Retail International segment. Growth was for the most part organic; movements in exchange rates accounted for 3 percentage points of the rise in premium. The number of policies in primary insurance business climbed by 5.4% to 23.6 (22.4) million, driven chiefly by the companies abroad.

Investment income surged by 20% to EUR 3.2 (2.7) billion. The increase was attributable to improvements in the primary insurance segments – especially Retail Germany – and in Non-Life Reinsurance. The operating profit (EBIT) came in at EUR 1.0 (1.5) billion, a contraction of 31%. This was due principally to a poorer performance in German life insurance – driven above all by increased risk provision – as well as the poorer experience of certain companies in the Retail International division. As a further factor, after an exceptionally low burden of losses in the previous year, the underwriting result in Industrial Lines and Non-Life Reinsurance declined. Overall, the underwriting result deteriorated – in part also due to the participation of policyholders in the increased investment income – by 98% to –EUR 2.0 (–1.0) billion. Owing to rising combined ratios – especially in the Industrial Lines and Retail Germany divisions – the overall combined ratio moved higher: it climbed 4.2 percentage points to 100.9 (96.7)%. The other income also fell short of the previous year's level. Group net income after tax and minorities reached EUR 220 (485) million, corresponding to a return on equity of 4.6 (11.8)% on the considerably higher level of Group shareholders' equity relative to the previous year.

Development of the Group segments

Segmental breakdown of gross premium



Industrial Lines

	2010	2009
Figures in EUR million		
Gross written premium	3,076	3,077
Net premium earned	1,413	1,405
Underwriting result	–57	134
Net investment income	231	240
Operating result (EBIT)	185	335
Combined ratio (net)[1] in %	104.1	90.5

[1] *Including deposit interest result*

The Industrial Lines division is led by HDI-Gerling Industrie Versicherung AG. The company offers the entire spectrum of individual products and services for its clients from eleven locations in Germany. Through subsidiaries, dependent branches in 28 countries and network partners its activities span the globe.

Major companies in the Group segment

HDI-Gerling Industrie Versicherung AG	Germany
HDI-Gerling Australia Insurance Company Pty. Ltd.	Australia
HDI-Gerling Assurances (Belgique) S.A.	Belgium
HDI-Gerling de México Seguros S.A.	Mexico
HDI-Gerling Verzekeringen N.V.	Netherlands
HDI Versicherung AG	Austria
HDI Seguros S.A.	Spain
HDI-Gerling Insurance of South Africa Ltd.	South Africa
HDI-Gerling America Insurance Company	USA

As an internationally operating industrial insurer, HDI-Gerling Industrie supports its clients at home and abroad with bespoke solutions optimally tailored to their individual needs. The product range extends from casualty, motor, accident, fire and property insurance to marine, special lines and engineering insurance. Industrial clients in Germany and foreign markets profit from decades of experience in risk assessment and risk management, since the complex risks faced by industry and SMEs necessitate special protection. Comprehensive insurance solutions are assembled on the basis of customized coverage concepts, thereby providing the complete product spectrum needed to protect against entrepreneurial risks. Just as importantly, thanks to its many years of experience and proven expertise, HDI-Gerling provides professional claims management that delivers the fastest possible assistance worldwide in the event of loss or damage.

Stable premium volume

The gross written premium in the Industrial Lines segment amounted to EUR 3.1 (3.1) billion at the end of the year under review and was thus maintained on a stable level year-on-year.

Developments varied widely in the various submarkets: whereas in Germany it was possible in some instances to push through premium increases in industrial liability business for certain contracts in response to losses, lines such as marine insurance with turnover-based policies still suffered under the after-effects of the economic crisis; supplementary premium adjustments and lower renewal premiums led to premium erosion. The assumption of a legal protection portfolio from the Retail Germany segment accounted for premium growth of around EUR 18 million.

The development of business in the various submarkets abroad was mixed: our Dutch company HDI-Gerling Verzekeringen N.V. (+EUR 16 million) and our Belgian company HDI-Gerling Assurances S.A. (+EUR 8 million) held their ground well and recorded appreciable premium gains in fiercely competitive environments. The premium income booked by the Austrian company HDI Versicherung AG came in fractionally lower at EUR 192 (193) million. The challenging competitive state of the local market, which led to price cuts most notably in motor business and the turnover-based lines, was a factor here. The Spanish company HDI HANNOVER International España, Cía de Seguros y Reaseguros S. A. saw its premium volume contract by EUR 48 million. This can be attributed almost entirely to a fundamental change in the company's orientation: since mid-2009 it has no longer been writing any new business with retail customers. Premiums from this business – especially in motor insurance – had still been recognized in the previous year.

The reinsurance premiums written in the segment remained stable at EUR 1.7 (1.7) billion. Net premiums earned tracked this development at an unchanged level of EUR 1.4 (1.4) billion.

Underwriting result impacted by claims expenditures and additional reserving

The net underwriting result of the Industrial Lines segment showed a loss of EUR 58 (previous year: profit of 134) million. With a net expense ratio of 22.1 (21.9)% and a loss ratio of 82.0 (68.6)%, the combined ratio stood at 104.1 (90.5)%.

Net underwriting expenses in the Industrial Lines segment climbed by an appreciable EUR 201 million to EUR 1.5 (1.3) billion. This rise was driven chiefly by the increase in claims expenditures for the financial year across virtually all market segments, although this should be viewed against the backdrop of an unusually favorable experience in the previous year. In addition, extensive steps were taken in the year under review to strengthen the loss reserves, especially for existing claims in the public liability line.

The reinsurers' share of the claims and claims expenses remained on a par with the previous year at EUR 0.9 (0.9) billion despite the rise in gross expenses. On the one hand, the reinsurers participated to a disproportionately modest extent in the aforementioned strengthening of the reserves; on the other hand, reinsurers' shares of the loss reserves totaling around EUR 13 million were released in connection with commutation of the reinsurance relationship with Global Re in the previous year. Not only that, in the 2010 financial year a sizeable reinsurance quota share treaty was commuted in the motor line in Germany, resulting in derecognition of the corresponding reinsurers' shares in an amount of roughly EUR 28 million and hence reducing accordingly the relief afforded by reinsurance arrangements.

The gross acquisition costs and administrative expenses contracted by 9% to EUR 568 (622) million; this can be attributed to HDI-Gerling Industrie Versicherung AG (decrease of EUR 43 million) and HDI HANNOVER International España (decrease of EUR 16 million). The improvement at the largest company in the segment, HDI-Gerling Industrie Versicherung (HG-I), resulted from increased deferral of commissions; in the comparable period a smaller portion of the paid commissions had been deferred. The reduced acquisition costs and administrative expenses at the Spanish company were due to the drop in the business volume. The decrease of EUR 59 million in the reinsurers' shares of the acquisition costs and administrative expenses slightly overcompensated for the positive trend in the gross expenses, as a consequence of which the net expenses were almost unchanged at EUR 312 (307) million.

Investment income just under the level of the previous year

The investment income retreated by a modest 4% to EUR 231 (240) million. Crucial here was the fall of EUR 17 million in the investment income booked by HG-I to EUR 195 (212) million. This was due to the fact that gains from the disposal of investments were lower than in the comparable reporting period; in the previous year substantial profits had been realized from the sale of equity funds in a sizeable volume. The other companies in the segment posted slightly to significantly higher investment income virtually across the board. The influence of the financial crisis had all but faded in the year under review.

Other income influenced by special effects

Other income improved to EUR 11 (–39) million. In this case, too, the change was attributable chiefly to HG-I; in both the previous year and the year under review its other income was influenced by special effects. In the previous year income from the reversal of impairments on reinsurance recoverables had been recognized in an amount of EUR 58 million. This had, however, been virtually offset by opposing expenditures from derecognition of an asset item which stemmed from the acquisition balance of the largest property/casualty risk carrier of the Gerling Group and constituted a contra item to the loss reserves assumed at carrying values at the time of acquisition. In addition, impairments of around EUR 30 million had to be taken on reinsurance recoverables. In the year under review it was possible to release a significant volume of sundry provisions, as a consequence of which the other income booked by HG-I improved to EUR 28 (–7) million.

Operating profit sharply lower

The operating profit generated by the Industrial Lines segment came in at EUR 185 (335) million, a reduction of 45%. The key factor in the decline in profitability was the development of the underwriting result owing to increased claims expenditures, which – with investment income remaining on a stable level – were not offset by the improvement in other income.

Retail Germany

Figures in EUR million	2010	2009
Gross written premium	6,823	6,614
Net premium earned	5,507	5,158
Underwriting result	–1,631	–945
Net investment income	1,577	1,207
Operating result (EBIT)	–44	209
Combined ratio (net)[1] in %	104.2	99.2

[1] *Including deposit interest result*

The Retail Germany division, which brings together the German business transacted by HDI-Gerling with private and commercial customers as well as all German bancassurance activities, offers domestic retail customers insurance protection that is tailored to their needs. In the life insurance sector the division also operates internationally in Austria. The name of the new divisional company with effect from December 2010 is Talanx Deutschland AG. The product range extends from non-life insurances through all lines of retirement provision to complete solutions for small and mid-sized enterprises as well as freelance professions. In this context all distribution channels are available – both a tied agents' network as well as sales through independent intermediaries and multiple agents, direct sales and bancassurance cooperations.

The functional organization ensures clear responsibilities and puts in place the foundation for operations spanning the previous line-based boundaries between property/casualty and life insurance products. This multi-line perspective is a vital prerequisite for improving processes and services to the benefit of customers.

Major companies in the Group segment

HDI-Gerling Lebensversicherung AG
HDI-Gerling Pensionskasse AG
HDI Direkt Versicherung AG
HDI-Gerling Firmen und Privat Versicherung AG
HDI-Gerling Rechtsschutz Versicherung AG
neue leben Lebensversicherung AG
PB Lebensversicherung AG
PBV Lebensversicherung AG
TARGO Lebensversicherung AG
TARGO Versicherung AG

Premium volume and new business slightly higher than in the previous year

Gross written premium in the Group segment of Retail Germany – including savings elements of premiums from unit-linked life insurance – increased by 3% in the 2010 financial year to EUR 6.8 (6.6) billion.

The gross written premium from our property/casualty insurance products decreased by 3% year-on-year to EUR 1.5 (1.5) billion. The decrease stood at just 1.5% after factoring out the effect of the transfer of the industrial portfolio of HDI-Gerling Rechtsschutz Versicherung AG to the new Industrial Lines segment, and the figure was a mere 0.3% in the most significant property/casualty line – namely motor business.

In life insurance sector, gross written premium including savings elements from premiums under unit-linked life insurance products was boosted by 5% in the year under review to EUR 5.4 (5.1) billion. This increase was driven in large measure by the particularly favorable development of single-premium business at Targo Lebensversicherung AG, PBV Lebensversicherung AG and neue leben Lebensversicherung AG, which together improved their gross premiums by EUR 277 million. Gross premiums of altogether EUR 2.5 billion – as in the previous year – were generated by the companies HDI-Gerling Lebensversicherung AG and Aspecta Lebensversicherung AG, which were merged with effect from 1 October 2010. In this case premium erosion stemming primarily from the portfolio of policies with a regular premium payment held by the former Aspecta Lebensversicherung AG was offset by increased new business with a single premium payment. Looked at overall, then, the positive development of our life insurance products – reflecting the market trend – derived from sharply higher single-premium business despite declining regular premiums; it should be noted in this context that our Group does not market any capitalization products. PB Lebensversicherung AG, which now only writes new business in the area of credit life, recorded a premium decrease of EUR 11 million. Measured by the internationally recognized yardstick of the Annual Premium Equivalent (APE), the new business booked by the life insurers grew to EUR 515 (462) million and thus surpassed the previous year by 11%.

The level of retained premium in the segment as a whole climbed from 89.2% to 92.6%, primarily as a consequence of the increase in single premiums combined with the drop in ceded regular premiums.

Underwriting result retreats sharply

The underwriting result fell by a substantial 73% overall to –EUR 1.6 (–0.9) billion. It includes inter alia the compounding of the technical liabilities (allocation to the benefit reserve) and the participation of our policyholders in the investment income – which increased in the year under review owing to the development of capital markets (allocation to the provision for premium refunds). The income opposing these expenses is, however, recognized in the investment income, hence causing the underwriting result to close in negative territory.

More than 9/10 of the underwriting result in the segment was determined by life insurance products: in this respect it decreased by 65% relative to the previous year to –EUR 1.6 (–1.0) billion. The reasons were partly connected with the positive trend on capital markets in comparison with the previous year, but were also associated with various special charges. Thus, for example, in the context of the retroactive merger of Aspecta into HDI-Gerling Lebensversicherung AG reinsurance treaties were commuted, which – insofar as they were not offset by contributions from the controlling company – led to the bringing forward of a balance sheet strain in the reporting period. Strains were also incurred from the adjustment of values relating to various technical items in the balance sheet in connection with life business, especially as a consequence of capital market movements and changed cost structures as well as the associated lower contribution margins for in-force business. Not only that, the amortization of deferred acquisition costs and write-downs taken on in-force insurance portfolios also crucially impacted the performance of our life insurers. This was due principally to the capital market development in the year under review, which necessitated adjustments to the assumptions underlying the forecast of future profits. The underwriting result from property/casualty products fell from EUR 12 million to –EUR 56 million, first and foremost on account of the claims experience. Key factors here – along with the favorable claims experience in the previous year – were the growth in motor business against a backdrop of lower average premiums. The loss reserves also had to be strengthened. The combined ratio for the segment as a whole stood at 104.2 (99.2)%.

Investment income improves

Investment income surged by an appreciable EUR 370 million (+31%) to EUR 1.6 billion. This increase was made possible by extraordinary income that was considerably better than in the previous year. While the previous year's result had still been overshadowed by impairments on investments and losses on disposals in connection with the financial crisis, gains on disposals from equity funds were the hallmark of the extraordinary profit in the year under review. Of the total investment income, an amount of EUR 1.5 (1.1) billion is to be credited in very large measure pro rata to the holders of life insurance policies.

Operating result falls short of the previous year

The operating result (EBIT) came in at –EUR 44 (+209) million. The stronger investment income did not suffice to offset the marked reduction in the underwriting result. The EBIT was heavily influenced by the decline at HDI-Gerling Lebensversicherung AG (incl. Aspecta Lebensversicherung AG), but above all by the amortization of deferred acquisition costs at PBV Lebensversicherung AG, claims-related expenditures at HDI-Gerling Firmen- und Privatversicherung AG and cost burdens associated with the reorganization of the sales companies.

Retail International

	2010	2009
Figures in EUR million		
Gross written premium	2,233	1,827
Net premium earned	1,742	1,403
Underwriting result	–136	–99
Net investment income	151	121
Operating result (EBIT)	27	–42
Combined ratio (net)[1] in %	105.2	102.5

[1] *Including deposit interest result*

The Group segment of Retail International brings together the activities of the companies transacting retail business in property/casualty insurance, life insurance and bancassurance in international markets; it serves more than 8 million customers in 12 countries. The segment is led by Talanx International AG (previously: HDI-Gerling International Holding AG).

In this division we offer private and commercial customers abroad comprehensive insurance protection tailored to their needs. The product range encompasses inter alia motor insurance, property and casualty insurance, marine and fire insurance as well as various offerings in the life insurance sector. Seasoned, expert management combined with the considerable underwriting expertise of local staff form the backbone of the Talanx International group. By drawing upon local, industry-specific know-how and our presence through an extended distribution network we are able to identify our customers' particular requirements in foreign markets and provide customized solutions.

Foreign business is to a large extent written through brokers and agents. Many of our companies also use post offices and banks as a sales channel.

Major companies in the Group segment

HDI Seguros S.A.	Brazil
HDI Zastrahovane AD	Bulgaria
HDI Seguros S.A.	Chile
HDI Assicurazioni S.p.A.	Italy
InChiaro Assicurazioni S.p.A	Italy
HDI Seguros S.A.	Mexico
HDI-Gerling Zycie TU S.A.	Poland
HDI Asekuracja TU S.A.	Poland
OOO Strakhovaya Kompaniya "HDI Strakhovannie"[1]	Russia
OOO Strakhovaya Kompaniya "CiV Life"	Russia
CiV Hayat Sigorta A.Ş.	Turkey
HDI Sigorta A.Ş.	Turkey
HDI Strakhuvannya	Ukraine
Magyar Posta Biztosító Zrt.	Hungary
Magyar Posta Életbiztosító Zrt.	Hungary

[1] *Since the third quarter of 2010; business to be written from 2011 onwards. The company will complement the product portfolio of CiV Life with property/casualty products.*

Development of key markets

Along with the general statements already made regarding the international insurance markets pages 38 et seq., the following remarks may be added with respect to our highest-volume markets in this segment – Brazil, Italy and Poland: Brazil has recovered very quickly from the global economic and financial market crisis. Economic output had already moved back into positive growth rates by the second quarter of 2009. With a view to countering any overheating of the Brazilian economy, spending cuts were announced in the course of 2010 and the prime rate was raised. In this market we are particularly active in motor insurance, which promises further growth in keeping with the favorable economic trend. Poland's economic output has already shown softer, but nevertheless positive growth since 2009 – despite the global economic and financial market crisis. These developments also promise further growth for the insurance market. In addition to motor insurance, we transact other lines in Poland such as casualty and general property insurance as well as life insurance. The year under review, especially the first half of the year, was heavily overshadowed by the flooding along the rivers Oder and Vistula. On the Italian market we conduct operations both in the life insurance market and in property/casualty insurance

– predominantly motor insurance. The company noted the first indications of rate increases beginning to take hold in motor insurance in 2010 after several years of fierce competitive and pricing pressure.

Premium volume and new business sharply higher

Gross written premium in the segment climbed 22% year-on-year to EUR 2.2 (1.8) billion; adjusted for exchange rate effects, growth came in at 13%.

The growth in property/casualty products (+32%) derived partly from exchange rate effects. If these effects are factored out, premium growth of 19% was booked in the property/casualty sector relative to the previous year. Most notably, the exchange rates for the Brazilian, Polish, Turkish and Mexican currencies strengthened appreciably. While the Brazilian company HDI Seguros delivered premium growth of 21% in the local currency based on its robust market position in the country, growth surged to 45% after translation into euros. The situation was similar at the Polish company HDI Asekuracja, into which HDI-Gerling Polska was merged in the second quarter of 2010 with retroactive effect from 1. January 2010. Premium growth in the local currency stood at 5% compared to the previous year (taking into account the aggregate premium of what were then two companies), while the increase amounted to 13% after translation into euros. Similarly, the Turkish company HDI Sigorta boosted its premium volume by 28% in the local currency thanks to intensified marketing efforts and the opening of new agencies, whereas in euros the increase was as much as 38% owing to the favorable movement in exchange rates. The contribution delivered by HDI Seguros Mexico, which was added to the Group in the fourth quarter of 2009 and was thus only included pro rata in the comparable period, amounted to EUR 62 million.

New business in our international property/casualty insurance portfolio was boosted in the 2010 financial year – measured by policy numbers. The key driver here was the motor line, accounting for a portfolio around 4.3 (4.1) million of altogether roughly 7.8 (7.2) million policies.

In the financial year just-ended the Italian company HDI Assicurazioni generated premium volume in the life insurance sector of EUR 325 million, a decline of somewhat more than 9% relative to the previous year. The major factor in the previous financial year had been the implementation of a government tax amnesty, as a consequence of which considerable amounts were available for investment in single-premium products – a state of affairs from which life insurance policies also profited as an attractive investment alternative. This trend from 2009 was sustained in 2010, albeit not on the same scale. At the same time the company booked growth of around 9% from sales of property/casualty products (especially in the motor liability line) on the back of a higher average premium, as a result of which its total premium volume remained stable.

The companies abroad transferred from Proactiv Holding AG to Talanx International Holding AG as part of the Group restructuring also played their part in premium growth. Our Hungarian life insurer, for example, boosted its premium volume by 11% from EUR 92 to 103 million thanks to its successful sales and marketing activities. Similar growth was also recorded by the companies in Russia and Turkey. Although they are still of minor importance measured by the total volume, they rank among the fastest growing companies in their markets. Our Russian company CiV Life grew its premium income by around 56% year-on-year, while our Turkish operation CiV Hayat boosted its volume by around 102% with the aid of successful sales activities – including intensive coaching measures – as well as modified products. The Polish company HDI-Gerling Zycie also more than doubled its premium income year-on-year, most notably in the area of unit-linked life products, thanks to a new cooperative venture with the Polish BRE Bank launched in the middle of the year.

Measured in terms of the APE, new business in international life insurance contracted to EUR 128 million, a fall of 4% relative to the previous year. The APE is split in particular between endowment policies and unit-linked as well as non-unit-linked products.

The level of retained premium in the segment – at 90.0% – was 4.4 percentage points higher than at year-end 2009; as described in the following section, an influencing factor here was the cancellation of a quota share reinsurance treaty in the motor line at the Turkish company HDI Sigorta, which caused its retention to rise from 55.8% to 85.7%.

Underwriting result reduced

The combined ratio in international property/casualty insurance was 105.2 (102.5)%, a reflection in part of the above-average burden of losses incurred in the first half of the year under review. Particularly significant here were flood and winter-related damage, which took a heavy toll on the result of the Polish company HDI Asekuracja. As a consequence of changes in the reinsurance structure for the motor line at this company, the reinsurer's share of the paid claims decreased – leading to higher net claims expenditure. The company's underwriting result therefore fell to –EUR 28 (–3) million. Similarly, the earthquake in Chile at the end of February 2010 adversely impacted the burden of losses incurred by the Chilean company HDI Seguros. Changes in local supervisory law compelled the Turkish company HDI Sigorta to cancel a multi-year quota share reinsurance treaty in the motor line. The effect of cancelling this treaty is the primary reason why the company – despite growing its portfolio – closed the year under review with an underwriting deficit of –EUR 52 (–12) million. The deterioration in the underwriting result for the segment from –EUR 99 million to –EUR 136 million was therefore driven chiefly by the companies HDI Sigorta and HDI Asekuracja. In addition, the loss reserves at some Group companies were strengthened on the basis of an annually compiled external loss reserve assessment.

In the financial year just-ended the writing of new business at the companies ASPECTA Liechtenstein and ASPECTA Luxemburg was discontinued until further notice on the basis of the Group's strategic reorientation and both companies went into run-off; consequently, the two companies produced an underwriting deficit of –EUR 21 million overall. Our Brazilian company, on the other hand, boosted its underwriting profit from EUR 1 million to EUR 13 million.

Substantially increased investment income

In the 2010 financial year investment income of EUR 150 million was generated in the Retail International segment, an improvement of 24% over the previous year – in which the investment income booked by companies was still heavily overshadowed by the after-effects of the financial crisis. The increased gains realized from the disposal of equities and fixed-income securities contrasted as at year-end 2010 with appreciably lower realized losses than in the previous year. In the case of the Italian company HDI Assicurazioni, for example, impairments of EUR 14 million had to be taken on investments at the end of 2009; at year-end 2010 they amounted to just EUR 8 million. In addition, ordinary investment income was favorably affected by a modest upturn in the interest rate level in a small number of countries. The Brazilian company HDI Seguros, for example, boosted its investment income by 55% year-on-year to EUR 39 (25) million.

Operating result returns to positive territory

The Retail International segment reported an operating result (EBIT) of EUR 26 (–42) million in the year under review. The amortization of goodwill for our Mexican subsidiary resulted in a charge to EBIT.

Non-Life Reinsurance

Figures in EUR million	2010	2009	2008 1)	2007 1), 2)	2006 1)
Gross written premium	6,340	5,753	4,997	5,611	7,143
Net premium earned	5,395	5,237	4,287	4,631	5,638
Underwriting result	78	136	200	16	79
Net investment income	779	610	47	863	925
Operating result (EBIT)	909	760	122	902	813
Combined ratio (net) 3) in %	98.3	96.7	95.0	98.8	98.2

1) Limited comparability due to changes in segment allocation
2) Adjusted on the basis of IAS 8
3) Including deposit interest result

By far the bulk of the non-life reinsurance transacted within the Talanx Group is written by the Hannover Re Group. Hannover Re maintains business relations with more than 5,000 insurance companies in about 150 countries. With a global network consisting of more than 100 subsidiaries, affiliates, branches and representative offices in around 20 countries, the group employs approximately 2,200 staff.

In non-life reinsurance we do not pursue any growth targets, but instead keep a close eye on rate movements: we expand our business if the rate situation is favorable and scale back our portfolio if prices are not commensurate with the risks.

Business experience in 2010 in line with expectations

The expectations expressed with regard to the treaty renewals as at 1 January 2010 were confirmed over the course of the year: prices remained broadly stable, although they softened slightly in loss-free segments. Rate increases were also recorded in areas that had seen sizeable losses in 2009, such as aviation insurance or credit and surety reinsurance. The fact that prices remained on a largely stable level also reflects the underwriting discipline practiced among reinsurers. Given the lower returns attainable on investments owing to the low interest rate level, the primary focus of attention was even more heavily on underwriting results. This was also true of the various treaty renewal phases that took place within the year.

The treaty renewals in North America were in line with our expectations, although the rate level in many areas was not adequate. We therefore exercised caution in assuming additional risks. In credit and surety business – despite growing capacity on the market – we were again able to push through significantly improved conditions and expand our market position. In worldwide catastrophe business prices for reinsurance covers declined as expected owing to the relatively untroubled major loss experience in 2009 as well as the improved capital resources of primary insurers. Rate reductions in the United States were particularly marked; price increases were nevertheless obtained under loss-impacted programs in certain regions. All in all, we enjoyed very good opportunities to generate profitable business and extend our market share. The focus of our activities was on the markets of China as well as Central and Eastern Europe, facultative reinsurance and agricultural risks. In the UK market, too, Hannover Re successfully extended its position.

Premium growth of 10%

The gross premium volume for our Non-Life Reinsurance segment increased as forecast, rising by 10% to EUR 6.3 (5.8) billion. At constant exchange rates, especially against the US dollar, growth would have come in at 7%. The level of retained premium fell from 94.1% to 88.9%. Net premium earned climbed 3% to EUR 5.4 (5.2) billion.

Healthy profitability despite heavy loss expenditure

Even though the hurricane season in North and Central America again passed off very moderately in the year under review without any expenditures for our account, the major loss situation was exceptionally strained in 2010. Hannover Re's total net expenditure on catastrophe losses and major claims in the year under review amounted to EUR 662 million, compared to EUR 240 million in the previous year. It thus surpassed the expected level of EUR 500 million. Against this backdrop, the combined ratio climbed to 98.3 (96.7)%. The largest single loss event for our account in the year under review – at EUR 182 million – was the severe earthquake in Chile. The devastating earthquake in Haiti, on the other hand, produced a somewhat more modest loss amount of EUR 27 million owing to lower insured values. In Europe, too, we were impacted by a number of natural disasters in the year under review, including for example several flood events and a powerful winter storm ("Xynthia"). The earthquake in New Zealand, which caused destruction on a massive scale, resulted in a net strain of EUR 114 million for our account.

Along with the aforementioned natural disasters, one loss event in particular attracted worldwide attention in the year under review – namely the sinking of the "Deepwater Horizon" drilling rig, which caused extensive environmental damage. Particularly with regard to possible liability claims, very many questions remain unanswered; the loss for the insurance industry and hence also for reinsurers is therefore still difficult to assess. The loss reserves of EUR 85 million that we set aside in 2010 reflect all the actual and potential exposures for our portfolio from this complex loss event that are known to us at this point in time and, as things currently stand, represent a conservative level of reserving.

In view of the substantial major loss expenditure, the underwriting result for non-life reinsurance contracted year-on-year by EUR 58 million to EUR 78 (136) million. Net investment income climbed 28% to EUR 779 (610) million. The operating profit (EBIT) in this segment increased by 20% to EUR 909 (760) million. The very good profit on ordinary activities was assisted by a special effect associated with a decision of the Federal Fiscal Court (BFH). After the BFH had confirmed that taxation of foreign-sourced investment income recorded by Irish subsidiaries was not permissible, we were able to release provisions that had been constituted in this regard. Against this backdrop, all tax risks were reassessed.

Our business fared better than expected in the year under review in our target markets of Germany and North America: the premium volume remained virtually unchanged at EUR 1,754 (1,738) million. The combined ratio stood at 97.4% in the year under review, after 104.7% in the previous year. The operating profit (EBIT) for the target markets totaled EUR 301 (119) million.

The development of our specialty lines was thoroughly satisfactory. This subsegment of non-life reinsurance includes marine and aviation business, credit/surety, structured reinsurance, ILS (insurance-linked securities), the London market and direct business. The premium volume climbed from EUR 2,234 million to EUR 2,372 million. The combined ratio improved to 91.4 (96.5)%. The specialty lines segment delivered an operating profit (EBIT) of EUR 370 (256) million.

We combine all markets worldwide under global reinsurance, with the exception of our target markets of Germany and North America and the specialty lines. This subsegment also encompasses worldwide catastrophe business, facultative reinsurance, agricultural risks and Sharia-compliant retakaful business. The development of markets in global reinsurance business was challenging in the year under review. The premium volume here surged by 25% to EUR 2,213 (1,775) million. The combined ratio soared to 106.1 (87.9)% owing to an exceptionally heavy burden of major losses. The operating profit (EBIT) consequently shrank to EUR 112 (356) million.

Life/Health Reinsurance

Figures in EUR million	2010	2009 [1]	2008 [1]	2007	2006
Gross written premium	5,090	4,529	3,135	3,083	2,794
Net premium earned	4,654	4,078	2,785	2,795	2,374
Net investment income	508	525	371	313	345
Operating result (EBIT)	276	371	114	231	146

[1] *Adjusted on the basis of IAS 8*

The Group segment of Life/Health Reinsurance brings together our reinsurance activities in the life, annuity and health lines under the worldwide Hannover Life Re brand name. We also write the accident line in this segment, to the extent that it is transacted by life insurers, as well as some Islamic insurance products, the so-called family takaful products.

Tried and trusted business model

In the year under review we moved a significant step closer towards attaining our longer-term goal of becoming the number three in the worldwide life reinsurance market. Outside the US we already rank third by a wide margin.

We are able, on the one hand, to selectively tap into attractive business potential in the traditional market through conventional reinsurance offerings, while at the same time working systematically on the development of special product and sales solutions through our four specialist segments. To a significant extent Hannover Life Re is thus able to decouple itself from developments on the standard reinsurance markets.

In many instances Hannover Life Re has been able to operate as a pioneer for new markets and has played a crucial role in shaping the dynamic growth of these markets – the entry into the UK private annuity sector with enhanced annuities in the years 1994/95 may be cited as a well-known example of this approach.

At the present time conventional reinsurance accounts for the lion's share of our portfolio. In the medium term, however, we anticipate stronger growth from the pillars of new markets and bancassurance; it should therefore be possible to restore the desired long-term balance between conventional reinsurance (at around 40% of the portfolio) and the other four pillars (at around 60% of the portfolio) in the next few years.

Value contribution through diversification

We devote particularly close attention to optimal risk diversification – something which is also evident in the relevant risk models under Solvency II. The negative correlation between the biometric components of mortality and longevity plays a special role here.

The growth in longevity business diversifies our mortality risk, while the growth on emerging markets in Asia, Africa and Latin America serves to improve the geographical spread of our portfolio from the major markets of the United States, United Kingdom and Germany; financial solutions provide an additional element of structural diversification.

All in all, we consider Hannover Life Re to be a superbly diversified reinsurer that optimally combines the prospects for long-term growth and profitability over the next 20 to 30 years. Certain risks that enjoy occasional demand as growth drivers in the international reinsurance markets have been considered unreinsurable by our company for quite some years. We include here derivative financial options and guarantees deriving from variable annuity products, the longevity risk for affluent socio-economic groups and life-long guarantees for morbidity products.

Our business model is founded on a concept of organic growth, although we are open to acquisitions. Going forward, as in the past, we expect to maintain our growth on an average level of 10 to 12% per year through appropriate portfolio acquisitions, thereby systematically gaining market shares in the global market without this detrimentally impacting the quality of our acceptances.

Business development

As expected, the repercussions of the international financial market crisis continued to reverberate beyond 2009. On the one hand, consumers in many markets showed caution when it came to demand for long-term life insurance products; on the other hand, the persistency of older in-force portfolios deteriorated owing to an increased lapse rate. What is more, in the important US mortality market and in the Australian disability market we noted an increase in the biometric claim frequencies; in some cases they were significantly higher than the comparative historical values. After detailed analysis of the data it is our assumption that these are temporary phenomena. Despite this sometimes difficult environment, we were again able to generate a highly satisfactory result in life/health reinsurance.

Market position extended

We selectively strengthened our position in our relevant focus markets of the United States, United Kingdom, Germany, Australia and France.

In view of the extremely competitive market climate, we wrote new mortality and critical illness/trauma risks in the UK and Australian markets only with considerable restraint. In large parts of these markets we no longer consider the reinsurance conditions to be commensurate with the risks. On the other hand, following on from the acquisition of the ING life reinsurance portfolio in 2009, we again significantly expanded our position in the US mortality market in the course of the year under review. We revived reinsurance relations with several ceding companies and are now well on track in the medium term to becoming a relevant market player in the US mortality market with a 10 to 15% share of new business.

We were similarly able to build on our leading role in the UK longevity market. We have a strong presence in new business involving personal annuities for individuals with a reduced life expectancy; in this area we support a number of particularly dynamic providers through quota share reinsurance models.

What is more, we are expanding activities relating to the reinsurance of sizeable pension funds in the United Kingdom through so-called longevity swaps – under which the reinsurer assumes the biometric risk of longevity associated with a portfolio (normally only the part of the portfolio on which benefits are already being paid) in exchange for payment of a regular fixed premium.

In South Africa we continue to be the leading life reinsurer, based on our extensive support for innovative, customer-oriented insurance companies. In the Indian market, in which we only established a footing in 2008 with a service office in Mumbai, we moved forward with our strategic life cooperation with GIC Re and were able to acquire a number of Indian primary insurers as new clients.

In the Chinese market (Greater China) we are currently represented by three offices: the branch in Hong Kong serves both the market comprised of locally-based life insurers and the regional centers of large multinational insurance groups. It also operates as a regional service center for East Asia. Our service office in Taipei serves the local Taiwanese market. The branch in Shanghai concentrates on business from China, where – in close cooperation with and express approval from the local regulator (CIRC) – we were able to close the first two liquidity-related financing transactions.

The development of our business in the Islamic insurance sector (takaful), which we write through our subsidiary Hannover ReTakaful in Manama/Bahrain, was also highly gratifying. Our retakaful cedants are located predominantly in Saudi Arabia, Bahrain and the United Arab Emirates.

Pleasing premium growth

The gross premium income booked in the year under review totaled EUR 5.1 billion, an increase of 12% relative to the previous year's figure of EUR 4.5 billion. At constant exchange rates – especially against the US dollar – growth would have come in at 7%. Net premium earned amounted to EUR 4.7 billion; this represents a slightly higher level of retained premium of 91.7% compared to the previous year.

In geographical terms, growth impetus in the year under review derived from the United States, United Kingdom, South Africa, Latin America and East Asia – particularly noteworthy is the rapid growth witnessed in China.

The core of our activities is in the life and annuity lines, which accounted for altogether 87% of worldwide premium income in the year under review.

The various covers associated with the biometric risk segment of morbidity, such as disability covers, critical illness/trauma covers and health covers, accounted for 11%, while the modest but highly profitable portfolio of accident business contributed a share of 2%.

The experience of the biometric risks of mortality and morbidity was extremely mixed in the year under review and less favorable overall than in the two previous years. Irregularities were observed in the mortality risk in some subsegments of the US portfolio, which – especially in the second half of the year – was impacted by an unusually large number of claims with high sums insured. In total, additional expenditure in the mid-double-digit million euro range was incurred. The claims experience in Australian disability annuity business was similarly unusual: the period during which annuity recipients remained in the disability phase was longer by market standards. This prompted a strengthening of the IBNR reserves and the provision for claims already being paid out. Altogether, additional expenditure in the low-double-digit million euros was incurred.

We continued to enjoy very favorable claims experiences in the United Kingdom, Germany and France as well as in the emerging markets of South Africa, Latin America and Asia. The results of the longevity risk, which at the present time we write primarily in the United Kingdom, are inconspicuous and currently in line with our actuarial assumptions.

Investment income almost on a par with the previous year

To a large extent we do not carry any investment risk with respect to the investments that we deposit with ceding companies under reinsurance contracts financed from premiums; this is because the reinsurer is credited with fixed interest income irrespective of whether or not the primary insurer generates this rate of return.

The situation is different in the US reinsurance market, where we are exposed to a volatility risk through the market-oriented measurement of the securities deposited under ModCo reinsurance treaties. For 2010 this risk – the development of which is reflected on the accounting side through unrealized gains/losses – showed a slightly positive experience, compared with the profit running into the low-triple-digit million euros that had been recognized in the previous year.

Total investment income came in at EUR 508 (525) million; of this amount, EUR 204 million derived from assets under own management and EUR 304 million was attributable to amounts credited on deposits with ceding companies. Internal administrative expenses in life/health reinsurance amounted to EUR 119 million.

Results within the bounds of expectations

The operating profit (EBIT) for the year under review totaled EUR 276 million. The previous year, which produced a record result of EUR 371 million, had been influenced by special effects associated with the acquisition of the US ING life reinsurance portfolio as well as fair value adjustments on reinsurance deposits in the US and UK. Our lean processes, quick decision-making structures and our focus on relevant client relationships in the context of a detailed CRM strategy are key factors in the efficiency of our business model.

Corporate Operations

Figures in EUR million	2010	2009	2008 [1)]	2007 [1)]	2006 [1)]
Net investment income	–97	–56	–96	–67	–49
EBIT	–315	–26	–16	60	55

[1)] *The years prior to 2009 are of only limited comparability due to changes in segment allocation*

Along with Talanx AG, this Group segment essentially consists of the AmpegaGerling companies, the reinsurance broker Protection Reinsurance Intermediaries AG (Protection Re) and the Group's internal service companies, namely Talanx Service AG and the IT service provider – which will commence operational business in 2011. As a result of the restructuring within the Talanx Group the tasks assigned to the former HDI-Gerling Sach Serviceholding were reconfigured. As Talanx Service AG, it now brings together the domestic central functions that do not relate directly to the insurance business, such as accounting, purchasing, facility management and human resources.

AmpegaGerling – the investment specialist

The "AmpegaGerling" brand encompasses both the asset management of the Talanx Group itself as well as asset management and funds provider activities aimed at institutional and private clients. The Asset Management GmbH, Investment GmbH and Immobilien Management GmbH are grouped together under this brand. In the course of the year, as part of the restructuring measures, AmpegaGerling Asset Management is to be renamed Talanx Asset Management and AmpegaGerling Immobilien Management will begin trading as Talanx Immobilien Management. AmpegaGerling Investment GmbH remains unaffected by the rebranding and its products will continue to bear this name on the market going forward.

AmpegaGerling Asset Management GmbH – in cooperation with the subsidiary AmpegaGerling Investment GmbH – is chiefly responsible for handling the management and administration of Group companies' securities portfolios and performs associated services such as investment bookkeeping and reporting. The company had assets under management of EUR 67.2 billion as at 31 December 2010, compared with a volume of EUR 59.9 billion at year-end 2009.

As an investment company, AmpegaGerling Investment GmbH administers public and special funds and performs financial portfolio management tasks for institutional clients. The emphasis is on portfolio management and the administration of investments for clients outside the Group. The company's retail business fared highly successfully in 2010 thanks to significant cash inflows of EUR 738 million. The volume of public funds grew by EUR 0.9 billion year-on-year to EUR 3.5 billion. The company was thus able to purposefully enlarge this strategic subsegment. While the industry as a whole posted growth of 12% in the volume of public funds in 2010, AmpegaGerling generated a disproportionately vigorous increase of 33%. Looking at the sales trend in terms of distribution channels and customer segments, administrative business with label funds for external fund initiators proved to be the most crucial success factor. Another key sales area is the Group's own unit-linked business based on insurance policies of this type. In addition to retail business, the company engages in institutional business with third-party clients and – on the basis of its available know-how profile – positions itself as an outsourcing partner for non-Group insurers. Existing mandates were enlarged by EUR 140 million in 2010.

The total volume of assets under management grew to EUR 14.7 billion, an increase of 11% relative to the level at the beginning of the year (EUR 13.3 billion). Of this total volume, more than half – specifically EUR 8.0 (7.7) billion – was administered on behalf of Group companies through special funds and direct investment mandates. The remaining portion was attributable to institutional third-party clients in an amount of EUR 3.4 (3.3) billion and retail business in an amount of EUR 3.3 (2.3) billion. The latter is offered both through the Group's own sales channels and products such as unit-linked life insurance as well as through external asset managers and banks.

Assets of EUR 1.2 (2.4) billion were attributable to AmpegaGerling Immobilien Management GmbH as at 31. December 2010. The contraction in assets resulted from the transfer of mortgage portfolios to HDI-Gerling Lebensversicherung AG.

All in all, the volume of assets under management by all AmpegaGerling companies grew from EUR 75.5 billion to EUR 83.1 billion as at year-end 2010, of which EUR 74.5 billion was apportionable to Group companies and EUR 8.6 billion to business with third-party clients.

Protection Re – intermediary for reinsurance cessions

Protection Reinsurance Intermediaries AG (Protection Re), which is wholly owned by Talanx AG, is allocated to the Corporate Operations segment within the Talanx Group. In the course of the year Protection Re was also renamed and is now trading as Talanx Reinsurance Broker. The company serves as the professional reinsurance advisor and broker for reinsurance cessions (non-life business) of the Talanx Group. Its core business consists of providing primary insurers with comprehensive advice on all aspects of outward composite reinsurance. Protection Re handles the complete spectrum of the reinsurance business process for each Group cedant to the extent necessary in each particular case. From portfolio analysis and advising on the structuring of reinsurance programs to administration and run-off of the placed reinsurance arrangements, specialized teams develop and support viable solutions that help Group cedants to achieve their business objectives on a lasting basis.

The reinsurance capacities required for all Group cedants served by Protection Re were again successfully obtained for 2011 on the world market. The operating profit (EBIT) for 2010 totaled EUR 8 (12) million. The branch of Protection Re that was established in 2009 in London specifically for the purpose of placing the business of German cedants with reinsurance companies outside the European Union fulfilled the requirements placed on it in 2010 and contributed to the company's good result.

Segment result driven by Talanx AG

The investment income and expenses in this segment encompass principally personnel and social expenditures for administration of the Group's own investments and third-party portfolios. The amount recognized is therefore frequently negative, but this has no implications for the Group's investment income. The latter is described below in the subsections entitled "Assets and shareholders' equity" and "Financial position". The operating result (EBIT) of –EUR 315 (–26) million for the segment is overshadowed this year by the deficit posted by Talanx AG, which arose out of various contributions and provisions associated with indemnity commitments given to the segments Talanx Deutschland and Talanx International. They are for the most part connected with the merger of Aspecta Lebensversicherung into HDI-Gerling Lebensversicherung as well as the cessation of ASPECTA's new business activities in Luxembourg and Liechtenstein.

Assets and shareholders' equity

Assets

The balance sheet structure of the Talanx Group is shaped by its character as a diversified financial services group and its activities as a globally operating insurance group. The dominant item on the assets side is the investments, which – excluding funds held by ceding companies (EUR 11.0 billion) – accounted for 65% of total assets. They serve first and foremost as security for the provisions constituted in insurance business, which – including provisions in the area of life insurance insofar as the investment risk is borne by policyholders – totaled EUR 72.5 billion. Over and above this, the most important sources of funding are the shareholders' equity (7% of the balance sheet total) and the issued subordinated debt (3% of the balance sheet total).

Amount and composition of assets

The assets of the Group are described on the basis of the following overview, which is based on the assets shown in the consolidated balance sheet.

Capital structure over a multi-year period

	2010		2009 1)		2008 1)	
	EUR million	%	EUR million	%	EUR million	%
Intangible assets	2,440	2	2,747	3	2,938	3
Investments	83,422	75	76,385	75	69,466	74
Investments for the account and risk of holders of life insurance policies	6,414	6	4,975	5	3,371	4
Reinsurance recoverables on technical provisions	5,523	5	5,962	6	6,989	7
Accounts receivable on insurance business	5,011	5	4,342	4	4,438	5
Deferred acquisition costs	3,715	3	3,544	3	3,509	4
Cash	1,265	1	1,685	2	1,408	1
Deferred tax assets	268	<1	235	<1	295	<1
Other assets	1,781	2	1,655	2	1,736	2
Assets of disposal groups classified as held for sale	1,529	1	35	<1	43	<1
Total assets	**111,368**	**100**	**101,565**	**100**	**94,193**	**100**

1) *Adjusted on the basis of IAS 8*

The substantial increase of EUR 9.8 billion in our total assets to EUR 111.4 billion can be attributed first and foremost to the marked growth in our investments of around EUR 7.0 billion – equivalent to 9% – to EUR 83.4 (76.4) billion. The growth in the portfolio of assets under own management (+EUR 5.4 billion) reflects – along with the favorable development of the underwriting business – the appreciation of the US dollar against the euro and lower interest rates. The latter give rise to a positive development in the fair values of our fixed-income securities recognized as "available for sale". The increase in the investment portfolio was also positively influenced by the sharp rise of 17% in funds held by ceding companies to EUR 11.0 billion. Detailed explanations of the investments are provided below in this section as well as in the Notes, principally in the subsections "Nature of risks associated with insurance contracts and financial instruments", pages 166 et seqq. of the Notes, and "Notes on the consolidated balance sheet" from page 194 of the Notes onwards.

Intangible assets

The intangible assets shown in the balance sheet (EUR 2.4 billion) are attributable largely to insurance-related intangible assets arising out of the acquisition of past insurance portfolios (EUR 1.7 billion after EUR 2.0 billion in the previous year). In addition, a not insignificant amount of EUR 589 (593) million derived from acquired goodwill. In this context we would refer the reader to the explanatory remarks in the subsections of the Notes entitled "Goodwill" and "Other intangible assets", pages 187 et seqq.

The amortization to be taken on acquired insurance portfolios produces a charge to net income, to the extent that it is attributable to the shareholders' portion, of EUR 152 million. The recognized insurance-related assets – in relation to the policyholders' share – are opposed by corresponding provisions for premium refunds. In this context we would refer the reader to our explanatory remarks in the subsection of the Notes entitled "Other intangible assets", pages 192 et seq.

The balance sheet item "Technical provisions in the area of life insurance insofar as the investment risk is borne by policyholders" grew by EUR 1.4 billion in step with the increase in the item "Investments for the account and risk of holders of life insurance policies", which is comprised of the investments relating to unit-linked insurance products. In the case of these life insurance products, under which policyholders themselves carry the investment risk, the technical liabilities reflect the fair values of the corresponding assets.

The subgroup Clarendon Insurance Group, Inc., Wilmington, of Hannover Rückversicherung AG in the Group segment of Non-Life Reinsurance, the sale of which is highly probable within one year, is recognized under the item "Assets of disposal groups classified as held for sale". The procedure is explained in greater detail in the subsection of the Notes entitled "Non-current assets held for sale and disposal groups", pages 164 et seq.

Investment management and objectives

Our investment management is geared to optimally resolving the conflicting interests of security, liquidity and return arising out of the principles of the Insurance Supervision Act by means of appropriate steering mechanisms.

In this respect, the management of the Talanx Group's assets follows a rigorous investment process, the goal of which is to define an asset allocation in keeping with the risk-bearing capacity and earnings/return target of the individual company. The point of departure for the management of investments is the steering impetus delivered by the Talanx Group risk capital model, which determines the allocation of the available risk capital. Based on the risk capital released by the corresponding insurance enterprise for investment management, a company-specific asset allocation is developed which incorporates the specific requirements of the business model (cash flow structure and/or duration of the liabilities side, requirements for the holding of cash and for return contributions, etc.). The resulting optimal portfolio ensures a highest possible return in conformity with the set risk parameters.

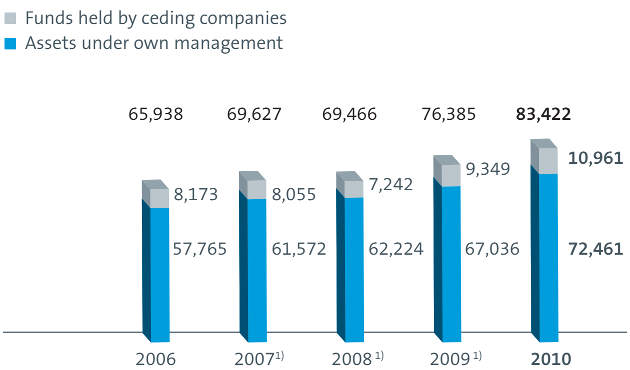
In the context of the rigorous investment process, the limits set by the legislator or internally defined are monitored through an extensive system of limits; the internally defined limits are derived chiefly from the investment strategy and the conservative investment policy of the Talanx Group. It thus remains the case that more than 90% of instruments in the asset class of fixed-income securities are rated "A" or better. A wide-ranging system designed to limit accumulation risks results in a balanced mix of assets, the risk-reducing aspects of which have also proven their worth during the Eurozone crisis.

In addition to the framework conditions for asset management specified in this way by the Group, the linkage of the underwriting portfolios on the liabilities side to the risk characteristics of the investments on the assets side gives rise to company-specific parameters (duration management, preserving of matching currencies) which are continuously monitored and as necessary adjusted. Oversteps and undershoots are reported on a same-day basis in order to facilitate immediate definition of measures to rectify limit violations. In addition, thresholds are defined for significant corporate performance indicators – upon attainment of which measures can be initiated in due time so as to avert at an early stage any possible jeopardizing of the performance indicators or goals. Covering the provisions constituted for our customers with assets at all times – measured both by book value and fair value – is always a focus of our activities, even in extreme market situations.

Furthermore, multi-year liquidity planning shows the annual cash flows. The fine-tuning of our asset management makes allowance for the need to be able to meet the payment obligations existing within the Group at all times.

Movements in investments

Breakdown of the investment portfolio
Figures in EUR million



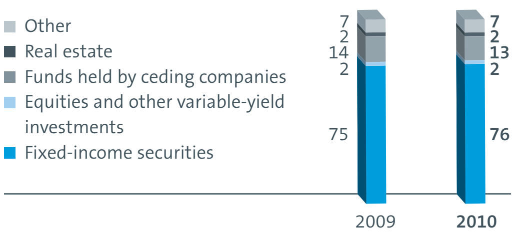
[1)] *Adjusted on the basis of IAS 8*

In 2010 the investment portfolio was boosted by a substantial EUR 7.0 billion to EUR 83.4 billion. The favorable trend in the asset volume, which was already emerging in the previous year, was thus sustained in 2010 with a rate of increase of 9%. While the growth in funds held by ceding companies in 2010 fell short of that recorded in 2009, the increase in the volume of assets under own management – at 8% – actually improved slightly on the previous year. This was principally due to cash inflows from the underwriting business, which were reinvested in accordance with the existing asset structure. In 2010, too, fixed-income assets continued to be the dominant investment class. The reinvestment of the income generated – particularly noteworthy here is the interest income from fixed-income investments with a profit contribution of EUR 2.6 billion in 2010 – also promoted continuous growth in the asset holdings.

In addition to these influencing factors stemming from the original business, developments on the capital market also led to portfolio-increasing effects. Special mention should be made here of the decline in interest rates and the movement in the USD exchange rate: having listed at 1.44 as at 31 December 2009, the USD stood at 1.34 to the euro on 31 December 2010. An increase in value of almost EUR 2 billion in the USD holdings can be attributed to this effect.

In compliance with all legal requirements and internal Group guidelines, the diversification of the investment portfolio as at 31 December 2010 was very similar to year-end 2009 with slight tendencies in favor of fixed-income securities.

Breakdown of the investment portfolio
%



The composition of the assets under own management recognized in the balance sheet is shown below.

Breakdown of the assets under own management by asset classes

	2010		2009 [1]		Change	
	EUR million	%	EUR million	%	EUR million	%
Investment property	860	1	726	1	134	19
Investments in affiliated companies	74	<1	61	<1	13	21
Investments in associated companies	144	<1	134	<1	10	8
Loans and receivables						
Loans incl. mortgage loans	1,439	2	1,584	2	–145	–9
Loans and receivables due from governmental or semi-governmental entities as well as fixed-income securities	30,904	43	29,964	45	940	3
Financial assets held to maturity	2,999	4	2,858	4	141	5
Financial assets available for sale						
Fixed-income securities	28,330	39	24,226	36	4,104	17
Variable-yield securities	2,305	3	2,251	3	54	2
Financial assets at fair value through profit or loss						
Financial assets classified at fair value through profit or loss						
Fixed-income securities	974	1	834	1	140	17
Variable-yield securities	15	<1	27	<1	–12	–44
Financial assets – trading						
Fixed-income securities	69	<1	64	<1	5	8
Variable-yield securities	83	<1	62	<1	21	34
Derivatives [2]	80	<1	112	<1	–32	–29
Other invested assets	4,185	6	4,133	6	52	1
Total investments under own management	**72,461**	**100**	**67,036**	**100**	**5,425**	**8**

[1] *Adjusted on the basis of IAS 8*
[2] *Derivatives only with positive fair values*

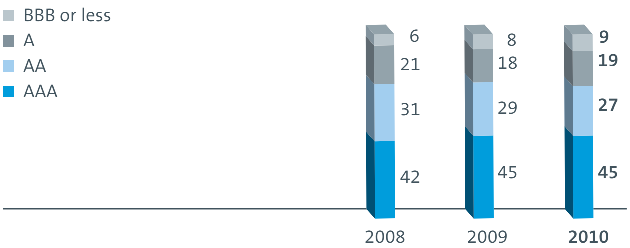
Fixed-income securities

The bulk of the asset portfolio of the Talanx Group continues to be comprised of investments in fixed-income securities and loans, which are reflected primarily in the holding categories of "Loans and receivables", "Financial assets available for sale", "Financial assets held to maturity" and "Financial assets at fair value through profit or loss". Total holdings of these investments grew by altogether EUR 5.2 billion in the 2010 financial year to EUR 64.7 billion (+9%), while the proportion of the total portfolio attributable to these assets remained virtually unchanged year-on-year at 78%.

Whereas in 2009 the lion's share of the increase in holdings allocated to the category "Financial assets held to maturity" resulted from the reclassification of instruments from the category "Financial assets available for sale" in the Reinsurance segment – prompted by a steering decision to avoid unnecessary balance sheet volatility –, the strongest growth in 2010 was recorded by the category "Financial assets available for sale". The share of these financial instruments, the volatile holdings of which have an effect on shareholders' equity, climbed 17% or EUR 4.1 billion to EUR 28.3 billion, with roughly half this effect deriving from the strength of the US dollar. The balance of unrealized gains and losses on "Financial assets available for sale" declined from +EUR 498 million at year-end 2009 to +EUR 307 million despite lower interest rates, since in many business sectors the favorable development of reserves was increasingly used to realize gains. In conjunction with these activities, market opportunities in the area of industrial bonds were used in 2010 – building on a move initiated in 2009 – to enhance the yield situation of the portfolios as well as to improve diversification by stepping up new investments. The proportion of fixed-income securities attributable to industrial bonds was thus increased from 7% to 8%.

As a fundamental principle, however, the Talanx Group stands by its strategy of making new investments where possible in the category of "Loans and receivables" in order to reduce balance sheet volatility. Assets under the item "Loans and receivables" decreased by EUR 0.8 billion to EUR 32.3 billion. The reserves here increased to EUR 842 (667) million. Government bonds or instruments of similarly sound issuers continue to be the focus of our investments in fixed-income securities. At year-end 2010 they amounted to almost EUR 30.9 billion, corresponding to a share of 48% of the total volume of fixed-income securities and loans.

Rating of fixed-income securities
%



The Talanx Group continues to pursue a conservative investment policy. For detailed information on the quality of our investments please see pages 177 et seqq. of the Notes.

The funds withheld by ceding companies with respect to collateral furnished for the technical reserves of cedants in the Reinsurance segment climbed from EUR 9.3 billion at year-end 2009 to EUR 11.0 billion. Allowing for increased total asset holdings, this corresponds to a ratio of 13 (12)%.

Equities and equity funds

Overall, the equity portfolio held by the Talanx Group remained on a par with the previous year at EUR 1.7 billion, although appreciable movements in the portfolio were recorded within the year: in the first quarter of 2010 strategic positions in the area of equities and equity funds were reduced, inter alia owing to higher costs for the renewal of hedges. A re-entry into tactical positions was executed only on a limited scale using defined stop loss strategies. For the most part, the second and third quarters did not see any major changes in the portfolio. It was only in the fourth quarter that the upturn on the market was used to implement re-entry programs. Special mention should be made here of the Reinsurance division, which has built up a fresh strategic asset allocation after moving out of equities in 2008.

Relative to the total investment portfolio of the Talanx Group, the equity allocation at year-end 2010 remained unchanged at around 2%. Since hedges were largely implemented using dynamic stop loss strategies and derivative instruments, the equity allocations before and after hedges diverge by only a few basis points (at fair values: gross 2.3%, net 2.2%).

The net balance of unrealized gains and losses on holdings of equity securities within the Group classified as available for sale (excluding other invested assets) amounted to +EUR 308 (+349) million.

Real estate including shares in real estate funds

Investment property was held with a value of EUR 860 million. This is an increase of EUR 134 million relative to the previous year, corresponding to portfolio growth of 19%. Along with scheduled depreciation of EUR 15 million, impairments of EUR 6 million were taken in the year under review on the basis of market valuations. An amount of EUR 6 million was written off real estate funds held in the portfolio.

The real estate allocation, which also includes investments in real estate funds, was unchanged at 2%.

Investment income

Development of net investment income

	2010	2009	Change
Figures in EUR million			
Ordinary investment income	2,782	2,607	175
thereof current income from interest	2,616	2,457	159
thereof profit/loss from shares in associated companies	2	–6	8
Realized net gains on investments	385	236	149
Write-ups/write-downs on investments	–78	–332	254
Unrealized net gains/losses on investments	–12	52	–64
Other investment expenses	180	145	35
Income from investments under own management	2,897	2,418	479
Interest income on funds withheld and contract deposits	280	240	40
Net investment income	**3,177**	**2,658**	**519**

The net investment income for the year under review of EUR 3.2 billion surpassed the previous year's level by 19.5%. While current income from interest was again the main driver in 2010, its share of total investment income declined from 92% to 82%. This can be attributed to the higher realized net gains as well as lower write-down requirements, which on balance contributed EUR 403 million more to investment income than in the previous year. The unrealized net gains deteriorated, on the other hand, by EUR 64 million to –EUR 12 million. Interest income and expenses on funds withheld and contract deposits totaled EUR 280 (240) million.

The increase in ordinary investment income – in this case excluding income from funds held by ceding companies – to EUR 2,616 million (+EUR 159 million) went hand-in-hand with the growth in the volume invested in fixed-income securities. While this portfolio increased by almost 9%, however, the income interest showed a rise of just 6%. Along with the fact that some investments were only completed in the course of the year and their influence on profitability was not fully felt in 2010, the portfolios for investment had to be newly purchased on the capital market at lower returns as a consequence of the low interest rate level. Forward purchases were made as part of the hedging of the reinvestment risk – especially in the case of the life insurers operating in the Retail Germany segment. On the financial implications see item 12 of the Notes "Derivative financial instruments and hedge accounting", pages 207 et seqq. of the Notes. The average coupon of the portfolio of fixed-income securities remained virtually unchanged in the 2010 financial year at 4.1 (4.2)%.

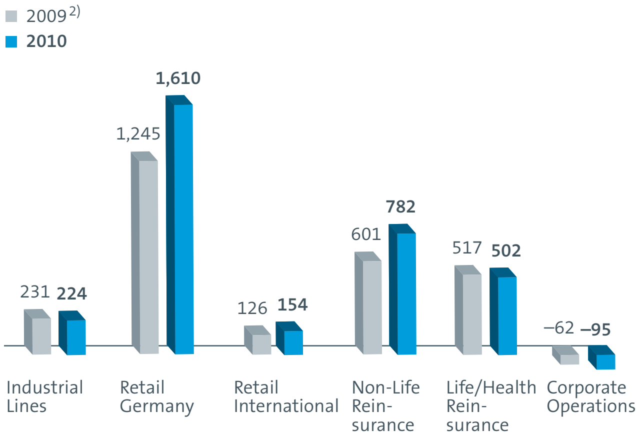
Whereas the after-effects of the financial market crisis had still been very heavily reflected in write-downs taken on both equities and fixed-income securities in the 2009 financial year, a marked recovery was recorded in 2010. Impairments of EUR 45 (112) million were taken on equities; the impairments on fixed-income positions amounted to EUR 17 (101) million. Owing to bailout mechanisms existing on the European level (so-called Eurozone safety net), no default risk that would justify taking an impairment loss existed with respect to bonds issued by the PIIGS quintet of countries; decreases in value were therefore considered temporary and impairments were almost entirely avoided.

The write-downs were opposed by write-ups of EUR 37 million that resulted from the reversal of impairments taken on instruments in prior years.

The net gains realized on investments totaled EUR 385 million at the end of 2010. The low level of interest rates was used by many units to realize the reserves consequently inherent in fixed-income assets, as a result of which the total amount of realized gains and losses from sales of fixed-income investments surpassed the net gains recorded in the previous year by a comfortable EUR 149 million.

The net investment income generated in 2010 is shown below broken down into Group segments. All segments show a significant recovery in profitability, which can be attributed chiefly to the fact that impairment items have returned to a normal level.

Breakdown of net investment income by Group segments [1)]
Figures in EUR million



1) Presentation after elimination of intra-Group relations
2) Figures for the previous year adjusted on the basis of modified segment reporting pursuant to IFRS 8

The investment income reported by the Group segment of Corporate Operations consists principally of the costs of managing all assets – both the Group's own and third-party holdings.

Off-balance sheet financing instruments

The Talanx Group enters into various commitments. Of material significance in this context to the assessment of its assets are letters of credit and trust accounts put up as security for technical liabilities (EUR 5,727 million), guarantee payments under issued subordinated bonds (EUR 2,131 million), blocked custody accounts and other trust accounts (EUR 1,902 million), outstanding commitments under existing capital participations (EUR 553 million), obligations under §§ 124 et seq. of the Insurance Supervision Act (VAG) as a member of the Security Fund for Life Insurers (EUR 372 million) and commitments arising out of rental/lease agreements (EUR 492 million). In addition, there were "Other liabilities" of EUR 796 million as at 31 December 2010.

Furthermore, the Talanx Group is subject to contingent liabilities due to its involvement in court proceedings and arbitration procedures. All these liabilities are set out in the subsections of the Notes entitled "Other information – Contingent liabilities and other financial commitments" on pages 251 et seq. and "Other information – Rents and leases" on page 253.

Financial position

The capital structure and composition of the liabilities of the Talanx Group are shaped by its primary insurance and reinsurance business. The technical provisions, which in accordance with the requirements of regulators are to be covered by assets, account for the largest share. In addition, the Group finances itself most notably through shareholders' equity as well as through subordinated debt and liabilities, which also represent our most important sources of funds.

The financial position of the Group is illustrated by the following overview, which we have based on the liabilities shown in the consolidated balance sheet.

Capital structure over a multi-year period

	2010		2009 [1)]		2008 [1)]	
	EUR million	%	EUR million	%	EUR million	%%
Shareholders' equity	7,991	7	7,153	7	5,718	6
Subordinated liabilities	2,791	3	2,003	2	2,074	2
Technical provisions – gross	77,778	70	73,531	72	69,612	74
Technical provisions in the area of life insurance insofar as the investment risk is borne by policyholders	6,414	6	4,975	5	3,371	4
Other provisions	2,751	2	2,644	3	2,416	3
Liabilities	10,829	10	9,750	10	9,625	10
Provisions for deferred taxes	1,433	1	1,509	1	1,377	2
Debts of disposal groups classified as held for sale	1,381	1	—	—	—	—
Total liabilities	**111,368**	**100**	**101,565**	**100**	**94,193**	**100**

1) Adjusted on the basis of IAS 8

Currency effects

Currency-related interdependencies inevitably exist between the assets and financial position in view of the international orientation of the insurers brought together in the Talanx Group.

In principle, however, the internationally operating insurers normally receive payments and reimburse claims in their respective national currency. This means that assets to cover liabilities are also held in foreign currencies. Matching currency coverage is required for this purpose. In this regard we would refer the reader to our remarks in the risk report. For the purposes of the consolidated financial statement the relevant national currencies are presented as explained in the Notes under "Accounting policies – Currency translation" on pages 142 et seq.

Development of major items

In the financial year just-ended the shareholders' equity increased by EUR 838 million – or 12% – to EUR 7,991 (7,153) million. The Group's share amounted to EUR 4,956 (4,574) million.

Through the issue of two subordinated bonds the volume of subordinated liabilities grew by 39% relative to the previous year to reach EUR 2.8 billion.

A new subordinated debt with a nominal value of EUR 500 million was placed by Hannover Rückversicherung AG through its subsidiary Hannover Finance (Luxembourg) S. A. along with another bond of nominally EUR 300 million placed by Talanx AG, Hannover. The features of the bonds are described in the subsection of the report entitled "Analysis of debt" as well in the remarks on item 17 of the Notes "Subordinated liabilities" on pages 216 et seq.

In addition, a line of credit is available to Talanx AG with a volume of nominally EUR 1.5 billion, of which – as in the previous year – an amount of EUR 550 million was utilized. The available floating-rate loan has a term ending at the latest on 31 July 2012.

With respect to further loan agreements and letters of credit we would refer the reader to the presentation of off-balance sheet financial instruments as well as the explanatory remarks in the Notes on page 186.

The provisions connected with the insurance business after consolidation can be broken down as follows:

Figures in EUR billion	2010	2009 1)	2008
Benefit reserve	42.5	39.8	36.4
Loss and loss adjustment expense reserve	28.5	27.3	27.2
Unearned premium reserve	5.4	5.0	4.9
Provision for premium refunds	1.1	1.2	0.9
Other technical provisions	0.3	0.2	0.2
Total	**77.8**	**73.5**	**69.6**

1) *Adjusted on the basis of IAS 8*

After allowance for the shares of reinsurers, the breakdown is as follows:

Figures in EUR billion	2010	2009 1)	2008
Benefit reserve	41.5	39.0	35.5
Loss and loss adjustment expense reserve	24.5	22.5	21.7
Unearned premium reserve	5.0	4.6	4.5
Provision for premium refunds	1.1	1.2	0.9
Other technical provisions	0.3	—	—
Total	**72.4**	**67.3**	**62.6**

1) *Adjusted on the basis of IAS 8*

In this respect, the existing liabilities to policyholders are to be covered by assets in at least the same amount. The proportion of net provisions connected with the insurance business relative to the total assets as at the balance sheet date – including funds held by ceding companies – stood at 87 (88)%. Surplus coverage of the provisions thus exists in an amount of EUR 11.0 (9.0) million.

The provisions are available to the Group in accordance with the corresponding time to maturity. We would refer the reader here to the presentation of maturities – especially of the benefit reserve and the loss and loss adjustment expense reserve (see the Notes, item 19 "Benefit reserve" and item 20 "Loss and loss adjustment expense reserve", pages 218 and 219 et seqq.).

The gross amounts of the technical liabilities after consolidation are crucially determined by the benefit reserve and the loss and loss adjustment expense reserve. As at the balance sheet date 55 (55)% of the total provisions were attributable to the benefit reserves.

The gross provisions (after consolidation) were divided as follows among the segments:

	Benefit reserve		Loss and loss adjustment expense reserve	
	2010	2009	2010	2009
Figures in EUR million				
Industrial Lines	—	—	7,746	7,388
Retail Germany	32,311	30,899	2,695	2,772
Retail International	1,752	1,527	1,130	936
Non-Life Reinsurance	—	—	14,577	14,163
Life/Health Reinsurance	8,403	7,328	2,390	1,991
Corporate Operations	—	—	—	6
Total	**42,466**	**39,754**	**28,538**	**27,256**

The benefit reserve is a mathematically calculated value for future liabilities (present value of future obligations less the present value of future incoming premiums), above all in life insurance.

Altogether, the gross provisions increased by 6% or EUR 4.3 billion relative to the previous year. This growth was driven largely by the rise in the benefit reserve (+7% or EUR 2.7 billion) and in the loss and loss adjustment expense reserve (+5% or EUR 1.3 billion).

The increase in the benefit reserve can be attributed to the natural aging of the in-force portfolios as well as pleasing organic growth. Of the total increase of EUR 2.7 billion, EUR 1.4 billion was apportionable to the Retail Germany segment and EUR 1.0 billion to the Life/Health Reinsurance segment.

The rise in the loss and loss adjustment expense reserve resulted from higher claims burdens in all primary insurance segments. In relation to Non-Life Reinsurance a modest decrease from 73% to 72% was observed.

Disposal groups

We recognized the planned sale of the US subgroup Clarendon Insurance Group, Inc., Wilmington, to Enstar Group Ltd., Hamilton, Bermuda, in the Non-Life Reinsurance segment in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" in the year under review. The assets and liabilities attributable to the disposal group are presented unoffset.

For further details please see our explanatory remarks in the section of the Notes entitled "Non-current assets held for sale and disposal groups" on pages 164 et seq.

Off-balance sheet transactions

Contingent liabilities exist as described on page 251 of the Notes.

Asset/liability management

The structure of our technical provisions and other liabilities essentially establishes the basis for the Talanx Group's investment strategy. The focus here is on asset/liability management: changes in the value of investments should as far as possible offset changes in the technical liabilities and requirements on the liabilities side. This stabilizes our positions against fluctuations on capital markets.

To this end we reflect important properties of the liabilities such as the maturity and currency structure – as well as the inflation sensitivity – on the assets side by acquiring, wherever possible, investments that respond in a similar manner. In this regard we would also refer the reader to our remarks in the risk report from page 83 onwards.

The duration (average period of capital commitment) of the entire investment portfolio of fixed-income securities held within the Talanx Group has been maintained on a stable level at 5.5 years since the end of 2009. The duration management of the individual segments is guided by the needs arising out of the underwriting business. Thus, for example, the asset duration in the Retail Germany division (7 years) is relatively long compared to that of the Industrial Lines division (3.4 years) in order to satisfy the capital commitment period, especially with respect to life insurance products. The assets-side duration is reconciled with the requirements of the liabilities side at regular intervals between the insurance carriers and AmpegaGerling.

With an eye to matching currency coverage USD-denominated investments continue to account for the lion's share – at 14% – of the foreign currency portfolio within the Talanx Group. Sizeable positions are also held in GBP and AUD, although in total they do not account for more than 5% of all assets.

An inflation swap was taken out by the Hannover Re subgroup to hedge the inflation risk. This derivative financial instrument is intended to hedge the loss reserves against inflation risks.

We also use derivative financial instruments in order to structure asset management activities as effectively as possible (see here our remarks in subsection 12 of the Notes entitled "Derivative financial instruments and hedge accounting", pages 207 et seqq.).

Capital management

Capital management process

Bringing transparency to the actual capitalization → Determining the required capital → Optimizing the required capital → Optimizing the capital structure → Implementing capital measures

Capital management is based on a process geared to optimizing the steering and use of capital within the Group that is structured according to clear guidelines and workflows.

Effective and efficient capital management is a vital component of the Group's holistic set of management tools. We differentiate between three fundamental capital concepts: "Company's Capital", "Risk-Based Capital" and "Excess Capital".

We refer to the company's capital as the economic capital available in a business unit that is allocated to the shareholder. It is composed of the IFRS shareholders' equity and the so-called soft capital. We count as soft capital, which includes unrealized gains/losses on the assets and liabilities sides after taxes, inter alia the loss reserve discount, a level of overreserving in property/casualty insurance that goes beyond best estimate reserving, the non-capitalized value of in-force business in life insurance and life/health reinsurance and the unrealized gains/losses in the asset category of "loans and receivables". In the context of our value-based management the company's capital serves as a basis for establishing the cost of capital as well as the shareholder's return expectation above and beyond the cost of capital (cf. also the explanation of xRoCC on pages 33 and 35).

Risk-based capital is the amount of capital required for operation of the insurance business in order to ensure that the probability of capital erosion is less than 0.03% (cf. risk report). This confidence level corresponds to a 99.97% Value at Risk. The capital required for this purpose is calculated for the primary insurance companies on the basis of the Talanx risk capital model.

Excess capital is the residual of the company's capital and risk-based capital; it thus consists of capital that is not at risk. Since it is not required for coverage of business risks and insofar as it also cannot be utilized for additional risk carrying, it can be withdrawn without overstraining the risk-bearing capacity. The ratio of company's capital and risk-based capital further indicates the capital adequacy. Given that excess capital is a component of company's capital, it does not contain any borrowed funds whatsoever but is instead directly allocable to the shareholder. There are, however, restrictions on the repatriation of excess capital associated with both regulatory/legal considerations and rating requirements.

The general goal of capital management within the Talanx Group – an optimized risk-appropriate capital structure of the Group – is explicitly anchored in the strategy (pages 30 et seqq.). In addition to satisfying legal requirements and the capital requirements of rating agencies, the capital allocation within the Group is therefore also – as a collateral condition – systematically guided by risk-return aspects and the target portfolio to which Talanx aspires. In this way investments are channeled into preferred growth markets/business segments, also with an eye to considerations of diversification.

A central task of capital management therefore lies in identifying the capital that exceeds the required risk-based capital on the defined confidence level or – in the opposite case – that falls short of this level. The Value at Risk defines the estimated maximum loss that with a specified probability will not be exceeded within a specified holding period. In the event of over- or undercapitalization, the next step is to rectify or at least alleviate it by taking appropriate corrective actions. In the case of significant overcapitalization at the company level, for example, capital management measures may be geared to systematically reducing free excess capital in order to allocate it to more efficient reinvestment elsewhere within the Group. Our stated aim is to achieve the most efficient possible utilization of our capital while at the same time ensuring appropriate capital adequacy and making allowance for the effects of diversification.

Another major objective is the substitution of shareholders' equity with equity surrogates such as hybrid capital, which positively affects the capital structure of the Group as well as the ability of Talanx AG to make own funds available to the operational units.

By optimizing the Group's capital structure, our capital management safeguards the adequacy of our capital resources both from a rating standpoint and in light of solvency and economic considerations. At the same time, it ensures that the return on the invested capital can be generated for shareholders on a sustainable basis in accordance with the Talanx strategy. Not only that, the capital structure must continue to facilitate action on organic and inorganic growth opportunities at both the Group and company level and it must offer the certainty that volatilities on the capital markets and in insurance business can be absorbed without undershooting the desired confidence level. The efficient handling of capital resources is a crucial indicator for existing and potential investors that Talanx utilizes the capital made available to it in a responsible and efficient manner.

The Group steering function of capital management thus enables us to

- create transparency as to the actually available (company's) capital,
- specify the required risk-based capital and coordinate the calculation thereof, and
- optimize the capital structure, implement financing measures and support all structural changes that have implications for the required capital.

Shareholders' equity

Strategic equity targets

Within the scope of the communicated profit targets the Talanx Group sets itself the goal of generating a continuous, above-average increase in the value of the invested capital that takes account of the risk position.

- We strive to rank among the five most profitable of the 20 largest European insurance groups, measured by the IFRS return on equity.
- Our Group's minimum target in relation to consolidated net income after taxes and before minority interests is an IFRS return on equity of 750 basis points above the average risk-free interest rate. This is defined as the average market interest rate over the past five years for 10-year German government bonds.

The equity ratio, defined as the sum total of the equity components relative to total assets, has changed as follows:

		2010	2009 1)	2008 1)	2007 1)
Total equity as shown in the balance sheet	EUR million	7,991	7,153	5,718	6,163
thereof minorities	EUR million	3,035	2,579	2,092	2,431
Total assets	EUR million	111,368	101,565	94,193	95,395
Equity ratio	%	7.2	7.0	6.1	6.5

1) *Adjusted on the basis of IAS 8*

Allowing for equity components recognized by regulators such as subordinated liabilities, the modified equity ratio was as follows:

		2010	2009 1)
Regulatory capital	EUR million	1,469	1,117
Modified equity ratio	%	8.5	8.1

1) *Adjusted on the basis of IAS 8*

The return on equity, defined as the result for the period excluding minority interests in relation to the average equity excluding minority interests, has changed as follows:

		2010	2009 1)	2008 1)	2007
Net income 2)	EUR million	220	485	183	477
Return on equity	%	4.6	11.8	5.1	13.1
Risk-free interest rate	%	3.5	3.6	3.7	3.9
Target value	%	11.0	11.1	11.2	11.4
Performance	%	–6.4	0.7	–6.1	1.7

1) *Adjusted on the basis of IAS 8*
2) *Net income excluding minorities*

In this context, the performance represents the over- or underfulfillment of the target value. In the years 2009 and 2007 we accomplished the goals that we had set ourselves. The profitability of the Talanx Group was crucially impacted in the 2008 financial year by the worldwide financial market crisis and the associated slump on equity markets. The consequences of this crisis on international capital markets were a considerable drag on net income.

With regard to developments in the current financial year, please see our remarks in the section entitled "Business development" on » pages 41 et seqq.

Movements in shareholders' equity

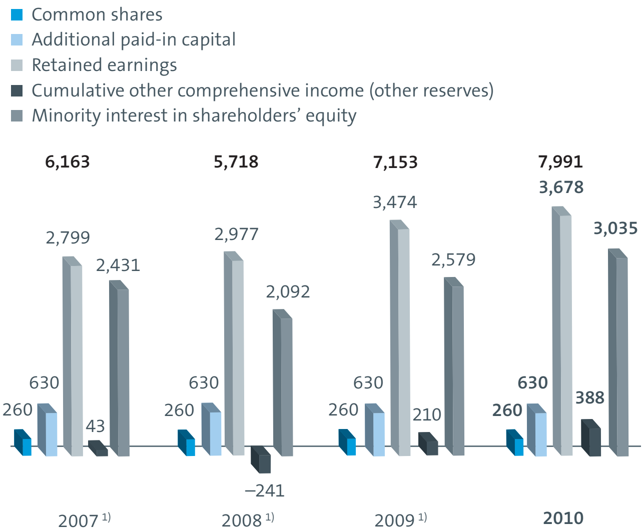
The major movements in shareholders' equity were driven by the following factors:

The Group net income apportionable to our shareholders contracted sharply by 55% to EUR 220 (485) million and was allocated in full to retained earnings.

"Cumulative other comprehensive income and other reserves" increased by a substantial 85% year-on-year to EUR 388 million. Crucial to this growth was, first and foremost, the rise in gains/losses from currency translation (+EUR 144 million) as well as in the other changes in shareholders' equity (+EUR 279 million; principally changes in policyholder participation/shadow accounting). The increase of the gains/losses from currency translation was driven in particular by the appreciation of the US dollar against the euro. The "gains/losses on investments" moved in opposite directions. The unrealized gains/losses on investments declined on balance by EUR 174 million to EUR 522 (696) million. The cash flow hedge reserve decreased appreciably to –EUR 123 (–23) million.

The minority interests in shareholders' equity increased by EUR 456 million – or 18% – to EUR 3.0 billion. The minority interest in net income amounted to EUR 615 (491) million. The dividends paid to non-Group shareholders, principally from the Hannover Re Group, produced an opposing effect in an amount of EUR 162 million.

Changes in shareholders' equity
Figures in EUR million



1) *Adjusted on the basis of IAS 8*

Valuation reserves not recognized in the balance sheet

The unrecognized valuation reserves shown in the following table make no allowance for technical liabilities. The valuation reserves are attributable principally – in an amount of EUR 842 (667) million – to loans and receivables. Please see our remarks in the Notes on the items "Investment property", "Loans and receivables", "Financial assets held to maturity", "Other assets" and "Subordinated liabilities".

	2010	2009[1)]	2008[1)]	2007[1)]
Figures in EUR billion				
Group shareholders' equity	8.0	7.1	5.7	6.2
Valuation reserves not recognized in the balance sheet before taxes, including the shares of policyholders and minority interests	1.2	1.1	1.6	–1.2

[1)] *Adjusted on the basis of IAS 8*

Liquidity and financing

We generate liquidity primarily from our operational insurance and reinsurance business, the current income on our investments and from financing measures. Through regular liquidity planning and an investment strategy geared inter alia to liquidity requirements, we ensure that the Talanx Group is able to make the necessary payments at all times. Liquidity shortages consequently did not arise.

Analysis of the consolidated cash flow statement

In the case of the Talanx Group the consolidated cash flow statement can be regarded as having minimal informational value. The Group's cash flow is shaped first and foremost by the business model of an insurer and reinsurer. Normally, we first receive premiums for the agreed risk acceptance in order to be able to make payments at a later date in the event of a claim. Until such time we invest the funds in interest-bearing instruments and thus earn current income from our investments. For us, therefore, the cash flow statement is not a substitute for either liquidity planning or financial planning, nor is it used as a management tool.

The cash flows are shown in full in the cash flow statement on page 113; they are presented in summary form in the table below:

	2010	2009[1)]
Figures in EUR million		
Cash flow from operating activities	4,584	5,472
Cash flow from investing activities	–5,586	–5,072
Cash flow from financing activities	553	–129
Change in cash and cash equivalents	–449	271

[1)] *Adjusted on the basis of IAS 8*

The cash flow from operating activities, which also includes inflows from the generated investment income, fell sharply year-on-year to EUR 4,584 (5,472) million. The calculation adjusts the net income of EUR 670 (893) million in the consolidated cash flow statement to allow for the increase in the technical provisions (net perspective) (EUR 3.9 billion). The most notable factor in this development was the significant rise in the benefit reserves, especially in the Retail Germany and Life/Health Reinsurance segments (see here also our explanatory remarks in the section describing the financial position). The appreciable decrease with respect to the "Changes in funds held and in accounts receivable and payable" in an amount of –EUR 1.2 billion is offset by the "Changes in other non-cash expenses and income as well as adjustments to net income". The changes in funds held result from the furnishing of collateral by reinsurers. Please see the comments on the development of investments.

The cash outflow from investing activities is determined by payments made to purchase investments. As in the previous year, the outflows associated with the purchase of investments amounting to EUR 4.2 (2.7) billion exceeded the inflows from sales and maturities. In addition, there were "Changes in investments for the account and risk of holders of life insurance policies" totaling EUR 1.4 (1.6) billion. Of these cash outflows, an amount of EUR 1.2 billion derived from increased investments in these assets in the Retail Germany segment.

The cash inflow from financing activities was shaped in the year under review by the "Net changes from other financing activities" amounting to EUR 719 (–123) million. The increase was attributable above all to the issue of subordinated bonds as well as to the bank borrowings and notes payable. The dividends paid in the year under review climbed by EUR 144 million year-on-year to EUR 162 million. Cash inflows from financing activities increased by EUR 682 million on balance.

Cash and cash equivalents were reduced by altogether EUR 420 million in the year under review to EUR 1.3 billion. An amount of EUR 27 million was deducted from the cash and cash equivalents for disposal groups pursuant to IFRS 5.

For further information on our liquidity management please see the section of the risk report on the liquidity risk, page 93.

Financing

Along with the assets available to cover provisions and liabilities, the Group has at its disposal the following additional lines of credit that can be drawn upon as required:

Unsecured letter of credit facilities with various terms (maturing at the latest in 2017) and a total volume equivalent to EUR 1,207 million (EUR 802 million) exist on a bilateral basis with financial institutions.

In the Life/Health Reinsurance and Non-Life Reinsurance segments facilities exist with various financial institutions for letters of credit, including two syndicated guarantee facilities from 2005 and 2006. Following the contractual maturity of the first half of the line from 2005 in January 2010, it amounted to an equivalent of EUR 755 (1,395) million as at the balance sheet date. The other half of this line matures in January 2012. The line from 2006, the amount of which as at the balance sheet date was equivalent to EUR 1,509 (1,395) million, matures in January 2013.

Furthermore, a long-term unsecured line of credit with a total volume equivalent to at most EUR 566 (523) million was concluded in December 2009. It is intended specifically for US life reinsurance business. For further information on the letters of credit provided please see our explanatory remarks in the item of the Notes entitled "Other information – Contingent liabilities and other financial commitments", pages 251 et seq.

A number of LoC facilities include standard market clauses that grant rights of cancellation to the banks in the event of material changes in our shareholding structure or trigger a requirement on the part of Hannover Re to furnish collateral upon materialization of major events, for example if our rating is significantly downgraded.

Further information on our liquidity management is provided in the subsection of the risk report concerning liquidity risks.

Analysis of debt

With the aim of optimizing the capital structure, our subordinated bonds and debentures (abbreviated to: subordinated debt) complement our shareholders' equity and help to ensure liquidity at all times. We refer to this subordinated debt and other bank borrowings that serve to finance corporate acquisitions as "strategic debt".

Talanx AG has concluded a firm agreement with a broad consortium of banks regarding an available floating-rate line of credit that may be drawn upon as necessary. At the end of 2009 we had used one tranche amounting to altogether EUR 550 million. The nominal amount of the line of credit was EUR 1.5 billion as at the balance sheet. The line of credit matures at the latest in 31 July 2012 and can be called at three months' notice. Furthermore, several Group companies have taken up long-term debt – principally in the form of mortgage loans – amounting to EUR 188 (116) million.

On 14 September 2010 Hannover Re placed a new subordinated bond on the European capital market through its subsidiary Hannover Finance (Luxembourg) S. A. This subordinated debt with a nominal value of EUR 500 million has a maturity of 30 years with a first scheduled call option after ten years. The bond carries a fixed coupon of 5.75% p.a. in the first ten years, after which the interest basis changes to a floating rate of three-month EURIBOR +423.5 basis points.

On 18. November 2010 Talanx AG issued a subordinated, in principle perpetual, bond with a nominal volume of EUR 300 million and an initially fixed coupon, with a first scheduled call option after ten years for the entire bond. At the end of this period the interest basis changes to a floating rate and the bond may then be called in its entirety on a quarterly basis by Talanx AG. There is a contractual obligation to convert the bond to shares of Talanx AG at the issue price in the event of an initial public offering.

Effective 14 March 2011 the subordinated debt of nominally EUR 350 million issued in September 2001 through Hannover Finance (Luxembourg) S.A. was called as scheduled. The calling of the bond results in a reduction of our debt leverage. This notification was published on 1 February 2011 in the newspaper "Luxemburger Wort".

Issued debt was repurchased only to a minimal extent in 2010.

The changes in the strategic debt were as follows:

	2010	2009
Figures in EUR million		
Subordinated bonds of Hannover Finance (Luxembourg) S.A.	1,869	1,365
Subordinated bonds of HDI-Gerling Industrie Versicherung AG	265	269
Subordinated bonds of HDI-Gerling Lebensversicherung AG	115	105
Subordinated bonds of Talanx Finanz	242	264
Subordinated bonds of Talanx AG	300	—
Bank borrowings of Talanx AG	550	550
Mortgage loans of Hannover Re Real Estate Holdings, Inc., Orlando	188	116
Other bank borrowings of Talanx AG	—	57
Total	3,529	2,726

For further explanation please see our remarks in the Notes on items 16 "Shareholders' equity", 17 "Subordinated liabilities", 25 "Notes payable and loans", 26 "Other liabilities" as well as under "Other information – Contingent liabilities and other financial commitments".

Group solvency

As an insurance holding company Talanx AG is subject to regulatory provisions pursuant to §1 b) Insurance Supervision Act (VAG). For the Talanx Group, supervision is carried out on the Group level by the Federal Financial Supervisory Authority (BaFin). For this purpose the parent company HDI V.a.G. reports supplementary information to the BaFin in accordance with the "adjusted solvency" rules.

Solvency refers to the ability of an insurer to meet the obligations assumed under its contracts on a lasting basis. Above all, this means fulfilling defined minimum capital requirements. The aim of the "adjusted solvency" rules is to prevent the multiple use of equity to cover risks from underwriting business at different levels of the Group hierarchy. To calculate the adjusted solvency, the minimum equity required for the volume of business (required solvency margin) is compared with the eligible equity actually available (actual solvency margin) on the basis of the IFRS consolidated financial statements. To determine the eligible capital elements, the IFRS equity is adjusted; in particular, it is increased by portions of the subordinated liabilities as well as valuation reserves not included in equity and reduced by intangible assets. The Talanx Group's eligible capital is roughly twice as high as legally required.

Adjusted solvency[1]

		2010	2009
Eligible capital of the Group	EUR million	6,361	5,639
Adjusted solvency ratio	%	196.6	184.2

[1] *Calculated analogously for Talanx from the adjusted solvency of the HDI Group*

The increase in the adjusted solvency ratio from 184.2% to 196.6% can be attributed in part to the rise in the IFRS Group shareholders' equity as a consequence of the Group net income allocated to retained earnings. Furthermore, the taking up of subordinated bonds and debentures to an extent that more than offset partial repurchases of such instruments had a favorable influence on the Group's eligible capital. The development of items to be deducted or added was virtually unchanged from the previous year.

Rating of the Group and its major subsidiaries

In the year under review the Talanx Group and its companies again maintained their excellent or very good ratings from the international rating agencies Standard & Poor's (S&P) and A.M. Best. It is important to distinguish between the "Insurer

Financial Strength Rating", which primarily assesses our ability to meet our obligations to our policyholders, and the "Issuer Credit Rating" or "Counterparty Credit Rating", which provides investors with information from an independent source about a company's credit quality in general.

Financial Strength Ratings of the Talanx Group and its subgroups

	Standard & Poor's		A. M. Best	
	Grade	Outlook	Grade	Outlook
Talanx Group [1]			A	Stable
Talanx Primary Group [2]	A+	Stable		
Hannover Re subgroup [3]	AA–	Stable	A	Positive

[1] The designation used by A. M. Best for the Group is "Talanx AG and its leading non-life direct insurance operation and its leading life insurance operation"
[2] This rating applies to the subgroup of primary insurers (the Talanx Group divisions of Industrial Lines, Retail Germany and Retail International) as well as its major core companies
[3] This rating applies to Hannover Re and its major core companies. The Hannover Re subgroup corresponds to the Talanx Group division of Reinsurance

The financial stability of the Talanx Group (with respect to both the primary insurance sector and the reinsurance sector) is assessed by the rating agency A. M. Best as "Excellent"; with a rating of A it is placed in the second-best rating category. The outlook for the rating of the primary insurance sector is stable. The outlook for the rating of Hannover Re is assessed as positive in light of the company's improved capitalization.

In the case of S&P, the Hannover Re subgroup is awarded a rating in the second-best rating category at AA– ("Very Strong"), while the Primary Group was placed within the third-best rating category with an A+ ("Strong"). The outlook for the ratings is assessed as stable in both cases.

The strong competitive position of both subgroups is highlighted by S&P as a particularly impressive strength. A. M. Best affirmed inter alia the very good capitalization of both subgroups, which even beat the rating agency's expectations.

In 2010 another rating was added for a company belonging to the Talanx Group: HDI-Gerling Welt Service AG received its initial rating of A (Excellent) with a stable outlook from A. M. Best in December 2010. On the other hand, the S&P ratings of AA– awarded to Hannover Reinsurance (Dublin) Ltd. and E+S Reinsurance (Ireland) were withdrawn on account of their liquidation. The reason here was Hannover Re's move to concentrate its business activities in Ireland at a single subsidiary, namely Hannover Reinsurance (Ireland) Ltd.

The financial strength ratings from the primary insurance sector are summarized in the following table:

Financial Strength Ratings of companies in the primary insurance sector

		Standard & Poor's		A. M. Best	
Companies	Location	Grade	Outlook	Grade	Outlook
HDI Direkt Versicherung AG	Germany	A+	Stable	–	–
HDI-Gerling America Insurance Company	USA	A+	Stable	A	Stable
HDI-Gerling Firmen und Privat Versicherung AG	Germany	A+	Stable	–	–
HDI-Gerling Industrie Versicherung AG	Germany	A+	Stable	A	Stable
HDI-Gerling Lebensversicherung AG	Germany	A+	Stable	A	Stable
HDI-Gerling Welt Service AG	Germany	A+	Stable	A	Stable
neue leben Lebensversicherung AG	Germany	A+	Stable	–	–
HDI-Gerling Verzekeringen N.V. (Nederland)	Netherlands	A	Stable	–	–
HDI-Gerling Verzekeringen N.V./ HDI-Gerling Assurances S.A. (Belgie/Belgique)	Belgium	A	Stable	–	–
HDI Versicherung AG	Austria	A	Stable	–	–
PB Lebensversicherung AG	Germany	A	Stable	–	–
PBV Lebensversicherung AG	Germany	A	Stable	–	–
TARGO Lebensversicherung AG	Germany	A	Stable	–	–

S&P defines the first seven companies listed in the table (shown against a grey background) as "core companies" of the Talanx Primary Group. This is also why they received the same rating. The other companies listed in the table are considered by S&P to be strategically significant participations and have therefore been awarded grades that are one notch lower. In the case of A. M. Best, all four companies analyzed by this agency received the same rating of A with a stable outlook.

Current ratings of Hannover Re subsidiaries are available on the Hannover Re website, www.hannover-re.com.

Issuer Credit Ratings of companies belonging to the Talanx Group

	Standard & Poor's		A. M. Best	
	Grade	Outlook	Grade [1]	Outlook
Talanx AG	A–	Stable	bbb+	Stable
Hannover Rückversicherung AG	AA–	Stable	a+	Positive

[1] In order to distinguish Financial Strength Ratings from Issuer Credit Ratings, A. M. Best uses lower-case script for the latter

This table provides an overview of the Issuer Credit Ratings (ICR). On the basis of the rating of A– ("Strong"), Talanx AG's ability to pay is assessed by S&P as "Very Good", hence corresponding to the third-best category on the issuer credit rating scale. A.M. Best rates the ability to pay of Talanx AG as bbb+ ("Good"), corresponding to the fourth-best rating category. The outlook of these ratings is assessed as stable by both rating agencies.

The somewhat inferior assessment of Talanx AG relative to the Financial Strength Ratings can be attributed to the methodology used by the rating agencies, under which a rating markdown is applied to holding companies. In other words, in accordance with the general analytical criteria used by the rating agencies, companies that exercise a purely holding function with no operational activities of their own are downgraded relative to the Financial Strength Rating that would be awarded to a comparable insurance undertaking.

Hannover Re is rated AA– ("Very Strong") by S&P, equivalent to the second-best rating category. The outlook for this rating is stable. A. M. Best has awarded Hannover Re an Issuer Credit Rating of a+ ("Strong"), corresponding to the third-best rating category on the ICR rating scale used by A. M. Best. The outlook for Hannover Re's ICR is – in keeping with its Financial Strength Rating – positive.

Various ratings also exist for the subordinated liabilities issued by Group companies (issue ratings). These ratings are set out in the explanatory notes on the consolidated balance sheet in subsection 17 "Subordinated liabilities" of the Notes, page 216.

Overall assessment of the economic situation

The Management of Talanx AG assesses the development of business in 2010 – after elimination of non-recurring effects – as satisfactory overall. It is true that the targets for the operating profit (EBIT) and return on equity were not accomplished, and the result therefore came in below expectations. Yet the decline in the result was attributable above all to special effects and the increased burden of losses after the exceptionally low claims expenditure of the previous year. From a structural perspective, the result is good: gross premiums and new business are growing and we boosted our financial strength relative to the previous year. At the time when the management report was drawn up the Group's economic situation continued to be favorable.

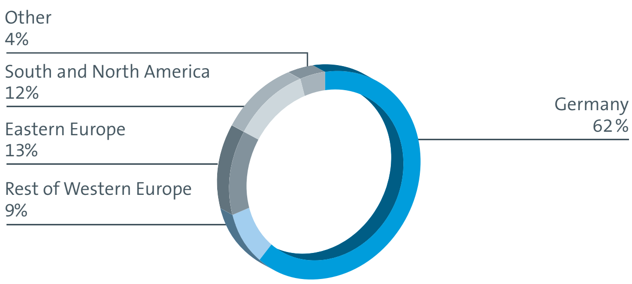
Non-financial performance indicators

Staff

Only thanks to the extraordinary commitment shown by the men and women working for the Talanx Group worldwide were we able to generate another good result in a market climate that remained challenging. The Board of Management would like to express its appreciation to all of the Group's staff for their considerable dedication and good performance in the financial year just-ended. The Board of Management thanks the Group Employee Council and all the other employee council bodies for their cooperation, which was at all times trusting and constructive.

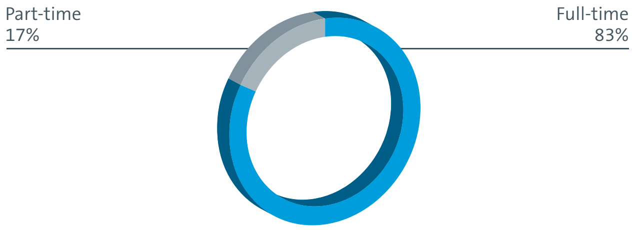
The number of staff employed within the Talanx Group at year-end stood at 18,006 (18,038); this was equivalent to 16,874 (16,921) full-time positions. The workforce thus remained stable. Of the 18,006 employees that constitute the total labor force, 6,865 (6,656) – i.e. 38% – worked abroad and 11,141 (11,382) were employed in Germany. Our Group has employees in 40 countries on 5 continents around the world. In Germany, roughly three-quarters of staff are employed in the federal states of North-Rhine Westphalia and Lower Saxony.

Headcount by regions



In Germany the proportion of female staff stood at 48%, while the proportion of part-time employees stood at 17%; both these figures were thus on a par with the previous year. Of the employees not subject to collective bargaining agreements, 28% were women; the representation of women on senior executive level was 11%.

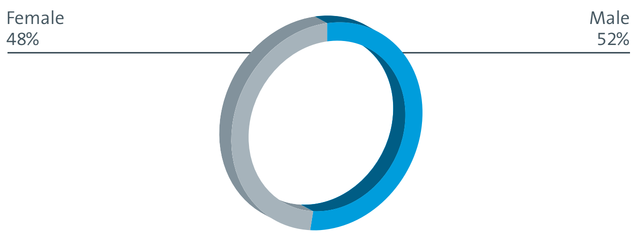
Headcount by part-time/full-time status



A fundamental principle at Talanx is that high performers with potential are fostered without regard to their ethnic origin, religion or gender. In the area of development programs for junior managers and newly appointed managers, the participation of women in most programs has averaged around 25% in recent years. This level rises to 40% in the development program currently running for managerial staff in the property/casualty insurance sector. Female participation in the management program for future senior executives is close to the current representation of women among the ranks of senior management at altogether 12%.

Systematic advancement through appropriate working-time models geared to the various phases of life – such as part-time working and telecommuting – as well as the assistance given to families in their search for suitable daycare facilities for children are intended to optimally develop and build the loyalty of women with the potential to take on leadership roles. Based on these measures, it is our expectation that women will increasingly move into all echelons of management.

Headcount by gender



For the Talanx Group, state-of-the-art human resources management is crucial to the successful execution of strategy. Considerable efforts were devoted in the year under review to the project activities carried out in the context of the organizational reconfiguration of the Talanx Group. A key concern here is improving the competitiveness of the Talanx Group in order to ensure that growth and profitability targets are achieved and secure jobs created for the long term. In this connection, most notably, various central functions are to be concentrated at a newly established service company and at Talanx AG as part of the latter's expansion into the Group's financial and management holding company.

In addition, Group-wide personnel management activities were focused on personnel marketing, personnel development and training.

One consequence of the impending demographic shift is that even in the near future companies will have to face up to greater competition for qualified university graduates and specialists. In order to ensure that Talanx continues to be able to attract highly skilled and motivated recruits, considerable importance attaches to boosting awareness of the Talanx Group and its individual brands. As part of university marketing activities and the placement of Talanx as a successful employer brand, we launched our comprehensive employer image campaign in the year under review; driven by the slogan "Talanx your career", it enjoys strong recognition value.

Along with personnel marketing, personnel development is a focal point of our human resources management. As in past years, our employees' skills were systematically enhanced to handle their demanding tasks by way of training and personnel development measures. The goal is to consolidate and extend the above-average skills set of our workforce in order to optimally prepare the Group for the challenges presented by the market. Launched in the previous year, the Talanx Corporate Academy has been very successful in establishing itself and offers an especially high-grade training program in German and English for Board members and senior managers. Complementing the already existing offerings of the divisions, the Corporate Academy serves in particular to convey the Talanx strategy and management methods. Another important goal is to enhance communication and links between the holding company and the divisions as well as between the various divisions. Professors from highly reputed business schools are joined by members of the Talanx AG Board of Management as guest speakers and discussants.

The extent to which members of staff across all divisions sought to improve themselves was gratifying. Not only did they make the most of offerings relating to specialist topics, they also worked intensively to refine their methodological, managerial and social skills.

The Industrial Lines division focused on fostering young talent. Trainee programs in the individual insurance lines convey a solidly grounded grasp of the theory and practice of property/casualty insurance in self-contained, one-year units. These activities are designed to build up a sufficient number of suitably qualified employees in order to meet the increased need for specialist staff.

For the most part, the Retail Germany division cooperates in the area of human resources development with the Group's own training center in Cologne in order to offer a broad range of specialist, methodological and social skills enhancement measures. This encompasses technical seminars, personality training and also specially devised programs aimed at specific target groups. In addition, a specialist career model developed in the previous year in the bancassurance sector was rolled out for a number of other functions: employees follow an individually tailored three-part development plan worked out with their manager. This includes personality seminars geared closely to the company's competence profile. The second element of the career plan is specialist further training, such as participation in study programs alongside an employee's job with the encouragement and financial support of the company. Thirdly, project skills are enhanced – with employees able to extend their theoretical and practical grasp of the role of both project worker and project manager. The successful and innovative execution of this concept was recognized with the award of the insurance industry's internal training prize "InnoWard 2010", beating out 37 other candidatures from throughout the entire German insurance industry.

On the reinsurance side, too, considerable importance attaches to solid and state-of-the-art internal training. This system has been continuously expanded and enhanced in recent years. Along with traditional presence seminars, Hannover Re is developing a second pillar of learning methodology known as "blended learning". This refers to a learning arrangement in which online study phases and presence training are intelligently combined and synthesized into a single unit. Learning thus becomes more self-manageable and, not least, more independent of time and place, hence making it possible to integrate colleagues at locations abroad more easily.

For many years Hannover Re has been offering a practice-tested trainee program focused on graduates in economics (business administration and economics) and (commercial) law as well as graduates in cultural studies. The purpose of this cross-divisional program is to systematically train young talent for its core business of underwriting. In 2009 Hannover Re extended this highly tailored, internal form of further training; it put in place another special training program for (business) mathematicians in response to the continuous and appreciable growth in the need for qualified mathematicians in recent years.

The Group also continues to attach considerable importance to initial training: it enables the company to attract capable, skilled and motivated recruits. For the individual, it is a vital prerequisite for getting off to a successful start in working life. The vast majority of those undergoing training are taken on following completion of their instruction. 404 (391) apprentices and student trainees were employed by the Talanx Group in Germany as at 31 December 2010.

Sustainability

The member companies of the Talanx Group demonstrate their sense of responsibility to the environment in a broad variety of ways. Three courses of action are available to our insurers: sustainable enterprise management, the development of products that promote criteria such as environmental conservation, energy efficiency and social responsibility, and observance of such criteria in their own investment decisions.

At our companies we are committed inter alia to energy-saving measures, which take a number of forms in our office buildings. New buildings, in particular, offer an opportunity to pay close attention to environmentally compatible construction techniques and ecologically friendly operation. A current example is the new corporate headquarters in Hannover, which is to be occupied by the end of 2011: the technical concept here is geared to the minimal consumption of energy and resources. The basic energy need for heating and cooling, for example, is served by the earth's natural potential (geothermal energy). A highly insulated building envelope, triple glazing and the greening of roof surfaces similarly contribute to the building's sustainability.

On the product side our range of insurance offerings includes coverage extensions for photovoltaic systems as well as preferential rates in motor insurance for fuel-efficient vehicles, hybrid vehicles and those with engines powered by electricity, natural gas, hydrogen or fuel cells. HDI-Gerling offers an actively managed eco-portfolio in all its current fund products. The "Zukunft" ("Future") investment strategy contains sustainable equity, mixed and bond funds. The selection criteria are conservation of the natural environment, economical use of resources, fair treatment of people and an attractive return.

AmpegaGerling's portfolio also contains investment products that accommodate sustainability concerns. It offers several sustainable investments, including not only the Gerling Responsibility Fund but also the special bond and equity funds terrAssisi Renten I AMI and terrAssisi Aktien I AMI. These funds invest in entities and issuers that incorporate not only economic but also environmental and social criteria into their company strategy and which are considered trailblazers when it comes to assuming responsibility for a sustainable future.

Our Group invests in accordance with regulatory requirements with an eye to the greatest possible profitability, liquidity and security so as to be able to render the agreed insurance benefits at all times. If investment options are available to us that accommodate particular ethical, social and ecological concerns while at the same time meeting all the aforementioned requirements, these are given special consideration.

Social responsibility

Talanx has combined its activities in the field of Corporate Social Responsibility under the heading of education and training. A central step was the establishment of a foundation. The Talanx Foundation, which was set up in 2009 with the aim of offering financial assistance to particularly strong students in insurance-related disciplines and institutes at selected universities, awarded ten study scholarships per semester for the first time in 2010. The scholarships were 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. By way of this engagement Talanx AG seeks to live up to its responsibility to society through the emphasis that it has placed on education and training. We believe it is important to offer financial assistance to particularly strong and deserving students. The aim is to support above all those students who themselves lack the resources to complete their degree in the standard period of study and with an outcome that reflects their talent if they do not receive appropriate assistance.

Marketing and advertising, sales

The multi-brand principle pursued within the Talanx Group is reflected in its polyphonic external communications inasmuch as the subsidiaries seek to address their specific customer segments with their various brands through tailored marketing and advertising. Primary insurers such as HDI and HDI-Gerling engage directly with the broader public, using inter alia TV commercials, publicity campaigns and sponsorship activities. Reinsurance and asset management operations focus on their particular target groups. Talanx AG speaks principally to the broader financial community and business journalists and its communication is therefore limited chiefly to print advertisements in selected media.

The sales channels employed by the Group's companies are extremely diverse: they range from our own tied agents' organizations and local representation by branch offices and sales outlets through the use of brokers and independent agents to highly specialized bancassurance cooperations. For further information please see the subsections on the various Group segments.

Corporate Governance

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

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

In accomplishing its goal of generating a sustainable increase in the value of the company, Talanx AG is guided extensively by the principles of the German Corporate Governance Code (DCGK), by means of which it is progressively aligning itself with the standards of German listed enterprises.

Board of Management

The Board of Management leads the company at its own responsibility and defines goals as well as strategy. In accordance with § 7 Paragraph 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 current composition of the Board of Management is set out on page 8 of the Annual Report.

The working practice of the Board of Management is governed by Rules of Procedure adopted by the Supervisory Board. These define the areas of responsibility of the individual members of the Board of Management. Each member of the Board of Management leads the area(s) assigned to them at their own responsibility within the scope of the resolutions of the full Board of Management. In addition, the Rules of Procedure set out the matters reserved for the full Board of Management as well as the required voting majorities. The full Board of Management decides in all cases where adoption of a resolution by the full Board of Management is stipulated by law, the Articles of Association or the Rules of Procedure. The Board of Management meets at least once a month.

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

Certain decisions of the Board of Management that are of special importance require the approval of the Supervisory Board. Some of these reservations of approval are prescribed by law, others are governed by the Rules of Procedure of the Board of Management.

Supervisory Board

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

The Supervisory Board consists of 16 members. Half of them are chosen by the shareholders and the other half are elected by the employees. In order to ensure that the Supervisory Board performs its tasks effectively, it has formed the following committees:

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

The Board of Management informs the Supervisory Board in a regular and timely manner of the development of business, the implementation of strategic decisions, material opportunities and risks as well as the company's planning. The Chairman of the Supervisory Board is in constant contact with the Chairman of the Board of Management in order to discuss with him the company's strategy, business development and risk management. The composition of the Supervisory Board and its committees is set out on » pages 9 et seq.

General Meeting

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

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

Compliance

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

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

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

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

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

Risk monitoring and steering

The risk management system of Talanx AG applicable throughout the Group is based on the risk strategy, which in turn is derived from the company strategy. A core component is systematic and comprehensive recording of all risks that from the current standpoint could conceivably jeopardize the company's profitability and continued existence. Further details in this regard may be obtained from the risk report contained in the present Annual Report on pages 84 et seq.

Remuneration report

The remuneration report describes and explains the basic features of the remuneration structure for the Board of Management of Talanx AG as well as the amount of remuneration paid to the Board of Management and the key criteria used in its determination. The explanations provided cover both the remuneration structure applicable to the year under review and the revised remuneration structure for the Board of Management that is to be adopted for the 2011 financial year. The remuneration of the Supervisory Board of Talanx AG, which additionally included a performance-based component for the first time in the year under review, is also described. Furthermore, the main features of the remuneration paid to managing directors and managers outside the Group Board of Management are also discussed.

Remuneration of the Board of Management

The remuneration of the Board of Management is determined by the Supervisory Board. The Supervisory Board reviews and discusses the remuneration structure and the appropriateness of the remuneration at regular intervals. The most recent review was conducted by the Supervisory Board at its meeting on 13 November 2010. At this meeting the Supervisory Board also decided upon a fundamental reorientation of the system of remuneration for the Board of Management with effect from the 2011 financial year. This is described in greater detail below.

The purpose of the remuneration system for the Board of Management is to appropriately recompense the members of the Board of Management. Based on the scope of activity and responsibility of the individual member of the Board of Management, the total remuneration is geared to his or her personal performance and the commercial success of the company. It consists of the following components:

Fixed remuneration: The fixed remuneration is paid in twelve equal monthly installments. It is guided, in particular, by the range of duties and professional experience of the individual Board member. The amount of fixed remuneration is reviewed by the Supervisory Board at intervals of two years.

Variable remuneration: The individual performance of a particular Board member and the commercial success of the company are recognized through an appropriate portion of variable remuneration in the total remuneration.

The variable remuneration is paid in the form of a bonus for the financial year just-ended. It is determined by the Supervisor Board in light of the performance and economic position of the company and the Group as a whole, the performance of the specific Board member's area of responsibility as well as his or her individual performance.

Fringe benefits: The members of the Board of Management also receive certain fringe benefits, most notably a company car and insurance protection (liability, accident and luggage insurance).

Insofar as Board members exercise a mandate at Group companies and are recompensed for this function, such remuneration is counted towards the bonus paid by Talanx AG.

With regard to the amount of remuneration received by the Board of Management, please see the information contained in the present Annual Report on pages 253 et seq.

Occupational retirement provision

The employment contracts of the members of the Board of Management with Talanx AG include – with one exception, where an annual funding contribution is paid according to the fixed remuneration – commitments to an annual pension that is calculated as a percentage of the fixed annual remuneration ("defined benefit"). The agreed maximum pension amounts to – depending on the particular contract – between 35% and 65% of the monthly fixed salary payable upon retirement as provided for by the contract at the age of 65. In one instance a commitment exists on the basis of a defined contribution. In this case the company pays an annual funding contribution amounting to 20% of the pensionable income (fixed annual remuneration as at the key date of 1 July of any year). Under both contract variants ("defined benefit" and "defined contribution") income from other sources during drawing of the pension may under certain circumstances be counted towards it pro rata or in full (e.g. in the event of incapacity for work or termination of the employment contract before reaching age 65, drawing of disability benefits or previously earned pension payments).

In the year under review six individual commitments existed to active members of the Board of Management. The provision expensed for this purpose pursuant to International Financial Reporting Standards amounted to EUR 3.9 million in the year under review.

With respect to the remuneration received by former members of the Board of Management and their surviving dependents as well as the provisions for pension liabilities constituted for this group of persons, please see the information provided in the Notes to this Annual Report.

Revised remuneration structure from 1 January 2011 onwards

The Supervisory Board reviewed the remuneration system for the Board of Management in the year under review on the basis of revised legal and regulatory requirements for management remuneration and adjusted its structure with a special eye to sustainability considerations. In this context, the criteria for measurement of the profit- and performance-based variable remuneration and their weighting were also redefined. The revised remuneration structure applies with effect from the 2011 financial year onwards to all active members of the Board of Management.

The remuneration of the Board of Management is geared to the size and activities of the company, its economic and financial position, its success and future prospects as well as the customariness of the remuneration, making reference to the benchmark environment (horizontal) and the remuneration level applicable to the company's employees. It is also guided by the tasks of the specific member of the Board of Management, his or her individual performance and the performance of the full Board of Management.

Overall, the remuneration is structured in such a way that it reflects both positive and negative developments, is measured competitively and in line with market standards and takes into account the sustainable development of the company.

As before, the remuneration is split into annual fixed remuneration – which to some extent for the first time does not constitute the basis for calculating the amount of the final salary pension – and variable remuneration; in this respect, the variable remuneration consists of a performance-based annual cash payment, a so-called "bonus bank" with disbursement after three years and share-based remuneration (share awards). By exercising due discretion the Supervisory

Board determines at regular intervals and in exceptional situations whether adjustments need to be made to the variable remuneration or restrictions placed upon its disbursement.

The proportion of the total remuneration attributable to variable remuneration varies individually and is within a range of 45% to 65%.

Measurement of the variable remuneration

The amount of variable remuneration depends on certain defined events and on the accomplishment of certain set targets. The set targets vary according to the function of the Board member in question. The variable remuneration is comprised of a so-called “Group bonus” and an “individual bonus” as well as – in the case of Board members with responsibility for a particular division – a so-called “divisional bonus”. The weighting of the various components is determined individually for each member of the Board of Management in light of the function that he or she performs.

An individually determined amount is paid as the Group bonus for each 0.1 percentage point by which the average return on equity (RoE) of the last three financial years exceeds the risk-free interest rate. If the average return on equity of the last three financial years is below the risk-free interest rate or if it is negative, this results in a corresponding penalty amount for each 0.1 percentage point of undershoot. The maximum amount of the Group bonus and the maximum penalty amount 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 arises of at least 1 percentage point. The risk-free interest rate is the average market rate over the last five years for 10-year German government bonds, with the average being calculated annually at year-end on the basis of the relevant interest rate.

The divisional bonus is to be geared to the average “Intrinsic Value Created” (“IVC”) over the three-year period just-ended for the division for which the Board member in question bears responsibility. A generally applicable concept for measurement of the IVC has still to be finalized. The provision governing calculation of the divisional performance on the basis of the divisional IVC is to be applied for the first time to the 2013 financial year. Until such a provision has been drawn up, the divisional bonus will be established by the Supervisory Board according to its due discretion. In this context, the Supervisory Board shall pay particular attention to the following criteria: relative change in the IVC in the remuneration year, absolute amount of the IVC in the remuneration year, IVC in the remuneration year relative to the target value, distribution ratio or profit transfer ratio of the division relative to the target value, general market environment. The individually defined amount for 100% criteria fulfillment is attained if the criteria are achieved in full. Over- or underfulfillment of the criteria results in additions or deductions. The minimum divisional bonus amounts to EUR 0, while the maximum is double the bonus payable on complete fulfillment of the criteria.

In addition, individual qualitative and, as appropriate, quantitative personal goals that are to be attained in the subsequent year are defined annually for the Board member in question. The criteria applied in this regard may, in particular, be the Board member’s individual contribution to the overall result, their leadership skills, power of innovation and entrepreneurial abilities as well as other quantitative or qualitative personal goals, especially making allowance for the special features associated with their area of Board responsibility. The degree of goal attainment is determined by the Supervisory Board at its due discretion in the Supervisory Board meeting at which the consolidated financial statements for the financial year in question are approved. The amount for 100% goal attainment is established on an individual basis. Over- or underfulfillment results in additions or deductions. The minimum individual bonus amounts to EUR 0, while the maximum is double the bonus payable on complete attainment of the goals.

The total amount of the variable remuneration is arrived at by adding the amounts for the individual remuneration components. If addition of the individual amounts gives rise to a negative amount, the variable remuneration amounts to zero (in other words, there is no negative variable remuneration). A negative amount is, however, taken into consideration when calculating the bonus bank.

Payment of the variable remuneration

Of the total amount of defined variable remuneration, a partial amount of 60% is paid out in the month following the Supervisory Board meeting that approves the consolidated financial statements. The remaining amount – i.e. 40% of the total amount of variable remuneration – is initially withheld. Half of the withheld portion is allocated to a bonus bank, while the other half is granted in the form of share awards.

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

The other partial amount of 20% of the total defined variable remuneration is granted as share-based remuneration in the form of share awards. The total number of share awards granted is to be determined – following an initial public offering of Talanx AG – by the value per share of Talanx AG at the time when the award is made. The value per share of Talanx AG is established according to the unweighted arithmetic mean of the XETRA closing prices of the Talanx share in a period of five trading days before to five trading after the meeting of the Supervisory Board that approves the consolidated financial statements. As long as the shares of Talanx have not been listed, the value per share of Talanx AG shall be deemed to be the book value of the shareholders' equity obtained from the consolidated financial statement for the financial year just-ended drawn up in accordance with international financial reporting standards as defined by § 315a of the Commercial Code (HGB). The total number of share awards granted is arrived at by dividing the credit amount by the value per share, rounded up to the next full share. For each share award the value of a Talanx share calculated on the disbursement date is paid out after expiry of a vesting period of four years.

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board is guided by § 13 of the Articles of Association of Talanx AG. It is set by the General Meeting of Talanx AG and was adjusted and restructured at the 2010 General Meeting.

In addition to reimbursement of their expenses, the members of the Supervisory Board annually receive fixed remuneration (basic remuneration) and performance-based variable remuneration, which also reflects the company's long-term success. In order to make allowance for their considerable additional workload, the Chairman receives 2.5 times and his Deputy 1.5 times these remuneration amounts.

For the 2010 financial year the annual basic remuneration set by the General Meeting amounts to EUR 50,000 per member of the Supervisory Board. The basic remuneration of the Chairman amounts to EUR 125,000, while that of the Deputy Chairman amounts to EUR 75,000.

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

Further remuneration of EUR 25,000 per member has been specified for the 2010 financial year for the members of the Finance and Audit Committee and the Personnel Committee of the Supervisory Board. The Chairman of the Committee receives twice this amount.

In addition to reimbursement of their expenses, the members of the Supervisory Board receive an attendance allowance of EUR 1,000 for their participation in each meeting of the Supervisory Board as well as for their participation in each meeting of Committees of the Supervisory Board.

The upper limit of the annual total remuneration that can be received by a Supervisory Board member is three times the applicable basic remuneration.

With regard to the amount of remuneration received by the Supervisory Board, please see the information contained in the present Annual Report on pages 253 et seq.

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

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

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

It is also the case with this group of persons that the remuneration is composed of a fixed and variable component.

The fixed part of the remuneration amounts to between 50 and 85% of the total remuneration and is paid out in twelve equal monthly installments. Certain fringe benefits, in particular the use of a company car and insurance protection (liability, accident and luggage insurance), as well as employer-funded commitments to occupational retirement benefits are also granted. Furthermore, it is possible to build up additional employee-funded retirement provision through deferred compensation. Hannover Rückversicherung AG also offers a virtual stock option plan that provides for the award of stock appreciation rights.

The measurement of the variable part of the remuneration takes into account the sustainable success of the company, the sustainable success of the organizational unit and the personal success of the member of staff. Individual goals must be in harmony with the strategy of the Talanx Group and must be conducive to enhancing the performance of the Talanx Group. The remuneration schemes and management-by-objectives systems used within the Group will be further standardized in 2011 in those areas where such a move is expedient – without losing sight of the differences between the divisions.

Opportunity and risk report

Risk report

Risk strategy

The risk strategy derived from the company strategy constitutes the basis for our handling of risks and opportunities. The parameters and decisions of the Board of Management with respect to the Group's risk appetite are fundamental to the acceptance of risks. The risk strategy – as a self-contained set of rules – serves as the foundation for Group-wide risk management. It thus forms an integral component of entrepreneurial actions and is reflected in the detailed strategies of the various divisions.

As an internationally operating insurance and financial services group we are confronted with a broad diversity of risks that are indivisibly bound up with our entrepreneurial activities and which manifest themselves differently in the individual divisions and geographical regions. Both the company strategy and the risk strategy are therefore subject to regular review. Through this regular scrutiny of our assumptions and any resulting adjustments, we ensure that our strategic principles and hence also our actions are guided by the latest insights.

The overriding goal of our risk management is to adhere to our strategically defined risk positions. As far as capital resources are concerned, we strive for a capital adequacy ratio in our internal risk capital model that gives us a sizeable safety cushion. As a collateral condition to the regulatory target of overfulfillment of capital adequacy, Talanx pursues a target rating corresponding to the Standard & Poor's category of "AA".

Functions within the risk management systems

The interplay of the individual functions and bodies within the overall system is vital to an efficient risk management system. Talanx has clearly defined the roles and responsibilities in order to ensure smooth interaction.

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

Risk management process

The Talanx Group covers an extensive range of products with its Group segments – from insurance to financial and other services. Talanx AG and its subsidiaries therefore use a diverse range of methods and tools to monitor and manage risks. In accordance with an approach geared to ensuring comparatively extensive individual responsibility and decentralization, the subsidiaries each maintain their own risk management systems; for they are best able to assess and quantify their risks and implement timely risk controlling measures. Group Risk Management nevertheless defines guidelines for the structuring of local risk management systems, thereby assuring a consistent minimum standard across the Group that can be aggregated.

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

We identify risks with the aid of appropriate indicators and using various risk surveys, in which experts and selected managers comment on the risk position. Group Risk Management holds quarterly meetings with local risk managers in order to remain constantly updated on the risk situation in the divisions. The risk managers in the divisions report material changes in the risk position to Group Risk Management on an ad hoc basis.

In order to measure, analyze and evaluate risks Group Risk Management derives the risk situation of the Talanx Group from the local risks with the aid of an internal risk capital model. This internal risk capital model enables us to adequately assess the risks. Still based during the reporting period in key respects on a refined so-called GDV (German Insurance Association) standard model, it is used for the analysis and measurement of individual risks as well as of the Group's overall risk position. The purpose of risk quantification is to calculate the risk-based capital on the basis of a 99.97% Value at Risk. The time horizon considered under the model is a calendar year. The risk model makes allowance for the effects of correlations between Group companies and risk categories. A stochastic, Solvency II-oriented risk-based capital model is currently under development that will facilitate the Talanx-wide use of internal models. The Federal Financial Supervisory Authority (BaFin) began to examine this model in 2008, and we are seeking to obtain regulatory approval for its future adoption.

With respect to risk limitation, key indicators have been specified for steering and monitoring the Group's material risks within our central system of limits and thresholds. Risk steering and monitoring is operationalized through the specification of suitable limits and thresholds for quantitatively measurable material risks. Material risks that cannot be quantified or are difficult to quantify (such as operational risks) are primarily steered and monitored using appropriate processes and practices.

In the area of risk monitoring we make a distinction, in particular, 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 organizational units supporting the CRO. Process-independent monitoring falls above all to 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 as well as to safeguard adequate internal communication within the company about all material risks as a basis for decision-making. Regular reporting on both current business developments and on risk management ensures 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 reported to the Board of Management of Talanx AG on an ad hoc basis.

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

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

In the year under review our risk management activities in the area of primary insurance were assessed as "adequate with positive trend" by Standard & Poor's. The primary insurance sector thus achieved the highest rating that can be attained by insurers without a stochastic internal model. The risk management of Hannover Re was assessed by S&P as "strong", the second-best S&P rating. These ratings testify to the quality of our holistic risk management approach.

Following SAS 70 Type 1 auditing and certification of Ampega-Gerling's control activities in 2009 as evidence of the adequate structuring of its control system, the Type 2 audit examination relating to effective implementation of the material controls was successfully passed in 2010.

Accounting-related internal control and risk management system

The hallmark of risk management within the Talanx Group is its decentralized organizational structure. Responsibilities are split between local risk management on the level of the divisions and central risk management on the Group level.

The salient features of the internal control system (ICS) and risk management system implemented at Talanx AG with regard to the Group accounting process can be described as follows:

- There is a clear management and corporate structure. Key functions that span multiple areas are managed centrally.
- The functions of the major relevant areas of Finance and Accounting, on the one hand, and Controlling, on the other, are clearly separated with respect to the accounting process. Areas of responsibility are unambiguously assigned (separation of functions).
- The financial systems used are protected against unauthorized access by appropriate measures on the IT side. Where possible, the relevant systems run standard software.
- An adequate system of guidelines (e.g. guidelines on recognition and measurement, working instructions) has been set up and is constantly updated.
- The departments and units involved in the accounting process have the appropriate quantitative and qualitative resources at their disposal.

- Controls have been implemented in the accounting-related process steps: bookkeeping data that is received or forwarded is checked for completeness and correctness by the responsible members of staff. The principle of dual control is consistently applied in this regard. In addition, programmed plausibility checks are run using database-supported software.

With regard to the Group accounting process, integrated controls ensure that the consolidated financial statement is correct and complete. The processes relating to the organization and execution of the consolidation tasks as well as the preparation of the consolidated financial statement of Talanx AG together with the accompanying controls are documented in comprehensive ICS documentation. Major components of the documentation are the Consolidated Financial Statement Guideline and the Organizational Manual; these are regularly reviewed and optimized in light of compliance considerations.

Group-internal recognition and measurement rules are collected in an accounting manual which is available to all Group companies in IT-supported form and provided to all employees indirectly or directly involved in the preparation of individual or consolidated financial statements. The manual is intended to ensure consistent and correct application of International Accounting Standards on a Group-wide basis. It is regularly updated and modified as standards evolve. Supervision of the local accounting units at the subsidiaries by staff in Group Accounting safeguards compliance with the rules contained in the manual.

The consolidated financial statement of Talanx AG is drawn up on the basis of IFRS packages from the included subsidiaries. To this extent, the risk management measures taken on the level of the subsidiaries also have implications for Talanx AG.

Reporting by the companies included in the consolidated financial statement is carried out using an Internet-based IT application. The items of the balance sheet, statement of income, statement of comprehensive income, cash flow statement, statement of changes in equity, segment report and notes as well as data with a bearing on consolidation that are stored in a database are uploaded to the consolidation system via interfaces and processed in this system. Internal transactions within the Group are verified through prior reconciliation processes and consolidated where necessary. Written instructions exist in this regard to ensure that an appropriate procedure is followed. Manual bookings in the consolidation system are to be released by the responsible members of staff in the context of a step-by-step process according to set value limits. Working instructions are also available to support this process as well as for exceptional and infrequent business transactions.

The consolidated financial statements of Talanx AG are examined by the independent auditor of the annual accounts as at the balance sheet date; a review report is drawn up by the independent auditor on the quarterly interim financial statements of the Group as well as the IFRS packages of the companies included therein.

Risks of future development

No specific risks can as yet be discerned that could jeopardize the continued existence of the Talanx Group or significantly impair its assets, financial position or net income. Particularly with an eye to the further unfolding of the banking crisis, however, there is a considerable abstract degree of uncertainty. The same is true of ongoing developments in the legal framework governing our entrepreneurial activities. Substantial capital, reserves and underwriting provisions have been built up in order to cover for the financial consequences of conceivable risks.

The risk situation of the Talanx Group can be broken down into the risk categories described below. They are based on German Accounting Standard DRS 5-20:

- underwriting risks
- default risks in insurance business
- risks associated with financial instruments
- operational risks
- other risks

The risks described below refer to the next two financial years.

Effects of the banking crisis

The Talanx Group, in common with other industry players, was unable to escape the repercus-sions of the banking crisis entirely unscathed. Compared to 2008, in which extensive write-downs were taken on securities owing to the adverse capital market climate, the situation in 2010 – as in the previous year – was considerably more relaxed. Having initially scaled back equity holdings substantially in 2008 and early 2009, the first moves back into this asset class were made from the summer of 2009 onwards. On the Group level the volume of equities held was almost the same as at the end of 2009, although the portfolio is extensively hedged against price losses through stop loss mechanisms.

Talanx's exposure is limited by the investment guidelines, and dependencies on individual debtors that could jeopardize the Group's survival are thereby ruled out. In the context of the advancing banking crisis on capital markets, the Talanx Group tightened up its previously applicable risk limits in key respects so as to further minimize risks.

Should the current low interest rate level be sustained or indeed should further interest rate cuts ensue, this would give rise to a considerable reinvestment risk for the life insurance companies offering traditional guarantee products since it would become increasingly difficult to generate the guaranteed return. The Group reduces this interest guarantee risk primarily by means of interest rate hedges (see under "Material underwriting risks"). What is more, especially in the context of further declines in interest rates and higher volatilities, decreases may be seen in the Market Consistent Embedded Value (MCEV) of the life insurers. The MCEV for 2010 will be calculated in the first half of 2011.

The contraction in bank lending that has been observed in the market as part of the banking crisis and the associated potential difficulties raising cash are of only minor significance to the Talanx Group (compared to the banking industry) for reasons connected with the business model; this is because Talanx inherently has sufficient cash due to the regular premium payments and interest income from invested assets as well as its liquidity-conscious investment policy. Extensive unused lines of credit are also available. Liquidity risks may, however, arise in particular as a consequence of illiquid capital markets and – in the life insurance sector – due to increased cancellations by policyholders, if this necessitates the liquidation of a large volume of additional investments at short notice.

Furthermore, the uncertainties triggered by the banking crisis among private and institutional investors may have implications for the business models of the Talanx Group's individual divisions, e.g. in the form of a possible softening of demand for insurance coverage.

Material underwriting risks

In addition to the information provided below, the Notes contain a detailed and quantitative description of the risks associated with insurance contracts and financial instruments.

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

Underwriting risks in property/casualty business (primary insurance and reinsurance) derive principally from the premium/loss risk and the reserving risk. The premium/loss risk is the risk that previously defined insurance premiums are used to pay subsequent indemnification, although the amount of such payments is initially unknown. The actual claims experience may therefore diverge from the expected claims experience. This can 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 amount of claims are subject to random factors and the expected claims level may therefore be exceeded. This risk cannot be excluded even if the claims spread is known. The risk of error describes the risk of the actual claims spread diverging from the assumed claims spread. A distinction is made here between the diagnostic risk and the forecasting risk. The diagnostic risk refers to the possibility that the current situation may be misinterpreted on the basis of the available data. This is particularly likely to occur if only incomplete data is available regarding claims from previous insurance periods. The forecasting risk refers to the risk that the probability distribution of the total claims may change unexpectedly after the estimation 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 modeling, selective underwriting, specialist audits and regular review of the claims experience as well as through the use of appropriate reinsurance protection.

The second underwriting risk in property/casualty business, namely the reserving risk, refers to the possibility that the underwriting reserves may not suffice to pay in full claims that have not yet been settled or reported. This may then give rise to a need to establish additional reserves. In order to manage this risk the companies belonging to the Talanx Group measure their reserves prudently. They not only take into account the claims information provided by their customers but also the insights of their own claims investigations and experiences. Furthermore, a so-called IBN(E)R (incurred but not (enough) reported) reserve is constituted for claims that have probably already occurred but have not yet been (adequately) reported. What is more, the level of reserves is regularly reviewed – not only internally but also by external actuaries – and an external expert assessment of the reserves is commissioned in order to minimize the reserving risk. With regard to the run-off results of the loss reserves we would refer the reader to our comments in the Notes under "Loss and loss adjustment expense reserve", pages 219 et seqq.

The following paragraphs describe the risks associated with individual lines of property and casualty insurance and subsequently discuss the risks in life primary insurance and life/ health reinsurance.

Under liability insurance policies we grant the policyholder and any other persons included in the coverage protection against claims for damages asserted by third parties. Indemnification is normally provided for bodily injuries and property damage, although pure financial losses are also insurable. This also includes motor third party liability insurance. The agreed sums insured constitute the policy limits. The frequency and amount of claims can be influenced by a number of factors, including for example a change in legislation. As a result, the number of cases in which claims are brought before the courts could rise, with corresponding implications for indemnification payments. Risks may also be associated with inflation, since some claims are settled over a very long period of time. On account of inflation, for example, the reserves constituted may not suffice to meet subsequent claim payments. Under liability insurance policies the (re)insurer is liable for all insured events that occur during the policy period, even if a claim is not discovered until after the policy period has ended. We therefore establish loss reserves not only for claims that have already been notified, but also for those that have been incurred but not yet reported (IBNR). The actuarial methods that are used to calculate these reserves may involve a risk of error due to the underlying assumptions.

Accident insurance policies provide insurance protection against the economic repercussions of accidents. Depending on the consequences of the accident and the policy concerned, the Group companies normally pay a daily allowance, a lump-sum disability benefit or disability pension or a death benefit. The reserves are calculated on the basis of life actuarial models.

The Group (re)insurance companies calculate their premiums for liability and personal accident policies using empirical values and actuarial calculations. They also manage these risks through their underwriting policy. Underwriting guidelines, which set out inter alia underwriting exclusions and limits, define criteria for risk selection. These underwriting guidelines are binding on the underwriters; they are reviewed annually and modified as necessary. The risk of peak exposures is also reduced with the aid of reinsurance coverage. Furthermore, the adequacy of the reserves is regularly reviewed.

Property insurance policies are taken out in order to obtain an insurance benefit for damaged or destroyed property in the event of a claim. The amount and extent of the losses covered by such policies are determined in particular by the costs of rebuilding and restoration or the compensation payable for contents; in industrial and commercial insurance the losses resulting from business interruption are also covered. The benefits are, however, limited by the sum insured. Claims under motor insurance policies may arise out of the replacement or repair of a destroyed or damaged vehicle.

Underwriting risks are of special importance under these policies. As a consequence of incorrect pricing assumptions, inadequate accumulation control or erroneous estimations of the claims experience, key cash flows may diverge from the expectations underlying the calculation of the premium. Climate change, in particular, can lead to frequent and severe weather events (e.g. floods or windstorm events) and correspondingly heavy losses. Considerable claims may arise under industrial property insurance policies as a consequence of large individual loss events. In order to limit these risks we continually monitor possible divergences between the actual and expected claims experience and, as appropriate, we revisit the pricing calculations. For example, the Group companies have an opportunity to adjust prices to the actual risk situation when policies are renewed. They also manage these risks through their underwriting policy: here too there are underwriting exclusions and limits that serve as a criterion for risk selection. Deductibles also apply in some lines. Substantial individual and accumulation risks are minimized through the use of carefully selected reinsurance coverage which protects against peak losses.

For the Hannover Re Group, scenario calculations are performed in order to identify natural hazards accumulation risks – particularly for net account – at an early stage. In this context, for example, simulation models are used to analyze the worldwide implications of natural disasters due to climate changes. On the basis of these analyses it is possible to determine the maximum exposure that Hannover Re should run for such risks as well as the corresponding retrocession requirement. Retrocession – i.e. the passing on of risks to carefully selected reinsurers of long-standing financial quality – is another vital tool for limiting underwriting risks.

In life primary insurance the insurance policy commits the insurer to either a single or regularly recurring benefit payment. The premium calculation in this case is based on an actuarial interest rate and biometric bases that depend inter alia on the age of the insured at policy inception, the policy period and the amount of the sum insured. The main insured events are the death of the insured person or maturity of the policy (survival).

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

Biometric actuarial bases such as mortality, longevity and morbidity are established at the inception of a contract in order to calculate premiums and reserves. Over time, however, these assumptions may prove to be no longer accurate and may therefore necessitate additional expenditures to increase the benefit reserve. The adequacy of the biometric actuarial bases 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 the continuous improvement in medical care and social conditions, thereby increasing longevity – with the result that insureds draw benefits for a longer time than calculated.

Reserves calculated on the basis of assumptions regarding the development of biometric data such as mortality or disability serve to ensure that the 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 it is possible, for example, that sufficient liquid assets may not be available to cover insurance benefits. This can give rise to the unplanned realization of losses on the disposal of assets. For this reason, the Group’s life insurers invest a sufficiently large asset portfolio in short-term holdings. They also regularly match and control the duration of their assets and liabilities. What is more, receivables due from insurance agents may be lost in the event of cancellation if the accounts receivable from intermediaries cannot be collected. Insurance intermediaries are therefore carefully selected. Cancellation may also create a cost risk if new business collapses and the fixed costs – unlike the variable costs – cannot be directly reduced. Cost controlling and a focus on variable sales costs through distribution channels such as brokers limit this risk.

An interest guarantee risk exists under life insurance policies with guaranteed interest payments. This risk arises if, upon inception of a life insurance policy, a guaranteed interest rate is agreed on the savings element of the premium. The interest guarantee risk has been exacerbated by the reform of the Insurance Contract Act inasmuch as policyholders are entitled to participate in the unrealized reserves upon policy termination. The insurance premiums must be invested at appropriate terms on the capital market in order to generate this guaranteed return. Yet the capital market fluctuates over time; future investments are thus subject to the risk of poorer conditions. What is more, the duration of the investments is generally shorter than the duration of the insurance contracts, hence creating a reinvestment risk. An interest rate risk also exists in connection with guaranteed surrender values. A rapidly rising interest rate level, for example, may give rise to hidden obligations. If contracts were to be terminated prematurely the policyholders would be entitled to the guaranteed surrender values and would not share in any incurred hidden losses. Upon disposal of the corresponding investments the hidden losses would have to be borne by the life insurers, and in theory it is possible that the fair market value of the investments would not suffice to cover the guaranteed surrender values. As a further factor, the change in the distribution of acquisition costs brought about by amendment of the Insurance Contract Act will lead to higher surrender values in the initial phase. The Group reduces the interest guarantee risk primarily by constantly monitoring the asset portfolios and capital markets and taking appropriate countermeasures. To some extent interest rate hedging instruments, known as swaptions and book yield notes, are used. For a large part of our life insurance portfolio the interest guarantee risk is reduced through contractual provisions The surplus distributions paid in addition to the guaranteed interest rate can be adjusted according to the state of the capital market. Under unit-linked life insurance policies the investment risks and opportunities are borne by policyholders. The investment risks could, however, be shifted back onto the life insurers as a consequence of adverse legal developments.

Particularly for the entire German life insurance industry and hence also for the Group's life insurers, the protracted low level of interest rates poses the risk that successive strengthening of the interest provisions may be needed. With this in mind, the Federal Ministry of Finance forwarded a draft ordinance amending the Mathematical Provisions Act (Deckungsrückstellungsverordnung) to the German Insurance Association (GDV) and other associations in December 2010 with a request for comments. The aim is to facilitate the early, gradual establishment of an additional interest provision.

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

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

Default risks under insurance business

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

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

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

Material risks associated with financial instruments

Risks associated with financial instruments should be considered in particular in the context of the investment policy. Based on a Group investment guideline, the investment policy at the individual companies is regulated within the Talanx Group by the supervisory framework applicable to each particular company and by internal investment guidelines.

Particularly in the interests of policyholders as well as with a view to accommodating the future requirements of the capital market, the investment policy is essentially guided by the following maxims:

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

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

Within the scope of the Group guidelines, detailed investment guidelines are in force for individual companies, compliance with which is constantly monitored. These investment guidelines serve to define the framework of the investment strategy and are therefore guided by the principles set out in § 54 of the Insurance Supervision Act (VAG), which envisages the greatest possible level of security and profitability while ensuring liquidity at all times and preserving an appropriate mix and spread of the portfolio. Monitoring of the quotas and limits set out in these guidelines is the responsibility of Group Risk Management and local risk managers as well as the Chief Financial Officer of each company. Any significant modification of the investment guidelines and/or investment policy must be approved by the Board of Management of the company concerned and brought to the attention of its Supervisory Board.

Risks associated with financial instruments consist most notably of market price, credit and liquidity risks. With regard to the scope and extent of these risks please see our comments in the Notes under "Nature of risks associated with insurance contracts and financial instruments", » pages 166 et seqq.

Market price risks

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

The 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 fair 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 risk-entailing bond and risk-free bond of the same quality. Changes in these risk premiums, which are observable on the market, result – analogously to changes in pure market yields – in changes in the fair values of the corresponding securities. A fall in the level of interest rates can also lead to lower investment income. The Group reduces the resulting interest guarantee risk primarily by means of interest rate hedges (see under "Material underwriting risks").

Share price risks derive from unfavorable changes in the value of equities, equity derivatives or equity index derivatives held in the portfolio. We spread these risks through systematic diversification in various sectors and regions. The equity portfolio is also extensively hedged against price losses through stop loss mechanisms.

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. The risk is limited by investing capital wherever possible in those currencies where obligations are to be fulfilled under insurance contracts.

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 the individual companies and are reviewed daily with an eye to liquidity, leverage and exposure.

Real estate risks may result from unfavorable changes in the value of real estate held either directly or through fund units. They may be caused by a deterioration in the particular qualities of a property or by a general downslide 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 on 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 the funds.

The Talanx Group enters into derivative transactions in particular to hedge against price risks or interest rate risks affecting existing assets, to prepare the subsequent purchase of securities or to generate additional earnings on existing securities. The use of derivative products is regulated by internal guidelines in order to ensure the most efficient and risk-free possible use of forward purchases, derivative financial instruments and structured products and to satisfy regulatory requirements. The use of such instruments is thus subject to very strict limits. The parameters of the investment guidelines and the legal parameters for derivative financial instruments and structured products are updated and constantly monitored in the system of limits. Derivative positions and transactions are specified in detail in the reporting.

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 increasingly evolving from as assets-side measurement approach to an asset/liability concept. The VaR is determined on the basis of historical data, e.g. the volatility of the fair values and the correlation between risks. As part of these calculations the decline in the fair value of our portfolio is simulated with a given probability and within a certain period. Stress tests are further vital risk controlling tools. The experts at AmpegaGerling Asset Management GmbH simulate possible market changes that can result in considerable price and interest rate losses for the bulk of the securities. In addition, market price risks are established using enterprise-specific stress tests and those required by regulators with the corresponding fixed stress test parameters.

Credit risks

Credit risks refer to the possible fall in the value of assets due to the failure of a debtor or a change in their ability to pay. As a consequence, financial assets may become non-performing with a corresponding need to take a value adjustment or write-down. Particularly in the area of profit-participating loans, there is a risk of default on interest payments. The rating classes assigned by rating agencies such as S&P and Moody's are a key pointer for investment decisions taken by Portfolio Management. If a rating cannot be ascertained in this way, an internal rating is determined. This is done by way of mark-ups and mark-downs on existing ratings of the issuer or of instruments with different features from the same issuer. The credit risks to be monitored consist of counterparty risks and issuer's risks. Risks of counterparty default are controlled using specified counterparty lists and by monitoring the limits defined for each rating class. Adherence to defined issuer limits (Group limits and/or company limits) is monitored by Risk Controlling. In the event of mergers among issuers that increase accumulations, we examine the legal scope for requiring collateral to be furnished as security.

Liquidity risks

We take liquidity risks to mean the risk of being unable to convert investments and other assets into cash in a timely manner in order to meet our financial obligations when they become due. Thus, for example, it may not be possible to sell holdings (or to do so only with delays) or to close open positions (or to do so only with price markdowns) due to the illiquidity of the markets. In general terms, the Group continuously generates significant liquidity positions because premium income normally accrues well before claim payments and other benefits need to be rendered. We counteract liquidity risks through regular liquidity planning as well as continuous reconciliation of the maturities of investments with the financial obligations. A liquid asset structure ensures that the Group is able to make the necessary payments at all times. The expected due dates – among other considerations – are taken as a basis for the payment obligations, making allowance for the run-off pattern of the reserves.

In order to monitor liquidity risks each type of security is assigned a liquidity code that indicates how quickly a security can be sold. These codes are regularly reviewed by Portfolio Management. The plausibility of changes is checked by Risk Controlling and, where appropriate, the codes are modified. The data is subsequently included in the standardized portfolio reporting provided to the Chief Financial Officers. Compliance with the defined minimum and maximum limits for liquidity is observed. Overstepping of any risk limits is immediately reported to the Chief Financial Officers and Portfolio Management.

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

Material operational risks

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

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

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

We view with some concern the extensions of government powers to intervene in banks if there is a danger of them falling below the ratios set by regulators. Particularly with respect to profit participation certificates (Genussscheine) and silent partners' contributions (stille Einlagen), the Bank Restructuring Act has exacerbated the risk of state intervention to the detriment of institutional investors as well as the investing insurance industry and hence also insurance customers. What is more, a financial tax (financial transaction tax and financial activity tax) is envisaged or has already been implemented in various countries in order to at least partially fund the costs of the banking crisis. There is a risk that such a levy could also impact the Group.

In addition, against the backdrop of the banking crisis, the G20 nations discussed the adoption of surcharges on capital for insurers similar to those for systemically-relevant banks. It apparently remains to be seen just what form such a capital surcharge is supposed to take at the insurers under consideration. If, however, the general thrust of the bank plans is carried over to the insurance industry, large insurance undertakings – and hence potentially also the Talanx Group – could find themselves faced with exacting new capital requirements. It should, though, be mentioned in this context that Frankfurt Administrative Court already expressed serious doubts as to the possible systemic relevance of the Talanx Group during the final closure of other legal proceedings.

There are also proceedings pending before the courts, especially with respect to life insurance, that could have implications for the entire German insurance industry and hence also for the Talanx Group once their outcome is legally final. This includes, for example, the question of how to deal with a monthly, quarterly or half-yearly method of payment in insurance contracts.

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

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

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

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

Other material risks

Of material importance to our company in the category of other risks are primarily emerging risks, strategic risks and reputational risks. Other risks also include participation risks of Talanx AG.

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

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

With Project Fokus, for example, Talanx is seeking to implement the restructuring of the Group that has been decided upon to improve its market positioning. The core of the new structure is a reconfiguration of the Group segments in primary insurance business with a view to being able to operate more successfully in the market. It is geared to customer segments – specifically, to industrial lines transacted worldwide as well as to German and international retail business, in both cases spanning the various insurance lines. Operational risks, in particular, could arise during the project in connection with the simplification of processes within the central functions. We counter the operational risks most notably with a multi-site concept that serves to reduce the potential for staff turnover.

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

Other risks also encompass the participation risks of Talanx AG, especially those associated with the performance of subsidiaries, the stability of results in the portfolio of participating interests and a potentially inadequate balance in the business. Through profit transfer agreements and dividend payments Talanx AG participates directly in the business development and risks of the subsidiaries. What is more, negative results trends at the subsidiaries can prompt a need to write down the book values of participating interests at Talanx AG.

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

The risk of asset erosion on acquisitions or their inadequate profitability is kept as low as possible through intensive due diligence checks conducted in cooperation with independent professional consultants and auditors as well as close monitoring of the business development. Furthermore, Talanx pays close attention to risks deriving from the financing of acquisitions and those associated with the capital needs of subsidiaries as well as their anticipated profitability. It counters the financing risk by compiling regularly updated cash flow statements and forecasts and by defining priorities for the application of funds.

Opportunities

This subsection describes significant opportunities open to the Group. The ability to act on opportunities is a major entrepreneurial challenge. The opportunities discussed here refer to the next two financial years.

Opportunities associated with the development of the business environment

The emergence of two markets offering considerable growth potential can currently be observed in connection with demographic change: in the first place, the "market for senior citizens", and, secondly, the "market for young customers", who need to take out additional provision at their own responsibility in response to the diminishing benefits afforded by social welfare systems. In 2010 around 33 million Germans will be over the age of 50. It is already apparent that seniors today cannot be equated with the traditional pensioner of the past. This is clear not only from their growing use of services, for which there is a considerable willingness and ability to pay; the shift is also and more significantly illustrated by the fact that this customer group is increasingly active and hence exposed more than previous generations to risks against which they need protection. For providers, then, it is not simply a matter of supplementing existing products with assistance benefits; rather, innovatively designed products must be offered to cover these newly emerging needs. By way of example, we may cite here products for secondary residences, extensive foreign travel, sporting pursuits conducted well into advancing years or the handing down of assets to children. At the same time, young customers, too, are becoming increasingly aware of the issue of financial security in old age. This potential can be tapped into through a broad range of (state-subsidized) individual provision products and attractive employer offerings for occupational retirement provision. For this customer group we currently expect a stronger demand trend for retirement provision products with flexible saving and dissaving phases. Based on their comprehensive range of products with innovative solutions and their sales positioning across a broad front, the life insurance companies within the Group are well placed to profit disproportionately strongly from the "seniors' market" and the "young customers' market".

Trust in banks and bank-related products (including unit-linked life insurance) took a battering from the financial crisis. Although equity markets have rallied of late, a considerable degree of uncertainty and fear regarding stock market volatility still prevails among policyholders in light of the experience of the banking and economic crisis. In Europe, the United States and Asia (life) insurers had increasingly concentrated on the sale of "modern", flexible products tied to movements on stock markets. Some voices in the industry are now predicting an ever more likely renaissance of products with guarantees. The life insurers within the Group may profit disproportionately strongly from this turn of events thanks to their innovative products.

We expect general growth stimuli for non-life reinsurance to come from the more exacting requirements placed on companies' risk-based capital resources; for them, the transfer of risk to reinsurers with good ratings offers an economically attractive alternative. The general framework conditions in international life and health reinsurance can in principle be described as favorable for the next two years. In mature insurance markets such as the United States, Japan, United Kingdom and Germany this assessment is colored by the demographic trend, which is reflected in heightened awareness of the need for individual provision. This is especially advantageous for annuity and health insurance products. Increasing urbanization in leading emerging markets such as China, India and Brazil is fostering a rapidly growing middle class, which to a greater extent than before is clamoring for insurance solutions designed to protect surviving dependents and afford individual retirement provision for policyholders.

Opportunities created by the company

The previously described restructuring of the Group is designed to improve its market positioning. The modified configuration of the Group segments in primary insurance business will enable us to operate more successfully in the market. In addition, the project opens up cost-cutting potential over the medium term.

The capital participation and cooperation entered into with Meiji Yasuda Life in November 2010 will open up further international business opportunities for the foreign expansion of the Talanx Group.

Promising sales channels: bancassurance, brokers, Internet

The proportion of life insurance business in Germany deriving from bancassurance is expected to rise to 31% in 2012 (currently 26%). This growth in the life insurance sector is supported by the demographic shift as well as trends on insurance and banking markets. Looked at across all European countries, bancassurance sales of non-life products currently account for only around 10% of the total sales capacity.

Following the changes of ownership affecting the existing cooperation partners in the bancassurance sector, the new owners have in each case decided to maintain the cooperation arrangements. Firstly, the former Citibank Privatkunden AG & Co. KGaA was renamed TARGOBANK effective 22. February 2010 and with a fresh orientation is now in a position to reaffirm the confidence of its customers. The CiV insurers changed their name to Targo so as to continue to underscore the exclusive nature of the partnership. As anticipated, sales again fared well following the roll-out of the "Enhanced Banking System" and the new sales system VERS at TARGOBANK. Secondly, Postbank was taken over by Deutsche Bank: the integration of DWS products into the unit-linked tariffs of PBV Lebensversicherung AG is intended to bring about a situation which satisfies the interests of all contracting parties.

With a view to jointly developing credit life business in Europe, Talanx and Rheinland Versicherungsgruppe together established an agency company, Credit Life International Services. In addition, two insurance companies based in Hilden were established under the Credit Life brand. Following completion of the currently ongoing licensing procedure of the Federal Financial Supervisory (BaFin), they will trade as Credit Life International Lebensversicherung AG and – for non-life business – Credit Life International Versicherung AG. This will further promote diversification in the markets served by the segment.

Talanx AG has agreed upon a partnership with Swiss Life and acquired a long-term equity stake of almost 10% in order to cement this cooperation. As part of the cooperation it is envisaged that the Talanx companies will become a major product partner of AWD. In addition, Talanx has acquired an interest of just under 10% in MLP. Both MLP and the AWD Group, which has belonged to Swiss Life since last year, are significant sales partners in life insurance business. At this moment in time it is not possible to definitively assess what effects the Talanx stake in MLP/Swiss Life will have on new business. The extension of the involvement in Swiss Life presents an opportunity not only to maintain the business relationships with the brokers in question on a stable level but also to further expand them.

We see opportunities through the refinement of Internet tariffs inter alia with respect to HDI Direkt Versicherung, for example through their extension to other lines such as householders' insurance.

Events of special significance after the balance sheet date

Events that could have an influence on our financial position, net income or assets are described in the following forecast and in the subsection of the Notes entitled "Events after the balance sheet date", pages 254 et seq.

Forecast

The following remarks about the expected development of the Talanx Group and its business environment are subjective assessments. They are based on well-founded expert assessments as well as plans and forecasts that we consider coherent but the materialization of which is uncertain. Although we arrived at the underlying assumptions with great diligence and to the best of our knowledge, the possibility cannot be ruled out – in view of the fundamental uncertainties applicable to statements regarding the future – that actual developments may diverge from the developments anticipated here. Forecasting reliability has been made even more difficult by the global interlinking of economic relations and capital markets. Even though signs of an upturn are currently emerging in large areas of the global economy, the danger of fresh setbacks cannot be underestimated. What is more, it should be borne in mind that there is a time lag before the relevant macroeconomic influencing factors make themselves felt on the insurance markets. For this reason, too, some after-effects of the recent financial and economic crisis will probably continue to reverberate in the insurance industry in the years ahead.

Economic environment

We expect the economic recovery to be sustained in 2011. Developments will, however, continue to be very mixed. The most vigorous growth will be generated in emerging markets, which are benefiting from a rebound in domestic consumption and comparatively low levels of indebtedness. Many developed nations, on the other hand, will struggle under heavy debt burdens. These structural imbalances will have adverse implications for potential growth in the affected countries. This is especially true of countries on the Eurozone periphery, where the indispensable government austerity packages to reduce debt are putting the brakes on public and private consumption expenditure and hence curtailing growth. Germany, on the other hand, will profit more heavily from the favorable development of emerging markets through its export-oriented growth model and should again outpace Eurozone growth in the coming year. For the United States, too, we anticipate continued recovery and growth in excess of the Eurozone. Given the large proportion of gross domestic product attributable to domestic consumption, the development of the US economy depends in large measure on the state of the labor market. We expect the gradual easing here to be sustained, although minor setbacks from time to time must be anticipated.

The state of the real economy will again prevent any significant pressure on prices in 2011 since underutilized capacities and high unemployment leave little room to pass on price increases. Cautious lending practices show that the monetary holdings of central banks are scarcely finding their way into the real economy and that this transmission channel – as it is envisaged by monetary policy – continues to be disrupted. We do not expect to see any significant change in 2011, with inflation rates likely to pick up slightly – albeit without any real inflationary pressure. In some emerging markets, on the other hand, there is already appreciable price pressure and this will make itself felt – albeit in milder form – in developed countries too through imported inflation. The appetite of emerging economies for commodities shows no signs of easing and to some extent could again find its way into the shopping baskets of developed markets in 2011 through rising energy prices. The modestly positive economic trend overall will give central banks little incentive in 2011, as in the previous year, to bring about a swift end to their highly expansionary monetary policy. To this extent, we do not expect any significant departure from the prevailing expansionary monetary policy in the current year.

A tightening of monetary policy is more likely in 2012. Sustained growth, falling unemployment and rising capacity utilization will lead to somewhat greater pricing pressures. The continued dynamic growth of emerging markets will exacerbate this situation through rising commodity prices. A cyclical softening in the pace of growth is probable in 2012. There are currently no grounds to fear a fresh downturn, although structural problems such as the high indebtedness of private households and national budgets in developed countries continue to pose substantial risks.

Capital markets

Bonds

As far as the monetary policy that can be expected from central banks in 2011 is concerned, we anticipate increased vigilance. In our assessment, central banks will be ready for a tightening of monetary policy in order to be able to respond at short notice as needed and set in motion steps to reduce the surplus liquidity. Interest rate increases at the short end of the curve are, however, not expected from the Fed or the

ECB for the time being. The question of how long central banks will keep interest rates on the current low level and continue to pursue their expansionary monetary policy cannot, as things presently stand, be answered. Decision-makers must, however, be made aware that a continuation of this monetary policy – which has undoubtedly played its part in helping to cope with the consequences of the worldwide financial and economic crisis – entails considerable interest rate losses on new investments made by the insurance industry and makes it increasingly difficult for insurance enterprises to generate sustainable surpluses. Inflation expectations in the Eurozone are likely to remain moderate, although they are the subject of heated discussion – including within the ECB. The inflation risks for the United States and United Kingdom are assessed as slightly higher than for the Eurozone.

In 2011 the focus will continue to be on the sovereign debt crisis affecting countries on the Eurozone periphery. Since the funding requirements of these countries are high, further volatility can be expected – depending on the latest news to emerge. Overall, the picture remains very mixed. In the banking sector, too, there is a considerable need for refinancing. When possible, banks will likely switch to issuing covered bonds. The more exacting capital requirements of Basel III will also keep the banks busy in 2011. The quest for returns, combined with the large issue volume of government bonds anticipated for 2011, will cause ten-year yields on government bonds to rise. In this climate the interest curve should initially become even steeper, before discussions about hiking key interest rates can bring about flattening as this year progresses. We continue to anticipate a stable development overall on the corporate bond markets, allowing for short-term news-driven volatility. For 2012, too, we expect interest rates to move higher on the back of the anticipated steps in monetary policy.

Equities

Boosted by the ongoing economic upturn, it is our belief that equity markets will again deliver positive returns in 2011. The fundamental valuation is below the long-term average yields, making equities still appear a favorable proposition. Dividend yields are also relatively high and will sup-port the performance of equities accordingly. An intact profit trend among companies is adding to the positive mood. In our assessment, the M&A cycle is only in its initial phase and will have positive effects in 2011. Companies have sufficient cash at their disposal and can obtain refinancing on reasonable terms in the present low interest rate environment. The considerable supply of liquidity that central banks continue to provide points to increased cash inflows into equity mar-kets. Companies which are heavily exposed in growth regions are likely to fare especially well in 2011. Analysts' earnings estimates for 2011 are, however, already very positive and higher than the pre-crisis level. These high expectations are increasingly opening up a certain potential for disappointment. As a consequence of the slowing pace of economic growth the increase in corporate profits forecast for 2012 will not be as vigorous as that anticipated in 2011. Based on diminishing earnings growth, we expect an average return by the standards of this asset class.

Future state of the industry

Assisted by the broadly positive prospects for the economy as a whole as well as for capital markets, and given the robust state of the insurance industry, the underlying mood driving expectations for the development of business in 2011/2012 is currently one of optimism. This should not, however, obscure the uncertainties that still exist or the risk of setbacks associated with the global imbalances and the failure as yet to restore financial stability to the Eurozone on account of the budget situation of certain member states. These factors pose a latent threat to international financial markets. Any turmoil occurring there could spill over again relatively quickly to the real economy and ultimately also to the insurance sector.

Germany

Looking at the German insurance industry, we see a broadly stable business development in the crisis years that has been further energized by the dynamic cyclical recovery of the German economy. Overall, then, we anticipate a modest increase in premium income in 2011 and 2012, the amount of which will ultimately depend on several factors. In addition, we are looking to a steady increase in concentration on the German insurance market, which will be fostered by the approaching implementation of Solvency II and the associated demands placed on capitalization and the installation of complex control and monitoring tools. Smaller insurance companies, in particular, could come up against their limits here. What is more, the trend towards industrialization of insurance production – especially in retail business – and the progressive internationalization of the insurance industry are likely to advance the anticipated consolidation process. There are indications of further differentiation in the sales landscape, with an emphasis on the intensity of consulting required by the various products. On the one hand, the Internet is playing an ever greater role here inasmuch as it is increasingly used not only as a source of product and price information but also as a means of closing contracts and accessing extensive service functions. Further potential for expansion can also be discerned in bancassurance.

The current hallmark of German life insurance is vigorous, albeit of late slightly slowing growth in single-premium business and softness in new business with a regular premium payment. The interest rate environment will be crucial to further developments within the forecasting horizon to the end of 2012. The dilemma facing German life insurers – one that will only become more acute going forward – is that the high minimum guaranteed interest rates entered into (especially in the existing portfolios from prior years) cannot be earned in the prevailing low interest rate climate; looking to the future, then, it will become increasingly difficult to operate successfully with low interest rate levels. In our assessment, given its solid capitalization and reserves as well as its long-term investment horizon, the German life insurance sector should be able to survive a few more years with interest on investments of around 3%, but after that things could quickly become very challenging.

The decisive parameters for the development of the life insurance sector over the coming two years will continue to be new business and the lapse rate. Having been severely impacted by spillover effects of the financial crisis, we also see fresh demand impetus for unit-linked life insurance products as trust in the financial industry rebounds. In general terms, however, it is our belief that the industry's core task lies in enhancing the flexibility of the business models in life insurance through innovative products. In our assessment, the future belongs to life insurance products that can be flexibly attuned to the individual needs of customers in various phases of life. We are convinced that on this basis life insurance offerings can once again become the key product for individual retirement provision. A growing lapse risk can be assumed in a scenario characterized by a sustained economic downturn and a sudden sharp rise in interest rates. This could prompt a sizeable portion of life insurance customers to cancel their existing long-term retirement provision policies early. In order to pay the surrender values associated with these unexpectedly high lapse rates insurers would have to liquidate investments, leading to a decline in investment income, a lower return and an even greater lapse risk. While we do not rule out the possibility of such a scenario, we consider it highly improbable. In our basic scenario we are looking at stable economic growth without any sudden shock increase in interest rates. Over the next two years the German life insurance market will also be shaped, in our view, by increasing competition for sales capacities as well as by the regulatory requirements for solvency and risk capital anticipated under Solvency II. Against the backdrop of changing capital requirements, we may see a far-reaching reorientation in the market and competitive situation.

For German property and casualty insurance we expect fundamentally positive influences from the friendly economic climate that is likely to be sustained in Germany over the next two years. Nevertheless, the already attained level of market saturation puts relatively tight limits on further growth in the quantity structure. We believe that tariffs and premiums have room to move higher in a variety of lines. The scope for premium increases could be extended still further by positive economic effects, since rising production numbers normally go hand-in-hand with rising claims expenditure, which in turn lead to higher minimum required premiums. All in all, it is our expectation that the pressure on underwriting profits will also continue to grow as the net return on investments keeps falling.

In motor insurance, which in the German insurance industry traditionally serves as a gateway for generating new business, we anticipate sustained fierce competition over the coming two years – which could, however, shift from a pure price war to other competitive factors. This view is supported by the fact that the asset base of numerous providers has been heavily eroded by the years of price warfare. The current level of average premiums in motor insurance is not adequate and must rise over the short or long term. One reason for the recurrent annual flare-up in price competition is the prevailing market-wide renewal date of 1 January. It is our expectation that greater flexibility in the renewal date will also result in motor insurance premiums that are more commensurate with requirements.

International markets

Although there is no mistaking the risks to the global economy, our assessment of the economic growth prospects for 2011 and 2012 in the most likely basic scenario is broadly favorable. In this context, the pace of growth is expected to be particularly dynamic in the emerging markets, which over the longer term will show growth rates roughly double those of the industrialized nations. Established insurance groups with a keen interest in opening up new growth potentials – and which are also equipped with the financial means for further expansion – have increasingly come to focus on emerging markets in recent years as desirable target markets; the market share of these countries is thus steadily increasing on the back of disproportionately strong growth relative to the industrialized nations. The vigorous rise in demand for insurance protection is driven by brisk, dynamic economic growth and growing affluence in these countries. Along with the up-and-coming economic giants of Asia – such as China, India, South Africa and Malaysia – Latin America also ranks among the preferred growth markets of internationally operating insurance groups. It is our assumption that the appeal of Latin America – including Mexico – will continue to grow, especially in the area of retail business, because the comparatively well-off middle class in this region is rapidly expanding and its insurance needs are hence also on the rise. Considerable demand stimuli can also be expected from the major sporting events recently awarded to Brazil – namely the 2014 Football World Cup and the 2016 Olympic Games.

On this basis the growth prospects in international property/casualty insurance can be assessed as favorable, especially in emerging markets. The profitability of property/casualty insurers will, however, initially continue to decline in 2011 and 2012. Even if wide-ranging premium increases were to be implemented in the course of 2011 – first and foremost in motor insurance –, these will not be reflected in the results posted by insurers until after a time lag. This means that technical results cannot be expected to show gradual improvement across a broad front before 2012 at the earliest, although the margins generated prior to the financial crisis will not be attainable for the foreseeable future.

On the international life insurance markets, too, a healthy growth outlook can be anticipated because demand for funded retirement provision products in the context of individual old-age provision as well as provision for surviving dependants remains strong. It is, however, also the case in life insurance that a strong difference in the pace of growth is likely to be evident between the industrialized nations and emerging markets – with the latter spurred on by favorable demographic and economic framework conditions. A special challenge facing life insurers is the need to generate sufficient investment income to offer their customers an attractive return without overextending their own risk position. On the other hand, it must be anticipated that European insurers, in particular, will have to cope with a rising cost of capital under Solvency II since capital requirements in certain subsegments – such as for riskier asset classes or for products with high guarantees – will become more exacting.

Conditions in non-life reinsurance are broadly satisfactory, even though rates declined sometimes substantially on account of the healthy capital resources enjoyed by primary insurers and the absence of market-changing major losses in the developed markets. As a direct consequence of the heavy loss expenditure associated with the sinking of the “Deepwater Horizon” drilling rig we are seeing appreciable price increases on covers for offshore oil exploration. We anticipate further price increases in the April and July treaty renewals, especially for Australia in the aftermath of the severe flooding of December 2010 and January 2011.

In the coming years, as in the past, we expect to see a positive basic direction and further dynamic growth in international life and health reinsurance business. On a global level the growth recorded in life and health reinsurance should continue to outpace the comparable growth on primary markets. In this context we are seeing a shift in demand for new business away from developed markets such as the United States, United Kingdom and Germany towards emerging markets such as China, India, Brazil and Latin America. The preparations for Solvency II, and in particular the stress tests performed by the EU, have led to a greater risk awareness among European insurers and highlighted the important role of reinsurance as a means of risk and capital optimization. This is especially true of small and mid-sized insurers, specialty providers and mutual insurance companies.

Orientation of the Group over the next two financial years

In the 2011 and 2012 financial years the orientation of the Group will continue to be shaped by the Group restructuring set in motion in 2009 and by the consolidation of the new Group structure put in place at the beginning of 2011. Through its concentration of central functions the Group will be able to leverage the first synergistic effects by the end of 2012. This is to be achieved primarily by way of natural fluctuation.

Orientation towards the market

- Holistic view of the customer
- Strengthening of retail business in Germany and abroad

Efficiency enhancement within the organization

- Reduction of complexity in the Group structure
- Leverage of synergistic potentials

Strategic orientation of our Group segments at a glance:

Group segment	Our mission and strategic tasks
Retail Germany	■ Profitable enlargement of market share ■ Elimination of cost disadvantages ■ Establishment of clear, simple organizational structures ■ Putting in place of a closer focus on the customer
Retail International	■ Growth in strategic target markets ■ Optimization of activities in existing markets
Industrial Lines	■ Growth in foreign markets ■ Development into a Global Player
Non-Life Reinsurance	■ Not one of the largest, but rather one of the most profitable non-life reinsurers in the world ■ Special focus on the correct assessment of risks ■ Technically oriented setting of prices and conditions as well as an adequate level of reserving
Life/Health Reinsurance	■ In 5 years one of the 3 major, globally operating life/health reinsurers of above-average profitability ■ Annual double-digit growth in volume and profitability indicators ■ Special focus on the regional and biometric balance of the portfolio

A key focus of further measures relating to the Group restructuring in 2011 will be on the Retail Germany division. Intensive preparations are underway here to make this division fit for the future. The goal is to align the business processes and organization with the needs of customers and sales partners. Combined with the elaboration of product, sales and service strategies that span the various lines of business, the aim is to become one of the most efficient and customer-oriented insurers serving this segment of clientele.

Probable development of the Group

In our preview of the period until 2012, we expect to see an increase in gross premium to around EUR 25 billion as well as a net return on premium of around 7% for the Talanx Group on a consolidated basis. The return on equity after tax and minority interests should be at least 10.8%. This is equivalent to 750 basis points above the risk-free interest rate, which we have defined as the 5-year average on 10-year German government bonds. We have set ourselves the goal of a return on equity of 12.5% as a strategic target. We are standing by our objective of going public with a minority interest in Talanx AG, albeit without yet specifying the precise timing of such a move. We shall therefore continue to make systematic preparations in order to be absolutely ready to act at the decisive moment.

Industrial Lines

In the 2011 financial year our business in Industrial Lines is to be further expanded in Europe as well as Latin America, (South-)East Asia and the Arabian Peninsula. There are also plans to establish a branch office in Canada. Given the economic recovery both domestically and in the export market, the company is looking to boost its premium income – especially from turnover-based policies. The gross premium volume of EUR 2.6 billion expected for 2011 is thus marginally higher than the level recorded as at 31 December 2010. The industrial insurance market remains fiercely competitive in light of the unchanged predatory competition over prices and conditions. At the time of going to press it was still too early to foresee with any certainty the implications of the Japanese earthquake in March 2011. The Industrial Lines segment must anticipate appreciable claims expenditure. On the other hand, parallel to this, we are looking to a trend reversal on the pricing side – which should make itself felt partially in 2011 but above all in 2012. Rising claims expenditure must also be anticipated as a consequence of the widespread economic upturn. Despite the cautious assumptions with respect to investment returns, the company expects to achieve again in 2011 the satisfactory investment income generated in 2010.

Retail Germany

The comprehensive product range offered by HDI-Gerling Lebensversicherung is particularly well suited to meeting the challenges posed by demographic change. With this in mind, we expect the company's favorable development to continue.

At the start of 2011 HDI-Gerling Firmen und Privat Versicherung AG geared its range of offerings in retail property/casualty insurance to a modular product architecture, bundling contract administration across all lines for operational purposes. Not only does this generate value-added for policyholders, including for example greater flexibility and transparency, it also opens up cost-cutting potential for the insurance carrier and on the sales side.

In the sector comprised of commercial customers and freelance professions, HDI-Gerling Firmen und Privat Versicherung AG will continue to focus on professional indemnity and directors' and officers' (D&O) business – lines in which the tariffs are to be revised. Not only that, the product range will be enlarged to include a new IT insurance product. In the area of medical malpractice, modernization of the terms and conditions as well as expansion of the portfolio – always with a close eye to keeping the risks in check – are planned. The portfolio of existing business in the "Compact" product line is to be significantly boosted through a high-volume cooperation and an additional component – "Receivables management" – will be added to the product range.

The turn of the year 2010/2011 raised hopes that the motor market is slowly stabilizing. The average premium level was around 3% higher than in the previous year. In the current financial year HDI Direkt Versicherung AG will continue to position itself as a value-for-money provider in this market. Special emphasis will again be placed on expanding sales over the Internet and through cooperation partners; marketing efforts in employee affinity business will also be further stepped up. All in all, the company expects to increase its premium income by roughly 3%.

For the companies transacting bancassurance business the bar continues to be set high: Neue Leben Lebensversicherung AG intends to further extend its role as a provision specialist and strategic partner for Sparkasse savings institutions and will seek to cement its position in the market through innovative products and its proven performance standard. For the current 2011 financial year Neue Leben Holding AG anticipates a healthy profit. At Targo Lebensversicherung AG the focus is on cementing profitable growth for the long term, superb cost efficiency, the excellent quality of its products and services and the acquisition of new customer groups. In the interests of value-based management PBV Lebensversicherung AG will maintain its orientation towards enhancing efficiency through further improvements in the cost situation and investment income. On this basis we see opportunities to gain market advantages and further strengthen the competitive position of PBV Lebensversicherung AG as a specialist provider of products for individual retirement provision.

Retail International

In the 2011 financial year we shall continue to pursue a clear expansionary strategy in international retail business, always emphasizing growth with adequate profitability. The strategic orientation will concentrate on the establishment and further extension of business in the target regions of Latin America as well as Central and Eastern Europe and Turkey – with both organic and inorganic growth considered desirable – as well as on the optimization of activities in existing markets. Opportunities outside the target regions are acted upon if a clear value-added can be generated above and beyond the set parameters.

Gross premium in the Group segment is expected to grow to around 10% of the Group's total volume by 2012. Our Brazilian company is the principal driver of growth. It is our expectation that the Brazilian economy will continue to flourish over the next two years – a development which will be particularly beneficial to our company, which writes predominantly motor business. HDI Seguros S. A., Brazil, anticipates premium growth of almost 50% in 2011. Growth in the other markets is likely to be in the high single digits or even the double-digit percentage range.

In the Polish market, where we largely transact motor liability business, the rates that can be obtained are still scarcely sufficient. In 2011 we shall take the opportunity to adjust rates and further optimize workflows so as to generate adequate profitability. In light of our favorable assessment of the development of the Polish life insurance market, we shall realign our company accordingly so as to share fully in its growth.

Growth in life insurance could come in higher overall relative to the 2010 level, were it not for the fact that the cessation of new business in Liechtenstein and Luxembourg as well as the reduced demand for single-premium products offered by the Italian company will likely cause the premium volume to flatten out by the end of 2012.

In cooperation with our new strategic partners of the Meiji Yasuda Life Group we shall make the most of opportunities to grow together in foreign markets when the occasion presents itself. Investments in Central and Eastern Europe as well as Turkey and Latin America feature particularly prominently in the target corridor. With the Polish company HDI Asekuracja closing the financial year just-ended in negative territory and owing to the growth recorded by the Italian company HDI Assicurazioni, only the Brazilian company HDI Seguros is expected to pay a dividend in 2011. For 2012 we are looking to generate dividend income from Poland, Brazil and Italy.

Non-Life Reinsurance

In Non-Life Reinsurance we expect broadly good conditions for the current financial year and beyond. The renewals as at 1 January 2011 passed off better for us than the market players had anticipated.

In our target market of Germany we are looking ahead optimistically to the current financial year. With premium volume stable overall, prices for loss-impacted programs rose while rates declined under programs that had been spared losses. In motor business the primary insurance market bottomed out in 2010. This development, combined with improved conditions, will have favorable implications for our result in proportional motor business and also – indirectly – for our non-proportional motor liability portfolio.

Lively competition is once again shaping business conditions in North America in the current financial year. In terms of premium volume, we expect to see a modest increase (+1%) in 2011. Growth will be driven by Canadian business. Given our very good market position and the excellent relations that we enjoy with our clients, we continue to see good business prospects going forward in our target market of North America.

We are thoroughly satisfied with the treaty renewals in specialty lines. Rate movements were particularly favorable in offshore energy business. In view of the heavy losses, prices here rose sharply in both the property and casualty lines, and we therefore expect to enlarge our premium volume for 2011 by 16%. In aviation reinsurance we expect growth of around 12% in our gross premium volume. Business should also develop well in credit and surety reinsurance; given our selective underwriting policy, however, the premium volume here is expected to contract by 8% in 2011. In the area of structured reinsurance products we are seeing sustained demand overall for contracts with a greater risk transfer and we are looking forward to further pleasing development of our business in the current financial year. We shall continue to expand activities in the area of insurance-linked securities in 2011.

We shall grow by around 2% in global treaty reinsurance in 2011, even though the treaty renewals as at 1 January 2011 presented a mixed picture in the individual markets. Owing to the absence of major loss events in zones with peak exposures, such as in the United States, the overall tendency towards declining rates in catastrophe business was sustained. Altogether, the gross premium from our global catastrophe business is likely to contract by around 10% in the current financial year. The price situation in facultative reinsurance, i.e. the underwriting of individual risks, remains tense. At this point in time it is our expectation that rates will for the most part decline. Nevertheless, given the varied nature of demand and the diversification of the markets, our facultative portfolio should again generate profitable growth in 2011. We anticipate that the rate erosion in conventional property and casualty business will be offset by the writing of niche segments.

Life/Health Reinsurance

In Life/Health Reinsurance we have set ourselves an annual growth target of 10% to 12% for gross premium income. Along with our organic growth we anticipate further portfolio acquisitions in mature insurance markets. We are targeting an EBIT margin of at least 6%. For Hannover Life Re, the evolution of its tried and tested “Five Pillar” model continues to shape the development of business; new markets will remain the principal engines of growth over the coming two to three years. We also see good potential in the bancassurance sector, especially in emerging markets. Our expansionary efforts are concentrated on the United States, Arab countries and the key emerging markets of Asia and Latin America.

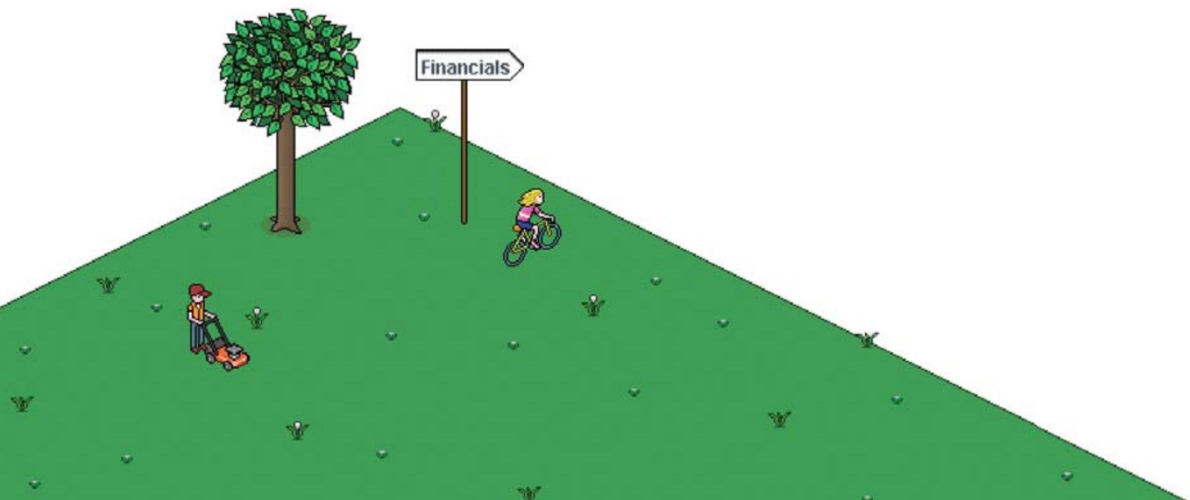
Corporate Operations

AmpegaGerling Asset Management: As a result of updated arm’s length comparisons, revenues are expected to contract by EUR 12 million on account of lower fee agreements with affiliated Group companies. If operating expenses are maintained on the level of 2010, the operating profit will decrease as planned to EUR 21 million (excluding income from profit transfer agreements).

AmpegaGerling Investment GmbH: Along with portfolio management of public and special funds, the company’s activities in 2011 will be concentrated on refining its business processes with a view to attaining UCITS IV compliance (management of foreign funds) as well as on further expansion of technical expertise for the administration of investments. All in all, the operating profit for 2011 is expected to be on the level of the previous year.

AmpegaGerling Immobilien Management GmbH: In view of the transfer of the mortgage lending business (and hence the loss of the associated revenues), it is anticipated that revenues will contract by around EUR 1 million despite the reorganization of commission structures and, among other things, the associated increase in portfolio margins. Driven by special project costs, a negative operating result of –EUR 0.7 million is planned for 2011. From 2012 onwards, following complete implementation of the new production structures and elimination of special project expenses, it is envisaged that an operating profit will be generated.

As things currently stand, it is to be anticipated that the profit generated by Protection Re in 2011 will surpass the level of the 2010 financial year.


Financials

Consolidated financial statements. Contents

Notes

Consolidated balance sheet of Talanx AG as at 31 December 2010

Assets	Note		31.12.2010	31.12.2009[1]
Figures in EUR million				
A. Intangible assets				
a. Goodwill	1	589		593
b. Other intangible assets	2	1,851		2,154
			2,440	**2,747**
B. Investments				
a. Investment property	3	860		726
b. Investments in affiliated companies and participating interests	4	74		61
c. Investments in associated companies	5	144		134
d. Loans and receivables	6	32,343		31,548
e. Other financial instruments				
i. Held to maturity	7	2,999		2,858
ii. Available for sale	8/11	30,635		26,477
iii. At fair value through profit or loss	9/11/12	1,221		1,099
f. Other invested assets	10/11	4,185		4,133
Investments under own management		**72,461**		**67,036**
g. Funds held by ceding companies		10,961		9,349
Total investments			**83,422**	**76,385**
C. Investments for the account and risk of holders of life insurance policies			6,414	4,975
D. Reinsurance recoverables on technical provisions			5,523	5,962
E. Accounts receivable on insurance business	13		5,011	4,342
F. Deferred acquisition costs	14		3,715	3,544
G. Cash			1,265	1,685
H. Deferred tax assets	27		268	235
I. Other assets	15		1,781	1,655
J. Non-current assets and assets of disposal groups classified as held for sale			1,529	35
Total assets			111,368	101,565

[1] *Figures for the previous year adjusted on the basis of IAS 8 and IFRS 8; see explanatory remarks in the section "Summary of major accounting policies"*

Liabilities	Note		31.12.2010	31.12.2009[1]
Figures in EUR million				
A. Shareholders' equity	16			
a. Common shares		260		260
b. Reserves		4,696		4,314
Total shareholders' equity excluding minorities		**4,956**		**4,574**
c. Minority interests		3,035		2,579
Total shareholders' equity			**7,991**	**7,153**
B. Subordinated liabilities	17	2,791		2,003
C. Technical provisions				
a. Unearned premium reserve	18	5,411		5,026
b. Benefit reserve	19	42,466		39,754
c. Loss and loss adjustment expense reserve	20	28,538		27,256
d. Provision for premium refunds	21	1,113		1,274
e. Other technical provisions		250		221
		77,778		**73,531**
D. Technical provisions in the area of life insurance insofar as the investment risk is borne by policyholders		6,414		4,975
E. Other provisions				
a. Provision for pensions	22	1,316		1,298
b. Provision for taxes	23	743		771
c. Sundry provisions	24	692		575
		2,751		**2,644**
F. Liabilities				
a. Notes payable and loans	25	747		675
b. Funds held under reinsurance treaties		5,224		4,514
c. Other liabilities	11/12/26	4,858		4,561
		10,829		**9,750**
G. Deferred tax liabilities	27	1,433		1,509
Total liabilities/provisions			**101,996**	**94,412**
H. Liabilities of disposal groups classified as held for sale			1,381	—
Total liabilities			**111,368**	**101,565**

[1] *Figures for the previous year adjusted on the basis of IAS 8 and IFRS 8; see explanatory remarks in the section "Summary of major accounting policies"*

The following Group Notes form an integral part of the consolidated financial statement.

Consolidated statement of income of Talanx AG for the 2010 financial year

	Note		2010	2009[1]
Figures in EUR million				
1. Gross written premium including premium from unit-linked life and annuity insurance		22,869		20,923
2. Savings elements of premium from unit-linked life and annuity insurance		1,139		979
3. Ceded written premium		2,767		2,530
4. Change in gross unearned premium		–185		–67
5. Change in ceded unearned premium		25		24
Net premium earned	**28**		**18,753**	**17,323**
6. Claims and claims expenses (gross)	30	17,810		15,101
Reinsurers' share		1,712		1,043
Claims and claims expenses (net)			**16,098**	**14,058**
7. Acquisition costs and administrative expenses (gross)	31	4,887		4,754
Reinsurers' share		515		710
Acquisition costs and administrative expenses (net)			**4,372**	**4,044**
8. Other technical income		71		43
Other technical expenses		390		295
Other technical result			**–319**	**–252**
Net technical result			**–2,036**	**–1,031**
9. a. Income from investments	29	3,383		3,321
b. Expenses for investments	29	486		903
Net income from investments under own management		**2,897**		**2,418**
Income/expense on funds withheld and contract deposits	29	280		240
Net investment income			**3,177**	**2,658**
thereof profit/loss from investments in associated companies		2		–6
10. a. Other non-technical income	32	947		967
b. Other non-technical expenses	32	1,039		1,005
Other income/expenses			**–92**	**–38**
Profit before goodwill impairments			**1,049**	**1,589**
11. Goodwill impairments	33		17	92
Operating profit/loss (EBIT)			**1,032**	**1,497**
12. Financing costs	34		134	133
13. Taxes on income	35		228	471
Net income			**670**	**893**
thereof minority interest in profit or loss			450	408
thereof Group net income			220	485

[1] *Figures for the previous year adjusted on the basis of IAS 8 and IFRS 8; see explanatory remarks in the section "Summary of major accounting policies"*

The following Group Notes form an integral part of the consolidated financial statement.

Consolidated statement of comprehensive income of Talanx AG for the 2010 financial year

	2010	2009[1]
Figures in EUR million		
Net income	**670**	**893**
1. Unrealized gains and losses on investments		
Gains (losses) recognized directly in equity during the period	108	908
Reclassification of net realized gain (loss)	–224	102
Tax income (expense)	–3	–116
	–119	**894**
2. Currency translation		
Gains (losses) recognized directly in equity during the period	250	87
Reclassification of net realized gain (loss)	2	–4
Tax income (expense)	–12	1
	240	**84**
3. Changes from cash flow hedges		
Gains (losses) recognized directly in equity during the period	–103	–7
Reclassification of net realized gain (loss)	—	—
Tax income (expense)	3	2
	–100	**–5**
4. Changes in policyholder participation/shadow accounting		
Gains (losses) recognized directly in equity during the period	324	–462
Tax income (expense)	–7	20
	317	**–442**
5. Changes from the measurement of associated companies		
Gains (losses) recognized directly in equity during the period	–2	—
Reclassification of net realized gain (loss)	—	—
Tax income (expense)	—	—
	–2	**—**
6. Other changes		
Gains (losses) recognized directly in equity during the period	4	8
Reclassification of net realized gain (loss)	—	—
Tax income (expense)	–1	–3
	3	**5**
Taxes on income and expense recognized in equity via other income/expenses	**–20**	**–96**
Income and expense recognized during the period in equity via other income/expenses after taxes	**339**	**536**
Total recognized income and expense during the period	**1,009**	**1,429**
thereof attributable to minority interests	615	491
thereof attributable to the Group	394	938

[1] *Adjusted on the basis of IAS 8*

The following Group Notes form an integral part of the consolidated financial statement.

Consolidated statement of changes in equity

	Common shares	Additional paid-in capital	Retained earnings	Cumulative other comprehensive income (other reserves): Unrealized gains/ losses on investments	Gains/ losses from currency translation	Other changes in share-holders' equity	Measure-ment gains and losses from cash flow hedges	Minority interests	Share-holders' equity
Figures in EUR million									
Balance at 31.12.2008	**260**	**630**	**2,977**	**–123**	**–211**	**111**	**–18**	**2,092**	**5,718**
Adjustments pursuant to IAS 8	—	—	12	–8	—	7	—	1	12
Adjusted balance at 01.01.2009	**260**	**630**	**2,989**	**–131**	**–211**	**118**	**–18**	**2,093**	**5,730**
Total recognized income and expense	—	—	485	799	71	–412	–5	491	1,429
therein adjustments pursuant to IAS 8	—	—	–41	—	—	—	—	1	–40
thereof currency translation	—	—	—	—	*71*	—	—	*13*	*84*
thereof unrealized gains and losses on investments	—	—	—	*799*	—	—	—	*95*	*894*
thereof change from equity measurement	—	—	—	—	—	—	—	—	—
thereof change from cash flow hedges	—	—	—	—	—	—	*–5*	—	*–5*
thereof sundry changes [1]	—	—	—	—	—	*–412*	—	*–25*	*–437*
Dividends paid to shareholders	—	—	—	—	—	—	—	–18	–18
Capital increase	—	—	—	—	—	—	—	12	12
Other changes	—	—	—	—	—	—	—	1	1
Balance at 31.12.2009 [2]	**260**	**630**	**3,474**	**667**	**–140**	**–294**	**–23**	**2,579**	**7,153**
Adjustments pursuant to IAS 8	—	—	–15	29	—	–26	—	—	–12
Adjusted balance at 01.01.2010	**260**	**630**	**3,459**	**696**	**–140**	**–320**	**–23**	**2,579**	**7,141**
Changes in ownership interest [3]	—	—	—	—	—	—	—	7	7
Total recognized income and expense	—	—	219	–174	144	305	–100	615	1,009
thereof currency translation	—	—	—	—	*144*	—	—	*96*	*240*
thereof unrealized gains and losses on investments	—	—	—	*–174*	—	—	—	*55*	*–119*
thereof change from equity measurement	—	—	—	—	—	*–1*	—	*–1*	*–2*
thereof change from cash flow hedges	—	—	—	—	—	—	*–100*	—	*–100*
thereof sundry changes [1]	—	—	—	—	—	*306*	—	*13*	*319*
Dividends paid to shareholders	—	—	—	—	—	—	—	–162	–162
Capital reduction	—	—	—	—	—	—	—	–4	–4
Balance at 31.12.2010	**260**	**630**	**3,678**	**522**	**4**	**–15**	**–123**	**3,035**	**7,991**

[1] *The sundry changes consist of the policyholder participation/shadow accounting as well as other changes*
[2] *Adjusted on the basis of IAS 8*
[3] *Changes in ownership interest with no change of control status*

The following Group Notes form an integral part of the consolidated financial statement.

Cash flow statement of Talanx AG
for the 2010 financial year

Figures in EUR million	2010	2009[1)]
I. 1. Net income	670	893
I. 2. Changes in technical provisions	3,879	3,339
I. 3. Changes in deferred acquisition costs	–38	5
I. 4. Changes in funds held and in accounts receivable and payable	441	–930
I. 5. Net changes in contract deposits	–1,230	71
I. 6. Changes in other receivables and liabilities	71	117
I. 7. Changes in financial assets held for trading	36	226
I. 8. Net gains and losses on investments	–385	–237
I. 9. Changes in other balance sheet items	–86	–70
I. 10. Other non-cash expenses and income as well as adjustments to net income	1,226	2,058
I. Cash flows from operating activities	**4,584**	**5,472**
II. 1. Cash inflow/outflow from the sale of consolidated companies	47	—
II. 2. Cash inflow/outflow from the purchase of consolidated companies	—	79
II. 3. Cash inflow from the sale of real estate	38	43
II. 4. Cash outflow from the purchase of real estate	–205	–225
II. 5. Cash inflow from the sale and maturity of financial instruments	16,552	18,622
II. 6. Cash outflow from the purchase of financial instruments	–20,754	–21,329
II. 7. Changes in investments for the account and risk of holders of life insurance policies	–1,394	–1,603
II. 8. Changes in other invested assets	130	–659
II. Cash flows from investing activities	**–5,586**	**–5,072**
III. 1. Cash inflow from capital increases	—	12
III. 2. Cash outflow from capital reductions	–4	—
III. 3. Dividends paid	–162	–18
III. 4. Net changes from other financing activities	719	–123
III. Cash flows from financing activities	**553**	**–129**
Change in cash and cash equivalents (I.+II.+III.)	**–449**	**271**
Cash and cash equivalents at the beginning of the financial year	**1,685**	**1,408**
Cash and cash equivalents – exchange rate differences on cash	**54**	**6**
Cash and cash equivalents at the end of the financial year	**1,290**	**1,685**
Cash and cash equivalents of disposal groups	**25**	**—**
Cash and cash equivalents at the end of the financial year excluding disposal groups	**1,265**	**1,685**
Additional information		
Taxes paid	294	–3
Interest paid	255	260

[1)] *Adjusted on the basis of IAS 8*

The following Group Notes form an integral part of the consolidated financial statement.

Notes on the cash flow statement

The cash flow statement shows how the cash and cash equivalents of the Group changed in the course of the year under review due to inflows and outflows. In this context a distinction is made between cash flow movements from operating activities and those from investing and financing activities.

The cash flows are presented in accordance with IAS 7 "Statement of Cash Flows" and the principles set out in German Accounting Standard (DRS) No. 2 regarding the preparation of cash flow statements, which were supplemented and specified more closely by DRS 2-20 for insurance enterprises.

The cash flow statement was drawn up using the indirect method. The liquid funds are limited to cash and cash equivalents and correspond to the balance sheet item "Cash".

The cash flow movements of the Group are influenced principally by the business model of an insurance and reinsurance enterprise. Normally, we first receive premiums for risk assumption and subsequently make payments for claims. The effects of exchange rate differences and the influences of changes in the consolidated group are eliminated in the cash flow statement. The acquisition of new companies is shown in the line "Cash inflow/outflow from the purchase of consolidated companies"; the sum total of purchase prices paid less acquired cash and cash equivalents is recognized here.

The informational value of the cash flow statement for the Group is to be considered minimal. For us, it is not a substitute for liquidity and financial planning, nor is it used as a management tool.

The purchase price for HDI Strakhovanie totaled EUR 1 million; cash assets accrued in the same amount (see subsection of the Notes entitled "Business combinations in the reporting period", page 163).

Notes

General information

Based in Hannover/Germany, Talanx AG heads Germany's third-largest insurance group – with premium income of EUR 22.9 (20.9) billion in 2010 – as a financial and management holding company. It does not, however, itself transact insurance business. The Group, which is active in more than 150 countries worldwide through cooperation arrangements, offers high-quality insurance services in non-life and life insurance as well as reinsurance and also conducts business in the asset management sector.

The Group operates as a multi-brand provider in the divisions of Industrial Lines, Retail Germany, Retail International, Non-Life Reinsurance and Life/Health Reinsurance as well as Corporate Operations. Its brands include HDI and HDI-Gerling, offering insurance solutions for retail and commercial customers as well as industrial clients, Hannover Re – one of the world's leading reinsurers –, the bancassurance specialists Neue Leben, PB and Targo Versicherungen as well as the investment fund provider and asset manager AmpegaGerling. At the end of 2010 the companies belonging to the Talanx Group employed a total global workforce* of 16,874 (16,921).

Talanx AG is a wholly-owned subsidiary of HDI Haftpflichtverband der Deutschen Industrie Versicherungsverein auf Gegenseitigkeit (ultimate parent company), Hannover (HDI V. a. G.), and the parent company for all Group companies belonging to HDI V. a. G. It is entered in the commercial register of Hannover County Court under the number HR Hannover B 52546 with the address "Riethorst 2, 30659 Hannover". In accordance with §§ 341 et seq. of the German Commercial Code (HGB) HDI V. a. G. is obliged to prepare consolidated annual accounts that include the annual financial statements of Talanx AG and its subsidiaries. The consolidated annual accounts of the parent company are published in the electronic federal gazette.

** Full-time equivalents as at 31 December*

General accounting principles and application of International Financial Reporting Standards (IFRS)

As the parent company of the Talanx Group, Talanx AG has drawn up a consolidated financial statement pursuant to § 290 of the German Commercial Code (HGB). The consolidated financial statement was prepared voluntarily on the basis of § 315 a Para. 3 of the German Commercial Code (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 standards and rules specified in § 315 a Para. 1 of the German Commercial Code (HGB) were observed in full.

Since 2002 the standards adopted by the International Accounting Standards Board (IASB) have been referred to as IFRS (International Financial Reporting Standards); the standards approved in earlier years still bear the name IAS (International Accounting Standards). Standards are cited in our Notes accordingly; in cases where the Notes do not make explicit reference to a particular standard, the term IFRS is used. Insurance-specific transactions for which IFRS do not contain any separate standards are recognized in compliance with IFRS 4 “Insurance Contracts” according to the pertinent provisions of United States Generally Accepted Accounting Principles (US GAAP).

The consolidated financial statement reflects all IFRS in force as at 31 December 2010 as well as all interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and the previous Standing Interpretations Committee (SIC), application of which was mandatory for the 2010 financial year and which were adopted by the EU. In addition, the German Accounting Standards (DRS) adopted by the German Accounting Standards Committee (DRSC) have been observed insofar as they do not conflict with currently applicable IFRS standards.

The consolidated financial statement was drawn up in euros (EUR). The amounts shown have been rounded to EUR millions (EUR million), unless figures are required in EUR thousands (EUR thousand) for reasons of transparency. This may give rise to rounding differences in the tables presented in this report. Figures indicated in brackets refer to the previous year.

Newly applicable standards/interpretations and changes in standards

IFRS 3 (revised 2008) “Business Combinations” and resulting changes to IAS 27 “Consolidated and Separate Financial Statements”, IAS 28 “Investments in Associates” and IAS 31 “Interests in Joint Ventures” are applicable to acquisitions in financial years beginning on or after 1 July 2009.

The revised standard (IFRS 3), which was ratified on 3 June 2009 by the EU, continues to require recognition of business combinations, albeit with some significant changes. For example, all considerations paid for corporate acquisitions are to be measured at fair value at the time of acquisition. In this context, contingent considerations are carried as a liability and changes are recognized in profit or loss upon remeasurement. An option is available on a transaction-by-transaction basis to recognize the non-controlling interest either at fair value or with the pro rata remeasured equity. All acquisition-related costs are expensed.

The standard was applied within the Group inter alia to the acquisition of the controlling interest in HDI Strakhovanie on 7 July 2010. Further details of the acquisition in the financial year are provided in the subsection of the Notes entitled "Business combinations in the reporting period".

The revised IAS 27 requires the recognition of all effects of transactions with non-controlling interests in equity, insofar as there is no change in control and this transaction does not result in goodwill or in gains and losses. In case of a loss of control the standard provides detailed guidance on balance sheet recognition. The remaining interest is to be measured at fair value and any gain or loss arising upon remeasurement is to be carried as such. The revised standard had an effect on the reporting period, since inter alia transactions took place with non-controlling interests which are discussed in the section of the Notes entitled "Consolidation", subsection "Scope of consolidation" (pages 155 et seqq.).

The "Improvements to IFRSs (2009)" contains various amendments affecting twelve existing IFRS (ten standards and two interpretations) and is the second such collective standard published in the context of the IASB annual improvement process, which has been ongoing since 2006. The amendments are for the most part applicable to financial years beginning on or after 1 January 2010 and had no significant implications for the Group.

In addition to the accounting standards described above, the following amendments to standards and interpretations were observed as at 1 January 2010:

- IFRS 1 "First-time Adoption of International Financial Reporting Standards": The new version of IFRS 1 contains the provisions of the previously applicable standard, but differs in its structure. In addition, the amendments to the standard "Additional Exemptions for First-time Adopters" introduce simplifications into IFRS 1, which relate inter alia to the oil and gas industry as well as the application of IFRIC 4 "Determining whether an Arrangement contains a Lease". The revised standard had no effect on the consolidated financial statement.
- IFRS 2 "Share-based Payment": The changes relate to the scope of application of IFRS 2 and also clarify that the meaning of the term "group" in IFRS 2 is the same as in IAS 27.
- IAS 39 "Financial Instruments: Recognition and Measurement – Eligible Hedged Items": The amendments to IAS 39 clarify circumstances in which the inflation portion of financial instruments can be hedged and explain how to treat options contracts used as hedging instruments.
- Amendments to IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" (through the "Annual Improvements to IFRSs 2008" project): The amendments principally consist of specifications of disclosure requirements.
- IFRIC 12 "Service Concession Arrangements": IFRIC 12 clarifies how underlying infrastructure assets are to be recognized by the operator of a service concession arrangement. This new provision had no influence on the consolidated financial statement.

- IFRIC 15 "Agreements for the Construction of Real Estate": IFRIC 15 provides guidance as to the cases in which revenue from the construction of real estate is to be recognized in the financial statement and whether a contract for the construction of real estate falls within the scope of IAS 11 "Construction Contracts" or IAS 18 "Revenue". This new interpretation had no relevance to the consolidated financial statement in the reporting period.
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation": This interpretation, which had no effect on the consolidated financial statement, clarifies possible hedges of a net investment in a foreign operation and the recognition thereof.
- IFRIC 17 "Distributions of Non-cash Assets to Owners": The interpretation provides guidance for the recognition of non-cash distributions to owners that were distributed either from reserves or as a dividend. The new interpretation had no effect on the consolidated financial statement.
- IFRIC 18 "Transfer of Assets from Customers": This interpretation, which is of no relevance to the Group, sets out how an entity shall recognize the transfer of items of property, plant and equipment from a customer. The scope of application of this interpretation includes, inter alia, contracts under which an entity receives an item of property, plant and equipment from a customer which it must then use to connect the customer to a network and/or provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water).

Insofar as they were of any practical relevance to the consolidated financial statement, the adoption of these amendments and interpretations had no material influence on the Group's assets, financial position or net income in the reporting period.

Standards, interpretation and changes to published standards, application of which was not yet mandatory in 2010 and which were not applied early by the Group

The Group's assessment of the effects of these new standards, interpretations and amendments to existing standards is set out below.

In November 2009 the IASB published the revised IAS 24 "Related Party Disclosures", which replaces IAS 24 (2003). The new standard must be applied to financial years beginning on or after 1 January 2011. Among the major new features of IAS 24 (rev.) is the requirement for disclosures of, inter alia, guarantees, undertakings and other commitments which are dependent upon whether (or not) a particular event occurs in the future. The definition of a related entity or a related person is also clarified. The standard, the implications of which for the Group are currently under review, was ratified by the EU in July 2010.

In December 2009 the EU adopted the amendments to IAS 32 “Financial Instruments: Presentation – Classification of Rights Issues” in European law. IAS 32 was amended such that subscription rights as well as options and warrants for a fixed number of treasury shares against a fixed amount of any currency are to be classified as equity instruments as long as these are issued pro rata to all an entity’s existing shareholders of the same class. The amendments to IAS 32 must be applied to financial years beginning on or after 1 February 2010. It is not expected to have any implications for the consolidated financial statement.

IAS 19 “Prepayments of a Minimum Funding Requirement” (Amendments to IFRIC 14): This amendment was ratified by the EU in July 2010 and must be applied to financial years beginning on or after 1 January 2011. The amendments are of relevance if a pension plan provides for minimum funding requirements and the entity makes an early payment of contributions to cover those requirements. No implications for the Group are currently anticipated.

In November 2009 the IFRIC published IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments”. The interpretation addresses accounting by the debtor if renegotiated contractual conditions of a financial liability enable it to extinguish all or part of a financial liability through the issue of its own equity instruments (debt for equity swaps). The equity instruments are to be measured at fair value upon issuance. Differences between the fair value of the equity instrument and the carrying amount of the extinguished liability are recognized in profit or loss. The interpretation was adopted by the EU in July 2010 and must be applied to financial years beginning on or after 1 July 2010. We do not expect application of the new standard to have any effect on the Group.

Also in November 2009 the IASB published a new standard on the classification and measurement of financial instruments, which was expanded in October 2010 to include rules governing the accounting of financial liabilities and derecognition of financial instruments. IFRS 9 is the first step in a three-phase project intended to replace IAS 39 “Financial Instruments: Recognition and Measurement”. The new standard introduces a revised classification of financial assets. In future, the standard envisages only two categories of financial assets: those measured at “fair value” and at “amortized costs”. Reclassification will only be possible if the business model changes significantly. Equity investments that fall within the scope of application of IFRS 9 are to be measured at fair value in the balance sheet, with value changes recognized in profit or loss. An exception in this regard is an equity investment which an entity elects to measure at fair value through other comprehensive income (FVTOCI). The Group has still to analyze the full implications of IFRS 9. It is, however, already becoming clear that the revised rules will have an influence, inter alia, on the accounting of financial assets within the Group. The standard does not apply until financial years beginning on or after 1 January 2013; it has still to be adopted in European law.

On 7 October 2010 the IASB published amendments to IFRS 7 "Financial Instruments: Disclosures" which are applicable to financial years beginning on or after 1 July 2011. The amendments concern disclosure requirements in connection with the transfer of financial assets. A transfer of financial assets exists, for example, where receivables are sold or in the case of asset-backed securities (ABS) transactions. The amendments have still to be ratified by the EU. We are currently reviewing the implications for the consolidated financial statement.

In May 2010 the IASB published the third annual collection of minor amendments to IFRS – "Improvements to IFRSs (2010)". Most amendments must be applied to financial years beginning on or after 1 January 2011; the EU ratified the standard in February 2011. We are currently examining the implications of these amendments for the consolidated financial statement.

In December 2010 the IASB published amendments to IAS 12 "Income Taxes", which has still to be adopted by the EU. These new rules include clarification of the treatment of temporary tax differences in connection with measurement using the fair value model of IAS 40 "Investment Property". The amendment enters into force for reporting years beginning on or after 1 January 2012. We do not expect the application of these amendments to have any effect on the consolidated financial statement.

Accounting policies

The annual financial statements of the subsidiaries, special funds and special purpose entities included in the Group are governed by uniform accounting policies, the application of which is based on the principle of consistency. The accounting policies as well as changes in the accounting principles and changes in the presentation of the consolidated financial statement are explained below. Newly applicable accounting standards in the 2010 financial year are described in the section "General accounting principles and application of IFRS", while the consolidation principles are discussed in the section "Consolidation" (pages 154 et. seqq.).

Change in segment reporting

At the commencement of the 2010 financial year the Group reorganized its insurance activities in primary insurance and adjusted the Group structure accordingly. Reflecting this development, the management of the Group changed in line with the revised responsibilities on the Board of Management as did the internal reporting. The Reinsurance division is not affected by the restructuring; the two reporting segments of Non-Life Reinsurance and Life/Health Reinsurance therefore remain unchanged.

In keeping with the requirements of IFRS 8 "Operating Segments" (management approach), this organizational reconfiguration led to a change in the segment report for all comparable periods. The number of reportable segments consequently increased. Based on the information reported to the Group's chief operating decision-makers for the allocation of resources and performance of business, the reportable segments under IFRS 8 were identified according to the structure of insurance activities geared to customer groups. The two existing primary insurance segments – Property/Casualty Primary Insurance and Life Primary Insurance – have therefore been converted into three reportable segments that span the various lines of business: "Industrial Lines", "Retail Germany" and "Retail International". The Corporate Operations segment was modified, but continues to consist of companies that predominantly perform functional tasks within the Group. Since goodwill is allocated principally to groups of cash-generating units mostly on the segment level, the management was compelled to allocate portions of goodwill to the newly identified operational segments (see explanatory remarks in the "Goodwill" subsection of the section "Notes on the consolidated balance sheet – assets", pages 187 et seqq.).

Consolidation bookings are shown in a pure consolidation column in which cross-segment transactions within the Group are offset. Reflecting the internal management and the reporting, income from dividend payments and profit/loss transfer agreements accruing to the Group holding company are eliminated in the Corporate Operations segment. The revised segmentation affects consolidation both within and between the segments. In individual cases this resulted in changes in disclosures in the segmental income statement and segmental balance sheet. For further information on the segment report see the remarks in the section of the Notes entitled "Segment reporting".

Change in the presentation of the consolidated balance sheet and consolidated statement of income

Analogously to the internal reporting and the modification of segment reporting, we adjusted disclosures in the consolidated balance sheet and consolidated statement of income as shown below. These changes in presentation are made retrospectively and had no implications for the amounts recognized in previous years. The comparable amounts for reclassification from the previous year are shown in brackets:

- The operating result (EBIT) is split into the partial profit indicators of the technical and non-technical result. In this context, the "other technical result" is reclassified from the non-technical account (previously part of the "other income/expenses"; 2009: –EUR 252 million) and recognized as a separate profit indicator. The "other technical expenses" include, inter alia, the amortization of insurance-related intangible assets – to the extent that they relate to the shareholders' portion (previously recognized in the profit item "Amortization of insurance-related intangible assets and goodwill impairments"; 2009: EUR 79 million).
- The investment income includes not only the interest income on funds withheld and contract deposits but also the interest expense on funds withheld and contract deposits, which was previously recognized under "other expenses" (2009: EUR 207 million). Income from investments under own management, i.e. excluding interest income on funds withheld and contract deposits, is also shown. A corresponding separation is made in the consolidated balance sheet between investments under own management and total investments including funds held by ceding companies.
- Amortization from differences relating to our subordinated liabilities is recognized in the item "Financing costs" (previously under "other income/expenses"; 2009: –EUR 3 million).
- Goodwill impairments are now recognized separately (2009: EUR 92 million). Along with the insurance-related intangible assets (see above), we reclassified the amortization on acquired insurance portfolios to other expenses (2009: EUR 98 million; previously also recognized in the item "Amortization of insurance-related intangible assets and goodwill impairments").
- In the investments part of the consolidated balance sheet, the financial instruments at fair value through profit or loss (2009: EUR 861 million) are combined with the trading portfolio (2009: EUR 238 million) under a single item "Financial instruments at fair value through profit or loss"; a breakdown is provided in the Notes. Derivative financial instruments, insofar as they have positive fair values and do not constitute hedging instruments, are consistently allocated to the "financial instruments held for trading" (2009: reclassification of EUR 58 million from the item "Financial instruments at fair value through profit or loss"; reclassification in the opening balance sheet as at 1 January 2009: EUR 45 million). Individual financial instruments belonging to the category "Financial instruments available for sale" that were previously recognized under the "other invested assets" will in future also be shown under this item of the balance sheet (2009: EUR 475 million; reclassification in the opening balance sheet as at 1 January 2009: EUR 422 million).

Changes in accounting policies and accounting errors

In the 2010 financial year we adjusted the previous year's figures with respect to the following circumstances retrospectively as at 31 December 2009 in accordance with the requirements of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors":

a) As a consequence of the Group-internal sale to a non-life insurer at book value of a life insurer required to pay surplus distributions – a sale which had been already been decided upon at the time when the 2009 annual financial statement was drawn up (the transfer of ownership occurred in 2010) – the recoverability of the provision for deferred premium refunds capitalized as at 31 December 2009 no longer existed at this time. This gave rise to the need to adjust the disclosure of assets-side provisions for deferred premium refunds and deferred tax assets in an amount of EUR 33 million in the consolidated financial statement as at 31 December 2009. The profit reported in the Retail Germany segment that was increased by this amount was retroactively reduced in the income statement (after taxes) for the comparable 2009 period by writing down the excessively high disclosure of the assets-side items. The retained earnings recognized in the comparable period until 31 December 2009 decreased accordingly by this amount. The opening balance sheet as at 1 January 2009 was not affected since the decision on the sale was not taken until the fourth quarter of 2009.

b) In addition, in the first quarter of 2010 we adjusted a booking from the previous year that required correction in connection with the entry of a major claim in the Industrial Lines segment. The reinsurance relief was booked twice, necessitating adjustment of the item "Reinsurance recoverables on technical provisions" as well as the corresponding deferred taxes. The figures for the previous year as at 31 December 2009 were adjusted by EUR 8 million in the income statement (after taxes). This gave rise to a corresponding reduction in retained earnings in the same amount. The opening balance sheet as at 1 January 2009 was not affected by the adjustment since the incorrect entry of the claim was not made until the fourth quarter of 2009.

c) In the second quarter of 2010 the currency translation of the PVFP resulting from the assumption of a US life reinsurance portfolio in the Life/Health Reinsurance segment was retroactively adjusted as at 31 December 2009 by an amount of EUR 2 million; of this amount, EUR 1 million was attributable to minority interests. The retained earnings and minority interest in shareholders' equity recognized in the comparable period each increased by EUR 1 million.

d) In the 2010 financial year the Group corrected the balance sheet recognition of certain life reinsurance contracts. In accordance with applicable US GAAP (FASB ASC 340–30), technical assets and liabilities relating to these contracts are to be offset in the balance sheet. These offsetting rules were not applied consistently within the Group in previous reporting periods. In accordance with the requirements of IAS 8, we therefore adjusted the comparable figures in the present financial statement. The adjustments had no implications for Group net income or shareholders' equity in any of the previous reporting periods. Relative to the figures originally shown, the balance sheet items "funds withheld" (assets side) and "contract deposits" (liabilities side) are each reduced by EUR 1,429 million as at 31 December 2009. The decrease in these balance sheet items in the opening balance sheet as at 1 January 2009 amounted to EUR 1,852 million in each case.

The adjustments made in the 2010 financial year pursuant to IAS 8 had the following effects on the consolidated balance sheet as at 31 December 2009. Reflecting the explanatory remarks provided above, the specific circumstances are labeled with the letters a) to d):

Consolidated balance sheet	31.12.2009 as reported	Changes from adjustments pursuant to IAS 8 having an effect on 2009				31.12.2009
Figures in EUR million		Re a)	Re b)	Re c)	Re d)	
Assets						
A. b. Other intangible assets	2,152	—	—	2	—	2,154
B. g. Funds held by ceding companies	10,778	—	—	—	–1,429	9,349
D. Reinsurance recoverables on technical provisions	5,974	—	–12	—	—	5,962
Liabilities						
A. b. Reserves	4,354	–33	–8	1	—	4,314
A. c. Minority interests	2,578	—	—	1	—	2,579
C. d. Provision for premium refunds	1,242	32	—	—	—	1,274
F. b. Funds held under reinsurance treaties	5,943	—	—	—	–1,429	4,514
G. Deferred tax liabilities	1,512	1	–4	—	—	1,509

The effects on the consolidated statement of income for the 2009 financial year are as follows:

Consolidated statement of income	31.12.2009 as reported	Changes from adjustments pursuant to IAS 8 having an effect on 2009			31.12.2009
Figures in EUR million		Re a)	Re b)	Re c)	
6. Claims and claims expenses (gross)	15,069	32	—	—	15,101
6. Claims and claims expenses (gross) Reinsurers' share	1,055	—	–12	—	1,043
10. b. Other non-technical expenses[1)]	1,007	—	—	–2	1,005
13. Taxes on income	474	1	–4	—	471
Net income – thereof minority interest in profit or loss	**407**	**—**	**—**	**1**	**408**
Net income – thereof Group net income	**525**	**–33**	**–8**	**1**	**485**

[1)] *After adjusted presentation of the consolidated statement of income*

We corrected the following circumstances in the 2010 financial year through adjustment of the opening balance sheet as at 1 January 2010; retrospective application to prior years was omitted, since in this regard determination of the period-related adjustments was not feasible or did not seem advisable after weighing up cost/benefit considerations:

a) Cessions to the reinsurer under a reinsurance treaty in the Industrial Lines segment, which were not entered correctly in the past, were rectified in the current reporting period. This reduced the retained earnings (after taxes) by EUR 12 million.

b) In connection with a changeover in data delivery for a certain investment portfolio, the measurement of financial assets – in the performance of which policyholders also participate – was converted to uniform methods. This procedure served to reduce the retained earnings by EUR 3 million; the other reserves increased by the same amount.

The adjustments had the following implications for the 2010 opening balance sheet:

Consolidated balance sheet	Adjustments 2010	
Figures in EUR million	Re a)	Re b)
Assets		
D. Reinsurance recoverables on technical provisions	–18	—
Liabilities		
A. b. Reserves – retained earnings	–12	–3
A. b. Reserves – other reserves	—	3
G. Deferred tax liabilities	–6	—

Changes in estimates during the reporting period

The Group has refined the calculation logic for the fair values of derivatives in connection with Modified Coinsurance/Coinsurance Funds Withheld reinsurance treaties. This represents a change in an accounting estimate, which was performed in the year under review without adjustment of the comparative figures for previous years. Within the scope of the accounting of ModCo reinsurance treaties, under which securities deposits are held by the ceding companies and payments rendered on the basis of the income from certain securities of the ceding company, the interest-rate risk elements are clearly and closely related to the underlying reinsurance arrangements. Embedded derivatives consequently result solely from the credit risk of the underlying securities portfolio. We calculate the fair values of the embedded derivatives in ModCo treaties using the market information available on the valuation date on the basis of a "credit spread" method. Through refinement of the calculation logic for these derivatives, the risks from the aforementioned contracts are established on a more market-oriented basis. The derivative (balance sheet item: "Financial instruments at fair value through profit or loss", subitem: "Financial instruments held for trading") had a fair value of EUR 45 million as at the balance sheet date (31 December 2009: EUR 32 million). Retention of the parameters used until the first quarter of 2010 to calculate the fair values would have produced a value of EUR 27 million. The effect of this refinement of the calculation logic on the value of the derivative in future reporting periods could only have been determined with a disproportionately high effort.

Major discretionary decisions and estimates

The preparation of the consolidated financial statement to some extent necessitates discretionary decisions and estimates – in relation to the future – which affect the disclosure, recognition and measurement of some items in the balance sheet and statement of income as well as the information on contingent claims and liabilities as at the balance sheet date. The estimates and assumptions, which entail a significant risk in the form of a material adjustment of the book values of assets and contingent claims and liabilities within the next financial year, are discussed below or set out in the accounting policies or directly in the notes on individual items.

Impairment test of goodwill: In accordance with the subsection entitled "Goodwill", the Group tests for impairment of goodwill. Insofar as the recoverable amount is based on calculations of the value in use, appropriate assumptions are used as a basis (see item 1 of the Notes "Goodwill", pages 187 et seqq.).

Fair value of derivative and other financial instruments: Fair values and impairments for financial instruments not traded on an active market (e.g. derivatives in connection with Modified Coinsurance/Coinsurance Funds Withheld treaties) are determined using appropriate measurement methods. In this regard please see our remarks on the determination of fair values as well as the applicability criteria for determination of the need to take impairments on certain financial instruments in the subsection entitled "Investments including income and expenses".

Technical provisions: The loss and loss adjustment expense reserves, the amount and maturity of which are uncertain, are recognized according to "best estimate" principles in the amount that will probably be utilized. The actual amounts payable may prove to be higher or lower; any resulting run-off profits or losses are recognized in income. In the area of life insurance and life/health reinsurance the determination of provisions and assets is crucially dependent on actuarial projections of the business. In this context key input parameters are either predetermined by the tariff (e.g. costs included in the calculation, amount of premium, actuarial interest rate) or estimated (e.g. mortality, morbidity or lapse rates). These assumptions are heavily dependent, inter alia, on country-specific parameters, sales channel, quality of underwriting and type of reinsurance. For the purposes of US GAAP accounting these assumptions are reviewed as at each balance sheet date and subsequently adjusted in line with the actual projection. The resulting effects are reflected inter alia as true-up adjustments in the balance sheet items "Other intangible assets", "Deferred acquisition costs", "Provision for premium refunds" (provision for deferred premium refunds) and, as appropriate, the "Benefit reserve" (funding of maturity bonuses).

Deferred acquisition costs: The actuarial bases for amortization of the deferred acquisition costs are continuously reviewed and, as necessary, adjusted. Impairment tests are carried out through regular checks on, inter alia, profit developments, lapse assumptions and default probabilities.

Present value of future profits (PVFP) on acquired insurance portfolios: The PVFP is the present value of the expected future net cash flows from existing life insurance contracts at the time of acquisition and is determined using actuarial methods. Uncertainties may arise, inter alia, with regard to the expected amount of these net cash flows.

Realizability of deferred tax assets: Estimates are made in particular with respect to the utilization of tax loss carry-forwards, first and foremost in connection with deferred tax liabilities recognized in the balance sheet and expected future earnings.

Provisions for pensions and similar obligations: The present value of pension obligations is influenced by numerous factors based on actuarial assumptions. The assumptions used to calculate the net expenses (and income) for pensions include the discount rate. Further key assumptions used to establish the pension liabilities are provided in item 22 "Provisions for pensions and other post-employment benefit obligations" of these Notes.

The actual amounts may diverge from the estimated amounts.

Summary of major accounting policies

Recognition of insurance contracts

In March 2004 the IASB published IFRS 4 "Insurance Contracts". The first standard governing the accounting of insurance contracts, it divides the "Insurance Contracts" project into two phases. IFRS 4 represents the outcome of Phase 1 and serves as a transitional arrangement until the IASB redefines the measurement of insurance contracts after completion of Phase 2. The exposure draft (ED/2010/8) "Insurance Contracts" has now been published; the final standard is expected in the second quarter of 2011.

IFRS 4 (Phase 1) – which also applies to reinsurance contracts – requires that all contracts written by insurance companies be classified either as insurance contracts or investment contracts. An insurance contract exists if one party (the insurer) assumes a significant insurance risk from another party (the policyholder) by agreeing to pay the policyholder compensation if a defined uncertain future event detrimentally impacts the policyholder. For the purposes of recognizing insurance contracts within the meaning of IFRS 4, insurance companies are permitted to retain their previously used accounting practice for insurance contracts for the duration of the currently applicable project stage (Phase 1). Underwriting items in the consolidated financial statement are therefore recognized in accordance with US GAAP. All contracts without a significant underwriting risk are treated as investment contracts pursuant to IFRS 4. Investment contracts that carry a discretionary surplus participation are also recognized in accordance with US GAAP. Investment contracts that do not have a discretionary surplus participation are treated as financial instruments pursuant to IAS 39.

Assets

Intangible assets

Intangible assets – with the exception of goodwill and insurance-related intangible assets – are recognized at amortized costs less scheduled straight-line depreciation and, as appropriate, impairment losses. The following useful lives were taken as a basis for all intangible assets with the exception of goodwill.

Software (self-developed or purchased)	3–10 years
Insurance-related intangible assets (subject to the underlying insurance contracts)	Until approx. 2056

Goodwill

The goodwill arising out of corporate acquisitions is the positive difference between the cost of acquisition and the pro-rata fair value of identified assets, liabilities and contingent liabilities (fair value of the revalued net assets). Negative differences from initial consolidation are to be recognized immediately in income after fresh testing pursuant to IFRS 3 "Business Combinations". Goodwill is an asset with an indefinite useful life and hence scheduled depreciation is not taken; instead, in accordance with IFRS 3 "Business Combinations" in conjunction with IAS 36 "Impairment of Assets", goodwill is tested for impairment at least annually according to the "impairment-only approach" and written down as necessary depending on the outcome of the test. An impairment loss established in this way is recognized in income.

For the purposes of the impairment test pursuant to IAS 36.80 et seqq. "Impairment of Assets", goodwill is allocated to "cash generating units" (CGUs) (see item 1 of these Notes "Goodwill" pages 187 et seqq.). In order to determine a possible impairment the recoverable amount – defined as the higher of the value in use or the fair value less costs to sell – of a CGU is established and compared with the carrying values of this CGU in the Group including goodwill. If the carrying values including goodwill exceed the recoverable amount, a goodwill impairment is recognized. The impairment loss on goodwill is recognized as a separate item in the statement of income.

Insurance-related intangible assets
The present value of future profits (PVFP) on acquired insurance portfolios refers to the present value of the expected future net cash flows from life insurance contracts existing at the time of acquisition. It consists of a shareholders' and tax portion, on which deferred taxes are established, and a policyholders' portion. Amortization is taken on the insurance portfolios according to the realization of the surpluses on which the calculation is based. Impairment and the measurement parameters used are tested at least once a year; as necessary, the amortization patterns are adjusted or an impairment loss is taken. Only the amortization of the shareholders' portion is taken as a charge against future earnings. The portion of the PVFP in favor of policyholders is recognized as a liability by life insurance companies which are required to enable their policyholders to participate in all profits through the establishment of a provision for deferred premium refunds.

Software
The other intangible assets also consist of acquired and self-developed software. Intangible assets acquired for a consideration are recognized at amortized costs; self-developed software is carried at production cost less straight-line depreciation. The other intangible assets are tested for impairment as at the balance sheet date and written down if necessary. These depreciation and impairment expenses are allocated to the functional units; insofar as allocation to functional units is not possible, they are recognized under other expenses. Write-ups on these assets are recognized in other income.

Investments including income and expenses
With respect to real estate, a distinction is made between **investment property** and **own-use real estate** based on the following criteria: investment and own-use real estate for mixed-use properties is classified separately if the portions used by third parties and for own use could be sold separately. If this is not the case, properties are only classified as investment property if less than 10% is used by Group companies.

Investment property is measured at acquisition or manufactoring costs less scheduled depreciation and impairment. Scheduled depreciation is taken on a straight-line basis over the expected useful life, at most 50 years. An impairment expense is taken if the market value (recoverable amount) determined using recognized valuation methods is less than the carrying amount. In the case of the directly held portfolio, a qualified external opinion is drawn up for each object every five years on the basis of the discounted cash flow method (calculation of the discounted cash flows from rents etc. that can be generated from an object). Expert opinions are obtained at shorter intervals if special facts or circumstances exist that may affect the value. In addition, internal assessments are drawn up per object on each balance sheet date, also based on the discounted cash flow method, in order to review the value. An external fair value opinion is obtained for real estate special funds every 12 months – the key date is the date of first appraisal. For properties that are not rented out, the fair value is established using the discounted cash flow method in light of the forecast vacancy rate.

Maintenance costs and repairs are expensed in investment income; value-enhancing expenditures are capitalized using the equity method and can extend the useful life in individual cases.

Investments in associated companies encompass solely the associated companies valued using the equity method on the basis of the proportionate shareholders' equity attributable to the Group. The portion of an associated company's year-end result relating to the Group is included in the net investment income. The shareholders' equity and year-end result are taken from the associated company's latest available annual financial statement. In this context, allowance is made for specific extraordinary circumstances in the appropriate reporting period, if they are material to the associated company's assets, financial position or net income.

Financial assets/liabilities including derivative financial instruments in the directly held portfolio are recognized/derecognized upon acquisition or sale as at the settlement date in accordance with IAS 39 "Financial Instruments: Recognition and Measurement". Upon addition to the portfolio, financial assets are allocated to the four categories "loans and receivables", "financial instruments held to maturity", "financial instruments available for sale" and "financial instruments at fair value through profit or loss". Financial liabilities are classified either as "financial instruments at fair value through profit or loss" or "at amortized cost". Depending on their categorization, the transaction costs directly connected with the acquisition may be recognized. Subsequent measurement of financial instruments depends on the above categorization and is carried out either at amortized cost or at fair value. The amortized costs are determined from the historical costs after allowance for amounts repayable, premiums or discounts amortized within the statement of income using the effective interest rate method and any unscheduled impairment. Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction or for which a liability could be settled.

Financial instruments due on demand are recognized at face value. Such instruments include inter alia cash in hand and funds held by ceding companies.

The item **Investments in affiliated companies and participating interests** consists inter alia of investments in companies that are not consolidated because of their subordinate importance for the presentation of the assets, financial position and net income of the Group. Associated companies not measured at equity on account of their subordinate importance are also carried in this item of the balance sheet. Recognition of investments in listed companies is at fair value on the balance sheet date; other investments are recognized at cost, less impairments where applicable.

Loans and receivables are non-derivative financial instruments with fixed or determinable payments that are not listed on an active market and are not intended to be sold at short notice. They consist primarily of fixed-income securities in the form of borrower's note loans, registered debentures and mortgage loans. They are carried at amortized cost using the effective interest rate method. The individual receivables are tested for impairment as at the balance sheet date. Unscheduled depreciation is taken if full repayment of the loan or receivable is no longer expected. Reversals are recognized in earnings via the statement of income. The upper limit of the write-up is the amortized cost that would have arisen at the measurement date without impairment.

Financial assets held to maturity are comprised of financial assets that entail fixed or determinable payments and have a defined due date, but which are not loans or receivables. The Group has the intention and ability to hold the securities recognized here until maturity. The procedure for measuring and testing impairment is the same as for the "loans and receivables".

Financial assets classified as **available for sale** include fixed-income or variable-yield financial assets that the Group does not immediately intend to sell and that cannot be allocated to any other category. These securities are carried at fair value. Premiums and discounts are spread over the maturity period so as to achieve a constant effective interest rate. Unrealized gains and losses arising out of changes in fair value are recognized via the other income/expenses in equity (other reserves) after allowance for accrued interest, deferred taxes and premiums at life insurers due to policyholders upon realization (provision for deferred premium refunds).

Financial assets at fair value through profit or loss consist of the trading portfolio and those financial assets categorized upon acquisition as measured at fair value through profit or loss. The trading portfolios (financial instruments held for trading) contain all fixed-income and variable-yield securities that the Group acquired for trading purposes and with the aim of generating short-term gains. In addition, all derivative financial instruments with positive fair values including embedded derivatives in hybrid financial instruments that must be separated as well as derivatives connected with insurance contracts that do not satisfy the requirements for recognition as a hedging relationship (hedge accounting as per IAS 39) are carried here. Derivatives with negative fair values are shown under other liabilities. We use derivative financial instruments to a carefully judged extent in order to hedge parts of our portfolio against interest rate and market price risks, optimize returns or realize intentions to buy/sell. Financial assets held for trading are carried at their fair value on the balance sheet date. Financial assets at fair value through profit or loss consist principally of unsecured debt instruments issued by corporate issuers. Structured products are also recognized in this category subject to application of the fair value option provided in IAS 39. Structured financial instruments requiring separation from the host contract – the fair value of which can be reliably established – that would have had to have been broken down into their constituent components (host contract and one or more embedded derivatives) had they been allocated to the loans and receivables, held to maturity or available for sale categories are also recognized here. The Group utilizes the fair value option solely for selected parts of the investment portfolio.

All securities measured at fair value through profit or loss are carried at fair value on the balance sheet date. If market prices are not available as fair values, the carrying values are established using recognized measurement methods. All unrealized gains or losses from this valuation are – in common with the realized gains and losses – recognized in net investment income.

Derivative financial instruments designated as **hedging instruments** pursuant to IAS 39 (Hedge Accounting) are to be carried at fair value upon initial measurement. The method used to recognize gains and losses upon subsequent valuation is dependent upon the type of hedged risk. The Group designates some derivatives as hedges on the fair value of particular assets (fair value hedges) and others as hedges against specific risks of fluctuating cash flows associated with a liability recognized in the balance sheet or a transaction that is expected and highly likely to materialize in the future (cash flow hedges); further information is provided in item 12 of the Notes "Derivative financial instruments and hedge accounting", pages 207 et seqq. These hedging instruments are carried under other assets or other liabilities.

Establishment of fair values: The fair value of a financial instrument corresponds to the amount that the Group would receive or pay if it were to sell or settle the said financial instrument on the balance sheet date. The fair value of securities is thus determined on the basis of current, publically available, unadjusted market prices. Insofar as market prices are listed on markets for financial instruments, their bid price is used; financial liabilities are measured at the asked price. In the case of securities for which no current market price is available, a valuation price is normally determined using models of financial mathematics on the basis of current and observable market data. Such models are used principally for the measurement of unlisted securities.

The Group uses various valuation models for this purpose, the details of which are provided in the following table:

Financial instrument	Pricing method	Parameter	Pricing model
Fixed-income securities			
Unlisted plain vanilla bonds	Theoretical price	Interest rate curve	Present-value method
Unlisted structured bonds	Theoretical price	Interest rate curve, volatility surfaces, correlations	Hull-White, Black-Karasinski, LIBOR market model etc.
Unlisted bond funds	Theoretical price	Audited Net Asset Values (NAV)	Net Asset Value method
ABS/MBS for which no market prices are available	Theoretical price	Prepayment speed, incurred losses, default probabilities, recovery rates	Future cash flow method, liquidation method
CDOs/CLOs, profit participation certificates	Theoretical price	Risk premiums, default rates, recovery rates, redemptions	Present-value method
Equities			
Unlisted equities	Theoretical price	Acquisition cost, cash flows, EBIT multiples, as applicable book value	Net Asset Value method
Other invested assets			
Private equity	Theoretical price	Acquisition cost, cash flows, EBIT multiples, market prices	Net Asset Value method
Derivative financial instruments			
Plain vanilla interest rate swaps	Theoretical price	Interest rate curve	Present-value method
Currency forwards	Theoretical price	Interest-rate curves, spot and forward rates	Interest parity model
OTC stock options, OTC stock index options	Theoretical price	Listing of the underlying share, implicit volatilities, money-market interest rate, dividend yield	Black-Scholes
Interest rate futures	Theoretical price	Interest rate curve	Present-value method
Inflation swaps	Theoretical price	Inflation swap rates (Consumer Price Index), historical index fixings, interest rate curve	Present-value method with seasonality adjustment
Insurance derivatives	Theoretical price	Market values of the cat. bonds, interest rate curve	Present-value method

We have allocated all financial instruments measured at fair value to a level of the fair value hierarchy in accordance with IFRS 7. For further explanation please see our remarks in item 11 of the Notes "Fair value hierarchy".

The value determined on the basis of valuation models at time of acquisition can, however, diverge from the actual cost of acquisition. The resulting measurement difference constitutes a theoretical "day-one profit/loss". As at the balance sheet date this produced only an insignificant loss.

Impairment: At each balance sheet date we review our financial assets – with the exception of financial assets at fair value through profit or loss (since impairments are implicitly included in the fair value) – with an eye to objective, substantial indications of impairment. Permanent impairments on all these financial assets are charged to the statement of income. IAS 39.59 contains a list of objective indications for impairment of a financial asset. IAS 39.61 sets out additional requirements with regard to indications of objective evidence for the impairment of equity instruments, according to which impairment exists if there is a significant or prolonged decrease in the fair value below acquisition cost. For the Group, this means that a decrease in the fair value of equity instruments is deemed to be significant if it falls by more than 20% below acquisition cost; a prolonged decrease exists if the fair value falls consistently below cost for a period of at least nine months. In the case of securities denominated in foreign currencies, assessment is made in the functional currency of the entity holding the equity instrument. In principle, we take as a basis for fixed-income securities the same indicators as for equity instruments. Qualitative case-by-case analysis is also carried out. Reference is made, first and foremost, to the rating of the instrument, the rating of the issuer/borrower as well as the individual market assessment in order to establish whether impairment exists. What is more, when instruments measured at amortized cost are tested for impairment, we examine whether material items – looked at on their own – are impaired.

Impairments are taken on the fair value as at the balance sheet date in the event of a prolonged decrease in value – if available, on the publically listed market price. In this context, impairments on investments are recognized directly on the assets side – without using an adjustment account – separately from the relevant items. Reversals on debt instruments are recognized in income up to the level of the amortized costs. In the case of financial assets available for sale, any further amount is recognized directly in equity with no effect on income. Reversals on equity instruments are recognized in equity via the other income/expenses outside the statement of income.

Securities loaned in the context of **securities lending** continue to be carried in the balance sheet since the material opportunities and risks resulting from such securities remain within the Group.

Other invested assets are recognized for the most part at fair value. Insofar as these financial assets are not listed on public markets (e.g. participating interests in private equity firms), they are carried at the latest available "net asset value" as an approximation of fair value. Loans included in this item are recognized at amortized cost.

Funds held and contracts without sufficient technical risk

Funds held by ceding companies are receivables due under reinsurance provided to our clients in the amount of the cash deposits contractually withheld by such clients; funds held under reinsurance treaties (shown under liabilities) represent the cash deposits furnished to us by our retrocessionaires. Neither of these types of deposit triggers any cash flows and the funds cannot be used without the consent of the other party. Funds held by ceding companies/funds held under reinsurance treaties are recognized at acquisition cost (nominal amount). Appropriate allowance is made for credit risks.

Insurance contracts that satisfy the test of a significant risk transfer to the reinsurer as required by IFRS 4 but fail to meet the risk transfer required by US GAAP are recognized using the "deposit accounting" method and eliminated from the technical account. The compensation elements for risk assumption booked to income under these contracts are shown under other income/expenses. The balances are shown as contract deposits on the assets and liabilities sides of the balance sheet, the fair values of which correspond approximately to their book values.

Investments for the account and risk of holders of life insurance policies

This item consists of policyholders' investments under unit-linked life insurance policies. The insurance benefits under these insurance contracts are linked to the unit prices of investment funds or a portfolio of separate financial assets. The assets are kept and invested separately from other invested assets. They are recognized at fair value. The unrealized gains or losses are opposed by changes in the technical provisions. Policyholders are entitled to the profits generated; they are likewise liable for the incurred losses.

Reinsurance recoverables on technical provisions

The reinsurers' portions of the technical provisions are calculated according to the contractual conditions of the underlying reinsurance treaties using a simplified method; the reader is referred to the explanatory notes on the corresponding liabilities-side items. Appropriate allowance is made for credit risks.

Deferred acquisition costs

Acquisition costs which are closely connected with the closing of insurance contracts and variable in relation to the acquired new business are capitalized in accordance with US GAAP as deferred acquisition costs (FASB ASC 944). Deferred acquisition costs are regularly tested for impairment using an adequacy test. The actuarial bases are also subject to ongoing review and adjustment as necessary.

In the case of property/casualty insurance companies and non-life reinsurance, acquisition costs are normally deferred pro rata for the unearned portion of the premiums. They are amortized at a constant rate over the average contract period. In the case of life insurers and in life/health reinsurance, the deferred acquisition costs are determined in light of the period of the contracts, the expected surrenders, the lapse expectancies and the anticipated interest income. The amount of amortization depends on the gross margins of the contracts calculated for the corresponding year of the contract period. Depending on the type of contract, amortization is taken either in proportion to the premium income or in proportion to the expected profit margins.

In the case of life reinsurance treaties classified as "universal life-type contracts", the deferred acquisition costs are amortized on the basis of the expected profit margins from the reinsurance treaties, making allowance for the period of the insurance contracts. A discount rate based on the interest rate for medium-term government bonds was applied to such contracts. In the case of annuity policies with a single premium payment, these values refer to the expected policy period or period of annuity payment.

Deferred tax assets

IAS 12 "Income Taxes" requires that assets-side deferred taxes be established if asset items are to be recognized in a lower amount or debit items in a higher amount in the consolidated balance sheet than in the tax balance sheet of the relevant Group company and if these differences will lead to reduced tax burdens in the future. In principle, such valuation differences may arise between the tax balance sheets drawn up in accordance with national standards and the IFRS balance sheets of the companies included in the consolidated financial statement drawn up in accordance with uniform group standards. Deferred tax assets are also recognized for tax credits and on tax loss carry-forwards. The assessment as to whether deferred tax claims from tax loss carry-forwards can be used, i.e. are not impaired, is guided by the results planning of the company and concretely realizable tax strategies. Value adjustments are taken on impaired deferred tax assets.

Insofar as deferred taxes refer to items carried directly in shareholders' equity via the other income/expenses, the resulting deferred taxes are also recognized outside the statement of income.

Deferred taxes are based on the current country-specific tax rates. In the event of a change in the tax rates on which the calculation of the deferred taxes is based, appropriate allowance is made in the year in which the change in the tax rate is adopted in law. Deferred taxes at the Group level are booked using the Group tax rate of 31.6%, unless they can be allocated to specific companies.

Other assets

Other assets are carried at amortized cost. Derivatives recognized as hedging instruments in the context of hedge accounting which show a positive fair value are carried at fair value. Property, plant and equipment are recognized at acquisition or manufacturing costs less straight-line depreciation. The useful life for own-use real estate is at most 50 years; the useful life for fixtures and fittings is normally between 2 and 10 years. Impairment expenses are spread across the technical functional areas or recognized under other income/expenses.

Disposal groups pursuant to IFRS 5

Long-lived assets held for sale (or groups of assets and liabilities held for sale) are classified as held for sale pursuant to IFRS 5 if their carrying amount is realized largely through sale rather than through continued operational use. Sale must be highly probable. The assets or disposal group held for sale are measured at the lower of carrying amount and fair value less costs to sell and recognized separately in the balance sheet as assets or liabilities. Scheduled depreciation is recognized until the date of classification as held for sale. Impairment losses on fair value less costs to sell are recognized in profit or loss; any subsequent increase in fair value less costs to sell leads to the realization of gains up to the amount of the cumulative impairment loss. If the impairment loss to be taken on a disposal group exceeds the carrying amount of the corresponding non-current assets, the need to establish a provision within the meaning of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" is examined. More detailed information on the non-current assets held for sale and disposal groups is contained in the subsection of the same name.

Liabilities

Shareholders' equity

The common shares, reserves (additional paid-in capital, retained earnings) and cumulative other comprehensive income are recognized in equity. The common shares and additional paid-in capital are comprised of the amounts paid in by the shareholder of Talanx AG on its shares. The retained earnings consist of profits generated and reinvested by Group companies and special investment funds since they have belonged to the Group as well as income and expenses from changes in the consolidated group. In addition, in the event of a retrospective change of accounting policies, the adjustment for previous periods not included in the financial statement is recognized in the opening balance sheet value of the retained earnings and comparable items of the earliest reported period. Unrealized gains and losses from changes in the fair value of financial assets held as available for sale are carried in cumulative other comprehensive income; translation differences resulting from the currency translation of foreign subsidiaries as well as unrealized gains/losses from the valuation of associated companies at equity are also recognized under the other reserves. In addition, write-ups on available-for-sale variable-yield securities are recognized under this item of shareholders' equity. In the year under review various derivatives were used as hedging instruments in the context of cash flow hedges. The fluctuations in value are recognized in a separate reserve item in equity.

Minority interests are shown in the consolidated statement of income following the net income. Minority interests in shareholders' equity are consequently recognized as a component of shareholders' equity. They refer to the shares held by companies outside the Group in the shareholders' equity of subsidiaries.

Technical provisions (gross)

The technical provisions are shown for gross account in the balance sheet, i.e. before deduction of the portion attributable to reinsurers; the reader is referred here to the explanatory notes on the corresponding asset items. The reinsurers' portions of the technical provisions are calculated and recognized on the basis of the individual reinsurance treaties.

Unearned premiums correspond to already collected premiums that are apportionable to future risk periods. These premiums are normally deferred by specific dates for insurance contracts (predominantly in primary insurance); in reinsurance business global methods are sometimes used if the accounting data required from prior insurers for a calculation pro rata temporis is unavailable.

Benefit reserves are calculated and recognized in life insurance business using actuarial methods for commitments arising out of guaranteed claims of policyholders in life insurance and of ceding companies in life/health reinsurance. They are calculated as the difference between the present value of future expected payments to policyholders/cedants and the present value of future expected net premium still to be collected from policyholders/cedants. The calculation includes assumptions relating to mortality, morbidity, lapse rates and the future interest rate development. The actuarial bases used in this context allow an adequate safety margin for the risks of change, error and random fluctuation.

In the case of life insurance contracts without a surplus participation, the method draws on assumptions as to the best estimate of investment income, life expectancy and morbidity risk, allowing for a risk margin. These assumptions are based on customer and industry data. In the case of life insurance contracts with a surplus participation, reference is made to assumptions that are contractually guaranteed or used to establish the surplus participation.

Life insurance products must be divided into the following categories pursuant to FASB Accounting Standards Codification (ASC) 944–40 for the measurement of the benefit reserve:

In the case of life insurance contracts with a “natural” surplus distribution (previously included in FAS 120 in conjunction with SOP 95-1 (Statement of Principles)), the benefit reserve is composed of the net level premium reserve and a reserve for maturity bonuses. The net level premium reserve is arrived at from the present value of future insurance benefits (including earned bonuses, but excluding loss adjustment expenses) less the present value of the future premium reserve. The net level premium reserve is calculated as the net premium less the portion of premium earmarked to cover loss adjustment expenses. The reserve for maturity bonuses is generally constituted from a fixed portion of the gross profit generated in the financial year from the insurance portfolio.

For contracts in life insurance with no surplus distribution (previously included in FAS 60), the benefit reserve is calculated as the difference between the present value of future benefits and the present value of the future net level premium reserve. The net level premium reserve corresponds to the portion of the gross premium used to fund future insurance benefits.

In the case of primary life insurance contracts classified according to the “universal life” model, unit-linked life insurances or similar life/health reinsurance treaties (previously included in FAS 97), a separate account is kept to which the premium payments less costs and plus interest are credited. We recognize the benefit reserve in the area of life insurance insofar as the investment risk is borne by policyholders separately in liabilities item D.

The **loss and loss adjustment expense reserves** are constituted for payment obligations from insurance claims that have occurred but have not yet been settled. They relate to payment obligations under insurance and reinsurance contracts in respect of which the amount of the insurance benefit or the due date of payment is still uncertain. Insofar they are based on estimates that may vary from the actual payment. The loss and loss adjustment expense reserves are subdivided into reserves for claims reported by the balance sheet date and reserves for claims that have already been incurred but not yet reported (IBNR) by the balance sheet date.

Reserves for claims reported by the balance sheet date are based on recognized actuarial methods used to estimate future claims expenditure including expenses associated with loss adjustment. They are recognized according to best estimate principles in the amount that will probably be utilized. In order to measure the "ultimate liability" the expected ultimate loss ratios are calculated for all lines of non-life reinsurance with the aid of actuarial methods such as the chain ladder method. The development of a claim until completion of the run-off is projected on the basis of statistical triangles. In this context it is assumed that the future rate of inflation of the loss run-off will be analogous to the average rate of the past inflation contained in the data. The more recent underwriting years in actuarial projections are subject to greater uncertainty, although this is reduced with the aid of a variety of additional information. Particularly in reinsurance business, a considerable period of time may elapse between the occurrence of an insured loss, notification by the insurer and pro-rata payment of the loss by the reinsurer. The realistically estimated future settlement amount ("best estimate"), calculated in principle on the basis of the information provided by ceding companies, is therefore brought to account. This estimate draws on past experience and assumptions as to the future development, taking account of market information. The amount of the reserves and their allocation to occurrence years are determined using established forecasting methods of non-life actuarial science.

Reserves for claims that have occurred but not yet been notified by the balance sheet date are constituted in the same way as reserves for claims that have already occurred. The Group draws here on empirical values adjusted according to current trends and other relevant factors. These reserves are constituted using actuarial and statistical models of the expected costs for final settlement and handling of claims. The analyses are based upon currently known facts and circumstances, projections of future events, estimates of the future inflationary trend as well as other social and economic factors. The latest trends observed in claim notifications, the extent of losses and increases in risk are also considered.

Sufficient statistical data is not available for major losses. In these instances appropriate reserves are established after analysis of the portfolio exposed to such risks and, as appropriate, after individual scrutiny. These reserves represent the best estimates of the Group.

With the exception of a few reserves, the loss and loss adjustment expense reserves are not discounted.

The **provision for premium refunds** is constituted in life insurance for obligations regarding the surplus participation of policyholders that have not yet been definitively allocated to individual insurance contracts on the balance sheet date. It consists of amounts allocated to policyholders in accordance with national regulations or contractual provisions and amounts resulting from temporary differences between the IFRS consolidated financial statement and the local annual financial statements (provision for deferred premium refunds, shadow provision for premium refunds) that will have a bearing on future calculations of the surplus distribution.

We regularly subject all technical provisions to an **adequacy test in accordance with IFRS 4**. If current experience indicates that future income will not cover the expected expenses, the technical provisions are adjusted in income or an additional provision for anticipated losses is established after writing off the deferred acquisition costs. We review the adequacy of the benefit reserve on the basis of current assumptions as to the actuarial bases.

Shadow Accounting

IFRS 4.30 allows unrealized, but recognized profits and losses (these derive predominantly from changes in the fair value of assets classified as "available for sale") reported in equity (Other Comprehensive Income, OCI) to be included in the measurement of technical items. This may affect the following items: deferred acquisition costs, present values of future profits (PVFPs), provisions for maturity bonuses of policyholders, provisions for deferred costs and the provision for premium refunds. The aforementioned assets and liabilities items and their corresponding amortization schemes are determined on the basis of the estimated gross margins (EGMs). The latter are modified accordingly following subsequent recognition of unrealized gains and losses. The resulting adjustments are carried as so-called "shadow adjustments" to the affected items. The contra item in equity (OCI) is reported analogously to the underlying changes in value.

Technical provisions in the area of life insurance insofar as the investment risk is borne by policyholders

In the case of life insurance products under which policyholders carry the investment risk themselves (e.g. in unit-linked life insurance), the benefit reserves and other technical provisions reflect the fair value of the corresponding investments; these provisions are recognized separately. We would refer the reader to the explanatory notes on the assets-side item "Investments for the account and risk of holders of life insurance policies", page 135.

Other provisions

This item includes inter alia the **provisions for pensions and other post-employment benefit obligations**. The Group companies normally grant their employees pension commitments based on defined contributions or defined benefits. The type and amount of the commitments depends on the pension plans in force at the time when the commitment was given. They are based principally on an employee's length of service and salary level.

In addition, since the mid-1990s various German companies have offered the opportunity to obtain pension commitments through deferred compensation. The employee-funded commitments included in the provisions for accrued pension rights are protected by insurance contracts with HDI-Gerling Lebensversicherung AG, Cologne, and Neue Leben Lebensversicherung AG, Hamburg. Furthermore, Group employees have the opportunity to accumulate additional old-age provision by way of deferred compensation through contributions to special insurance companies known as "Pensionskassen". The benefits are guaranteed for their members and surviving dependants and comprise traditional pension plans with bonus increases as well as unit-linked hybrid annuities. In addition to these pension plans, executive staff and Board members, in particular, enjoy individual commitments as well as commitments given under the benefits plan of the Bochumer Verband. Additional similar obligations based upon length of service exist at some Group companies.

In the case of pensions commitments based on defined contributions the companies pay a fixed amount to an insurer or pension fund. The commitment given by the company is finally discharged upon payment of the contribution. Under pension commitments based on defined benefits the employee receives a specific pension commitment from the company or a pension fund. The contributions payable by the company to fund the commitment are not fixed in advance.

If the pension commitments are balanced against assets of a legally independent entity (e.g. a fund) that may be used solely to cover the pension assurances given and cannot be seized by any creditors, the pension commitments are to be recognized less the assets.

Pension commitments under defined benefit plans are measured in accordance with IAS 19 "Employee Benefits" using the projected unit credit method. Not only are the benefit entitlements and current annuities existing as at the balance sheet date measured, but allowance is also made for their future development. The interest rate used for discounting the pension commitments is based upon the rates applicable to first-rate fixed-income corporate bonds in accordance with the currency and duration of the pension commitments.

The amounts payable under defined contribution plans are expensed when they become due.

Actuarial gains or losses from pension commitments and plan assets derive from divergences between the estimated risk experience and the actual risk experience (irregularities in the risk experience, effects of changes in the calculation parameters and unexpected gains or losses on plan assets). The Group uses the "corridor method" defined in IAS 19 to recognize its actuarial gains and losses. Under the corridor method, a portion of the actuarial gains and losses is recognized in profit or loss to the extent that the hitherto unrecognized actuarial gains or losses at the beginning of the financial year exceed the higher of the following amounts: 10% of the present value of the earned pension entitlements or 10% of the fair value of any plan assets. The amount outside the corridor – divided by the expected average remaining working lives of the beneficiaries – is included as income or expense in the statement of income.

Sundry provisions are established on the basis of best estimates in the amount that is likely to be used. The provisions are discounted if the interest rate effect is of material significance. The carrying amount of the provisions is reviewed as at each balance sheet date. Provisions in foreign currencies are translated at the exchange rate on the balance sheet date.

Liabilities and subordinated liabilities
Financial liabilities including subordinated liabilities, insofar as they do not involve funds held under reinsurance treaties or liabilities from derivatives, are reported at amortized costs. Subordinated liabilities are financial obligations that can only be satisfied after the claims of other creditors in the event of liquidation or bankruptcy. Funds held under reinsurance treaties are measured at nominal value and liabilities from derivatives are recognized at fair value (on the valuation models used within the Group to establish fair values see the subsection "Investments including income and expenses"). In addition, derivatives used as hedging instruments in the context of hedge accounting are shown under the "Other liabilities"; further explanatory information in this regard is provided in item 12 of the Notes "Derivative financial instruments and hedge accounting" (pages 207 et seqq.).

Deferred tax liabilities
Deferred tax liabilities must be recognized in accordance with IAS 12 "Income Taxes" if assets are to be recognized in a higher amount or liabilities in a lower amount in the consolidated balance sheet than in the tax balance sheet of the group company in question and if this – as a temporary difference – will lead to additional tax loads in the future; cf. the explanatory notes on deferred tax assets.

Currency translation

Items in the financial statements of Group companies are measured on the basis of the currency corresponding to the currency of the primary economic environment in which the company operates (functional currency). The consolidated financial statement is prepared in the euro, which constitutes the functional currency and the reporting currency of Talanx AG.

Transactions in foreign currencies are converted into the functional currency using the exchange rates on the transaction date. In accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates" the recognition of exchange gains and losses on translation is guided by the nature of the underlying balance sheet item.

Gains and losses from the translation of monetary assets and liabilities existing in foreign currencies are recognized in the statement of income under other income/expenses.

Currency translation differences relating to non-monetary assets, changes in the fair values of which are carried in income, are recognized with the latter in income as profit or loss from fair value measurement changes. Exchange gains or losses from non-monetary items – such as equity securities – classified as available for sale are initially recognized outside income in a separate item of shareholders' equity and only booked to income when such non-monetary items are settled.

The Group companies' statements of income prepared in the national currencies are converted into euro at the average rates of exchange and transferred to the consolidated financial statement. The conversion of foreign currency items in the balance sheets of the individual companies and the transfer of these items to the consolidated financial statement are effected at the mean rates of exchange on the balance sheet date. All resulting currency translation differences – including those arising out of the capital consolidation – are recognized as a separate item within the other reserves in shareholders' equity. Goodwill is treated as an asset of the foreign entity and translated accordingly.

The exchange rates for the Group's key foreign currencies are as follows:

		Balance sheet (balance sheet date)		Statement of income (average)	
Currency/country		31.12.2010	31.12.2009	2010	2009
1 EUR corresponds to:					
AUD	Australia	1.3068	1.6048	1.4510	1.7839
BHD	Bahrain	0.4997	0.5404	0.5009	0.5267
BRL	Brazil	2.2085	2.4963	2.3384	2.8024
CAD	Canada	1.3259	1.5048	1.3758	1.5916
CLP	Chile	619.9699	727.1109	677.6252	781.1374
CNY	China	8.7511	9.7847	8.9895	9.5419
GBP	United Kingdom	0.8585	0.9042	0.8592	0.8966
HKD	Hong Kong	10.3146	11.1172	10.3232	10.8274
HUF	Hungary	280.1572	272.2169	276.2410	280.0399
KRW	South Korea	1501.6346	1669.5842	1541.5994	1771.3279
MXN	Mexico	16.4031	18.6562	16.8429	18.9262
MYR	Malaysia	4.0869	4.9113	4.2915	4.9076
PLN	Poland	3.9678	4.1269	4.0114	4.3358
SEK	Sweden	9.0119	10.2986	9.5582	10.6210
UAH	Ukraine	10.5603	11.4827	10.5571	11.1792
USD	United States	1.3254	1.4336	1.3287	1.3969
ZAR	South Africa	8.7907	10.6121	9.7204	11.6273

Segment reporting

The Group adjusted its segment reporting in the year under review in light of the corporate reorganization according to customer groups that was undertaken in primary insurance business (see our remarks on “Change in segment reporting” in the section “Accounting policies” page 121).

Identification of reportable segments

The reportable segments were determined according to the internal reporting and management structure of the Group, on the basis of which the Group Board of Management regularly assesses the performance of the segments and decides on the allocation of resources to the segments. As a first step, the Group split its business activities into the areas of insurance and corporate operations. The insurance business was then subdivided – to some extent along new lines – into five reportable segments; in view of the different product types, risks and capital allocations, a differentiation is initially made between primary insurance and reinsurance.

Reflecting its different products and business groups, reinsurance business continues to be split into the two segments of Non-Life Reinsurance and Life/Health Reinsurance. On account of their management according to customer groups and geographical regions (domestic versus international) – which therefore spans the various lines of business –, insurance activities in the primary sector have been restructured/presented in accordance with the following three reportable segments: “Industrial Lines”, “Retail Germany” and “Retail International”; this replaces the previous two-way split by line of business into Property/Casualty Primary Insurance and Life Primary Insurance. The revised segmentation in primary insurance thus corresponds to the responsibilities of the members of the Board of Management.

The area of “Corporate Operations” constitutes another reportable segment. Altogether, then, the Group has identified six reportable segments in conformity with IFRS 8 “Operating Segments”. The figures for the previous year have been adjusted accordingly.

The major products and services with which these reportable segments generate income are set out below. In addition, the main restructuring measures in the three primary insurance segments are discussed.

Industrial Lines: In the Industrial Lines segment we are for the first time reporting worldwide industrial business as an independent segment; it was previously part of the Property/Casualty Primary Insurance segment. The scope of business operations encompasses a wide selection of insurance products such as liability, motor, accident, fire, marine, special lines and engineering insurance for large and mid-sized enterprises in Germany and abroad. In addition, reinsurance in various classes of insurance is granted.

Retail Germany: Insurance activities serving German retail and commercial customers that span the various lines of business, including the bancassurance business transacted Germany-wide – i.e. insurance products sold over the counter at banks –, are managed in this reportable segment (previously included in the segments of Property/Casualty Primary Insurance and Life Primary Insurance). In addition to traditional composite insurance products, numerous life insurance products are offered in the form of individual, group and collective policies for a single or regular premium: endowment, annuity and term life insurance, accident insurance, unit-linked life insurance, occupational disability and strict "any occupation" disability insurance, foreign travel insurance and occupational retirement provision.

Retail International: The scope of operations in this new segment encompasses insurance business transacted across the various lines of insurance with retail and commercial customers, including bancassurance activities in foreign markets. The broad selection of insurance products largely reflects those offered in the Retail Germany segment.

Non-Life Reinsurance: The most important activities concentrate on property and casualty business with retail, commercial and industrial customers – first and foremost in the US and German markets –, marine and aviation business, credit/surety business, facultative business and catastrophe business.

Life/Health Reinsurance: The segment consists of the international activities of the Hannover Re Group in the life, health, annuity and accident lines.

Corporate Operations: The Corporate Operations segment encompasses – in contrast to the five operating segments – management and other functional activities in support of the business conducted by the Group, primarily relating to asset management, administration, run-off and placement of portions of reinsurance cessions, Group financing and other service tasks. Certain service companies previously allocated to the primary insurance segments are included in this segment from 2010 onwards.

Measurement bases for the performance of the reportable segments

All transactions between reportable segments are measured on the basis of standard market transfer prices that would also be applicable to transactions at arm's length. Such intra-group transactions between segments are eliminated within the scope of consolidation – in the consolidation column, insofar as they are cross-segment transactions. For reasons of consistency and comparability, we have adjusted the consolidated statement of income in line with the segment statement of income; the same applies to the consolidated balance sheet and the segment balance sheet. Non-current assets are considered largely to consist of intangible assets and own-use real estate/investment property.

Depending upon the nature and timeframe of the commercial activities, various management ratios and performance indicators are used to assess the financial success of the reportable segments within the Group; the operating profit (EBIT) – determined from IFRS profit contributions – is, however, used as a consistent measurement basis. The net profit or loss for the period before income taxes is highlighted as a means of capturing true operating profitability and for the sake of better comparability. In addition, the result is adjusted for interest charges incurred for borrowing (financing costs).

Segment report.
Balance sheet as at 31 December 2010[1)]

Assets	Industrial Lines 31.12.2010	Industrial Lines 31.12.2009[2)]	Retail Germany 31.12.2010	Retail Germany 31.12.2009[2)]	Retail International 31.12.2010	Retail International 31.12.2009
Figures in EUR million						
A. Intangible assets						
a. Goodwill	60	60	397	397	124	128
b. Other intangible assets	8	8	1,629	1,943	29	25
	68	**68**	**2,026**	**2,340**	**153**	**153**
B. Investments						
a. Investment property	39	41	449	451	69	64
b. Investments in affiliated companies and participating interests	9	8	24	15	—	—
c. Investments in associated companies	—	—	9	9	24	25
d. Loans and receivables	3,084	3,000	26,993	26,155	3	3
e. Other financial instruments						
i. Held to maturity	121	121	295	297	71	51
ii. Available for sale	2,764	2,355	8,599	7,700	2,444	2,220
iii. At fair value through profit or loss	16	20	445	508	487	269
f. Other invested assets	559	870	849	991	224	219
Investments under own management	**6,592**	**6,415**	**37,663**	**36,126**	**3,322**	**2,851**
g. Funds held by ceding companies	43	42	3	66	—	—
Total investments	**6,635**	**6,457**	**37,666**	**36,192**	**3,322**	**2,851**
C. Investments for the account and risk of holders of life insurance policies	—	—	5,419	4,203	995	772
D. Reinsurance recoverables on technical provisions	3,866	3,947	2,797	2,659	713	699
E. Accounts receivable on insurance business	1,675	1,002	368	407	354	287
F. Deferred acquisition costs	26	8	1,498	1,377	202	198
G. Cash	242	297	337	676	204	209
H. Deferred tax assets	25	36	22	30	59	51
I. Other assets	448	419	1,412	1,024	211	172
J. Non-current assets and assets of disposal groups classified as held for sale	—	—	—	35	—	—
Total assets	**12,985**	**12,234**	**51,545**	**48,943**	**6,213**	**5,392**

1) Previous year's figures adjusted due to modified segment reporting pursuant to IFRS 8
2) Adjusted on the basis of IAS 8

	Non-Life Reinsurance		Life/Health Reinsurance		Corporate Operations		Consolidation		Total	
	31.12.2010	31.12.2009[2]	31.12.2010	31.12.2009[2]	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009[2]
	8	8	—	—	—	—	—	—	589	593
	29	45	108	112	48	21	—	—	1,851	2,154
	37	**53**	**108**	**112**	**48**	**21**	**—**	**—**	**2,440**	**2,747**
	301	161	2	2	—	7	—	—	860	726
	11	4	—	1	30	33	—	—	74	61
	85	84	12	14	14	2	—	—	144	134
	2,270	2,657	45	45	1	1	–53	–313	32,343	31,548
	3,024	2,949	4	4	46	—	–562	–564	2,999	2,858
	12,096	10,227	4,409	3,653	323	322	—	—	30,635	26,477
	181	208	92	94	—	—	—	—	1,221	1,099
	2,352	1,779	273	267	413	417	–485	–410	4,185	4,133
	20,320	**18,069**	**4,837**	**4,080**	**827**	**782**	**–1,100**	**–1,287**	**72,461**	**67,036**
	696	626	11,940	10,163	—	—	–1,721	–1,548	10,961	9,349
	21,016	**18,695**	**16,777**	**14,243**	**827**	**782**	**–2,821**	**–2,835**	**83,422**	**76,385**
	—	—	—	—	—	—	—	—	6,414	4,975
	941	1,633	515	265	—	—	–3,309	–3,241	5,523	5,962
	1,806	1,897	1,036	975	—	—	–228	–226	5,011	4,342
	362	331	1,472	1,507	—	—	155	123	3,715	3,544
	328	257	118	200	36	46	—	—	1,265	1,685
	10	15	2	7	181	96	–31	—	268	235
	970	1,085	47	54	474	673	–1,781	–1,772	1,781	1,655
	1,529	—	—	—	—	—	—	—	1,529	35
	26,999	**23,966**	**20,075**	**17,363**	**1,566**	**1,618**	**–8,015**	**–7,951**	**111,368**	**101,565**

Segment report.
Balance sheet as at 31 December 2010[1)]

	Industrial Lines		Retail Germany		Retail International	
Liabilities	**31.12.2010**	**31.12.2009**[2)]	**31.12.2010**	**31.12.2009**[2)]	**31.12.2010**	**31.12.2009**
Figures in EUR million						
B. Subordinated liabilities	265	269	165	155	—	—
C. Technical provisions						
a. Unearned premium reserve	713	726	1,835	1,882	1,008	960
b. Benefit reserve	—	—	32,333	30,919	1,752	1,527
c. Loss and loss adjustment expense reserve	7,777	7,428	2,696	2,773	1,129	936
d. Provision for premium refunds	13	12	1,061	1,202	39	61
e. Other technical provisions	31	42	8	8	15	9
	8,534	**8,208**	**37,933**	**36,784**	**3,943**	**3,493**
D. Technical provisions in the area of life insurance insofar as the investment risk is borne by policyholders	—	—	5,419	4,203	995	772
E. Other provisions						
a. Provision for pensions	438	434	133	130	8	8
b. Provision for taxes	117	143	142	178	40	27
c. Sundry provisions	92	137	283	239	33	23
	647	**714**	**558**	**547**	**81**	**58**
F. Liabilities						
a. Notes payable and loans	—	—	—	—	17	17
b. Funds held under reinsurance treaties	4	15	2,224	2,050	345	267
c. Other liabilities	1,835	1,343	2,321	2,654	298	222
	1,839	**1,358**	**4,545**	**4,704**	**660**	**506**
G. Deferred tax liabilities	88	142	290	311	9	5
Total liabilities/provisions	**11,373**	**10,691**	**48,910**	**46,704**	**5,688**	**4,834**
H. Liabilities of disposal groups classified as held for sale	—	—	—	—	—	—

	Non-Life Reinsurance		Life/Health Reinsurance		Corporate Operations		Consolidation		Total	
	31.12.2010	31.12.2009[2]	31.12.2010	31.12.2009[2]	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009[2]
	1,869	1,365	92	35	542	264	–142	–85	2,791	2,003
	1,813	1,438	98	75	—	—	–56	–55	5,411	5,026
	—	—	8,941	7,954	—	—	–560	–646	42,466	39,754
	15,634	15,395	2,431	2,032	—	6	–1,129	–1,314	28,538	27,256
	—	—	—	—	—	—	—	—	1,113	1,274
	131	106	51	40	—	—	14	16	250	221
	17,578	**16,939**	**11,521**	**10,101**	**—**	**6**	**–1,731**	**–2,000**	**77,778**	**73,531**
	—	—	—	—	—	—	—	—	6,414	4,975
	64	60	18	17	655	649	—	—	1,316	1,298
	263	264	24	7	157	152	—	—	743	771
	135	57	23	14	128	106	–2	–1	692	575
	462	**381**	**65**	**38**	**940**	**907**	**–2**	**–1**	**2,751**	**2,644**
	188	116	168	50	1,304	1,383	–930	–891	747	675
	320	331	5,572	4,564	—	—	–3,241	–2,713	5,224	4,514
	620	829	1,139	1,297	757	580	–2,112	–2,364	4,858	4,561
	1,128	**1,276**	**6,879**	**5,911**	**2,061**	**1,963**	**–6,283**	**–5,968**	**10,829**	**9,750**
	716	715	310	297	4	7	16	32	1,433	1,509
	21,753	**20,676**	**18,867**	**16,382**	**3,547**	**3,147**	**–8,142**	**–8,022**	**101,996**	**94,412**
	1,381	—	—	—	—	—	—	—	1,381	—
							Shareholders' equity[3]		**7,991**	**7,153**
							Total liabilities		**111,368**	**101,565**

[1] *Previous year's figures adjusted due to modified segment reporting pursuant to IFRS 8*
[2] *Adjusted on the basis of IAS 8*
[3] *Group shareholder's equity incl. minority interests*

Segment report.
Statement of income for the 2010 financial year[1]

	Industrial Lines		Retail Germany		Retail International	
	2010	2009[2]	2010	2009[2]	2010	2009
Figures in EUR million						
1. Gross written premium including premium from unit-linked life and annuity insurance	3,076	3,077	6,823	6,614	2,233	1,827
thereof: with other segments	28	15	21	18	—	—
with third parties	3,048	3,062	6,802	6,596	2,233	1,827
2. Savings elements of premium from unit-linked life and annuity insurance	—	—	932	835	207	144
3. Ceded written premium	1,658	1,732	437	625	203	242
4. Change in gross unearned premium	37	19	45	167	19	–32
5. Change in ceded unearned premium	42	–41	–8	163	100	6
Net premium earned	**1,413**	**1,405**	**5,507**	**5,158**	**1,742**	**1,403**
6. Claims and claims expenses (gross)	2,047	1,777	6,018	5,233	1,527	1,245
Reinsurers' share	878	909	192	302	113	117
Claims and claims expenses (net)	**1,169**	**868**	**5,826**	**4,931**	**1,414**	**1,128**
7. Acquisition costs and administrative expenses (gross)	568	622	1,282	1,594	657	477
Reinsurers' share	256	315	172	508	210	129
Acquisition costs and administrative expenses (net)	**312**	**307**	**1,110**	**1,086**	**447**	**348**
8. Other technical income	10	9	28	11	17	8
Other technical expenses	–1	105	230	97	34	34
thereof: amortization PVFP	—	—	147	75	1	1
Other technical result	**11**	**–96**	**–202**	**–86**	**–17**	**–26**
Net technical result	**–57**	**134**	**–1,631**	**–945**	**–136**	**–99**
9. a. Income from investments	268	311	1,793	1,756	174	146
b. Expenses for investments	37	70	181	513	22	25
Net income from investments under own management	**231**	**241**	**1,612**	**1,243**	**152**	**121**
Income/expense on funds withheld and contract deposits	—	–1	–35	–36	–1	—
Net investment income	**231**	**240**	**1,577**	**1,207**	**151**	**121**
thereof: interest and similar income	223	224	1,485	1,380	119	117
impairments/depreciation on investments	7	12	68	193	8	14
write-ups on investments	—	1	10	—	—	—
profit/loss from investments in associated companies	—	—	1	—	–1	—
10. a. Other non-technical income	197	220	397	376	142	43
b. Other non-technical expenses	186	259	387	357	113	92
Other income/expenses	**11**	**–39**	**10**	**19**	**29**	**–49**
thereof: interest and similar income	4	8	8	7	23	13
write-ups on accounts receivable and other assets	26	6	11	1	—	1
interest and similar expanses	31	30	23	24	16	5
write-downs on accounts receivable and other assets	7	45	24	32	14	16
amortization on acquired insurance portfolios	—	67	—	31	—	—
Profit before goodwill impairments	**185**	**335**	**–44**	**281**	**44**	**–27**
11. Goodwill impairments	—	1	—	72	17	15
Operating profit/loss (EBIT)	**185**	**334**	**–44**	**209**	**27**	**–42**
12. Financing costs	14	18	11	22	—	1
13. Taxes on income	32	79	–12	129	44	–2
Net income	**139**	**237**	**–43**	**58**	**–17**	**–41**

[1] Previous year's figures adjusted due to modified segment reporting pursuant to IFRS 8
[2] Adjusted on the basis of IAS 8

	Non-Life Reinsurance		Life/Health Reinsurance		Corporate Operations		Consolidation		Total	
	2010	2009	2010	2009[2)]	2010	2009	2010	2009	2010	2009[2)]
	6,340	5,753	5,090	4,529	—	—	–693	–877	22,869	20,923
	367	472	277	372	—	—	–693	–877	—	—
	5,973	5,281	4,813	4,157	—	—	—	—	22,869	20,923
	—	—	—	—	—	—	—	—	1,139	979
	705	339	423	421	—	—	–659	–829	2,767	2,530
	–274	–199	–13	–27	—	—	1	5	–185	–67
	–34	–22	—	3	—	—	–75	–85	25	24
	5,395	**5,237**	**4,654**	**4,078**	**—**	**—**	**42**	**42**	**18,753**	**17,323**
	4,330	3,786	4,106	3,538	—	—	–218	–478	17,810	15,101
	456	–22	317	231	—	—	–244	–494	1,712	1,043
	3,874	**3,808**	**3,789**	**3,307**	**—**	**—**	**26**	**16**	**16,098**	**14,058**
	1,525	1,323	1,216	1,112	—	—	–361	–374	4,887	4,754
	92	37	98	116	—	—	–313	–395	515	710
	1,433	**1,286**	**1,118**	**996**	**—**	**—**	**–48**	**21**	**4,372**	**4,044**
	—	4	17	11	—	—	–1	—	71	43
	10	11	54	44	—	—	63	4	390	295
	—	—	4	3	—	—	—	—	152	79
	–10	**–7**	**–37**	**–33**	**—**	**—**	**–64**	**–4**	**–319**	**–252**
	78	**136**	**–290**	**–258**	**—**	**—**	**—**	**1**	**–2,036**	**–1,031**
	946	839	246	309	13	30	–57	–70	3,383	3,321
	179	266	42	24	110	86	–85	–81	486	903
	767	**573**	**204**	**285**	**–97**	**–56**	**28**	**11**	**2,897**	**2,418**
	12	37	304	240	—	—	—	1	280	240
	779	**610**	**508**	**525**	**–97**	**–56**	**28**	**12**	**3,177**	**2,658**
	672	682	606	571	3	7	–67	–76	3,041	2,905
	23	136	1	1	9	5	–1	–8	115	353
	27	20	—	—	—	—	—	—	37	21
	2	–5	1	—	—	–1	—	—	2	–6
	332	211	95	180	606	664	–822	–727	947	967
	280	197	37	76	824	630	–788	–606	1,039	1,005
	52	**14**	**58**	**104**	**–218**	**34**	**–34**	**–121**	**–92**	**–38**
	6	1	1	1	14	20	–12	–14	44	36
	61	99	—	—	—	—	—	—	98	107
	32	47	10	5	65	60	–19	–18	158	153
	48	50	11	7	6	3	—	—	110	153
	—	—	—	—	—	—	—	—	—	98
	909	**760**	**276**	**371**	**–315**	**–22**	**–6**	**–108**	**1,049**	**1,589**
	—	—	—	—	—	4	—	—	17	92
	909	**760**	**276**	**371**	**–315**	**–26**	**–6**	**–108**	**1,032**	**1,497**
	90	79	4	2	65	72	–50	–61	134	133
	196	217	61	71	–108	–31	15	8	228	471
	623	**464**	**211**	**298**	**–272**	**–67**	**29**	**–55**	**670**	**893**
thereof minority interest in profit or loss									450	408
thereof Group net income									220	485

The geographical breakdown shown below is based on the regional origin of the investments and the gross written premium with respect to external clients. No transactions with external clients amounting to at least 10% of total gross premium occurred during the reporting period.

Investments excluding funds held by ceding companies[1]	Primary Insurance	Reinsurance	Corporate Operations	31.12.2010 Total
Figures in EUR million				
Germany	30,795	6,064	465	37,324
United Kingdom	1,371	1,705	46	3,122
Rest of Europe	12,842	6,993	316	20,151
United States	839	6,052	—	6,891
Rest of North America	103	987	—	1,090
Asia and Australia	240	2,121	—	2,361
Rest of the world	756	766	—	1,522
Total	**46,946**	**24,688**	**827**	**72,461**

Investments excluding funds held by ceding companies[1]	Primary Insurance	Reinsurance	Corporate Operations	31.12.2009 Total
Figures in EUR million				
Germany	32,178	5,996	222	38,396
United Kingdom	682	1,338	211	2,231
Rest of Europe	10,218	5,790	313	16,321
United States	837	5,852	3	6,692
Rest of North America	82	803	—	885
Asia and Australia	178	1,349	—	1,527
Rest of the world	537	447	—	984
Total	**44,712**	**21,575**	**749**	**67,036**

[1] *After elimination of internal transactions within the Group across segments*

Gross written premium[1)]	Primary Insurance	Reinsurance	2010 Total
Figures in EUR million			
Germany	8,281	691	8,972
United Kingdom	182	2,434	2,616
Rest of Europe	2,642	1,675	4,317
United States	145	2,957	3,102
Rest of North America	—	416	416
Asia and Australia	47	1,452	1,499
Rest of the world	786	1,161	1,947
Total	**12,083**	**10,786**	**22,869**

Gross written premium[1)]	Primary Insurance	Reinsurance	2009 Total
Figures in EUR million			
Germany	8,095	696	8,791
United Kingdom	190	1,808	1,998
Rest of Europe	2,538	1,561	4,099
United States	112	2,841	2,953
Rest of North America	1	386	387
Asia and Australia	32	1,218	1,250
Rest of the world	517	928	1,445
Total	**11,485**	**9,438**	**20,923**

[1)] *After elimination of internal transactions within the Group across segments*

Consolidation

Consolidation principles

The consolidated financial statement was drawn up in accordance with uniform Group accounting policies. The annual financial statements included in the consolidated financial statement were for the most part prepared as at 31 December. Compilation of interim financial statements for the Group companies with diverging financial years is not required pursuant to IAS 27 "Consolidated and Separate Financial Statements" because their closing dates are no more than three months prior to the Group closing date.

The capital consolidation is compiled in accordance with the requirements of IAS 27. Subsidiaries are all companies (including special purpose entities) with respect to which the Group exercises control over financial and business policy. Subsidiaries are included in the consolidated financial statement (full consolidation) from the point in time when control passed to the Group. They are deconsolidated at the point in time when control ends.

Investments in subsidiaries not included in the consolidated financial statement because of their subordinate importance – in relation to assets, financial position and net income of the Group – are recognized at fair value or, if this cannot be reliably established, at amortized cost in the balance sheet item "Investments in affiliated companies and participating interests".

Acquired subsidiaries are accounted using the purchase method. The acquisition costs associated with purchase correspond to the fair value of the assets offered and liabilities arising/assumed at the time of the transaction. Acquisition-related costs are recognized in income when they are incurred. Assets, liabilities and contingent liabilities that can be identified in the context of a corporate acquisition are measured upon initial consolidation at their fair values at the time of acquisition. A difference arising out the netting of the acquisition costs with the fair value of the assets and liabilities is recognized as goodwill under intangible assets. In accordance with IFRS 3 "Business Combinations" scheduled amortization is not taken on goodwill; instead, it is written down as necessary on the basis of annual impairment tests. Immaterial and negative goodwill are recognized in the statement of income in the year of their occurrence.

Minority interests in shareholders' equity or in the net income of majority-owned subsidiaries are shown separately in equity in the item "Minority interests" and in the statement of income in the item "Minority interest in profit or loss".

All intra-group receivables and liabilities as well as income, expenses, and profits and losses resulting from intra-group transactions were eliminated within the scope of the debt and earnings consolidation.

Companies over which the Group is able to exercise a significant influence are normally consolidated "at equity" as associated companies and initially carried at cost of acquisition. A significant influence is presumed to exist if a company belonging to the Group directly or indirectly holds at least 20% – but no more than 50% – of the voting rights. The Group's investment in associated companies includes the goodwill arising upon acquisition. The accounting policies used by associated companies were in principle modified – if necessary – in order to ensure consistent Group-wide accounting. The Group's share in the profits and losses of associated companies is recognized separately in the consolidated statement of income in accordance with IAS 1 "Presentation of Financial Statements".

Joint ventures, i.e. if two or more partner companies conduct a commercial activity under joint management, are included in the consolidated financial statement according to proportionate consolidation. The procedure for proportionate consolidation largely corresponds to the inclusion of subsidiaries pursuant to IAS 27. However, the assets and liabilities as well as the expenses and income of the joint venture are not carried over to the consolidated balance sheet and consolidated statement of income in the full amount, but rather only on a proportionate basis.

Scope of consolidation

Talanx AG is the ultimate parent company of the Group. In accordance with IAS 27 the consolidated financial statement includes Talanx AG (as the parent company) and all major domestic and foreign Group companies in which Talanx AG indirectly or directly holds a majority voting interest or over which it exercises a de facto power of control.

Only subsidiaries which are of minor importance – both individually and in their entirety – for the net assets, financial position and results of operations of the Group and which do not transact insurance business are exempted from consolidation. The Group assesses whether a subsidiary is of minor importance on the basis of the company's total assets and net income relative to the corresponding average values for the Group as a whole over the last three years. For this reason 37 (35) subsidiaries, the business object of which is primarily the rendering of services for insurance companies within the Group, were not consolidated in the year under review. Altogether, the balance sheet total of these subsidiaries amounts to less than 0.1% of the average balance sheet total of the Group over the last three years; the result of these companies amounts to altogether less than 1% of the average result of the Group over the last three years. In subsequent periods the subsidiaries not included in the consolidated group on grounds of materiality are examined on each closing date in order to verify whether consolidation is required in light of a reassessment of materiality.

The scope of consolidation as at the balance sheet date encompasses the companies listed in the table below.

Scope of consolidation	2010	2009
Number of consolidated companies		
Germany	70	74
Abroad[1]	86	89
Total	**156**	**163**
Number of consolidated special purpose entities		
Abroad	2	2
Total	**2**	**2**
Number of consolidated special funds		
Germany	14	16
Abroad	8	2
Total	**22**	**18**
Sum total of consolidated companies	**180**	**183**
Number of associated companies included at equity		
Germany	3	3
Abroad[2]	9	9
Total	**12**	**12**
Joint ventures consolidated proportionately		
Germany	1	—

[1] *Consists of: 47 (52) individual companies and 39 (37) companies which are consolidated in 3 (3) subgroups.*
[2] *Consists of: 3 (4) associated companies and 6 (5) companies which are included at equity in 1 (1) subgroup.*

With regard to the major acquisitions and disposals in the year under review please see our explanatory remarks in the following subsections of this section. All affiliated companies, joint ventures, special funds and special purpose entities as well as associated companies are specified individually in the list of shareholdings (see separate section of these Notes, pages 256 et seqq.).

Acquisitions and disposals as well as further corporate changes

In the year under review five subsidiaries, four associated companies (thereof one company in a subgroup of Hannover Re) and one joint venture were added to the Group. The 13 disposals relating to subsidiaries resulted from eight internal Group mergers, one sale and four liquidations/deletions. In addition, four additions and two disposals occurred at two subgroups of Hannover Re. Furthermore, two associated companies are no longer recognized at equity. Specifically, the scope of consolidation of the Group changed as follows as at 31 December 2009:

Establishments

On 25 February 2010 the companies Erste Credit Life International AG (in future: Credit Life International Lebensversicherung AG) and Zweite Credit Life International AG (in future: Credit Life International Versicherung AG), both based in Hilden, were established. The two companies are to transact credit life business with effect from 1 July 2010. The companies are wholly owned by HDI-Gerling Leben Service Holding AG, Cologne (renamed Talanx Deutschland AG and registered office relocated to Hannover on 7 December 2010 – abbreviated to TD); the share capital of each company amounts to EUR 50 thousand and is fully paid up.

Acquisitions

Effective 16 March 2010 Funis GmbH & Co. KG participated with a capital contribution of EUR 8 thousand (corresponding to 75.2% of the shares) in the newly established Foco 146 AB, which is based in Stockholm, Sweden. The company began trading under the name Svedea AB with effect from the balance sheet date. The company's business object consists principally of writing liability insurance for motor vehicles and yachts. On account of its subordinate importance the company was not included in the consolidated financial statement.

With effect from the second quarter Inter Hannover (No. 1) Limited, London, was included in the consolidated financial statement for the first time. All shares in the company are held by International Insurance Company of Hannover Ltd., Bracknell. The object of the company, which is a corporate member of Lloyd's of London with limited liability, is to participate in the business of one or more Lloyd's syndicates. Further details are provided in the section "Business combinations in the reporting period" on page 163.

At the beginning of July 2010 HDI-Gerling International Holding AG (trading with effect from 30 December 2010 as Talanx International AG – abbreviated to TINT), Hannover, and Talanx AG, Hannover, acquired 99% and 1% respectively of OOO Strakhovaya Kompaniya "HDI Strakhovanie", Moscow. The common shares amount to RUB 30 million (EUR 1 million). The company is active in the Retail International segment (see also the section "Business combinations in the reporting period" on page 163).

Mergers
The Polish company HDI-Gerling Polska Towarzystwo Ubezpieczen S.A., Warsaw, was merged into HDI Asekuracja Towarzystwo Ubezpieczen S.A., Warsaw, with retroactive effect from 30 June 2010.

In the third quarter of 2010 Hannover Beteiligungsgesellschaft mbH, Hannover, was merged into GERLING Beteiligungs-GmbH, Cologne, Proactiv Holding AG, Hilden, was merged into Talanx Deutschland AG, Hannover, and HDI-Gerling UK Service Company Ltd., London, was merged into the London branch of HDI-Gerling Industrie Versicherung AG with retroactive effect from 1 January 2010.

By way of a contract dated 30 August 2010 Clarus GmbH, Wiesbaden, was merged into DTPVO Deutsche Privatvorsorge AG (DTPVO), Darmstadt, with retroactive effect from 1 January 2010. DTPVO was renamed Clarus AG and has its registered office in Wiesbaden. The entries were made on 15 October 2010.

In December 2010 ASPECTA Euro Group GmbH, Cologne, was merged into Talanx International AG, Hannover, ASPECTA Lebensversicherung AG was merged into HDI-Gerling Lebensversicherung AG, both Cologne, and HBG Hannover Beteiligungsgesellschaft mbH & Co. KG, Hannover, was merged into GERLING Beteiligungs-GmbH, Cologne, with retroactive effect from 1 October 2010.

Disposal
Talanx AG sold its participating interest in Euro International Reinsurance S.A., Luxembourg, to a non-Group company at the end of May 2010. The disposal produced income of EUR 9 million in the Non-Life Reinsurance segment.

Liquidations/deletions
The Italian company HDI Servizi S.r.l., Rome, was liquidated at the end of the second quarter of 2010.

On 22 September 2010 PENATES A. Ltd., British Virgin Islands, was deleted from the public register.

The Irish companies E+S Reinsurance (Ireland) and Hannover Reinsurance (Dublin), both based in Dublin, were deleted from the public register on 25 November 2010.

Further corporate changes
Effective 8 March 2010 Hannover Rück Beteiligung Verwaltungs-GmbH (HRBV), which is wholly owned by Hannover Re, reached agreement with a third party outside the Group on the sale of 0.5% of its stake in E+S Rück – by way of a share reduction without a change of control status. Upon closing of the transaction HRBV held an interest of 63.69% in E+S Rück.

Effective 26 April 2010 the share capital of E+S Rück, Hannover, was increased out of retained earnings without the issue of new shares by an amount of EUR 2.8 million from EUR 42.6 million to EUR 45.5 million. The par value per share now stands at EUR 600. This did not give rise to a change of control status.

TINT increased its stake in HDI Seguros S.A., São Paulo/Brazil, to 99.998% in the context of a capital increase at the end of June 2010, in which the minority shareholders did not participate. Through the acquisition of further shares from minority shareholders TINT also increased its stake in HDI Seguros S. A. de C. V., León/Mexico, from 99.45% to 99.98% in the year under review.

Furthermore, TINT increased its stake in HDI STRAKHUVANNYA (Ukraine), Kiev, to 99.224% in the context of a capital increase in August and September 2010 in which the minority shareholders did not participate. Through the acquisition of further shares from minority shareholders TINT also increased its stake in HDI Seguros S. A./Chile from 99.922% to 99.927% in the year under review.

Consolidation of special purpose entities

With regard to the consolidation of special purpose entities, the Group makes a distinction below between the areas of investments (excluding special and public funds), securitization of reinsurance risks and Insurance-Linked Securities (ILS). Such special purpose entities are to be examined in accordance with SIC-12 "Consolidation – Special Purpose Entities" with an eye to their consolidation requirement. In cases where IFRS do not currently contain any specific standards, our analysis also falls back – in application of IAS 8 – on the relevant standards of US GAAP.

Investments

Within the scope of its asset management activities our subsidiary Hannover Re, Hannover, has participated since 1988 in numerous special purpose entities – predominantly funds –, which for their part transact certain types of equity and debt capital investments. On the basis of our analysis of the relations with these entities we concluded that the Group does not exercise a controlling influence in any of these transactions and a consolidation requirement therefore does not exist.

Hannover Re participates – primarily through the companies Secquaero ILS Fund Ltd., Grand Cayman/Cayman Islands, and Hannover Insurance-Linked Securities GmbH & Co. KG, Hannover, – in a number of special purpose entities for the securitization of catastrophe risks by investing in disaster bonds (or "cat bonds"). Since Hannover Re does not exercise a controlling influence in any of these transactions either there is no consolidation requirement

Securitization of reinsurance risks

The securitization of reinsurance risks is largely structured through the use of special purpose entities.

In July 2009 Hannover Re issued a catastrophe ("cat") bond with the aim of transferring to the capital market peak natural catastrophe exposures deriving from European windstorm events. The term of the cat bond, which has a volume of nominally EUR 150 million, runs until 31 March 2012; it was placed with institutional investors from Europe and North America by Eurus II Ltd., a special purpose entity domiciled in the Cayman Islands. Hannover Re does not exercise a controlling influence over the special purpose entity. Under IFRS this transaction is to be recognized as a financial instrument.

Effective 1 January 2009 Hannover Re raised further underwriting capacity for catastrophe risks on the capital market by way of the "K6" transaction. This securitization, which was placed with institutional investors in North America, Europe and Asia, involves a quota share cession on worldwide natural catastrophe business as well as aviation and marine risks. The volume of "K6", which was increased in the year under review, was equivalent to EUR 249 (123) million as at the balance sheet date. The planned term of the transaction runs until 31 December 2011 or in the case of the new shares placed in the year under review until 31 December 2012. Kaith Re Ltd., a special purpose entity domiciled in Bermuda, is being used for the securitization.

Hannover Re also uses the special purpose entity Kaith Re Ltd. for various retrocessions of its traditional covers to institutional investors. In accordance with SIC-12 Kaith Re Ltd. is included in the consolidated financial statement.

Effective 26 April 2010 Hannover Re made use of its right of early cancellation and terminated the credit default swap underlying the "Merlin" transaction. Since 2007 Hannover Re had used this transaction to transfer risks from reinsurance recoverables to the capital market. The securities serving as collateral were issued through the special purpose entity Merlin CDO I B.V., over which Hannover Re did not exercise a controlling influence.

Insurance-Linked Securities (ILS)

In the course of 2010, as part of its extended Insurance-Linked Securities (ILS) activities, Hannover Re wrote a number of so-called collateralized fronting arrangements under which risks assumed from ceding companies were passed on to institutional investors outside the Group using special purpose entities. The purpose of such transactions is to directly transfer clients' business. Due to the lack of a controlling influence over the special purpose entities involved, there is no consolidation requirement for Hannover Re with respect to these structures.

The largest single transaction in this connection is "FacPool Re", under which Hannover Re has transferred a portfolio of facultative reinsurance risks to the capital market since September 2009. The contracts, which cover worldwide individual risks, are mediated by an external reinsurance intermediary, written by Hannover Re and placed on the capital market in conjunction with a service provider. The "FacPool Re" transaction consists of a quota share reinsurance arrangement and two non-proportional cessions. The total amount of capital provided is equivalent to EUR 45 (42) million, with Hannover Re keeping a share of approximately EUR 4 (4) million and additionally assuming losses that exceed the capacity of "FacPool Re". The term of the transaction is roughly two and a half years. A number of special purpose entities participate in the reinsurance cessions within "FacPool Re"; Hannover Re does not hold any shares in these special purpose entities and does not bear the majority of the economic benefits or risks arising out of their activities through any of its business relations.

Associated companies

Associated companies are those over which the Group exercises a significant but not controlling influence. In the year under review 12 (12) were valued using the equity method in accordance with IAS 28 "Investments in Associates". A further six (four) associated companies are not recognized at equity owing to their subordinate importance for the presentation of the net assets, financial position and results of operations (please see here our remarks in the section "Accounting policies", subsection "Summary of major accounting policies" from page 127 onwards).

In the case of the company DFA Capital Management, Inc., Wilmington/USA, which had previously been consolidated as an associated company, the requirements for a significant influence pursuant to IAS 28.7 are no longer satisfied; most notably, there is no interchange of personnel on the management/supervisory bodies. With effect from the second quarter of 2010, therefore, the company was no longer measured at equity, but was instead recognized as an investment under the balance sheet item "Investments in affiliated companies and participating interests".

On 18 January 2010 Funis GmbH & Co. KG, a wholly owned subsidiary of Hannover Re, acquired an interest of 28.5% in Energi Holdings, Inc., based in Peabody/United States, for a purchase price equivalent to EUR 2.4 million. The business object of Energi Holdings, Inc. and its three other wholly owned subsidiaries is the mediation of risk management and insurance brokerage services for companies in the energy industry. On 9 December 2010 Funis GmbH & Co. KG acquired a participation of around 25% of the shares in XS Direct Holdings, based in Dublin/Ireland, by subscribing to newly issued shares. The interest amounts to EUR 2.5 million. The company held three further participations – in each case with all shares – as at the balance sheet date. The business object of the company consists principally of the development and sale of financial services in Ireland and the United Kingdom. Both Energi Holdings, Inc. and XS Direct Holdings were not included in the consolidated financial statement at equity owing to their subordinate importance.

The company WPG IV CDA Liquidation Trust, Grand Cayman/Cayman Islands, was liquidated at the end of February 2010 and was therefore no longer measured at equity in the consolidated financial statement from the first quarter of 2010 onwards.

In December 2010 AmpegaGerling Asset Management GmbH acquired a 25.1% stake in C-QUADRAT Investment AG, Vienna. The company will be measured at equity from the fourth quarter of 2010 onwards and recognized for the first time as an associated company in the consolidated financial statement.

Joint ventures

Since 30 September 2010 one company has been included in the consolidated financial statement on a proportionate basis as a joint venture in accordance with IAS 31 "Interests in Joint Ventures".

In July 2010 Proactiv Holding AG, Hilden, acquired 50% of the shares of Credit Life International Services GmbH, Neuss, from Rheinland Versicherungs AG for a purchase price of EUR 13 thousand. The acquisition took place with retroactive effect from 1 January 2010. Owing to the merger of Proactiv Holding AG into Talanx Deutschland AG (TD), these shares are currently held by TD. Prior to acquisition the acquired company did not conduct any form of business activity whatsoever. The business object of Credit Life International Services GmbH is the mediation of insurance products with and without underwriting, collection and loss adjustment powers as well as the provision of consulting services for companies. Since TD and Rheinland Versicherungs AG, Neuss, each hold a 50% interest in the share capital of EUR 25 thousand, Credit Life International Services GmbH is included in the consolidated financial statement for the first time from the third quarter of 2010 onwards as a joint venture on a proportionate basis.

There are no contingent liabilities or capital commitments whatsoever on the part of TD with respect to Credit Life International Services GmbH. Of the company consolidated on a proportionate basis, current and non-current assets and liabilities as well as income and expenses in amounts of EUR 2 million each are attributable to the Group share. Goodwill did not arise in the context of this transaction. At the time of its acquisition the joint venture was of subordinate importance from the standpoint of the Talanx Group.

Business combinations in the reporting period

On 7 July 2010 (date of acquisition) the Group acquired through its subsidiary HDI-Gerling International Holding AG 99% and through Talanx AG 1% of the shares of HDI Strakhovanie (previously Fortis Insurance Company LLC), Russia, for EUR 1 million from Fortis Insurance International N.V. and Sycamore Insurance 2 B.V. HDI Strakhovanie is an insurance company that has previously transacted property/casualty primary insurance in Russia on a limited scale. The company, which in future will complement the product portfolio of our existing Russian subsidiary with property/casualty products, commenced its business operations in December 2010. No appreciable costs were incurred in connection with the business combination.

HDI Strakhovanie was consolidated for the first time in the third quarter of 2010, and will be included in the consolidated financial statement as a fully consolidated subsidiary from that point in time onwards. The acquired assets in an amount of EUR 1 million relate exclusively to cash at banks. The goodwill calculated upon acquisition totaled EUR 0.1 million. We have omitted an "as if" presentation and information on the profit contributions generated since acquisition of the company, since there are no material implications for the net assets, financial position and results of operations of the Talanx Group. A loss of EUR 37 thousand was recorded in the 2010 financial year.

With effect from 15 January 2010 all shares of Inter Hannover (No. 1) Limited, London, were acquired through the Group subsidiary International Insurance Company of Hannover Ltd., Bracknell. Since the company is not of material significance from the standpoint of the Talanx Group and given that this company was formerly a so-called "shelf company", we have omitted the disclosures of information pursuant to IFRS 3 "Business Combinations".

Non-current assets held for sale and disposal groups

The five items of real estate classified in the previous year as properties for sale (balance sheet item: investment property) with a book value of EUR 35 million in the Retail Germany segment were all sold as planned with economic effect in 2010.

On 21 December 2010 our subsidiary in the Non-Life Reinsurance segment Hannover Re reached agreement on the sale of its US subgroup Clarendon Insurance Group, Inc., Wilmington (CIGI), to Enstar Group Ltd., Hamilton, a Bermuda-based company specializing in the run-off of insurance business. Hannover Re holds all shares of CIGI indirectly through the intermediate holding company Hannover Finance, Inc., Wilmington (HFI), which is also included in full in the consolidated financial statement. The buyer is to acquire all shares of CIGI at a purchase price equivalent to EUR 163 million before final price determination, which will take place upon adoption of the local annual financial statement as at 31 December 2010. As at the balance sheet date the transaction was still subject to the customary regulatory approvals. Closing of the transaction and the associated deconsolidation from Hannover Re are anticipated in the second quarter of 2011.

Pursuant to IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" CIGI was classified as at the balance sheet date as a disposal group, which is to be measured at the lower of the carrying amount and fair value less costs to sell. This measurement gave rise to the recognition of impairment losses in an amount of EUR 10 million, which were carried in other income/expenses. In addition, a miscellaneous liability of EUR 4 million was recognized for selling expenditures and a sundry provision of EUR 55 million was constituted for expenses in connection with measurement of the disposal group. The corresponding expenses were recognized in other income/expenses.

The cumulative other comprehensive income of –EUR 29 million arising out of the currency translation of the assets and liabilities belonging to the disposal group will only be realized in the context of deconsolidation. Profits and losses from the measurement of available-for-sale financial assets in an amount of EUR 3 million as at the balance sheet date will also not be realized until deconsolidation.

In compliance with IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” we recognize the assets and liabilities of the disposal group in corresponding balance sheet items that are distinct from continuing operations. Transactions between the disposal group and the Group’s continuing operations continue to be entirely eliminated in conformity with IAS 27 “Consolidated and Separate Financial Statements”.

The assets and liabilities of the disposal group are presented in the following table and broken down into their major components:

Figures in EUR million	31.12.2010
Assets	
Total investments	643
Cash	27
Reinsurance recoverables on unpaid claims	831
Accounts receivable	17
Other assets	11
Assets held for sale	1,529
Liabilities	
Technical provisions	1,310
Funds withheld	27
Reinsurance payable	17
Other liabilities	27
Liabilities related to assets held for sale	1,381

In addition, we are currently reviewing the possibility of disposing of three real estate objects in Munich, Hamburg and Cologne with book values of altogether EUR 57 million (balance sheet item: investment property) which are allocated to the Retail Germany segment. The planned disposal in 2011 is prompted above all by unfavorable rental forecasts. The sales negotiations are to commence in the first quarter of 2011. Since the requirements pursuant to IFRS 5 were not fully satisfied at the closing date, separate disclosure as “non-current assets held for sale” as at 31 December 2010 was omitted.

Nature of risks associated with insurance contracts and financial instruments

The disclosures provided below complement the risk reporting in the management report and reflect the requirements of German Accounting Standard DRS 5-20, IFRS 4 and IFRS 7. For fundamental qualitative statements, e.g. regarding the organization of our risk management or the assessment of the risk situation, please see the risk report contained in the management report.

Classes of financial instruments

IFRS 7 “Financial Instruments: Disclosures” sets out all the disclosures required for financial instruments. Some disclosure duties are to be met by establishing classes of financial instruments. The grouping made in this context must facilitate a minimum distinction between financial instruments measured at fair value and those measured at amortized cost. The establishment of classes need not necessarily be identical to the categorization of financial instruments pursuant to IAS 39.6 or IAS 39.45–46 for purposes of subsequent measurement. The classes established for our financial instruments were guided by the needs of our portfolio and our balance sheet structure; the degree of detail of the stated classes may vary as permitted according to the required disclosure.

Essentially, the following classes of financial instruments were established:

- Financial instruments from insurance contracts
  - Accounts receivable on insurance business
  - Reinsurance recoverables on technical provisions
  - Funds held by ceding companies
  - Funds held under reinsurance treaties

- Financial instruments from investments
  - Investments in affiliated companies and participating interests
  - Loans and receivables
  - Financial assets held to maturity
  - Financial assets available for sale
    - Fixed-income securities
    - Variable-yield securities
  - Financial assets at fair value through profit or loss
    - Financial assets classified at fair value through profit or loss
    - Financial assets held for trading
  - Other invested assets

- Other financial instruments
  - Other assets – derivative financial instruments that satisfy the criteria for hedge accounting (hedging instruments)
  - Subordinated liabilities
  - Notes payable and loans
  - Other liabilities – derivative financial instruments (trading portfolios with a negative fair value) as well as derivative financial instruments that satisfy the criteria for hedge accounting (hedging instruments with a negative fair value)

The focus of the Talanx Group's business activities is on the sale and administration of insurance products in all standard lines of property/casualty and life insurance in both primary and reinsurance business.

Risks from insurance contracts

Risks from insurance contracts consist principally of insurance risks, default risks, liquidity risks and market risks. Insurance risks in property/casualty insurance are considered separately from those in life insurance because of the significant differences between them.

Management of technical risks in property/casualty insurance

Insurance risks in non-life business (primary insurance and reinsurance) derive primarily from the premium/loss risk and the reserving risk.

Insurance business is based upon the assumption of individual risks from policyholders (in primary insurance) or cedants (in reinsurance) and the equalization of these risks in the community of (re)insureds and over time. For the insurer, the fundamental risk lies in providing insurance benefits, the amount and due date of which are unknown, from premiums calculated in advance that cannot be changed. The reserving risk arises out of the potentially insufficient establishment of reserves in the balance sheet and the resulting strain on the technical result.

We counter the assumed premium/loss risk inter alia through appropriate reinsurance protection. The volume of reinsurance protection relative to the gross written premium can be measured according to the level of retained premium; shown below broken down by segments, this indicates the proportion of written risks retained for our risk.

Retention by segments	**2010**	**2009**
%		
Industrial Lines	46.1	43.7
Retail Germany	91.6	85.6
Retail International	92.4	86.9
Non-Life Reinsurance	88.9	94.1
Total Non-Life Insurance	**78.9**	**78.7**

The level of retained premium on the Group level in non-life insurance remained roughly on a par with the previous year at 78.9%, compared to 78.7%. Changes occurred on the level of individual segments, however, which in some cases were significant. Most notably, the cancellation of a quota share reinsurance treaty in the motor lines at the Turkish company HDI Sigorta – a move prompted by regulatory requirements – caused the retention to increase in the Retail International segment. The rise of retention in the Retail Germany segment can be attributed above all to the contraction in gross written premium. The reduced retention in Non-Life Reinsurance – which saw a drop from 94.1% to 88.9% – was due in large measure to the growth in gross premium volume, which increased by 10.3%.

The net loss ratio in the segments after Group restructuring developed as follows in a year-on-year comparison:

Net loss ratio by segments	2010	2009
%		
Industrial Lines	82.0	68.6
Retail Germany	69.4	62.5
Retail International	75.6	71.6
Non-Life Reinsurance	72.0	72.8
Total Non-Life Insurance	**73.6**	**70.5**

The moderate level of the loss ratios in past years reflects our prudent underwriting policy and successes in active claims management. On the level of the Talanx Group the loss ratio for the non-life insurers climbed by altogether 3.1 percentage points in the year under review. The sharply higher loss ratio in the Industrial Lines segment can be attributed to increased strains associated in particular with major loss events. The loss ratio in the previous year had been driven by a generally favorable claims experience. The rise in the Retail Germany segment was due to motor insurance business in the year under review as well as the favorable claims experience in 2009. In the Retail International segment flooding and frost damage in Poland as well as well as earthquakes in Chile caused the loss ratio to surge sharply higher. In the Non-Life Reinsurance segment the loss ratio remained slightly below the level of the previous year – despite the burden of major losses (increase in catastrophe loss ratio from 4.6% in the previous year to 12.3% in the year under review) – thanks to a favorable run-off of claims incurred in prior years as well as a pleasing basic loss trend.

In order to ensure that the existing benefit commitments can be fulfilled at all times, corresponding provisions are established and their adequacy is continuously analyzed using actuarial methods. These also provide insights into the quality of the written risks, their spread across individual lines with differing risk exposures as well as the anticipated future claims payments. In addition, our portfolios are subject to active claims management. Analyses of the distribution of loss amounts and claim frequencies facilitate systematic management of the risks.

The loss reserves calculated in the reinsurance sector using actuarial methods are supplemented where necessary by additional reserves based on our own actuarial loss estimations and the IBNR (incurred but not reported) reserve for losses that have already occurred but have not yet been reported to us. Especially in casualty business, IBNR reserves – differentiated by risk classes and regions – are constituted in view of the long run-off of such claims.

The adequate measurement of loss reserves for asbestos-related claims and pollution damage is a highly complex matter, since in some cases several years or even decades may elapse between the causation of the loss or injury and its notification. The Group's exposure to asbestos-related claims and pollution damage is, however, relatively slight. The adequacy of these reserves is normally measured using the so-called "survival ratio". This ratio expresses how many years the reserves would cover if the average level of paid claims over the past three years were to continue. At the end of the year under review our survival ratio in the reinsurance sector stood at 22.8 (24.3) years; the reserves for asbestos-related claims and pollution damage amounted to EUR 212 (198) million.

Licensed scientific simulation models, supplemented by the expertise of the relevant specialist departments, are used to assess the material catastrophe risks from natural hazards (earthquake, windstorm) for the Non-Life Reinsurance segment. Furthermore, we establish the risk to our portfolio from various scenarios (e.g. hurricanes in the US, windstorms in Europe, earthquakes in the US) in the form of probability distributions. The monitoring of the natural hazards exposure of the portfolio (accumulation control) is rounded out by the progressive inclusion of realistic extreme loss scenarios.

We analyze extreme scenarios and accumulations that could lead to large losses. Based on the current and most recently calculated figures, the potential net loss burdens for the Group are as follows:

Accumulation scenarios[1]	2010	2009
Figures in EUR million		
250-year loss US windstorm	709	763
250-year loss California earthquake	531	504
250-year loss European windstorm	530	581
250-year loss Tokyo earthquake	460	426
250-year loss Japanese windstorm	386	369
250-year loss Sydney earthquake	183	325

[1] *The actual natural catastrophe experiences may diverge from the model assumptions*

Peak exposures from accumulation risks are protected against through the use of carefully and individually selected reinsurance covers. In this way we are able to effectively limit – and hence render plannable – large individual losses and the impact of accumulation events.

Run-off triangles are another tool used to verify our assumptions within the Group. Such triangles show the changes over time in the reserves as a consequence of paid claims and in the recalculation of the reserves that are to be established as at each balance sheet date. Adequacy is monitored using actuarial methods (see here also our explanatory remarks on the balance sheet item 20 “Loss and loss adjustment expense reserve”, pages 219 et seqq.).

In property/casualty insurance the reserving risk is monitored and managed through analysis of the loss reserves using actuarial methods. In the case of the annuity reserve – as part of the loss and loss adjustment expense reserve – we also monitor the interest rate trend. A fall in interest rates would result in a charge to income owing to establishment of a reserve. The annuity reserve is calculated using the latest annuity tables as an actuarial basis.

An increase of 5 percentage points in the net loss ratio in the area of property/casualty insurance and non-life reinsurance would reduce the net profit after tax by EUR 321 (298) million.

Management of market risks in life insurance

Typical risks in life insurance (life primary insurance and life/health reinsurance) are associated with the fact that policies contain long-term benefit guarantees. Along with interest rate risks, biometric risks and lapse risks are therefore particularly relevant here. Biometric actuarial bases such as mortality, longevity and morbidity are established at the inception of a contract in order to calculate premiums and reserves and measure deferred acquisition costs. Over time, however, these assumptions may prove to be no longer accurate and may therefore necessitate additional expenditures. The adequacy of the biometric actuarial bases is therefore regularly reviewed.

In view of the aforementioned risks, the calculation bases and our expectations may prove inadequate. Our life insurers use a variety of tools to counter this possibility:

- In order to calculate premiums and technical provisions the Group companies use prudently quantified actuarial bases, the adequacy of which is regularly assured through a continuous reconciliation of the claims expected according to the withdrawal tables and the claims actually incurred. In addition, the actuarial bases make appropriate allowance for the risks of error, random fluctuation and change by means of commensurate safety loadings.
- Life insurance policies for the most part involve long-term contracts with a discretionary surplus distribution. Minor changes in the assumptions with respect to the biometric factors, interest rates and costs on which tariffs are based are absorbed by the safety loadings built into the actuarial bases. If these safety loadings are not required, they generate surpluses that are for the most part – in accordance with statutory requirements – passed on to policyholders. The impact on profitability in the event of a change in the risk, cost or interest rate expectations is thus limited by adjustment of the future surplus participation of policyholders.
- We regularly review the lapse pattern of our policyholders and the lapse trend of our in-force portfolio.
- Additional protection is obtained against certain – primarily biometric – risks by taking out reinsurance treaties.

In life and health reinsurance, too, the previously described biometric risks are of special importance. The reserves in life and health reinsurance are based principally upon the information provided by ceding companies. The plausibility of the figures is checked using reliable biometric actuarial bases. Furthermore, local insurance regulators ensure that the reserves calculated by ceding companies satisfy all requirements with respect to actuarial methods and assumptions (e.g. use of mortality and morbidity tables, assumptions regarding the lapse rate etc.). The lapse and credit risks are also of importance with regard to the prefinancing of cedants' new business acquisition costs. The interest guarantee risk, on the other hand, is of only minimal risk relevance in most instances due to the structure of the contracts.

The volume of reinsurance protection relative to the gross written premium can be measured according to the level of retained premium; shown below broken down by segments, this indicates the proportion of written risks retained for our risk:

Retention by segments	**2010**	**2009**
%		
Retail Germany	92.9	90.4
Retail International	84.1	83.3
Life/Health Reinsurance	91.7	90.7
Total	**91.8**	**90.1**

We measure sensitivity to these risks using an embedded value analysis. The Market Consistent Embedded Value (MCEV) is a key risk management tool. It refers to the present value of future shareholders' earnings plus the shareholders' equity less the cost of capital for the life insurance and life/health reinsurance portfolio after appropriate allowance for all risks underlying this business. The embedded value is market-consistent inasmuch as it is arrived at using a capital market valuation that meets certain requirements: free of arbitrage, risk-neutral, the modeling of the financial instruments provides the current market prices.

The New Business Value (NBV) is also taken into consideration. The MCEV and NBV denote the present value of future shareholders' earnings from business in life insurance and life/health reinsurance after appropriate allowance for all risks underlying the business in question.

The MCEV is calculated for our major life insurers as well as the life/health reinsurance business written by Hannover Re. Sensitivity analyses highlight the areas in which the Group's life insurers and hence the Group as a whole are exposed in the life sector, and they provide pointers to the areas which should be emphasized from a risk management standpoint. Sensitivities to mortalities, lapse rates, administrative expenses as well as interest rate and equity price levels are considered in the analyses.

Sensitivities to mortalities

The degree of exposure of the Group's life insurers varies according to the type of insurance product. Thus, a lower-than-expected mortality has a positive effect on products primarily involving a death and/or disability risk and a negative impact on products with a longevity risk – with corresponding implications for the MCEV.

Sensitivities to lapse rates

Under contracts with a right of surrender the recognized benefit reserve is at least as high as the corresponding surrender value, and hence the economic impact of the lapse pattern tends to be more influenced by the level of lapse discounts and other product characteristics. A higher-then-expected lapse rate would to some extent negatively affect the MCEV.

Sensitivities to administrative expenses

Higher-then-expected administrative expenses would result in a reduction of the MCEV.

Sensitivities to interest rate and equity price levels

The commitment to generate the minimum return for the contractually guaranteed benefits gives rise to a considerable interest guarantee risk in life primary insurance. The fixed-income investments normally have a shorter duration than the obligations under the insurance contracts (durations mismatch). This creates a reinvestment risk for already accumulated credit balances and a new investment risk for future premiums. If the investment income generated across the remaining settlement period of the liabilities falls short of the interest due under the guarantees, this leads to a reduction in income and a decrease in the MCEV. A decline in the equity price level would also negatively impact the MCEV.

Derivatives embedded in life insurance contracts that are not recognized separately
Insurance products may include the following major options on the part of the policyholder, insofar as they were agreed upon when the contract was taken out:

- Possibility of surrender and premium waiver for the contract
- Increase in insured benefit without another medical examination – usually with the actuarial bases applicable at the time with respect to biometric risks and guaranteed interest rate (index-linked adjustment, supplementary insurance guarantees in the event of certain changes in living conditions)
- Possibility of a one-time payment of the insured benefit (lump-sum option) under deferred annuities instead of pension transition. This gives rise to a potential risk if an unexpectedly large number of policyholders were to exercise their option at an interest rate level significantly above the discount rate used to calculate the annuities. The adequacy test required by IFRS 4 makes allowance for this option.

Under unit-linked products the policyholder can opt for transfer of the relevant units upon maturity of the contract instead of payment of their equivalent value.

Management of credit risks from insurance contracts
Bad debts may arise on receivables due under insurance business. In order to limit this risk we take care to ensure the good credit quality of debtors, as measured on the basis of standard market rating categories. The selection of reinsurers also takes into account internal and external expert assessments, e.g. market information from brokers. Accounts receivable from policyholders and insurance intermediaries are unsecured. The default risk on these receivables is subject to constant monitoring within the scope of our risk management. At stake here are a large number of receivables in relatively modest single amounts, which are due from a diversified array of debtors. Such accounts receivable are normally due from policyholders that do not have a rating. Only commercial clients in excess of certain dimensions are able to obtain external assessments of their credit status.

The insurance intermediaries are either individual brokers or broker organizations, which similarly do not normally have a rating. Default risks in reinsurance business are controlled largely with the aid of system-supported cession management: cession limits are specified for individual retrocessionaires and the remaining available capacities are calculated for short-, medium- and long-term business.

With a view to countering possible delays in or defaults on premium payment in collections directly from policyholders or from intermediaries, each of the Group companies operates an effective collections procedure intended to minimize outstandings. Intermediaries are also subject to credit checks.

Credit risks additionally arise in primary insurance business in connection with accounts receivable from reinsurers and in reinsurance business from recoverables due from retrocessionaires on account of the fact that the gross business written is not always fully retained, but instead portions are (retro)ceded as necessary. In passive reinsurance we pay close attention to a high level of financial soundness on the part of the reinsurer, especially in the case of long-tail accounts. Our reinsurance partners are carefully selected by Security Committees in light of external ratings, their credit status is constantly monitored and – where necessary – appropriate measures are taken to secure receivables.

As the equivalent of the maximum exposure to default risks on the balance sheet date, the book value of financial assets deriving from the insurance business – irrespective of collateral or other agreements that serve to minimize the default risk – was as follows (excluding funds held by ceding companies):

	31.12.2010[1]				
Statement of book values of financial assets deriving from insurance contracts	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance
Figures in EUR million					
Receivables					
Policy loans	—	198	2	—	—
Accounts receivable from policyholders	290	149	291	61	5
Accounts receivable from insurance intermediaries	272	146	39	298	—
Accounts receivable from reinsurance business	1,047	57	23	1,330	1,003
Other assets					
Reinsurance recoverables on technical provisions	2,967	873	254	914	515
Total	**4,576**	**1,423**	**609**	**2,603**	**1,523**

[1] *Presentation after elimination of intra-Group relations between segments*

	31.12.2009[1]				
Statement of book values of financial assets deriving from insurance contracts	Industrial Lines[2]	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance
Figures in EUR million					
Receivables					
Policy loans	—	199	2	—	—
Accounts receivable from policyholders	370	169	228	45	3
Accounts receivable from insurance intermediaries	138	157	41	277	—
Accounts receivable from reinsurance business	430	47	16	1,480	941
Other assets					
Reinsurance recoverables on technical provisions	2,980	888	234	1,595	265
Total	**3,918**	**1,460**	**521**	**3,397**	**1,209**

[1] *Presentation after elimination of intra-Group relations between segments*
[2] *Adjusted on the basis of IAS 8*

The funds held by ceding companies represent the cash and securities deposits furnished by Group companies to cedants that do not trigger any cash flows and cannot be realized by cedants without the consent of our companies. The durations of these deposits are matched to the corresponding provisions. In the event of default on such a deposit the technical provision is reduced to the same extent. The credit risk is therefore limited; with this in mind, it was not shown in the above table.

With respect to business ceded, we reduce the default risk on accounts receivable from reinsurers by carefully selecting reinsurers through our Group's internal reinsurance broker Protection Reinsurance Intermediaries AG and reviewing their credit status on the basis of opinions from internationally respected rating agencies.

In the three primary insurance segments the claims arising out of passive reinsurance, i.e. the cession of our assumed risks – the reinsurance recoverables – were unchanged year-on-year at EUR 4.1 billion. The resulting reinsurance recoverables on unpaid claims totaled EUR 3.1 (3.0) billion.

The ratings of the counterparties for the reinsurance recoverables on unpaid claims were as follows on the Group level:

	AAA	AA	A	BBB	< BBB	No rating
%						
Reinsurance recoverables on technical provisions	2 (11)	40 (23)	44 (54)	— (1)	— (—)	14 (11)

86 (88)% of our reinsurers are rated A or better. In determining the ratings, allowance has already been made for any collateral received – such as deposits or letters of credit.

The accounts receivable from passive reinsurance business in the three primary insurance segments (after deduction of value adjustments) amounted to EUR 740 (389) million. As at the balance sheet date more than 60 (67)% of these accounts receivable were rated A or better.

In the two reinsurance segments the claims due from retrocessions amounted to EUR 1.4 (1.9) billion as at the balance sheet date. Altogether 92 (96)% of retrocessionaires have an investment grade rating. Of these, almost 92 (94)% are rated A or better. The large proportion of reinsurers with top ratings reflects our policy of avoiding default risks in this area wherever possible.

The accounts receivable from insurance business that were overdue but not impaired at the balance sheet date can be broken down as follows:

	31.12.2010		31.12.2009	
	> 3 months < 1 year	> 1 year	> 3 months < 1 year	> 1 year
Figures in EUR million				
Accounts receivable from policyholders	59	14	112	8
Accounts receivable from insurance intermediaries	44	22	31	21
Accounts receivable from reinsurance business	445	305	232	148
Total	**548**	**341**	**375**	**177**

The overdue receivables from insurance business are composed of accounts receivable that had not been paid by the due date and were still outstanding as at the balance sheet date. The presentation dispenses with the short duration range of "1 day to 3 months" in view of the different processes used throughout the Group in this regard. Responsibility for receivables management within the Group is borne locally by the individual subsidiaries. The receivables management process – reflecting the underlying business risks – consequently varies (inter alia differing treatment of receivables at risk of default (derecognition or value adjustment); differing points in time when receivables management is activated and differing tools used in receivables management). Only once a receivable is overdue by more than 90 days do the aforementioned reasons become insignificant, hence making Group-wide observations possible.

The primary insurers had accounts receivable from policyholders and insurance intermediaries in primary insurance business that were overdue by more than 90 days as at the balance sheet date totaling EUR 73 (120) million and EUR 66 (52) million respectively. These figures were equivalent to levels of 9 (15)% and 9 (9)% respectively. The combined average default rate over the past three years was 2.3 (2.5)%. The accounts receivable from passive reinsurance business with arrears of more than 90 days amounted to altogether EUR 325 (229) million, corresponding to a level of 41 (46)%. The annual default rate was 1.0 (1.5)%.

Relative to the Non-Life Reinsurance and Life/Health Reinsurance segments, which are represented by the companies of the Hannover Re Group, EUR 149 (151) million – or 4.3 (5.2)% – of our accounts receivable from reinsurance business totaling EUR 3.5 (2.9) billion were older than 90 days as at the balance sheet date and in some cases impaired. The average default rate over the past three years was unchanged year-on-year at 0.2%.

Of our total reinsurance recoverables, 31.7% were secured by deposits or letters of credit – a level virtually unchanged from the previous year. In the case of most of our retrocessionaires we also function as reinsurer, meaning that a potential normally exists for offsetting against our own liabilities.

Value adjustments were not taken on accounts receivable from insurance business insofar as the default risk associated with the assets is reduced by collateral (such as letters of credit, cash deposits, securities deposits).

The adjusted receivables can be broken down as follows:

Analysis of individually adjusted financial assets deriving from insurance contracts	31.12.2010			31.12.2009		
	Risk provision	Thereof 2010	Book value after risk provision	Risk provision	Thereof 2009	Book value after risk provision
Figures in EUR million						
Accounts receivable from policyholders	25	–8	796	33	–1	815
Accounts receivable from insurance intermediaries	21	–36	755	57	–20	613
Accounts receivable from reinsurance business	57	–52	3,460	110	–21	2,914
Total	**103**	**–96**	**5,011**	**200**	**–42**	**4,342**

In the year under review risk provision of EUR 52 million for accounts receivable from reinsurance business was released. This risk provision is no longer needed because in the previous year we significantly reduced the remaining credit risks through the securitization of default risks resulting from reinsurance recoverables.

The value adjustments on accounts receivable from insurance business that we recognize in separate adjustment accounts developed as follows in the year under review:

Development of value adjustments on accounts receivable from insurance business	2010	2009
Figures in EUR million		
Cumulative value adjustments at 31.12. of the previous year	200	242
Change in consolidated group	—	—
Value adjustments in the financial year	7	25
Write-ups	91	63
Allocation (+)/Release (–)	—	–3
Exchange rate fluctuations	3	–1
Other changes	–16	—
Cumulative value adjustments at 31.12. of the year under review	103	200

The default risks on financial assets deriving from insurance contracts were determined on the basis of individual analyses. Any existing collateral was taken into account. The proportion of impaired receivables stood at 2 (5)%.

Specifically, the annual impairment rates were as follows:

Impairment rates	31.12.2010	31.12.2009	31.12.2008	31.12.2007
%				
Accounts receivable from policyholders	3.1	3.9	4.0	4.0
Accounts receivable from insurance intermediaries	2.6	8.5	11.2	8.6
Accounts receivable from reinsurance business	1.6	3.6	4.2	7.3

The annual default rates were as follows:

Default rates	31.12.2010	31.12.2009	31.12.2008	31.12.2007
%				
Accounts receivable from policyholders	1.6	1.8	4.2	2.1
Accounts receivable from insurance intermediaries	1.1	2.2	2.7	1.8
Accounts receivable from reinsurance business	0.2	0.2	0.1	0.3

The net gains/losses on financial instruments from insurance contracts were:

2010	Interest income	Interest expense	Value adjustment	Write-ups	Total
Figures in EUR million					
Funds held by ceding companies	425	—	—	2	427
Funds held under reinsurance treaties	—	145	—	—	–145
Reinsurance recoverables on technical provisions	—	—	–2	23	25
Total	**425**	**145**	**–2**	**25**	**307**

2009	Interest income	Interest expense	Value adjustment	Write-ups	Total
Figures in EUR million					
Funds held by ceding companies	447	—	1	3	449
Funds held under reinsurance treaties	—	207	—	—	–207
Reinsurance recoverables on technical provisions	—	—	10	33	23
Total	**447**	**207**	**11**	**36**	**265**

Risks from investments

The risks from investments principally encompass the market risk (includes the foreign currency risk, the risk associated with changes in fair value due to interest rate movements, the cash flow risk due to interest rate movements and the market price risk), the default risk and the liquidity risk.

Management of risks from investments

The structure of the investments under own management (excluding funds held by ceding companies) is regularly examined in order to review the strategic asset allocation. The breakdown for the Group as at 31 December 2010 was as follows:

Weighting of major asset classes	Parameter as per investment guidelines	Position as at 31.12.2010	Position as at 31.12.2009
%			
Bonds (direct holdings and investment funds)	At least 50	86	84
Listed equities (direct holdings and investment funds)	At most 25	2	3
Real estate (direct holdings and investment funds)	At most 5	2	2

In this regard it is evident that the bonds, equities and real estate are within the defined Group limits. In accordance with the company's risk-carrying capacity and regulatory requirements, the investment goals of security, profitability, liquidity as well as mix and spread are given adequately balanced consideration under our holistic asset/liability management systems. The main opposing risks are market risks, default risks and liquidity risks.

Market risks

The market risk consists primarily of the risk of changes in the market prices of fixed-income assets and equities as well as the exchange rate risk associated with fluctuations in exchange rates if there is no matching cover. This may necessitate value adjustments or lead to the realization of losses in the event of disposal of financial assets. A decline in the interest rate level can also lead to reduced investment income.

A vital tool used to monitor and manage market price risks is constant analysis of the value at risk (VaR), which is increasingly evolving from an assets-side measurement approach into an assets/liabilities concept. The VaR defines the estimated maximum loss that will not be exceeded within a set holding period (e.g. 10 days) and with a set probability (e.g. 95%).

The VaR is established daily on the basis of historical data. Within the scope of these calculations the loss potentials of both the total portfolio and partial portfolios are monitored and limited. The calculation of this maximum loss potential is performed on the basis of a confidence level of 95% and a holding period of ten days. This means that this estimated loss potential will be exceeded within 10 days with a probability of 5%.

The daily updated holdings are fed into the calculation as input data. The scope of the market data history used for risk analysis is 181 weeks. On this basis, 180 weekly changes are calculated for each relevant market parameter, such as equity prices, exchange rates and interest rates, and these are then used to establish the value at risk. Market observations of the recent past are weighted more heavily through the use of a decay factor in order to refine the sensitivity of the VaR model to current volatility changes and hence improve the forecast quality. The time series on the basis of which the risk parameters are calculated are updated weekly. In this context, the market parameters of the oldest week are removed and replaced by those of the current week. The risk model is recalibrated on the basis of the updated market data.

The risk model used is based on a multi-factor model. This multi-factor model is grounded on numerous representative time series, e.g. interest rates, exchange rates and stock indices. All risk-relevant factors can be determined from these time series using main component analysis. The correlations existing between the time series are incorporated into the weighting of the risk factors. In this way allowance is made in the risk assessment for cumulative and diversification effects. The individual elements of the portfolio are analyzed through regression towards these factors. The factor weightings thereby determined create a correlation between the movements in the factors derived from the movements in the representative time series and the movements in the securities. The risks associated with securities are arrived at through simulation of the factor developments. The risk associated with options is arrived at through a comprehensive simulation. Consideration is thus given to the non-linear correlations between option prices and the price movements of the underlying instruments.

Normal market scenarios are used to calculate the value at risk. In addition, stress tests are conducted in order to be able to map extreme scenarios. In this context, the loss potentials are simulated on the basis of already occurred or notional extreme events. Actual market developments may diverge from the model assumptions.

The VaR (confidence level of 95%, holding period of 10 days) as at 31 December 2010 amounted to EUR 1.1 billion, a figure equivalent to 1.6% of the assets under consideration.

The range of management tools is complemented by stress tests and scenario analyses. In the case of interest-rate-sensitive products and equities, we calculate a possible change in fair value using a historic "worst case" scenario on a daily basis, estimating the potential loss under extreme market conditions. With the aid of scenarios we simulate changes in equity prices, exchange rates and yields on the basis of historical data. Interest rate risks refer to an unfavorable change in the value of financial assets held in the portfolio due to changes in the market interest rate level. Declining market yields lead to increases and rising market yields to decreases in the fair value of fixed-income securities portfolios. Share price risks derive from unfavorable changes in the value of equities and equity or index derivatives due, for example, to downward movements on particular stock indices. We spread these risks through systematic diversification across various sectors and regions. Currency risks are of considerable importance to an internationally operating insurance enterprise that writes a significant proportion of its business in foreign currencies.

The following table shows scenarios for the development of investments held by the Group as at the balance sheet date. The amounts shown are gross amounts; in particular, the effects illustrated disregard taxes and the provision for premium refunds. Effects arising on the basis of the surplus participation of policyholders in life primary insurance thus do not form part of the analysis. Making allowance for these effects, the repercussions indicated for the results and shareholders' equity would be considerably reduced.

Scenarios for changes in the fair value of assets held by the Group as at the balance sheet date:

Portfolio	Scenario		Recognized in the statement of income[1]	Recognized directly in equity[1]	31.12.2010 Portfolio change based on fair value[2]	31.12.2009 Portfolio change based on fair value[2]
Figures in EUR million						
Equity securities[3]	Share prices	+20%	+17	+345	+361	+347
	Share prices	+10%	+8	+173	+181	+170
	Share prices	–10%	–8	–184	–191	–166
	Share prices	–20%	–14	–367	–382	–320
Fixed-income securities	Yield increase	+200 basis points	–37	–2,149	–6,297	–5,613
	Yield increase	+100 basis points	–19	–1,122	–3,346	–2,977
	Yield decrease	–100 basis points	+19	+1,203	+3,456	+2,966
	Yield decrease	–200 basis points	+38	+2,501	+7,245	+6,202
Exchange-rate-sensitive investments	Change in exchange rates[4]	+10%	–1,614	–136	–1,750	–1,493
	thereof USD		–894	–95	–989	–911
	thereof GBP		–188	–6	–194	–164
	thereof AUD		–150	—	–150	–108
	thereof other		–381	–36	–418	–310
	Change in exchange rates[4]	–10%	+1,614	+136	+1,750	+1,493
	thereof USD		+894	+95	+989	+911
	thereof GBP		+188	+6	+194	+164
	thereof AUD		+150	—	+150	+108
	thereof other		+381	+36	+418	+310

[1] *Amounts shown are gross (before taxes and surplus participation)*
[2] *Including financial assets belonging to the categories "loans and receivables" and "held to maturity"*
[3] *Including derivative holdings*
[4] *Exchange-rate fluctuations of +/–10% against the euro based on balance sheet values*

The breakdown of our investments by currency was as follows:

Currency	31.12.2010	31.12.2009
%		
EUR	76	78
USD	13	13
GBP	3	2
AUD	2	2
Other	6	5
Total	**100**	**100**

We use short-call and long-put options as well as swaps to partially hedge portfolios, especially against price, exchange and interest rate risks. In the year under review we also used derivative financial instruments to optimize our portfolio in light of risk/return considerations. The contracts are concluded solely with first-class counterparties and compliance with the standards defined in the investment guidelines is strictly controlled in order to avoid risks – especially credit risks – associated with the use of such transactions. By systematically adhering to the principle of matching currency coverage, we are also able to significantly reduce the foreign currency risk within the Group.

Default risks

The risks of counterparty default requiring monitoring consist of counterparty credit risks and issuer's risks. Along with the lists of counterparties and issuers specified by the Board of Management, monitoring of the limits defined per rating category constitutes a vital precondition for investment decisions. We pay close attention to the good credit status of counterparties and debtors in order to avoid default risks. Key indicators here are the ratings assigned by external agencies such as S&P or Moody's. New investments are restricted to investment grade securities in order to limit the credit risk.

The maximum default risk exposure on the balance sheet date, exclusive of collateral or other agreements that serve to minimize the default risk, was as follows:

31.12.2010	Measured at amortized cost	Measured at fair value	Total
Figures in EUR million			
Investments in affiliated companies and participating interests	74	—	74
Loans and receivables	32,343	—	32,343
Financial assets held to maturity	2,999	—	2,999
Financial assets available for sale	—	30,635	30,635
Financial assets at fair value through profit or loss			
Financial assets classified at fair value through profit or loss	—	989	989
Financial assets held for trading	—	232	232
Other invested assets	114	4,071	4,185

31.12.2009	Measured at amortized cost	Measured at fair value	Total
Figures in EUR million			
Investments in affiliated companies and participating interests	61	—	61
Loans and receivables	31,548	—	31,548
Financial assets held to maturity	2,858	—	2,858
Financial assets available for sale	—	26,477	26,477
Financial assets at fair value through profit or loss			
Financial assets classified at fair value through profit or loss	—	861	861
Financial assets held for trading	—	238	238
Other invested assets	119	4,014	4,133

Investments are serviced regularly by the debtors. Collateral exists above all with respect to covered bonds and asset-backed securities as well as mortgage loans secured by a charge over property.

With the exception of the mortgage loans, the portfolio did not contain any overdue, unadjusted assets as at the balance sheet date since overdue securities are written down immediately. The mortgage loans show arrears totaling EUR 24 (22) million; this figure includes receivables overdue by more than 12 months of EUR 5 million. Since these receivables are adequately secured by charges over property, no value adjustment was taken. Under the contractual provisions, realization is possible only in the event of a failure to properly perform. The reader is referred to item 29 of the Notes, page 234, with regard to the impairments taken on investments in the year under review.

The fixed-income investments and loans (excluding other invested assets) are divided into the following debtor groups and corresponding ratings:

31.12.2010	Measured at amortized cost	Measured at fair value	Total
Figures in EUR million			
EU member states	1,329	4,670	5,999
Foreign governments	398	3,173	3,571
Semi-governmental entities[1)]	9,563	5,369	14,932
Corporations	7,771	10,126	17,897
Covered bonds/asset-backed securities	14,499	5,054	19,553
Mortgage loans	1,239	—	1,239
Investment fund units	—	666	666
Other	543	314	857

[1)] *In the year under review this includes securities in amounts of EUR 2,305 million (measured at amortized cost) and EUR 3,039 million (measured at fair value) which are guaranteed by the Federal Republic of Germany, other EU states or German federal states.*

31.12.2009	Measured at amortized cost	Measured at fair value	Total
Figures in EUR million			
EU member states	1,193	3,866	5,059
Foreign governments	368	2,763	3,131
Semi-governmental entities[1)]	9,338	5,423	14,761
Corporations	8,351	7,862	16,213
Covered bonds/asset-backed securities	13,156	4,129	17,285
Mortgage loans	1,383	—	1,383
Investment fund units	—	745	745
Other	619	336	955

[1)] *In the year under review this includes securities in amounts of EUR 2,674 million (measured at amortized cost) and EUR 3,850 million (measured at fair value) which are guaranteed by the Federal Republic of Germany, other EU states or German federal states.*

More than 96 (95)% of the covered bonds/asset-backed securities were German covered bonds (Pfandbriefe) as at the balance sheet date.

The rating structure of the fixed-income investments (excluding other invested assets, policy loans and mortgage loans) were as follows:

Rating	Government bonds		Securities issued by semi-governmental entities[1)]		Corporate bonds		Covered bonds/ asset-backed securities		Other	
	%	EUR million	%	EUR million	%	EUR million	%	EUR million	%	EUR million
AAA	74	7,077	36	5,308	2	321	79	15,526	23	310
AA	5	519	58	8,721	25	4,556	17	3,273	2	27
A	11	1,097	5	806	54	9,611	1	260	15	192
BBB	7	646	1	90	17	2,971	1	136	29	383
<BBB	2	165	—	—	1	182	2	311	20	260
None	1	66	—	7	1	256	—	47	11	151
Total	**100**	**9,570**	**100**	**14,932**	**100**	**17,897**	**100**	**19,553**	**100**	**1,323**

[1)] *The securities issued by semi-governmental entities include securities in an amount of EUR 5,344 (6,524) million which are guaranteed by the Federal Republic of Germany, other EU states or German federal states.*

At the end of the reporting period 98 (98)% of our investments in fixed-income securities were issued by obligors with an investment grade rating (AAA to BBB), while 91 (92)% were rated A or better. Borrower's note loans and registered debentures are assigned an internal rating upon acquisition that is derived where possible from the issuer's rating.

Loans secured by a charge over property with a total volume of EUR 1,239 (1,383) million were granted to private individuals who do not have a rating. Policy loans, other assets-side financial instruments and equity papers are also unrated.

The other financial instruments on the assets side encompass primarily receivables not connected with investments or the insurance business. They have predominantly short-term maturities. Since the portfolio of accounts receivable is comprised of a relatively large number of debtors, we consider the default risk on these financial instruments to be slight.

Management of concentration risks

A broad mix and spread of individual asset classes is observed in order to minimize the portfolio risk. The concentration risk is limited by the investment guidelines and constantly monitored; overall, it is comparatively slight, even though bank mergers – in particular – result in appreciable increases in concentrations. What is more, the extent to which investments may be made in more heavily risk-exposed assets is restricted.

Overall, the measurement and monitoring mechanisms described here result in a prudent, broadly diversified investment strategy. This is reflected in the fact that within its portfolio of assets under own management the Group's exposure to government bonds and securities issued by semi-governmental entities of the so-called PIIGS states amounts to altogether EUR 1.5 billion on a fair value basis; this corresponds to a proportion of 2%. The amortized costs and fair values of the bonds issued by the affected states as at the balance sheet date were as follows:

			thereof issuer country = investor country	
Issuer	**Amortized cost**	**Fair value**	**Amortized cost**	**Fair value**
Figures in EUR million				
Portugal	77	70	—	—
Ireland	299	233	3	3
Italy	466	455	329	322
Greece	155	111	—	—
Spain	674	611	2	2
Total	**1,671**	**1,480**	**334**	**327**

No impairments had to be taken on these holdings. There is currently no risk of default here on account of bailout mechanisms existing on the European level (Eurozone safety net).

Management of liquidity risks

The liquidity risk refers to the risk of being unable to convert investments and other assets into cash in a timely manner in order to meet our financial obligations when they become due. Due to illiquidity of the markets, it may not be possible to sell holdings (or to do so only after delays) or to close open positions (or to do so only with price markdowns). We counter the liquidity risk through regular liquidity planning and by matching the durations of investments with financial obligations. A liquid asset structure ensures that at all times the Group is in a position to make the necessary payments. With regard to payment obligations in connection with underwriting business, we are guided inter alia by the expected maturities that reflect the run-off patterns of the reserves.

In order to monitor liquidity risks each category of security is assigned a liquidity code that indicates how quickly a security can be sold. These codes are regularly reviewed by Portfolio Management. The plausibility of changes is checked in Risk Controlling and the codes are modified as appropriate. The data is then included in the standardized portfolio reporting to the Chief Financial Officers. Defined minimum and maximum limits for liquidity are observed. Oversteps of risk limits are brought to the attention of the Chief Financial Officers and Portfolio Management without delay.

For a presentation of the investments and the gross provisions as well as the reinsurers' shares thereof (broken down by their expected or contractual maturities), please see the notes on the corresponding balance sheet items.

The following table shows the cash flows of the major net technical provisions (benefit reserve, loss and loss adjustment expense reserve) and the financial liabilities which are relevant to the management of liquidity risks. The technical provisions are broken down into the expected maturities, the liabilities into the contractual maturities:

2010	Carrying amount	3 months to 1 year	1 through 5 years	5 through 10 years	10 through 20 years	More than 20 years	No maturity
Figures in EUR million							
Technical provisions [1]	77,778	12,277	19,434	13,099	12,289	7,161	6,744
Financial liabilities							
Subordinated liabilities	2,791	138	508	—	746	500	899
Notes payable and loans	747	—	747	—	—	—	—
Other liabilities [2]	4,858	495	211	13	3	12	2
thereof: liabilities from derivatives, excluding hedging instruments [3]	85	9	59	12	2	1	2
thereof: negative fair values from hedging instruments [3]	149	—	149	—	—	—	—
Total	**86,174**	**12,910**	**22,900**	**13,112**	**13,038**	**7,673**	**7,645**

2009 [4]	Carrying amount	3 months to 1 year	1 through 5 years	5 through 10 years	10 through 20 years	More than 20 years	No maturity
Figures in EUR million							
Technical provisions [1]	73,531	11,134	18,599	12,210	11,893	6,932	6,242
Financial liabilities							
Subordinated liabilities	2,003	—	—	524	746	138	595
Notes payable and loans	675	2	673	—	—	—	—
Other liabilities [2]	4,561	54	386	6	2	2	304
thereof: liabilities from derivatives, excluding hedging instruments [3]	30	3	16	6	—	—	5
thereof: negative fair values from hedging instruments [3]	42	8	34	—	—	—	—
Total	**80,770**	**11,190**	**19,658**	**12,740**	**12,641**	**7,072**	**7,141**

[1] *Under the technical provisions only the benefit reserves and loss reserves are split according to maturities. The provision for premium refunds encompasses the claims of policyholders under commercial law, to the extent that they have not already been finally allocated and paid to individual policyholders. Essentially, therefore, unambiguous allocation to the individual insurance contracts and maturities is not possible. The unearned premium reserve consists of the portion of gross written premium allocable to subsequent financial year(s) as income for a particular period after the balance sheet date. The unearned premium reserve does not involve future liquidity-affecting cash flows*

[2] *Under the other liabilities the liabilities to policyholders and intermediaries as well as the reinsurance payable are not broken down by maturities, since these liabilities are directly connected with insurance contracts and hence cannot be considered in isolation from them*

[3] *The undiscounted cash flows with respect to such derivatives are not presented for reasons of materiality. Instead, the fair values of the derivative financial instruments are stated*

[4] *Adjusted on the basis of IAS 8*

The funds held under reinsurance treaties represent collateral withheld for technical provisions ceded to reinsurers and retrocessionaires and to this extent do not trigger any cash flows. The changes in funds held under reinsurance treaties are normally determined by changes in the corresponding ceded technical provisions. Such funds held under reinsurance treaties therefore have no contractually fixed maturity; they are liquidated in step with the run-off of the corresponding provisions.

In addition to the assets made available to cover provisions and liabilities, the Group has at its disposal the following lines of credit that can be drawn upon as required:

The Talanx Group has concluded a firm agreement with a broad consortium of banks regarding an available floating-rate line of credit that may be drawn upon as necessary. As at the balance sheet date we had used a tranche amounting to altogether EUR 550 million. The nominal amount of the line of credit was EUR 1.5 billion as at the balance sheet date.

In addition, facilities exist with various financial institutions for letters of credit, including two unsecured syndicated guarantee facilities from 2005 and 2006. Following the contractual maturity of the first half of the line from 2005 in January 2010, it amounted to an equivalent of EUR 0.8 (1.4) billion as at the balance sheet date. The second half of this line matures in January 2012. The line from 2006, the amount of which as at the balance sheet date was equivalent to EUR 1.5 (1.4) billion, matures in January 2013.

Letter of credit facilities with various terms and a total volume equivalent to EUR 1.3 (1.1) billion also exist on a bilateral basis with financial institutions. For further information on the furnished letters of credit please see our remarks in the section of the Notes entitled “Other information”, subsection “Contingent liabilities and other financial commitments”, pages 251 et seq.

A long-term unsecured line of credit with a total volume equivalent to at most EUR 566 (523) million was concluded in December 2009. It is intended specifically for US life reinsurance business.

A number of LOC facilities include standard market clauses that allow the banks rights of cancellation in the event of material changes in the shareholding structure of our Group company Hannover Re or trigger a requirement to furnish collateral upon materialization of major events, for example if its rating is significantly downgraded.

Notes on the consolidated balance sheet – assets

(1) Goodwill

Figures in EUR million	2010	2009
Gross book value at 31.12. of the previous year	**741**	**677**
Currency translation at 01.01. of the year under review	13	20
Gross book value after currency translation at 01.01. of the year under review	754	697
Change in consolidated group	—	15
Additions	—	28
Currency exchange rate differences	—	1
Gross book value at 31.12. of the year under review	**754**	**741**
Accumulated depreciation and accumulated impairment losses at 31.12. of the previous year	148	56
Currency translation at 01.01. of the year under review	—	—
Accumulated depreciation and accumulated impairment losses after currency translation at 01.01. of the year under review	148	56
Impairments	17	92
Accumulated deprecation and accumulated impairment losses at 31.12. of the year under review	**165**	**148**
Balance at 31.12. of the previous year	593	621
Balance at 31.12. of the year under review	**589**	**593**

The recognized goodwill derived mainly from the acquisition of HDI Seguros de Automóveis e Bens S. A., Brazil, in 2005, the purchase of the former Gerling Group by Talanx AG in 2006, the increase of the interest held by the Group in PB Versicherungen to 100% in 2007 and the purchase of 100% stakes in PBV Lebensversicherung AG (previously: BHW Lebensversicherung AG) and PB Pensionskasse AG (previously: BHW Pensionskasse AG) (both also 2007).

The decrease in goodwill to EUR 589 million was attributable to impairments of EUR 17 million taken in the year under review in the Retail International segment in connection with impairment tests (see our explanatory remarks in the following subsection).

Impairment test

Goodwill is allocated to cash-generating units (CGUs) pursuant to IFRS 3 in conjunction with IAS 36. It is allocated to those CGUs which are expected to generate a value in use (in the form of cash flows) as a result of the business combination that gave rise to the goodwill. Each CGU to which goodwill is allocated should represent the lowest entity level on which goodwill is monitored for internal management purposes.

In 2010 we adjusted the grouping of assets for the purposes of identifying cash-generating units in line with the structural changes in the Group's primary insurance sector, which also affected the previous configuration of the CGUs. Until the end of 2009 the individual CGUs were defined according to the responsibilities on the holding company's Board of Management and the internal reporting at that time and hence essentially according to the former definition of the business segments within the meaning of IAS 8. The impairment test in the previous year was therefore performed for the last time on the basis of the CGUs Property/Casualty Primary Insurance, the group of companies combined under the former HDI-Gerling Leben Serviceholding AG, the bancassurance group and the two CGUs Non-Life Reinsurance and Life/Health Reinsurance.

With effect from 2010 onwards the Group is managing and reporting both internally and externally according to the new Group structure. Since then, the Group has reorganized its insurance activities in primary insurance in conformity with a change in the responsibilities of the members of the Board of Management (compare here our remarks in the section "Accounting policies", subsection "Change in segment reporting", page 121 and the section "Segment reporting" on page 144). The two existing primary insurance segments of Property/Casualty Primary Insurance and Life Primary Insurance were transformed across lines into the three reportable segments of Industrial Lines, Retail Germany and Retail International. For the purpose of identifying CGUs in primary insurance, this reorganization means that the segments of Industrial Lines and Retail Germany, which also satisfy the definition of an operating segment pursuant to IAS 8, each constitute a CGU. In the Retail International segment each foreign market constitutes a separate CGU. In this segment cross-company synergistic potentials (in relation to cash flows) can only be realized in those countries in which we are represented by several companies. In terms of their products and sales structures, the individual foreign units otherwise operate largely self-sufficiently. The CGUs of the Group are therefore as follows:

- Industrial Lines business segment
- Retail Germany business segment
- Non-Life Reinsurance business segment
- Life/Health Reinsurance business segment

The CGUs of the Retail International segment are as follows:

- Brazil
- Poland
- Mexico
- Chile

On account of the internal Group restructuring activities, the goodwill can be broken down as follows according to the revised allocation set out in the segment reporting:

	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Corporate Operations	Total
Figures in EUR million						
Balance at 31.12.2008	**89**	**415**	**106**	**8**	**3**	**621**
Currency translation at 01.01.2009	—	—	20	—	—	20
Balance after currency translation at 01.01.2009	89	415	126	8	3	641
Change in consolidated group	—	—	15	—	—	15
Additions	—	28	—	—	—	28
Impairments	29	46	14	—	3	92
Currency exchange rate differences	—	—	1	—	—	1
Balance at 31.12.2009	**60**	**397**	**128**	**8**	**—**	**593**
Currency translation at 01.01.2010	—	—	13	—	—	13
Balance after currency translation at 01.01.2010	60	397	141	8	—	606
Impairments	—	—	17	—	—	17
Balance at 31.12.2010	**60**	**397**	**124**	**8**	**—**	**589**

In order to establish whether an impairment expense needs to be recognized, the carrying value of the CGU including its allocated goodwill is compared with its recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use. For all CGUs with the exception of the two reinsurance segments, the recoverable amount is established on the basis of the value in use – which is calculated by the Group using a recognized measurement method, namely the discounted cash flow method. Insofar as CGUs are composed of more than one Group company, a sum-of-the-parts approach is used.

When it comes to measuring the value of the property/casualty insurers in the CGUs of Industrial Lines, Retail Germany and Retail International, the point of departure for establishing the present value of future cash flows consists of planned income statements. The planning calculations are drawn up on a stand-alone basis assuming that the entity will continue with a generally unchanged concept; they record the post-tax net income of the five subsequent years as well as an extrapolation of the sixth year as a perpetuity factor. Entity-specific approximations are made in the detailed planning (at the time of the planning). In particular, the possibilities for growth in the market environment as well as profitability according to the claims and cost trend are estimated in the context of planned measures on the company level. Investment income is projected in relation to the specific asset portfolio. The planning calculations on which measurement is based are approved by the management of the companies concerned. The discount factor (capitalization rate) for the Group companies consists of a risk-free basic interest rate, country-specific yield curves, a market risk premium and an individual company beta factor (calculated on the basis of the Capital Asset Pricing Model). What is more, in order to extrapolate the cash flows beyond the period of the detailed planning we also use – on the basis of conservative assumptions – constant growth rates. The figures are arrived at from past experience and future expectations and do not exceed the long-term average growth rates for the various markets in which the entities operate. Present values determined in local currency are translated at the exchange rate on the balance sheet date.

The current capitalization rate and the long-term growth rate are listed below for the property/casualty insurers of the CGUs:

CGU	Capitalization rate in %	Long-term growth rate in %
Industrial Lines		
German-speaking countries	8.0–8.5	0.2–0.5
Other countries (EU only)	8.5–9.0	0.25–0.5
Retail Germany	8.0	0.5–1.0
Retail International		
Brazil	13.0	1.0
Poland	10.3	1.3
Mexico	12.6	0.6
Chile	11.25	0.25

Calculations of the Market Consistent Embedded Value (MCEV) form the basis for valuation of the life insurers. The value of the entity in terms of an appraisal value (MCEV allowing for the expected new business) is regularly determined with the aid of an average market multiple (1.02) weighted for up-to-dateness, which measures the ratio of appraisal value to embedded value and is based on market data. The plausibility of the multiple is regularly checked using the New Business Value (NBV).

A variant of the method normally applicable to life insurers exists for companies with long-term exclusive cooperation agreements and the associated stability in their new business. These companies are valued using a simplified appraisal value method, in which the present value of the perpetuity factor for the New Business Value is added to the current MCEV forecast. Sales agreements that end at short notice may necessitate separate evaluation. The capitalization rates in the Retail Germany segment are 8.0%.

Small insurers and non-insurance companies are recognized either at the present value of future cash flows or with their shareholders' equity.

For the CGUs of Non-Life Reinsurance and Life/Health Reinsurance, which together correspond to the Hannover Re Group, reference is made to the market price of the Hannover Re share as the first step for the purposes of the impairment test. The stock market value of Hannover Re is divided between the two segments – which are synonymous with the two CGUs – on the basis of the average net return on premium over the past three years. The recoverable amount determined in this way is compared with the carrying value including the goodwill allocated to the CGU in question. Alternatively, should the stock market price of the Hannover Re share be significantly adversely affected on a balance sheet date by factors that do not reflect the sustainable profit potential of the Hannover Re Group, a method based on the present value of future cash flows may be used instead.

On the basis of the impairment test carried out as at 30 September 2010, the goodwill of the CGU Mexico (EUR 17 million) was entirely written off. The positive expectations as to the future development of the company's business were revised downwards. The Mexican economy continues to struggle with the repercussions of the financial crisis – the domestic part of the economy even more so than that which is driven by exports. Furthermore, the anticipated results in the coming years will be increasingly strained by the investments made to put in place the foundation for generating successful growth in the Mexican market going forward. The primary focus here is on the opening of new offices, the modernization of IT and the appointment of new staff as well as skills enhancement of the existing workforce.

No further impairment expenses needed to be recognized.

(2) Other intangible assets

	Insurance-related intangible assets	Software Purchased	Created	Other	2010	2009[1]
Figures in EUR million						
Gross book value at 31.12. of the previous year	**2,785**	**357**	**110**	**42**	**3,294**	**3,162**
Adjustment of values carried forward from prior years[2]	—	–89	5	–3	–87	—
Gross book value at 01.01. of the year under review	2,785	268	115	39	3,207	3,162
Change in consolidated group	—	—	—	—	—	4
Additions	—	29	8	33	70	193
Disposals	—	5	1	18	24	66
Reclassification	—	11	—	—	11	—
Other changes	6	—	—	—	6	1
Currency exchange rate differences	1	2	—	2	5	—
Gross book value at 31.12. of the year under review	**2,792**	**305**	**122**	**56**	**3,275**	**3,294**
Accumulated depreciation and accumulated impairment losses at 31.12. of the previous year	806	262	57	15	1,140	845
Adjustment of values carried forward from prior years[2]	—	–89	5	–3	–87	—
Accumulated depreciation and accumulated impairment losses at 01.01. of the year under review	806	173	62	12	1,053	845
Change in consolidated group	—	—	—	—	—	1
Additions	—	—	—	—	—	3
Disposals	—	3	—	2	5	33
Depreciation/amortization						
Scheduled	318	34	9	5	366	245
Unscheduled	—	—	—	—	—	78
Reclassification	—	8	—	—	8	2
Other changes	—	—	—	—	—	1
Currency exchange rate differences	—	1	—	1	2	–2
Accumulated depreciation and accumulated impairment losses at 31.12. of the year under review	**1,124**	**213**	**71**	**16**	**1,424**	**1,140**
Balance at 31.12. of the previous year[1]	1,979	95	53	27	2,154	2,317
Balance at 31.12. of the year under review	**1,668**	**92**	**51**	**40**	**1,851**	**2,154**

[1] *Adjusted on the basis of IAS 8*
[2] *The values carried forward were adjusted in connection with implementation of a new IT system; there were no implications for the carrying value*

The “insurance-related intangible assets” derived principally from the insurance portfolios of the former Gerling Group acquired in 2006 (carrying value 2010: EUR 1.1 billion) and the portfolios of BHW Lebensversicherung AG (carrying value 2010: EUR 280 million) and PB Lebensversicherung AG (carrying value 2010: EUR 56 million) purchased in 2007 as well as from Neue Leben Lebensversicherung AG (carrying value 2010: EUR 100 million).

The addition of EUR 193 million recognized in the gross book value of the previous year relates – in an amount of EUR 104 million – to the present value of future profits (PVFP) carried in connection with Hannover Re's acquisition of the ING life reinsurance portfolio. Scheduled amortization is taken on this insurance-related intangible asset over the term of the underlying reinsurance treaties in proportion to the future premium income. The period of amortization is 30 years.

Particularly due to scheduled depreciation and amortization, the insurance-related intangible assets decreased by EUR 311 million in the reporting period to EUR 1,668 million. Insofar as PVFPs are involved in the case of life insurance enterprises, these are capitalized and amortized across the period of the contracts (see also our remarks in the section "Accounting policies", subsection "Summary of major accounting policies", on page 127).

The gross PVFP recognized is composed of a shareholders' portion – on which deferred taxes are established – and a policyholders' portion. It is capitalized in order to spread the charge to Group shareholders' equity under IFRS upon acquisition of an insurance portfolio equally across future periods in step with the amortization. Only the amortization of the shareholders' portion results in a charge to future earnings. The PVFP in favor of policyholders is recognized by life insurance companies that are obliged to enable their policyholders to participate in all results through the establishment of a provision for deferred premium refunds.

The breakdown of the PVFPs for the life insurance companies is shown in the table below:

PVFPs for life insurance companies	**31.12.2010**	**31.12.2009** [1]
Figures in EUR million		
Shareholders' portion	720	861
Policyholders' portion	850	1,016
Balance	**1,570**	**1,877**

[1] *Adjusted on the basis of IAS 8*

Of the depreciation/amortization on insurance-related intangible assets totaling EUR 318 million, an amount of EUR 152 million was attributable to the shareholders' portion and EUR 166 million to the policyholders' portion. The amortization on the shareholders' portion is recognized in the statement of income in the item "Other technical expenses".

(3) Investment property

Figures in EUR million	2010	2009
Gross book value at 31.12. of the previous year	**1,069**	**898**
Adjustment of values carried forward from prior years [1]	–185	—
Gross book value at 01.01. of the year under review	884	898
Additions	149	164
Disposals	32	23
Disposal groups pursuant to IFRS 5	—	34
Reclassification	29	1
Other changes [1]	—	–1
Currency exchange rate differences	12	–4
Gross book value at 31.12. of the year under review	**1,042**	**1,069**
Accumulated depreciation and accumulated impairment losses at 31.12. of the previous year	343	314
Adjustment of values carried forward from prior years [1]	–185	—
Accumulated depreciation and accumulated impairment losses at 01.01. of the year under review	158	314
Disposals	4	3
Depreciation/impairment		
Scheduled	15	9
Unscheduled	6	8
Disposal groups pursuant to IFRS 5	—	5
Reclassification	7	3
Other changes [1]	—	7
Accumulated depreciation and accumulated impairment losses at 31.12. of the year under review	**182**	**343**
Balance at 31.12. of the previous year	726	584
Balance at 31.12. of the year under review	**860**	**726**

[1] *The values carried forward were adjusted in connection with implementation of a new IT system; there were no implications for the carrying value*

The additions of EUR 149 million relate principally to the Non-Life Reinsurance segment (EUR 136 million) and are attributable inter alia to the sharply increased investment activities of Hannover Re Real Estate Holdings, Inc., and Hannover Re Euro RE Holdings GmbH. A further EUR 8 million was due to the Retail Germany segment.

The fair value of investment property amounted to EUR 901 (790) million as at the balance sheet date. The fair values were determined largely internally within the Group using discounted cash flow methods and in individual cases on the basis of external expert opinions. The directly allocable operating expenses (including repairs and maintenance) totaled EUR 24 million with respect to properties rented out; operating expenses of EUR 2 million were incurred on properties with which no rental income was generated.

Of the total investment property, EUR 387 (415) million was allocated to special cover funds.

(4) Investments in affiliated companies and participating interests

	2010	2009
Figures in EUR million		
Affiliated companies	13	13
Participating interests	61	48
Balance at 31.12. of the year under review	**74**	**61**

Associated companies that are not recognized at equity owing to their subordinate importance for the presentation of the net assets, financial position and results of operations are recognized under participating interests (see also our remarks in the section "Accounting policies", subsection "Summary of major accounting policies", pages 127 et seq.). For these associated companies not valued at equity we have recognized assets of EUR 52 million, debts of EUR 21 million, profits for the year of EUR 0.2 million and revenues of EUR 9 million.

(5) Investments in associated companies

	2010	2009
Figures in EUR million		
Balance at 31.12. of the previous year	**134**	**135**
Change in consolidated group	14	—
Additions	—	4
Disposals	2	—
Adjustment recognized in income	—	–6
Adjustment recognized outside income	–2	—
Currency exchange rate differences	—	1
Balance at 31.12. of the year under review	**144**	**134**

The change in the consolidated group (EUR 14 million) was largely attributable to the acquisition of a stake in the listed funds provider C-QUADRAT Investment AG, Vienna. The company is recognized in the Corporate Operations segment.

The goodwill of all associated companies valued at equity amounted to EUR 24 (20) million as at year-end. Of the associated companies, Apulia Prontoprestito S.p.A., Rome, and C-QUADRAT Investment AG, Vienna, are publically listed. The market price of our interests was EUR 32 (11) million as at the balance sheet date.

For all associated companies combined we recognized assets of EUR 2.3 billion, debts of EUR 1.8 billion, profits for the year of EUR 26 million and revenues of EUR 360 million.

For further information on our associated companies please see the section "Consolidation" on pages 161 et seq. as well as the subsection "List of shareholdings" on pages 256 et seqq.

(6) Loans and receivables

	Amortized cost		Unrealized gains/losses		Fair value	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Figures in EUR million						
Mortgage loans	1,239	1,383	106	3	1,345	1,386
Loans and prepayments on insurance policies	200	201	—	—	200	201
Loans and receivables due from governmental or semi-governmental entities [1]	9,728	9,454	304	262	10,032	9,716
Corporate securities	7,342	7,930	97	104	7,439	8,034
Covered bonds, asset-backed securities	13,491	12,163	341	312	13,832	12,475
Participation rights	343	417	–6	–14	337	403
Total	**32,343**	**31,548**	**842**	**667**	**33,185**	**32,215**

[1] *The loans and receivables due from governmental or semi-governmental entities include securities of EUR 2,114 (2,310) million which are guaranteed by the Federal Republic of Germany, other EU states or German federal states.*

The item “Covered bonds, asset-backed securities” includes German covered bonds (Pfandbriefe) with a carrying amount of EUR 13,464 (11,869) million (99 (98)%).

	Amortized cost		Fair value	
Contractual maturity	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Figures in EUR million				
Due in one year	1,290	2,049	1,306	2,063
Due after one through two years	1,380	1,146	1,422	1,181
Due after two through three years	1,601	1,352	1,612	1,415
Due after three through four years	3,046	1,501	3,081	1,557
Due after four through five years	2,986	2,740	3,107	2,805
Due after five through ten years	9,252	11,344	9,553	11,666
Due after ten years	12,788	11,416	13,104	11,528
Total	**32,343**	**31,548**	**33,185**	**32,215**

Rating structure of loans and receivables	Amortized cost 31.12.2010	31.12.2009
Figures in EUR million		
AAA	13,553	12,297
AA	11,780	11,513
A	4,521	4,699
BBB or lower	2,489	3,039
Total	**32,343**	**31,548**

The rating categories are based on the classifications of leading international rating agencies.

The rating category of "BBB or lower" includes unrated loans and receivables of EUR 1.5 (1.5) billion. They consist principally of mortgage loans and policy loans.

(7) Financial assets held to maturity

	Amortized cost		Unrealized gains/losses		Fair value	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Figures in EUR million						
Government debt securities of EU member states	438	378	13	—	451	378
US Treasury Notes	386	355	45	35	431	390
Other foreign government debt securities	11	14	1	1	12	15
Debt securities issued by semi-governmental entities[1)]	726	698	34	28	760	726
Corporate securities	429	421	18	21	447	442
Mortgage bonds, asset-backed securities	1,009	992	44	46	1,053	1,038
Total	**2,999**	**2,858**	**155**	**131**	**3,154**	**2,989**

[1)] *The debt securities issued by semi-governmental entities include securities of EUR 191 (364) million which are guaranteed by the Federal Republic of Germany, other EU states or German federal states*

The item "Mortgage bonds, asset-backed securities" includes covered bonds with a carrying amount of EUR 998 (962) million (99 (97)%).

Contractual maturity	Amortized cost 31.12.2010	Amortized cost 31.12.2009	Fair value 31.12.2010	Fair value 31.12.2009
Figures in EUR million				
Due in one year	344	108	347	119
Due after one through two years	483	281	499	291
Due after two through three years	377	470	396	492
Due after three through four years	404	367	437	383
Due after four through five years	857	300	911	318
Due after five through ten years	480	1,287	512	1,344
Due after ten years	54	45	52	42
Total	**2,999**	**2,858**	**3,154**	**2,989**

Rating structure of financial assets held to maturity	Amortized cost 31.12.2010	Amortized cost 31.12.2009
Figures in EUR million		
AAA	1,731	1,776
AA	728	582
A	407	368
BBB or lower	133	132
Total	**2,999**	**2,858**

The rating categories are based on the classifications of leading international rating agencies.

The rating category of “BBB or lower” includes unrated fixed-income securities of EUR 8 (8) million.

(8) Financial assets available for sale

	Amortized cost		Unrealized gains/losses		Fair value	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Figures in EUR million						
Fixed-income securities						
Government debt securities of EU member states	4,719	3,771	–65	68	4,654	3,839
US Treasury Notes	2,059	2,020	66	15	2,125	2,035
Other foreign government debt securities	950	612	14	3	964	615
Debt securities issued by semi-governmental entities[1]	5,165	5,214	98	111	5,263	5,325
Corporate securities	9,538	7,357	115	194	9,653	7,551
Investment funds	640	716	–3	14	637	730
Mortgage bonds, asset-backed securities	4,742	3,811	80	91	4,822	3,902
Participation rights	210	227	2	2	212	229
Total fixed-income securities	**28,023**	**23,728**	**307**	**498**	**28,330**	**24,226**
Variable-yield securities						
Equities	926	743	250	299	1,176	1,042
Investment funds	1,035	1,124	58	49	1,093	1,173
Participation rights	36	35	—	1	36	36
Other	—	—	—	—	—	—
Total variable-yield securities	**1,997**	**1,902**	**308**	**349**	**2,305**	**2,251**
Total securities	**30,020**	**25,630**	**615**	**847**	**30,635**	**26,477**

[1] *The debt securities issued by semi-governmental entities include securities of EUR 3,039 (3,850) million which are guaranteed by the Federal Republic of Germany, other EU states or German federal states*

The item "Mortgage bonds, asset-backed securities" includes covered bonds with a carrying amount of EUR 4,220 (3,331) million (88 (85)%).

Contractual maturity of fixed-income securities	Fair value 31.12.2010	Fair value 31.12.2009	Amortized cost 31.12.2010	Amortized cost 31.12.2009
Figures in EUR million				
Due in one year	3,516	3,711	3,498	3,663
Due after one through two years	3,512	3,108	3,468	3,044
Due after two through three years	3,489	3,003	3,396	2,924
Due after three through four years	3,725	3,286	3,644	3,155
Due after four through five years	3,726	3,291	3,708	3,209
Due after five through ten years	6,987	5,814	7,000	5,726
Due after ten years	3,375	2,013	3,309	2,007
Total	**28,330**	**24,226**	**28,023**	**23,728**

Rating structure of fixed-income securities	Fair value 31.12.2010	Fair value 31.12.2009
Figures in EUR million		
AAA	13,186	11,562
AA	4,514	4,550
A	6,924	5,224
BBB or lower	3,706	2,890
Total	**28,330**	**24,226**

The rating categories are based on the classifications of leading international rating agencies.

The rating category of “BBB or lower” includes unrated fixed-income securities of EUR 309 (80) million.

(9) Financial assets at fair value through profit or loss

	Fair value	
	31.12.2010	31.12.2009
Figures in EUR million		
Fixed-income securities		
Government debt securities of EU member states	14	26
Other foreign government debt securities	34	59
Debt securities issued by semi-governmental entities	97	95
Corporate securities	467	305
Investment funds	30	15
Covered bonds/asset-backed securities	230	227
Participation rights	102	107
Total fixed-income securities	**974**	**834**
Investment funds (variable-yield securities)	15	18
Other variable-yield securities	—	9
Total financial assets classified at fair value through profit or loss	**989**	**861**
Fixed-income securities		
Government debt securities of EU member states	3	2
Other foreign government debt securities	49	53
Debt securities issued by semi-governmental entities	9	3
Corporate securities	7	6
Other securities	1	—
Total fixed-income securities	**69**	**64**
Investment funds (variable-yield securities)	83	62
Derivatives	80	112
Total financial assets held for trading	**232**	**238**
Total securities	**1,221**	**1,099**

The item “Covered bonds/asset-backed securities” includes German covered bonds (Pfandbriefe) with a carrying amount of EUR 121 (126) million (53 (56)%).

Contractual maturity of fixed-income securities	Fair value 31.12.2010	Fair value 31.12.2009
Figures in EUR million		
Due in one year	481	191
Due after one through two years	73	336
Due after two through three years	116	40
Due after three through four years	45	49
Due after four through five years	3	43
Due after five through ten years	41	26
Due after ten years	284	213
Total	**1,043**	**898**

Rating structure of fixed-income securities	Fair value 31.12.2010	Fair value 31.12.2009
Figures in EUR million		
AAA	154	256
AA	72	87
A	115	215
BBB or lower	702	340
Total	**1,043**	**898**

The rating categories are based on the classifications of leading international rating agencies.

The rating category of "BBB or lower" includes unrated fixed-income securities of EUR 194 (13) million.

The financial assets classified at fair value through profit or loss (with no trading intention) include inter alia structured products, in respect of which the fair value option afforded by IAS 39 was exercised. The carrying amount of these financial assets constitutes – contrary to the purely economic perspective – the maximum credit exposure. The amount of the change in fair value attributable to changes in the credit risk of financial assets is –EUR 12 million in the reporting period and EUR 8 million on an accumulated basis. There are no credit derivatives or similar hedging instruments for these securities.

(10) Other invested assets

The other invested assets of altogether EUR 4.2 (4.1) billion are composed principally of the following items:

- participating interests in partnerships
- loans to affiliated companies
- short-term investments

The participating interests in partnerships relate principally to participating interests in private equity firms and are allocated to the "available for sale" category. The fair value (carrying amount) of these participating interests was EUR 1,017 (695) million as at the balance sheet date. The amortized cost of the participations amounted to EUR 722 (578) million; in addition, unrealized gains of EUR 298 (126) million and unrealized losses of EUR 3 (9) million from these investments were recognized directly in equity via the other income/expenses (item: "Other reserves").

The loans to affiliated companies were measured largely at amortized cost. The carrying amount as at the balance sheet date was EUR 114 (117) million.

The short-term investments recognized consist predominantly of overnight money, time deposits and money market securities with a maturity of up to one year in an amount of EUR 3,037 (3,302) million, which were generally measured outside income at fair value. The amortized cost of these financial assets was EUR 3,034 (3,300) million; unrealized gains of EUR 3 (2) million were recognized outside income. The short-term investments are categorized within the Group as "financial assets available for sale".

(11) Fair value hierarchy

Fair value hierarchy

For the purposes of the disclosure requirements pursuant to IFRS 7 "Financial Instruments: Disclosures", the financial instruments to be recognized at fair value in the balance sheet are to be assigned to a three-level fair value hierarchy. The purpose of this new requirement, inter alia, is to set out the market proximity of the data included in the determination of fair values. The following classes of financial instruments are affected: financial assets available for sale, financial assets at fair value through profit or loss, other financial assets – insofar as they are recognized at fair value, negative fair values from derivative financial instruments (included in the balance sheet item "Other liabilities") as well as hedging instruments (derivatives in the context of hedge accounting).

Breakdown of financial assets measured at fair value

The financial assets recognized at fair value were allocated as follows as at the balance sheet date in accordance with the three levels of the fair value hierarchy:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities. This includes first and foremost listed equities, futures and options, investment funds and highly liquid bonds traded on regulated markets. As at the balance sheet date the proportion of financial instruments in the total portfolio of financial assets measured at fair value allocated to level 1 was 45 (50)%.

- Level 2: Inputs used for measurement that are based on observable market data and are not included in level 1. This level includes, for example, assets measured on the basis of interest rate curves, such as borrower's note loans and registered debentures. Market prices of bonds of limited liquidity, such as corporate bonds, are also allocated to level 2. Altogether, 52 (46)% of the financial instruments recognized at fair value were allocated to this level as at the balance sheet date.
- Level 3: Inputs used for measurement that are not based on observable market data (unobservable inputs). This level includes primarily unlisted equity securities. As at the balance sheet date the Group allocated 3 (4)% of the financial assets recognized at fair value to this category.

The following table shows the carrying amounts of the financial assets recognized at fair value broken down according to the three levels of the fair value hierarchy:

Carrying amounts of financial instruments recognized at fair value	Level 1	Level 2	Level 3 [1]	Balance at 31.12.2010
Figures in EUR million				
Assets measured at fair value				
Financial assets available for sale				
Fixed-income securities	11,054	17,216	60	28,330
Variable-yield securities	1,706	314	285	2,305
Financial assets at fair value through profit or loss				
Financial assets classified at fair value through profit or loss	130	836	23	989
Financial assets held for trading	153	79	—	232
Other invested assets	3,016	158	897	4,071
Total amount of financial assets measured at fair value	**16,059**	**18,603**	**1,265**	**35,927**
Financial liabilities measured at fair value				
Other liabilities (negative fair values from derivative financial instruments)				
Negative fair values from derivatives (trading portfolio)	2	83	—	85
Negative fair value from hedging instruments	109	40	—	149
Total amount of financial liabilities measured at fair value	**111**	**123**	**—**	**234**

[1] *Categorization in level 3 has no quality implications; no conclusions may be drawn as to the credit rating of the issuers.*

Carrying amounts of financial instruments recognized at fair value	Level 1	Level 2	Level 3 [1]	Balance at 31.12.2009
Figures in EUR million				
Assets measured at fair value				
Financial assets available for sale				
Fixed-income securities	10,522	13,570	134	24,226
Variable-yield securities	1,610	89	552	2,251
Financial assets at fair value through profit or loss				
Financial assets classified at fair value through profit or loss	188	641	32	861
Financial assets held for trading	150	88	—	238
Other invested assets	3,237	64	713	4,014
Total amount of financial assets measured at fair value	**15,707**	**14,452**	**1,431**	**31,590**
Financial liabilities measured at fair value				
Other liabilities (negative fair values from derivative financial instruments)				
Negative fair values from derivatives (trading portfolio)	—	30	—	30
Negative fair value from hedging instruments	2	40	—	42
Total amount of financial liabilities measured at fair value	**2**	**70**	**—**	**72**

[1] *Categorization in level 3 has no quality implications; no conclusions may be drawn as to the credit rating of the issuers.*

In the financial year just-ended securities with a fair value of EUR 614 million were no longer classified as level 1 financial assets – as in the previous year – but were instead allocated to level 2. The reclassification was carried out above all as a consequence of the reduced liquidity of the instruments. We reclassified securities with a fair value of EUR 74 million, which in the previous year were recognized as level 2 financial assets, to level 1 in 2010. Overall, the reclassifications for the most part affect fixed-income securities allocated to the category “financial assets available for sale”.

Analysis of financial assets for which significant inputs are not based on observable market data (level 3)

In the year under review variable-yield securities allocated to the category “financial assets available for sale” with a volume of EUR 257 million were correctly reclassified – since in this regard required parameters at fair value are based on observable market data – from level 3 to level 2. This allocation affects in an amount of EUR 250 million solely investment fund units. In addition, we reclassified securities with a fair value of EUR 53 million – of which EUR 25 million is attributable to variable-yield securities in our portfolio of financial assets classified at fair value through profit or loss – from level 3 to level 1. Listed market prices were available for these instruments in the reporting period.

The following table provides a reconciliation of the financial assets included in level 3 at the beginning of the reporting period with the values as at 31 December of the financial year.

Development of financial assets recognized at fair value	Financial assets available for sale/ Fixed-income securities	Financial assets available for sale/ Variable-yield securities	Financial assets classified at fair value through profit or loss	Other invested assets (measured at fair value)	Total amount of financial assets
Figures in EUR million					
Balance at 01.01.2009	**96**	**608**	**41**	**719**	**1,464**
Income and expenses					
recognized in the statement of income	–1	–40	4	–71	–108
recognized directly in equity	30	–12	—	–3	15
Transfers to level 3	—	—	—	—	—
Transfers from level 3	—	—	—	—	—
Additions	9	44	—	90	143
Disposals	—	47	13	16	76
Currency exchange rate differences	—	–1	—	–6	–7
Balance at 01.01.2010	**134**	**552**	**32**	**713**	**1,431**
Income and expenses					
recognized in the statement of income	1	–8	2	–18	–23
recognized directly in equity	2	–7	—	95	90
Transfers to level 3	—	—	—	—	—
Transfers from level 3	–6	–279	–25	—	–310
Additions	12	35	13	168	228
Disposals	80	12	—	64	156
Currency exchange rate differences	–3	4	1	3	5
Balance at 31.12.2010	**60**	**285**	**23**	**897**	**1,265**

The income and expenses for the period recognized in the consolidated statement of income including the gains and losses on assets and liabilities held in the portfolio at the end of the reporting period that were included in level 3 are shown in the following table:

Presentation of effects on profit or loss of the financial assets recognized at fair value in level 3	Financial assets available for sale/ Fixed-income securities	Financial assets available for sale/ Variable-yield securities	Financial assets classified at fair value through profit or loss	Other invested assets (measured at fair value)	Total amount of financial assets
Figures in EUR million					
Gains and losses in the 2009 financial year					
Income from investments	4	—	6	11	21
Expenses for investments	–5	–40	–2	–82	–129
Thereof attributable to financial assets included in the portfolio at 31.12.2009					
Income from investments	4	—	6	11	21
Expenses for investments	–3	–33	–2	–82	–120
Gains and losses in the 2010 financial year					
Income from investments	2	—	5	3	10
Expenses for investments	–1	–8	–3	–21	–33
Thereof attributable to financial assets included in the portfolio at 31.12.2010					
Income from investments	2	—	5	1	8
Expenses for investments	–1	–2	–3	–7	–13

If models are used to measure financial assets included in level 3 under which the adoption of reasonable alternative inputs leads to a material change in fair value, IFRS 7 requires disclosure of the effects of these alternative assumptions. Of the financial assets included in level 3 with fair values of altogether EUR 1.3 (1.4) billion as at the balance sheet date, the Group generally measures financial assets with a volume of EUR 1.2 (1.3) billion using the Net Asset Value method, in respect of which alternative inputs within the meaning of the standard cannot reasonably be established. For the remaining financial assets included in level 3 with a volume of EUR 28 (101) million, the effects of alternative inputs and assumptions are immaterial.

(12) Derivative financial instruments and hedge accounting

Derivatives

We use derivative financial instruments to hedge against interest rate, exchange and other market price risks and to a limited extent also to optimize returns or realize intentions to buy/sell. In this context, the applicable regulatory requirements and the standards set out in the Group's internal investment guidelines are strictly observed and first-class counterparties are always selected.

In addition, embedded derivatives in structured products and insurance contracts are – where required under the standards of IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 4 "Insurance Contracts" – separated from the underlying contracts and recognized separately at fair value.

In the context of initial measurement derivative financial instruments are recognized at the fair value attributable to them on the date of contract materialization. Subsequent measurement is then also made at the fair value applicable on the relevant balance sheet date. Regarding the valuation models used, please see the subsection entitled "Determination of fair values" in the section "Accounting policies" on pages 133 et seq.

The method of recognizing gains and losses is dependent upon whether or not the derivative financial instrument is used as a hedging instrument within the meaning of hedge accounting pursuant to IAS 39 – and, if it was, on the type of hedged position/risk. In the case of derivatives which are not hedging instruments, the fluctuations in value are recognized in the statement of income within investment income. This approach also applies to separated embedded derivatives of structured financial instruments and those from insurance contracts. With respect to hedging instruments, the Group distinguishes between derivatives according to their intended use as fair value hedges and cash flow hedges (see separate subsection of this item of the Notes).

The recognition of derivative financial instruments in the balance sheet is broken down in the following table:

Balance sheet recognition of derivative financial instruments	Hedging instrument as per IAS 39	31.12.2010	31.12.2009
Figures in EUR million			
Balance sheet items (positive fair values)			
Financial assets at fair value through profit or loss, financial assets held for trading (derivatives)	No	80	112
Balance sheet items (negative fair values)			
Liabilities, other liabilities (derivatives)	No	–85	–30
	Yes	–149	–42
Total (net)		**–154**	**40**

In the financial year just-ended the derivative financial instruments – excluding derivatives used as hedging instruments – produced an unrealized loss of –EUR 20 million. This contrasted with a gain of EUR 14 million in the previous year. The loss realized on positions closed in 2010 amounted to –EUR 21 million, compared to a gain of EUR 19 million in the previous year.

The fair values of our open derivative positions including the relevant nominal values as at the balance sheet date are shown below differentiated according to risk types and maturities. Positive and negative fair values are netted in the table. Open positions from derivatives therefore existed in an amount of –EUR 154 (40) million at the balance sheet date, corresponding to 0.1 (0.04)% of the balance sheet total.

Maturities of derivative financial instruments	Due in one year	Due after one through five years	Due after five through ten years	Due after ten years	Other	31.12.2010	31.12.2009
Figures in EUR million							
Interest rate hedges							
Fair value	1	–143	—	–1	14	–129	–25
Notional values	52	1,856	—	5	375	2,288	1,165
Currency hedges							
Fair value	–5	–18	–11	—	—	–34	–15
Notional values	22	47	42	—	—	111	168
Equity and index hedges							
Fair value	—	—	–6	—	—	–6	25
Notional values	—	—	1	—	—	1	474
Inflation hedges							
Fair value	—	–31	—	—	—	–31	—
Notional values	—	2,535	—	—	—	2,535	—
Derivatives in connection with insurance contracts [1)]							
Fair value	—	—	—	—	46	46	55
Other risks							
Fair value	—	—	—	—	—	—	—
Notional values	—	—	—	—	—	—	3
Total hedges							
Fair value	**–4**	**–192**	**–17**	**–1**	**60**	**–154**	**40**
Notional values	**74**	**4,438**	**43**	**5**	**375**	**4,935**	**1,810**

[1)] *The financial instruments relate exclusively to derivatives in connection with reinsurance business which under IFRS 4 are to be separated from the underlying insurance contract and recognized separately at fair value. In view of the characteristics of these derivatives, a maturity disclosure/presentation of nominal values is not reasonably possible and has therefore been omitted. The derivatives are recognized at fair value.*

In the year under review the Group acquired derivative financial instruments in the reinsurance sector to hedge inflation risks within the loss reserves. These transactions resulted in the recognition of negative fair values of EUR 31 million (balance sheet item: 26 “Other liabilities”, page 229).

Hedge accounting

In the context of hedge accounting the Group seeks to compensate for the changes in value/changes in cash flows of an underlying caused by changes in market price by taking out a hedging instrument (derivative), the changes in value or changes in cash flows of which develop along approximately opposite lines. Hedging is carried out on the level of individual transactions (micro hedge). On closing of the transaction we document the hedge relationship between the underlying and the hedging instrument, the purpose of risk management and the underlying hedging strategy. In addition, at the outset of the hedge relationship we document our assessment of the extent to which the hedging instruments are effective in offsetting the corresponding changes of the underlying. Proof of the effectiveness of the hedge relationships has been furnished.

Fair value hedges

In order to hedge changes in the fair value of equities (underlyings), the Group designated equity swaps as hedging derivatives in 2010. Under these fair value hedges, the changes in the fair value of the derivative are recognized with the changes in the fair value of the underlying allocable to the hedged risk in the investment income. In the year under review losses of –EUR 1 million from the underlying transactions and gains of EUR 1 million from the hedging derivatives were recognized in income for the fair value hedges. There was no ineffectiveness in the case of these hedges.

Cash flow hedges

The Group uses interest rate swaps in the context of cash flow hedges in order to hedge cash flows relating to certain floating-rate commitments (underlyings) against the associated interest rate risk. The plain vanilla interest rate swaps serve to protect against adverse effects in the net profit or loss for the period in the event of rising interest rates. The interest payments received from the swaps (floating rates) are opposed by interest payments in the same amount in connection with the liabilities; in addition, the Group undertakes to make fixed interest payments to the swap partners. The selection of highly rated counterparties ensures that we avoid entering into a significant credit risk. The floating rate varies according to the 3-month EURIBOR. In addition, in 2010 the Group hedged future transactions that are very likely to occur against the interest rate risk. In this connection valuation units are established consisting of forward transactions in securities (forward purchases) and planned securities purchases. The forward purchases are used to hedge the risk associated with already firm future reinvestments that it may only be possible in future to generate low returns on reinvestments due to falling interest rates. The underlying in relation to the hedging instruments is the future investment at the then applicable returns/rates. IAS 39 only permits the hedging of planned transactions to be captured as cash flow hedges.

The effective part of the hedging instruments measured at fair value is recognized directly in equity in the cash flow hedge reserve after allowance for deferred taxes. The ineffective part of such changes in value, on the other hand, is booked directly in the statement of income in the investment income – in the case of effective hedging of floating-rate liabilities in other income/expenses. The underlying continues to be measured at amortized cost in accordance with allocation to the category pursuant to IAS 39. If the hedged transactions result in the recognition of financial assets, the amounts carried in shareholders’ equity are amortized over the maturity period of the acquired asset.

The following table presents a reconciliation of the cash flow hedge reserve (before taxes):

Changes in the cash flow hedge reserve	**2010**	**2009**
Figures in EUR million		
Balance at 31.12. of the previous year	–33	–26
Allocations (hedging of cash flows from floating interest rates)	7	–7
Reductions (hedging of planned transactions)	–110	—
Balance at 31.12. of the year under review (before taxes)	**–136**	**–33**

The negative balance of the cash flow hedge reserve increased in the year under review by –EUR 103 (–7) million (before taxes) and –EUR 100 (–5) million (after taxes).

An amount of EUR 1.2 (0.2) million was recognized in income in the year under review owing to the ineffectiveness of cash flow hedges.

The expected cash flows from the cash flow hedges and their respective contribution to profit or loss are as follows:

Cash flows of the hedged transaction	**< 1 year**	**> 1 year and < 5 years**	**Expected total amount**	**31.12.2010[1]**	**31.12.2009[1]**
Figures in EUR million					
Cash flow of the underlyings	–10	–903	–913	–5	–10
Cash flow of the hedging instruments	–16	–9	–25	–21	–16
Profit/loss	–26	–15	–41	–26	–26

[1] *Cash flow of the period in question*

Fair values of the hedging instruments

The fair values of the derivative financial instruments designated in the context of hedge accounting were as follows as at the balance sheet date:

Hedging instruments	**2010**	**2009**
Figures in EUR million		
Fair value hedges		
Equity swaps	–6	—
Cash flow hedges		
Interest rate swaps	–33	–42
Forward securities transactions	–110	—
Total	**–149**	**–42**

The net gains or losses on derivatives used for hedging carried in the statement of income amounted to –EUR 22 (–16) million in the year under review and relate chiefly to current interest payments (–EUR 21 (–16) million), changes in value recognized in income on grounds of ineffectiveness (EUR 1.2 (0.2) million), EUR 1 million from hedging derivatives in connection with fair value hedges and –EUR 3 million from other payments.

(13) Accounts receivable on insurance business

	2010	2009
Figures in EUR million		
Accounts receivable on direct written insurance business	1,551	1,428
thereof:		
From policyholders	796	815
From insurance intermediaries	755	613
Accounts receivable on reinsurance business	3,460	2,914
Balance at 31.12. of the year under review	**5,011**	**4,342**

(14) Deferred acquisition costs

	2010			2009		
	Gross business	Reinsurance recoverables	Net business	Gross business	Reinsurance recoverables	Net business
Figures in EUR million						
Balance at 31.12. of the previous year	3,899	355	3,544	4,137	628	3,509
Change in consolidated group	—	—	—	—	—	—
Portfolio entries/ withdrawals	10	1	9	—	1	–1
Newly capitalized acquisition costs	624	–4	628	273	–195	468
Amortized acquisition costs	658	65	593	561	78	483
Currency adjustments	138	6	132	50	–1	51
Other changes	—	5	–5	—	—	—
Balance at 31.12. of the year under review	**4,013**	**298**	**3,715**	**3,899**	**355**	**3,544**

(15) Other assets

	2010	2009
Figures in EUR million		
Own-use real estate	646	612
Tax refund claims	266	216
Plant and equipment	140	148
Interest and rent due	15	12
Sundry assets	714	667
Balance at 31.12. of the year under review	**1,781**	**1,655**

Development of own-use real estate	2010	2009
Figures in EUR million		
Gross book value at 31.12. of the previous year	**822**	**757**
Adjustment of values carried forward from prior years [1]	–23	—
Gross book value at 01.01. of the year under review	799	757
Change in consolidated group	—	1
Additions	56	62
Disposals	136	1
Reclassification	–32	2
Currency exchange rate differences	2	1
Gross book value at 31.12. of the year under review	**689**	**822**
Accumulated depreciation and accumulated impairment losses at 31.12. of the previous year	**210**	**185**
Adjustment of values carried forward from prior years [1]	–23	—
Accumulated depreciation and accumulated impairment losses at 01.01. of the year under review	187	185
Change in consolidated group	—	—
Additions	—	15
Disposals	134	—
Depreciation/impairment		
Scheduled	12	11
Unscheduled	1	2
Reclassification	–23	–3
Accumulated depreciation and accumulated impairment losses at 31.12. of the year under review	**43**	**210**
Balance at 31.12. of the previous year	612	572
Balance at 31.12. of the year under review	**646**	**612**

[1] *The values carried forward were adjusted in connection with implementation of a new IT system; there were no implications for the carrying value*

The fair value of the own-use real estate amounted to EUR 697 (691) million as at the balance sheet date. These fair values were calculated largely using the discounted cash flow method. The methods used to determine the book values are set out in the section entitled "Accounting policies", subsection "Summary of major accounting policies" on page 127.

An amount of EUR 245 (253) million was allocated from the own-use real estate to special cover funds. The expenditures capitalized for buildings under construction amounted to EUR 96 (42) million as at the balance sheet date. Contractual commitments for the acquisition of property, plant and equipment totaled EUR 2 (—) million as at the balance sheet date.

Development of plant and equipment	2010	2009
Figures in EUR million		
Gross book value at 31.12. of the previous year	**411**	**343**
Adjustment of values carried forward from prior years [1]	–27	—
Gross book value at 01.01. of the year under review	384	343
Change in consolidated group	—	15
Additions	42	71
Disposals	38	24
Reclassification	1	—
Disposal group pursuant to IFRS 5	—	2
Currency exchange rate differences	8	4
Gross book value at 31.12. of the year under review	**397**	**411**
Accumulated depreciation and accumulated impairment losses at 31.12. of the previous year	**263**	**221**
Adjustment of values carried forward from prior years [1]	–27	—
Accumulated depreciation and accumulated impairment losses after currency translation at 01.01. of the year under review	236	221
Change in consolidated group	—	2
Additions	—	1
Disposals	30	—
Depreciation/impairments		
Scheduled	45	34
Unscheduled	1	1
Reclassification	1	—
Other changes	—	2
Currency exchange rate differences	4	2
Accumulated depreciation and accumulated impairment losses at 31.12. of the year under review	**257**	**263**
Balance at 31.12. of the previous year	148	122
Balance at 31.12. of the year under review	**140**	**148**

[1] *The values carried forward were adjusted in connection with implementation of a new IT system; there were no implications for the carrying value*

Other assets	31.12.2010	31.12.2009
Figures in EUR million		
Trade accounts receivable	77	93
Receivables relating to investments	75	170
Receivables from non-group lead business	68	84
Other tangible assets	8	11
Claims under insurance for pension commitments	55	50
Prepaid insurance benefits	175	116
Surrender values	33	28
Prepaid expenses	37	18
Sundry assets	186	97
Total	**714**	**667**

Notes on the consolidated balance sheet – liabilities

(16) Shareholders' equity

Shareholders' equity is shown as a separate component of the consolidated financial statement in accordance with IAS 1 "Presentation of Financial Statements" and IAS 32 "Financial Instruments: Disclosure and Presentation" in conjunction with IAS 39 "Financial Instruments: Recognition and Measurement". The change in shareholders' equity comprises not only the net income deriving from the statement of income but also the changes in the value of asset and liability items not recognized in the statement of income.

The share capital of Talanx AG remains unchanged at EUR 260 million and is divided into 260,000 registered no-par shares. The share capital is fully paid up. With regard to the composition of the shareholders' equity, please see the "Consolidated statement of changes in equity" on page 112.

Minority interests are established in accordance with the shares held by companies outside the Group in the shareholders' equity of the subsidiaries – principally in the shareholders' equity of the Hannover Re Group.

Minority interests	2010	2009[1)]
Figures in EUR million		
Unrealized gains and losses from investments	225	169
Minority interest in net profit	450	408
Other shareholder's equity	2,360	2,002
Total	**3,035**	**2,579**

[1)] *Adjusted on the basis of IAS 8*

The equity-affecting changes in financial instruments – allocated to the category of "financial assets available for sale" within the Group – before allowance for policyholders, minority interests and deferred taxes were as follows:

	2010	2009
Figures in EUR million		
Allocation of gains/losses from the fair value measurement of the "financial assets available for sale" (unrealized gains and losses)	97	1,098
Transfer of gains/losses from the fair value measurement of the "financial assets available for sale" to the result for the reporting period	–216	–95

Changes in shareholders' equity and minority interests

IAS 1 "Presentation of Financial Statements" requires detailed disclosures in the Notes that enable the readers of the financial statements to understand the objectives, methods and processes of capital management and provide supplementary information on changes in Group shareholders' equity.

In this context please see the following remarks as well as the information contained in the management report regarding capital management and performance management as well as value-based management.

Capital management

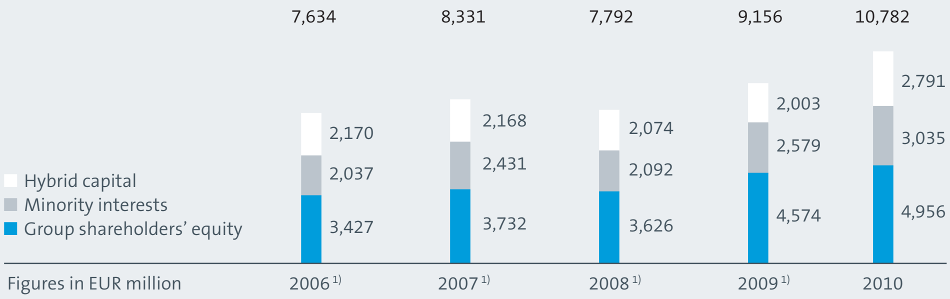
The preservation and consistent strengthening of its equity base is a key strategic objective for the Talanx Group. As part of its approach to capital management the Talanx Group considers the policyholders' surplus over and above the shareholders' equity reported in the balance sheet.

The policyholders' surplus is defined as the sum total of

- shareholders' equity excluding minority interests, composed of the common shares, additional paid-in capital, other comprehensive income and retained earnings,
- minority interests and
- hybrid capital used as an equity substitute, which encompasses our subordinated liabilities.

The policyholders' surplus totaled EUR 10.8 (9.2) billion as at the balance sheet date.

The chart below illustrates the growth of the policyholders' surplus over the last five reporting years.



[1] *Adjusted on the basis of IAS 8*

The Talanx Group uses "Intrinsic Value Creation" (IVC) as its central value-based management indicator for measuring the value created by our Group companies and segments. This concept as well as the objectives and principles in accordance with which we conduct our enterprise governance and capital management is described in our remarks on capital management and performance management in the relevant subsections of the management report.

In terms of its capital resources the Talanx Group satisfies the expectations of the rating agencies that assess the Group's financial strength. Some Group companies are subject to additional national capital and solvency requirements. All Group companies met the applicable local minimum capital requirements in the year under review.

Within the scope of Group-wide capital management Talanx AG monitors the capital resources of its subsidiaries with the utmost diligence.

(17) Subordinated liabilities

In order to optimize the Group's capital structure and to safeguard the liquidity (solvency) required (by regulators), various Group companies have in the past taken out long-term liabilities that predominantly take the form of subordinated debt and are in some cases exchange-listed.

Specifically, the long-term subordinated debt is comprised of the following financial instruments:

	Nominal value, coupon, issue/maturity, debt rating (A. M. Best; S&P)	2010	2009
Figures in EUR million			
Talanx AG	EUR 300 million, fixed then floating rate, 2010/no final maturity, (—; BBB)	300	—
Talanx AG issued a subordinated registered bond in 2010 with a contractual conversion obligation to Talanx shares in the event of an initial public offering; it may be called by the issuer after ten years at the earliest.			
Hannover Finance (Luxembourg) S. A.	EUR 500 million, fixed (5.75%) then floating rate, 2010/2040, (a; A)	500	—
The guaranteed subordinated bond was issued in 2010 on the European capital market. It may be called in 2014 at the earliest and at each coupon date thereafter.			
Hannover Finance (Luxembourg) S. A.	EUR 750 million, fixed (5.75%) then floating rate, 2004/2024, (a; A)	747	746
The guaranteed subordinated debt was placed on the European capital market. It may be redeemed in 2014 at the earliest and at each coupon date thereafter.			
Hannover Finance (Luxembourg) S. A.	EUR 500 million, fixed (5%) then floating rate, 2005/no final maturity, (a; A)	484	481
Part of the volume of the guaranteed subordinated debt was offered to the holders of the debt issued in 2001 by way of exchange. The debt may be called by the issuer on 01.06.2015 at the earliest and at each coupon date thereafter.			
Hannover Finance (Luxembourg) S. A.[1)]	EUR 138 million, fixed (6.25%) then floating rate, 2001/2031, (a; A)	138	138
The guaranteed subordinated debt was originally issued in an amount of EUR 350 million. The holders of this debt were offered the opportunity to exchange into the new debt issued in 2005. Nominal participation in the exchange was EUR 212 million. The debt may be called by the issuer in March 2011 at the earliest.			
HDI-Gerling Industrie Versicherung AG	EUR 250 million, fixed (7%) then floating rate, 2004/2024, (bbb+; A–)	265	269
The subordinated bond is listed on the Euro MTF Market of the Luxembourg Stock Exchange and may be called by the issuer in 2014 at the earliest.			
HDI-Gerling Lebensversicherung AG[2)]	EUR 110 million, 6.75%, 2005/no final maturity (—; A–)	115	105
The subordinated debt is listed on the Euro MTF Market of the Luxembourg Stock Exchange. It may be called by the issuer in 2015 at the earliest.			
Talanx Finanz[3)]	EUR 243 million, 4.5%, 2005/2025, (bbb; BBB)	242	264
The bond was originally issued in an amount of EUR 350 million. The guaranteed subordinated debt is listed on the Luxembourg Stock Exchange.			
Balance at 31.12 . of the financial year		**2.791**	**2.003**

[1)] *The remaining volume of this debt in an amount of EUR 138 million was repaid on 14 March 2011*
[2)] *In the first quarter of 2010 external companies acquired portions of the debt in a nominal amount of EUR 10 million; the remaining volume was increased accordingly*
[3)] *In the first quarter of 2010 the issuer bought back, amortized and cancelled portions of the debt in a nominal amount of EUR 10 million from a Group company. In the third quarter of 2010 Group companies purchased portions of the debt in a nominal amount of EUR 22 million; the remaining volume was reduced accordingly*

The increase in subordinated debt resulted principally from the two debts issued in the year under review.

On 14 September 2010 our subsidiary Hannover Finance (Luxembourg) S. A. placed subordinated debt on the European capital market with a nominal value of EUR 500 million. It has a maturity of 30 years with a first scheduled call option after ten years. The bond carries a fixed coupon of 5.75% p.a. in the first ten years, after which the interest basis changes to a floating rate of three-month EURIBOR +423.5 basis points.

In November of the year under review Talanx AG signed a contract with the Japanese insurer Meiji Yasuda Life Insurance Company, Tokyo, regarding a long-term strategic cooperation backed by a capital participation. In this context Talanx AG issued a subordinated debt on 18 November 2010 with a nominal volume of EUR 300 million. The creditor is Meiji Yasuda Life Insurance Company. The bond has no final maturity and entails a contractual obligation for conversion into shares of Talanx AG in the event of an initial public offering. In the first ten years this debt carries a fixed coupon; it has a first scheduled call option by the issuer after 10 years.

2010	Amortized cost	Unrealized gains or losses	Accrued interest	Fair value
Figures in EUR million				
Debts measured at amortized cost	2,791	–86	66	2,771

2009	Amortized cost	Unrealized gains or losses	Accrued interest	Fair value
Figures in EUR million				
Debts measured at amortized cost	2,003	–132	58	1,929

The fair value of the extended subordinated loans is normally based on quoted, active market prices. If such price information was not available, fair value was determined on the basis of the recognized effective interest rate method or estimated using other financial assets with similar rating, duration and return characteristics. Under the effective interest rate method the current market interest rate levels in the relevant interest rate fixing periods are always taken as a basis.

The net result of EUR 126 (104) million from subordinated liabilities in the year under review consisted of interest expenses in an amount of EUR 126 (102) million and expenses from amortization (EUR — (2) million).

Of the total subordinated liabilities, an amount of EUR 646 (524) million has a maturity of up to 5 years, EUR 746 (746) million has a maturity of 10–20 years, EUR 500 (138) million has a maturity of more than 20 years and EUR 899 (595) million has no fixed maturity. A detailed presentation of the maturities is provided in the section entitled “Nature of risks associated with insurance contracts and financial instruments” (subsection “Management of liquidity risks”, pages 184 et seqq.).

(18) Unearned premium reserve

	2010			2009		
	Gross	Retro	Net	Gross	Retro	Net
Figures in EUR million						
Balance at 31.12. of the previous year	**5,026**	**414**	**4,612**	**4,894**	**409**	**4,485**
Change in the consolidated group	—	—	—	69	24	45
Portfolio entries/withdrawals	–3	–1	–2	–54	2	–56
Allocations	906	90	816	1,361	38	1,323
Releases	722	116	606	1,294	62	1,232
Other changes	—	–1	1	–1	—	–1
Currency exchange rate differences	204	20	184	51	3	48
Balance at 31.12. of the year under review	**5,411**	**406**	**5,005**	**5,026**	**414**	**4,612**

(19) Benefit reserve

	2010			2009		
	Gross	Retro	Net	Gross	Retro	Net
Figures in EUR million						
Balance at 31.12. of the previous year	**39,754**	**799**	**38,955**	**36,386**	**929**	**35,457**
Change in the consolidated group	—	—	—	985	—	985
Portfolio entries/withdrawals	–61	217	–278	385	–98	483
Allocations	4,168	–11	4,179	3,863	78	3,785
Releases	1,739	—	1,739	1,918	108	1,810
Other changes	–2	—	–2	—	—	—
Currency exchange rate differences	346	–28	374	53	–2	55
Balance at 31.12. of the year under review	**42,466**	**977**	**41,489**	**39,754**	**799**	**38,955**

	2010			2009		
	Gross	Retro	Net	Gross	Retro	Net
Figures in EUR million						
Less than one year	2,874	36	2,838	2,933	46	2,887
Between one and five years	8,490	196	8,294	8,085	193	7,892
Between five and ten years	8,856	155	8,701	7,990	166	7,824
Between ten and twenty years	9,888	187	9,701	9,230	204	9,026
After more than twenty years	6,067	80	5,987	5,630	92	5,538
Deposits	6,291	323	5,968	5,886	98	5,788
Total	**42,466**	**977**	**41,489**	**39,754**	**799**	**38,955**

(20) Loss and loss adjustment expense reserve (loss reserve)

	2010			2009[1]		
	Gross	Retro	Net	Gross	Retro	Net
Figures in EUR million						
Balance at 31.12. of the previous year	**27,256**	**4,734**	**22,522**	**27,161**	**5,480**	**21,681**
Change in consolidated group	–2	—	–2	13	2	11
Portfolio entries/withdrawals	124	–11	135	–25	–1	–24
Plus incurred claims and claims expenses (net)						
Year under review	13,746	1,391	12,355	9,671	1,180	8,491
Previous years	579	134	445	1,369	–216	1,585
Total	14,325	1,525	12,800	11,040	964	10,076
Less claims and claims expenses paid (net)						
Year under review	6,814	518	6,296	4,984	421	4,563
Previous years	6,340	1,077	5,263	5,954	1,291	4,663
Total	13,154	1,595	11,559	10,938	1,712	9,226
Other changes	–1,210	–741	–469	–3	22	–25
Currency exchange rate differences	1,199	161	1,038	8	–21	29
Balance at 31.12. of the year under review	**28,538**	**4,073**	**24,465**	**27,256**	**4,734**	**22,522**

[1] *Adjusted on the basis of IAS 8*

The other changes and currency exchange rate differences include the figures for the disposal group in accordance with IFRS 5 in an amount of EUR 1.3 billion (gross). In this regard please see our remarks on the disposal group on pages 164 et seq.

The run-off triangles establish the correlation between the loss occurrence year and the loss run-off year. In line with previous years, we show the constituted loss reserves not by occurrence years but by the run-off of the reserve reported in the balance sheet. For the sake of improved understanding, we split the disclosure into primary insurance and reinsurance, with only the corresponding net loss reserves being shown.

The following two tables set out the net loss reserves for the years 2000 to 2010 split into our property/casualty companies in the primary insurance segments and the Group segment of Non-Life Reinsurance. The tables show the changes made over time in the loss reserve established as at each balance sheet date due to payments rendered, supplementary premiums brought to account in years after they were written and revised estimates of outstanding payments. The difference between the original loss reserve and the current reserve is reflected in the net run-off results.

These results are significantly influenced by movements in the euro relative to major foreign currencies. Despite opposing effects associated with other major foreign currencies, the depreciation of the euro against the US dollar year-on-year was a particularly significant factor in the rise in the loss reserves on a euro basis.

Net loss reserve and its run-off in the primary insurance segments

The chart shows the run-off of the net loss reserves established by our property/casualty insurance companies as at each balance sheet date, this reserve comprising the provisions constituted in each case for the current and preceding occurrence years. The run-off of the reserves for individual occurrence years is not shown.

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Figures in EUR million											
Loss and loss adjustment expense reserve	**3,942**	**3,912**	**3,903**	**4,217**	**4,879**	**5,818**	**6,095**	**6,242**	**6,042**	**6,122**	**6,700**
Cumulative payments for the year in question and previous years											
One year later	1,031	802	872	632	740	1,150	991	1,486	1,008	1,355	
Two years later	1,344	1,206	1,237	1,030	1,269	1,696	1,800	1,908	1,787		
Three years later	1,596	1,449	1,528	1,409	1,667	2,255	2,030	2,484			
Four years later	1,755	1,677	1,831	1,730	2,115	2,401	2,491				
Five years later	1,904	1,907	2,091	2,083	2,219	2,805					
Six years later	2,100	2,131	2,366	2,121	2,554						
Seven years later	2,278	2,363	2,347	2,392							
Eight years later	2,462	2,343	2,527								
Nine years later	2,465	2,511									
Ten years later	2,609										
Loss and loss adjustment expense reserve (net) for the year in question and previous years plus payments made to date on the original reserve											
One year later	3,696	3,426	3,824	3,863	4,493	5,077	5,205	5,659	5,356	5,917	
Two years later	3,337	3,276	3,628	3,806	4,387	5,011	5,161	4,976	5,066		
Three years later	3,198	3,334	3,671	3,895	4,381	5,089	4,760	5,398			
Four years later	3,234	3,319	3,802	3,941	4,536	4,760	5,038				
Five years later	3,196	3,505	3,842	4,065	4,302	4,999					
Six years later	3,321	3,507	3,912	3,904	4,524						
Seven years later	3,501	3,614	3,807	4,124							
Eight years later	3,492	3,538	3,970								
Nine years later	3,434	3,675									
Ten years later	3,535										
Run-off result of the loss reserve	**407**	**238**	**–68**	**93**	**355**	**819**	**1,056**	**844**	**975**	**205**	
Of which currency exchange rate differences	**50**	**114**	**121**	**36**	**–94**	**–123**	**–81**	**82**	**–71**	**–103**	
Run-off result excluding currency exchange rate differences	**357**	**124**	**–189**	**57**	**449**	**942**	**1,137**	**762**	**1,046**	**308**	
As percentage of original loss reserve	**9**	**3**	**–5**	**1**	**9**	**16**	**19**	**12**	**17**	**5**	

Net loss reserve and its run-off in the Non-Life Reinsurance segment

The run-off triangles show the run-off of the net loss reserve established as at each balance sheet date in the Non-Life Reinsurance segment, this reserve comprising the provisions constituted in each case for the current and preceding occurrence years. The run-off of the reserve for individual occurrence years is not shown in this regard, but rather the run-off of the reserve constituted annually in the balance sheet as at the balance sheet date.

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Figures in EUR million											
Loss and loss adjustment expense reserve	**8,482**	**12,183**	**12,863**	**13,462**	**13,121**	**14,296**	**13,280**	**12,718**	**13,354**	**13,780**	**15,255**
Cumulative payments for the year in question and previous years											
One year later	2,108	2,242	2,118	3,623	4,496	3,051	2,665	2,476	2,928	2,807	
Two years later	3,112	3,775	5,024	7,322	6,611	5,072	4,390	4,250	4,573		
Three years later	4,174	6,032	7,765	8,780	7,590	6,205	5,696	5,371			
Four years later	5,745	8,589	8,909	9,519	8,356	7,306	6,501				
Five years later	7,581	9,400	9,467	10,102	9,137	7,935					
Six years later	8,114	9,786	9,897	10,734	9,596						
Seven years later	8,405	10,122	10,457	11,082							
Eight years later	8,611	10,533	10,724								
Nine years later	8,891	10,735									
Ten years later	9,024										
Loss and loss adjustment expense reserve (net) for the year in question and previous years plus payments made to date on the original reserve at the end of the year											
One year later	9,422	11,604	11,743	13,636	14,433	13,074	12,366	12,171	13,265	14,303	
Two years later	8,878	10,477	11,845	14,237	13,533	12,366	11,868	11,926	13,263		
Three years later	8,186	10,744	12,373	13,597	13,061	11,977	11,645	12,040			
Four years later	8,354	11,544	11,731	13,307	12,771	11,773	11,670				
Five years later	9,102	11,051	11,666	13,122	12,618	11,769					
Six years later	8,756	11,164	11,686	13,054	12,578						
Seven years later	8,864	11,219	11,707	12,988							
Eight years later	8,936	11,262	11,670								
Nine years later	8,933	11,166									
Ten years later	8,866										
Run-off result of the loss reserve	**67**	**28**	**–58**	**29**	**–26**	**–36**	**–29**	**–90**	**116**	**–525**	
Of which currency exchange rate differences	**–94**	**–27**	**–28**	**–42**	**–47**	**–69**	**–65**	**–90**	**–139**	**–137**	
Run-off result excluding currency exchange rate differences	**161**	**55**	**–30**	**71**	**21**	**33**	**36**	**—**	**255**	**–388**	
As percentage of original loss reserve	**2**	**1**	**—**	**1**	**—**	**—**	**—**	**—**	**2**	**–3**	

The carrying amount of the reinsurance recoverables on unpaid claims of EUR 4.1 (4.7) billion includes cumulative specific value adjustments of EUR 4 (24) million. The total amount of the net reserves was EUR 24.4 (22.5) billion. The following breakdown of the durations refers to this amount.

	2010			2009[1]		
Duration of the reserve	Gross	Retro	Net	Gross	Retro	Net
Figures in EUR million						
One year or less	9,403	1,516	7,887	8,201	1,427	6,774
Between one and five years	10,944	1,570	9,374	10,514	2,069	8,445
Between five and ten years	4,243	559	3,684	4,220	775	3,445
Between ten and twenty years	2,401	244	2,157	2,663	318	2,345
More than twenty years	1,094	84	1,010	1,302	73	1,229
Deposits	453	100	353	356	72	284
Total	**28,538**	**4,073**	**24,465**	**27,256**	**4,734**	**22,522**

[1] *Adjusted on the basis of IAS 8*

(21) Provision for premium refunds

	2010			2009[1]		
	Gross	Retro	Netto	Net	Retro	Net
Figures in EUR million						
Balance at 31.12. of the previous year	**1,274**	**1**	**1,273**	**973**	**1**	**972**
Change in the consolidated group	—	—	—	2	—	2
Portfolio entries/withdrawals	—	—	—	—	—	—
Allocations/releases (—)	–164	—	–164	452	—	452
Disposals						
Life insurance policies	–1	—	–1	163	—	163
Liability/accident policies with a premium refund	11	—	11	8	—	8
Other changes	12	—	12	18	—	18
Currency exchange rate differences	1	—	1	—	—	—
Balance at 31.12. of the year under review	**1,113**	**1**	**1,112**	**1,274**	**1**	**1,273**

[1] *Adjusted on the basis of IAS 8*

(22) Provision for pensions and other post-employment benefit obligations

The Group companies normally award their employees pension commitments based on defined contribution or defined benefit plans. The type of pension commitment is given in accordance with the relevant pension plan and encompasses retirement, disability, widows' and orphans' benefits. The pension entitlement is dependent on length of service and salary. The vast majority of pension commitments are based on defined benefit pension plans.

Under defined benefit plans the pension beneficiary is promised a specific benefit; in contrast to defined contribution plans, the expenditures to be incurred by the company on the basis of the benefit commitments are not fixed from the outset. The commitments to employees in Germany predominantly comprise commitments funded by the company; no pension funds exist.

In addition, employees have an opportunity to accumulate further old-age provision by way of deferred compensation through membership of HDI-Gerling Pensionskasse AG. The benefits provided by HDI-Gerling Pensionskasse AG are guaranteed for its members and their surviving dependants and comprise traditional pension plans with bonus increases as well as unit-linked hybrid annuities. Employees of the former Gerling Group also have the option of obtaining pension commitments through deferred compensation with Gerling Versorgungskasse VVaG. In this case the employer companies meet the administrative expenses and assume responsibility for ensuring that the life insurance contracts can be fulfilled through their liability to make additional contributions.

Provisions for pensions are established in accordance with IAS 19 "Employee Benefits" using the Projected Unit Credit Method. They are established in accordance with actuarial principles and make allowance for the length of service and estimated rate of compensation increase of pension beneficiaries. The benefit entitlements are discounted using a single Group-wide blended rate of interest.

The pension commitments are measured on the basis of the following assumptions:

	2010	2009
Measurement parameters/assumptions weighted in %		
Discount rate	4.52	5.31
Projected long-term yield on plan assets	5.78	6.08

	2010				2009			
Measurement parameters/assumptions	Germany	USA	UK	Other	Germany	USA	UK	Other
Figures in %								
Rate of compensation increase	2.75	—	—	2.5–5.0	3	—	4.75	2.5–5.2
Indexation	2	2	3.4	2.0–3.0	2.25	2	3.25	2.0–3.0

The change in the projected benefit obligation of the pension commitments for the various defined benefit plans of the Group was as follows:

Change in the projected benefit obligation	2010	2009
Figures in EUR million		
Projected benefit obligation at 01.01. of the year under review	1,424	1,246
Current service cost	12	14
Interest cost	74	76
Deferred compensation	1	2
Actuarial gain/loss	131	113
Currency translation	5	42
Benefits paid during the year	–68	–66
Past service cost	1	—
Business combinations, divestitures and other activities	–1	–1
Plan curtailments	—	–2
Projected benefit obligation at 31.12. of the year under review	**1,579**	**1,424**

The funded status of the defined benefit obligation is shown in the following table:

Change in the projected benefit obligation	2010	2009
Figures in EUR million		
Projected benefit obligation from unfunded plans	1,506	1,366
Projected benefit obligation from wholly or partially funded plans	73	58
Projected benefit obligation at 31.12. of the year under review	**1,579**	**1,424**
Fair value of plan assets	–82	–70
Funded status	**1,497**	**1,354**

The fair value of the plan assets developed as follows:

Change in plan assets	2010	2009
Figures in EUR million		
Fair value at 01.01. of the year under review	70	57
Expected return on plan assets	3	2
Actuarial gain/loss	7	6
Currency translation	4	3
Employer contributions	4	4
Benefits paid during the year	–3	–2
Effect of plan settlements	–3	—
Business combinations, divestitures and other activities	—	—
Fair value at 31.12. of the year under review	**82**	**70**

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

Portfolio structure of plan assets	2010	2009
as % of plan assets		
Fixed-income securities	54	54
Equities	18	19
Other	28	27
Total	**100**	**100**

The expected long-term return on plan assets per asset class is based on studies of historical and estimated future rates of return.

The fair value of plan assets as at the balance sheet date included amounts totaling EUR 33 (30) million for own financial instruments.

The actual return on the plan assets amounted to EUR 3 (5) million in the year under review.

The following table presents a reconciliation of the defined benefit obligations with the provisions for pensions recognized as at the balance sheet date:

Funded status of the defined benefit obligation	2010	2009
Figures in EUR million		
Defined benefit obligations at 31.12. of the year under review	1,579	1,424
Fair value of plan assets at 31.12. of the year under review	–82	–70
Funded status at 31.12. of the year under review	**1,497**	**1,354**
Unrealized actuarial gain/loss	–180	–56
Unrecognized past service cost	–1	—
Net provisions for pensions at 31.12. of the year under review	**1,316**	**1,298**

The recognized provision for pensions developed as follows in the year under review:

Change in the provisions for pensions	2010	2009
Figures in EUR million		
Net provisions for pensions at 01.01. of the year under review	1,298	1,272
Currency translation	1	—
Change in consolidated group	–6	—
Net periodic pension cost	92	92
Deferred compensation	—	—
Amounts paid during the year	–2	–3
Benefits paid during the year	–68	–66
Reclassification and other movements	1	3
Disposal groups pursuant to IFRS 5	—	—
Net provisions for pensions at 31.12. of the year under review	**1,316**	**1,298**

The components of the net periodic pension cost for defined benefit plans recognized in the statement of income were as follows:

Net periodic pension cost	2010	2009
Figures in EUR million		
Current service cost for the year under review	12	13
Interest cost	74	76
Expected return on plan assets	–3	–2
Recognized actuarial gain/loss	9	7
Past service cost	—	—
Effect of plan curtailments	—	–2
Net periodic pension cost for the year under review	**92**	**92**

For the 2011 financial year the Group anticipates employer contributions of EUR 2 (3) million, which will be paid into the defined benefit plans shown here.

The net periodic pension cost was recognized in the consolidated statement of income in amounts of EUR 12 (14) million under acquisition costs and administrative expenses, EUR 79 (77) million under other expenses and EUR 1 (1) million under other investment expenses.

Defined contribution plans are funded via external pension funds or similar institutions. In this case fixed contributions (e.g. based on the relevant income) are paid to these institutions and the pension beneficiary's claim is against the said institution; in effect, the employer has no further obligation beyond payment of the contributions. The expense recognized for these obligations in the year under review amounted to EUR 4 (4) million, of which only a minimal amount was attributable to commitments to employees in key positions.

(23) Provisions for taxes

The provisions for taxes can be broken down as follows:

	2010	2009
Figures in EUR million		
Provision for income tax	569	639
Other tax provisions	174	132
Total	**743**	**771**

(24) Sundry provisions

The sundry provisions, which are measured by the likely amounts used, developed as follows:

	Restructuring/ Integration	Assumption of third-party pension commitments in return for payment	Bonuses and incentives	Anniversary bonuses	Early retirement/ partial retirement arrangements	Other personnel expenses	Outstanding invoices	Other	Total
Figures in EUR million									
Balance at 01.01.2009	**47**	**75**	**55**	**24**	**54**	**23**	**72**	**175**	**525**
Change in consolidated group	—	—	—	—	—	—	—	—	—
Additions	1	—	49	6	17	48	96	74	291
Utilization	30	—	42	2	3	26	66	37	206
Release	—	—	2	—	1	1	6	14	24
Change in fair value of plan assets	—	—	—	—	–9	—	—	—	–9
Other changes	—	—	—	—	—	—	—	—	—
Currency exchange rate differences	—	—	—	—	—	–1	–1	—	–2
Balance at 31.12.2009	**18**	**75**	**60**	**28**	**58**	**43**	**95**	**198**	**575**
Change in consolidated group	—	—	—	—	—	—	—	—	—
Additions	16	—	52	1	15	54	196	250	584
Utilization	7	—	44	3	13	32	160	123	382
Release	2	—	6	—	—	1	9	125	143
Change in fair value of plan assets	—	—	—	—	–1	—	—	—	–1
Other changes	–6	—	–2	—	–3	5	–5	75	64
Currency exchange rate differences	—	—	–1	—	—	–1	–1	–2	–5
Balance at 31.12.2010	**19**	**75**	**59**	**26**	**56**	**68**	**116**	**273**	**692**

Reclassifications in accordance with IFRS 5 in an amount of EUR 9 million were carried under the "Other changes" in 2010. In addition, a sundry provision of EUR 55 million was established for expenses from the valuation of the disposal group (item: Other); for further explanation please see the section "Non-current assets held for sale and disposal groups", pages 164 et seq.

(25) Notes payable and loans

In this item the Group reports loan liabilities of EUR 747 (675) million, chiefly in connection with the financing of acquired interests or other investment activities.

The rise of EUR 72 million in the liabilities to EUR 747 million in the year under review is attributable solely to the Non-Life Reinsurance segment and results from increased borrowing requirements as a consequence of the investment activities of Hannover Re Real Estate Holdings, Inc. The largest loan in a nominal amount of EUR 68 million runs until March 2015.

In addition, loans of EUR 559 million are apportionable to the Corporate Operations segment and are connected above all with the financing of interests acquired in 2007 (purchase of all shares of BHW Lebensversicherung AG and BHW Pensionskasse AG as well as increase in the interests held in the PB insurers to 100%). Talanx AG took out a floating-rate bank liability in an amount of EUR 550 million in order to finance these acquisitions. The Group uses derivative financial instruments to hedge the interest rate risk (for further information see item 12 of the Notes, subsection "Hedge accounting", page 209). A further EUR 9 million is attributable to a bearer debenture issued in 2003 with a term until July 2013. The interest expenditures (EUR 8 million) resulting from these liabilities are recognized under the item "Financing costs".

The net result from notes payable and loans is EUR 15 (14) million and consists solely of interest expenditures including amortization of EUR 1 (—) million.

The carrying amount of this item corresponds to the amortized cost. Cash outflows occur annually until final maturity in the amount of the interest payments. The total amount does not include any liabilities with a maturity of less than one year (see also the subsection "Management of liquidity risks" in the section "Nature of risks associated with insurance contracts and financial instruments", pages 184 et seqq.).

(26) Other liabilities

Figures in EUR million	2010	2009
Liabilities under direct written insurance business	2,155	2,237
thereof to policyholders	1,548	1,659
thereof to insurance intermediaries	607	578
Reinsurance payable	1,968	1,570
Liabilities due to banks	—	57
Trade accounts payable	68	39
Liabilities relating to investments	145	206
Liabilities under non-group lead business	71	35
Liabilities from derivatives	234	72
thereof negative fair values from derivative hedging instruments	149	42
Deferred income	26	27
Interest	15	11
Liabilities due to social insurance institutions	11	11
Other liabilities	165	296
Balance at 31.12. of the year under review	**4,858**	**4,561**

In the year under review Talanx AG paid back liabilities due to banks in an amount of EUR 57 million.

Explanatory remarks on the maturities of the financial instruments included in the other liabilities are provided in the section "Nature of risks associated with insurance contracts and financial instruments". Detailed information on liabilities from derivatives is provided in item 12 of the Notes, page 208.

(27) Deferred taxes

The following table presents a breakdown of the deferred tax assets and liabilities into the balance sheet items from which they are derived.

	31.12.2010	31.12.2009[1]
Figures in EUR million		
Deferred tax assets		
Loss and loss adjustment expense reserves	338	251
Technical provisions	290	269
Loss carry-forwards	306	271
Benefit reserves	50	52
Provisions	208	132
Accounts receivable on insurance business	12	20
Investments	68	54
Contract deposits	309	537
Premium refunds	13	14
Other invested assets	3	14
Value adjustment	–180	–267
Other	400	232
Total	**1,817**	**1,579**
Deferred tax liabilities		
Equalization reserve	1,088	1,060
Deferred acquisition costs[2]	488	511
Contract deposits	51	96
Accounts receivable on insurance business	381	99
Present value of future profits (PVFP)	302	285
Benefit reserves	167	342
Technical provisions	47	95
Investments	197	191
Loss and loss adjustment expense reserves	30	59
Other invested assets	63	23
Debt consolidation	18	12
Provisions	55	16
Other	95	64
Total	**2,982**	**2,853**
Deferred tax liabilities (net)	**1,165**	**1,274**

[1] *Adjusted on the basis of IAS 8*
[2] *The deferred taxes on deferred acquisition costs are shown for net, i.e. after allowance for the shares of reinsurers.*

The deferred tax assets and deferred tax liabilities were recognized as follows:

	31.12.2010	31.12.2009
Figures in EUR million		
Deferred tax assets	268	235
Deferred tax liabilities	1,433	1,509
Deferred tax liabilities (net)	**1,165**	**1,274**

Notes on the consolidated statement of income

(28) Net premium earned

The gross written premium includes the savings elements of premiums under unit-linked life and annuity policies. These savings elements were eliminated from the net premium earned.

2010[1]	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Total
Figures in EUR million						
Gross written premium including premium from unit-linked life and annuity insurance	3,048	6,802	2,233	5,973	4,813	22,869
Savings elements of premium from unit-linked life and annuity insurance	—	932	207	—	—	1,139
Ceded written premium	1,363	210	88	692	414	2,767
Change in gross unearned premium	41	45	18	–276	–13	–185
Change in ceded unearned premium	42	–6	28	–39	—	25
Net premium earned	1,684	5,711	1,928	5,044	4,386	18,753

2009[1]	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Total
Figures in EUR million						
Gross written premium including premium from unit-linked life and annuity insurance	3,062	6,596	1,827	5,281	4,157	20,923
Savings elements of premium from unit-linked life and annuity insurance	—	835	144	—	—	979
Ceded written premium	1,402	271	110	332	415	2,530
Change in gross unearned premium	20	167	–32	–193	–29	–67
Change in ceded unearned premium	–39	86	–6	–20	3	24
Net premium earned	1,719	5,571	1,547	4,776	3,710	17,323

[1] *Presentation after elimination of intra-Group relations*

(29) Investment income

2010[1]	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
Figures in EUR million							
Income from real estate	7	51	1	32	—	—	91
Dividends[2]	9	23	3	6	1	7	49
Current interest income[3]	208	1,463	119	634	189	3	2,616
Other income	3	11	—	9	2	1	26
Ordinary investment income	**227**	**1,548**	**123**	**681**	**192**	**11**	**2,782**
Appreciation	—	10	—	27	—	—	37
Realized gains on investments	24	191	26	207	39	3	490
Unrealized gains on investments	3	21	24	12	14	—	74
Investment income	**254**	**1,770**	**173**	**927**	**245**	**14**	**3,383**
Realized losses on investments	10	28	3	55	9	—	105
Unrealized losses on investments	1	12	6	44	23	—	86
Total	**11**	**40**	**9**	**99**	**32**	**—**	**191**
Impairments/depreciation on investment property							
Scheduled	1	7	—	7	—	—	15
Unscheduled	—	6	—	—	—	—	6
Impairments on equity securities	2	28	8	1	—	6	45
Impairments on fixed-income securities	—	9	—	8	—	—	17
Impairments on other investments	3	18	—	8	—	3	32
Expenses for the administration of investments	4	11	1	9	2	98	125
Other expenses	8	17	1	25	2	2	55
Other investment expenses/impairments	**18**	**96**	**10**	**58**	**4**	**109**	**295**
Investment expenses	**29**	**136**	**19**	**157**	**36**	**109**	**486**
Net income from investments under own management	**225**	**1,634**	**154**	**770**	**209**	**–95**	**2,897**
Interest income on funds withheld and contract deposits	—	—	—	19	406	—	425
Interest expense on funds withheld and contract deposits	1	24	—	7	113	—	145
Net interest income on funds withheld and contract deposits	**–1**	**–24**	**—**	**12**	**293**	**—**	**280**
Net investment income	**224**	**1,610**	**154**	**782**	**502**	**–95**	**3,177**

[1] *Adjusted on the basis of IAS 8; presentation after elimination of intra-Group relations between segments*

[2] *The profit or loss on investments in associated companies amounts to EUR 2 million and was recognized under dividends in 2010; the previous year was adjusted accordingly*

[3] *Amortization amounts from differences on fixed-income investments are recognized under current interest income (previously "Other income"); the previous year was adjusted accordingly*

2009 [1]	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
Figures in EUR million							
Income from real estate	4	54	2	5	—	—	65
Dividends [2]	6	36	4	–3	—	8	51
Current interest income [3]	209	1,357	116	606	162	7	2,457
Other income	5	17	—	10	2	—	34
Ordinary investment income	**224**	**1,464**	**122**	**618**	**164**	**15**	**2,607**
Appreciation	—	—	—	21	—	—	21
Realized gains on investments	68	240	20	154	30	8	520
Unrealized gains on investments	4	31	6	18	114	—	173
Investment income	**296**	**1,735**	**148**	**811**	**308**	**23**	**3,321**
Realized losses on investments	44	165	6	59	10	—	284
Unrealized losses on investments	1	88	1	25	6	—	121
Total	**45**	**253**	**7**	**84**	**16**	**—**	**405**
Impairments/depreciation on investment property							
Scheduled	2	7	—	—	—	—	9
Unscheduled	—	7	—	1	—	—	8
Impairments on equity securities	1	95	8	3	—	5	112
Impairments on fixed-income securities	3	47	5	46	—	—	101
Impairments on other investments	7	28	1	87	—	—	123
Expenses for the administration of investments	3	12	—	8	2	80	105
Other expenses	4	16	2	17	1	—	40
Other investment expenses/ impairments	**20**	**212**	**16**	**162**	**3**	**85**	**498**
Investment expenses	**65**	**465**	**23**	**246**	**19**	**85**	**903**
Net income from investments under own management	**231**	**1,270**	**125**	**565**	**289**	**–62**	**2,418**
Interest income on funds withheld and contract deposits	1	2	1	46	397	—	447
Interest expense on funds withheld and contract deposits	1	27	—	10	169	—	207
Net interest income on funds withheld and contract deposits	**—**	**–25**	**1**	**36**	**228**	**—**	**240**
Net investment income	**231**	**1,245**	**126**	**601**	**517**	**–62**	**2,658**

[1] Adjusted on the basis of IAS 8; presentation after elimination of intra-Group relations between segments
[2] The profit or loss on investments in associated companies amounts to –EUR 6 million and was recognized under dividends in 2010; the previous year was adjusted accordingly
[3] Amortization amounts from differences on fixed-income investments are recognized under current interest income (previously "Other income"); the previous year was adjusted accordingly

Of the unscheduled impairments totaling EUR 100 (344) million, an amount of EUR 32 (123) million was attributable to other investments, including EUR 7 (93) million on alternative investments. The impairments on fixed-income securities of EUR 17 (101) million were taken predominantly on structured assets. A further EUR 45 (112) million in impairment losses were recognized on equity holdings. This contrasted with appreciation of EUR 37 (21) million on investments that had been written down in previous periods; of this total volume, EUR 3 (11) million was attributable to alternative assets and EUR 24 (10) million to fixed-income securities.

Net gains and losses on investments

The net gains and losses on investments shown in the following table are based largely on the classes established by the Group (see here "Classes of financial instruments" in the section "Nature of risks associated with insurance contracts and financial instruments", pages 166 et seq.).

Making allowance for expenses for the administration of investments (EUR 125 (105) million) and other expenses (EUR 55 (40) million), the total net investment income as at the balance sheet date amounted to EUR 3,177 (2,658) million.

2010[1]	Ordinary investment income	Amortization	Gains on disposal	Losses on disposal	Impairments	Appreciation	Unrealized gains	Unrealized losses	Total[2]
Figures in EUR million									
Investments in affiliated companies and participating interests	3	—	—	—	3	—	—	—	—
Loans and receivables	1,265	79	53	20	10	3	—	—	1,370
Financial assets held to maturity	120	—	—	—	—	—	—	—	120
Financial assets available for sale									
Fixed-income securities	1,036	20	251	42	8	30	—	—	1,287
Variable-yield securities	65	—	121	16	51	—	—	—	119
Financial assets at fair value through profit or loss									
Financial assets classified at fair value through profit or loss									
Fixed-income securities	42	—	23	3	—	—	45	24	83
Variable-yield securities	—	—	—	—	—	—	2	—	2
Financial assets held for trading									
Fixed-income securities	4	—	—	—	—	—	1	—	5
Variable-yield securities	—	—	3	1	—	—	—	1	1
Derivatives	4	—	23	23	—	—	20	2	22
Other invested assets, insofar as they are financial assets	29	—	7	—	22	4	4	—	22
Other[1]	109	6	9	—	21	—	2	59	46
Investments under own management	**2,677**	**105**	**490**	**105**	**115**	**37**	**74**	**86**	**3,077**
Funds held by ceding companies/ funds held under reinsurance treaties	280	—	—	—	—	—	—	—	280
Total	**2,957**	**105**	**490**	**105**	**115**	**37**	**74**	**86**	**3,357**

[1] *For the purposes of reconciliation with the consolidated statement of income, the "Other" item combines the gains on investment property, associated companies and derivative financial instruments – insofar as the fair values are negative; derivatives held for hedging purposes within the scope of hedge accounting (see item 12 of the Notes) are not included in the list if they do not relate to hedges in the area of investments*

[2] *Excluding expenses for the administration of investments and other expenses*

2009[1]	Ordinary investment income	Amorti-zation	Gains on disposal	Losses on disposal	Impair-ments	Appreci-ation	Unrealized gains / losses[2]	Total[3]
Figures in EUR million								
Investments in affiliated companies and participating interests	3	—	1	—	—	—	—	4
Loans and receivables	1,203	64	22	20	31	—	—	1,238
Financial assets held to maturity	100	4	—	3	1	—	—	100
Financial assets available for sale								
Fixed-income securities	965	24	233	81	69	10	—	1,082
Variable-yield securities	76	—	131	75	145	—	—	–13
Financial assets at fair value through profit or loss								
Financial assets classified at fair value through profit or loss								
Fixed-income securities	36	12	6	1	—	—	–30	23
Variable-yield securities	—	—	—	1	—	—	–7	–8
Financial assets held for trading								
Fixed-income securities	1	—	—	—	—	—	—	1
Variable-yield securities	1	—	2	3	—	—	1	1
Derivatives	2	—	106	87	—	—	36	57
Other invested assets, insofar as they are financial assets	39	1	—	—	88	11	—	–37
Other[1]	75	3	19	13	20	—	52	116
Investments under own management	**2,501**	**108**	**520**	**284**	**354**	**21**	**52**	**2,564**
Funds held by ceding companies/ funds held under reinsurance treaties	240	—	—	—	—	—	—	240
Total	**2,741**	**108**	**520**	**284**	**354**	**21**	**52**	**2,804**

[1] *For the purposes of reconciliation with the consolidated statement of income, the "Other" item combines the gains on investment property, associated companies and derivative financial instruments – insofar as the fair values are negative; derivatives held for hedging purposes within the scope of hedge accounting (see item 12 of the Notes) are not included in the list if they do not relate to hedges in the area of investments*

[2] *The unrealized gains and losses were shown combined in 2009; separate presentation would have required disproportionate effort and had therefore been omitted*

[3] *Excluding expenses for the administration of investments and other expenses*

The interest income on investments was as follows in the year under review:

Interest income on investments	2010	2009
Figures in EUR million		
Loans and receivables	1,344	1,267
Financial assets – held to maturity	120	104
Financial assets – available for sale	1,056	989
Financial assets – at fair value through profit or loss		
Financial assets classified at fair value through profit or loss	42	48
Financial assets held for trading	4	1
Other	41	44
Total	**2,607**	**2,453**

(30) Claims and claims expenses

2010[1]	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Total
Figures in EUR million						
Gross						
Claims and claims expenses paid	1,974	3,721	1,128	3,380	3,157	13,360
Change in loss and loss adjustment expense reserve	73	–2	159	772	174	1,176
Change in benefit reserve	—	1,461	229	—	744	2,434
Expenses for premium refunds	4	824	12	—	—	840
Total	**2,051**	**6,004**	**1,528**	**4,152**	**4,075**	**17,810**
Reinsurers' share						
Claims and claims expenses paid	799	119	43	468	274	1,703
Change in loss and loss adjustment expense reserve	–57	68	17	–7	–4	17
Change in benefit reserve	—	–53	—	—	41	–12
Expenses for premium refunds	1	—	3	—	—	4
Total	**743**	**134**	**63**	**461**	**311**	**1,712**
Net						
Claims and claims expenses paid	1,175	3,602	1,085	2,912	2,883	11,657
Change in loss and loss adjustment expense reserve	130	–70	142	779	178	1,159
Change in benefit reserve	—	1,514	229	—	703	2,446
Expenses for premium refunds	3	824	9	—	—	836
Total	**1,308**	**5,870**	**1,465**	**3,691**	**3,764**	**16,098**

[1] *Presentation after elimination of intra-Group relations*

2009[1), 2)]	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Total
Figures in EUR million						
Gross						
Claims and claims expenses paid	2,033	3,791	954	3,440	2,422	12,640
Change in loss and loss adjustment expense reserve	–257	–102	63	–31	439	112
Change in benefit reserve	—	1,168	220	—	579	1,967
Expenses for premium refunds	7	366	9	—	—	382
Total	**1,783**	**5,223**	**1,246**	**3,409**	**3,440**	**15,101**
Reinsurers' share						
Claims and claims expenses paid	1,032	254	39	331	164	1,820
Change in loss and loss adjustment expense reserve	–387	–60	16	–365	47	–749
Change in benefit reserve	—	–47	–1	—	18	–30
Expenses for premium refunds	1	—	1	—	—	2
Total	**646**	**147**	**55**	**–34**	**229**	**1,043**
Net						
Claims and claims expenses paid	1,001	3,537	915	3,109	2,258	10,820
Change in loss and loss adjustment expense reserve	130	–42	47	334	392	861
Change in benefit reserve	—	1,215	221	—	561	1,997
Expenses for premium refunds	6	366	8	—	—	380
Total	**1,137**	**5,076**	**1,191**	**3,443**	**3,211**	**14,058**

[1)] *Presentation after elimination of intra-Group relations*
[2)] *Adjusted on the basis of IAS 8*

(31) Acquisition costs and administrative expenses

2010[1]	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Total
Figures in EUR million						
Gross						
Payments	363	980	374	1,287	821	3,825
Change in deferred acquisition costs	–30	–92	161	–14	17	42
Total acquisition costs	**333**	**888**	**535**	**1,273**	**838**	**3,867**
Administrative expenses	230	389	122	163	116	1,020
Total acquisition costs and administrative expenses	**563**	**1,277**	**657**	**1,436**	**954**	**4,887**
Reinsurers' share						
Payments	213	56	30	91	53	443
Change in deferred acquisition costs	–17	23	26	–4	44	72
Total acquisition costs	**196**	**79**	**56**	**87**	**97**	**515**
Net						
Payments	150	924	344	1,196	768	3,382
Change in deferred acquisition costs	–13	–115	135	–10	–27	–30
Total acquisition costs	**137**	**809**	**479**	**1,186**	**741**	**3,352**
Administrative expenses	230	389	122	163	116	1,020
Total acquisition costs and administrative expenses	**367**	**1,198**	**601**	**1,349**	**857**	**4,372**

[1] *Presentation after elimination of intra-Group relations*

2009[1]	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Total
Figures in EUR million						
Gross						
Payments	386	996	312	1,108	777	3,579
Change in deferred acquisition costs	11	195	69	–36	–25	214
Total acquisition costs	**397**	**1,191**	**381**	**1,072**	**752**	**3,793**
Administrative expenses	220	397	97	152	95	961
Total acquisition costs and administrative expenses	**617**	**1,588**	**478**	**1,224**	**847**	**4,754**
Reinsurers' share						
Payments	238	73	40	37	43	431
Change in deferred acquisition costs	6	201	2	–2	72	279
Total acquisition costs	**244**	**274**	**42**	**35**	**115**	**710**
Net						
Payments	148	923	272	1,071	734	3,148
Change in deferred acquisition costs	5	–6	67	–34	–97	–65
Total acquisition costs	**153**	**917**	**339**	**1,037**	**637**	**3,083**
Administrative expenses	220	397	97	152	95	961
Total acquisition costs and administrative expenses	**373**	**1,314**	**436**	**1,189**	**732**	**4,044**

[1] *Presentation after elimination of intra-Group relations*

(32) Other income/expenses

	2010	2009[1]
Figures in EUR million		
Other non-technical income		
Exchange gains	262	206
Income from the recognition of negative goodwill	—	93
Income from services	164	151
Reversals of impairments on receivables	98	107
Income from contracts recognized in accordance with the deposit accounting method	50	40
Profits from the disposal of property, plant and equipment	9	1
Income from the release of other non-technical provisions	143	24
Interest income	44	36
Commission income	57	47
Rental income	30	32
Income from the repurchase of own securities	4	30
Sundry income	86	200
Total	**947**	**967**
Other non-technical expenses		
Exchange losses	120	94
Other interest expenses	158	153
Depreciation and impairments	110	153
Expenses for the company as a whole	182	177
Expenses for services	227	167
Other taxes	51	20
Expenses from the recognition of disposal groups	55	—
Sundry expenses	136	241
Total	**1,039**	**1,005**
Other income/expenses	**–92**	**–38**

[1] *Adjusted on the basis of IAS 8*

The sundry income includes a profit of EUR 9 million from the sale of Euro International Reinsurance S. A., Luxembourg (see here also our remarks in the section “Consolidation”, page 158).

(33) Goodwill impairments

The goodwill impairments totaling EUR 17 (92) million are attributable entirely to the Retail International segment. For further information please see our remarks in the item of the Notes 1 "Goodwill", pages 187 et seqq.

(34) Financing costs

The financing costs of EUR 134 (133) million consist exclusively of interest expenses from the raising of borrowed capital not directly connected with operational insurance business. These interest expenses are attributable in an amount of EUR 126 million to our issued subordinated liabilities and in an amount of EUR 8 million to notes payable and loans.

(35) Taxes on income

This item includes domestic income tax as well as comparable taxes on income incurred by foreign subsidiaries. The determination of the income tax includes the calculation of deferred taxes. The principles used to recognize deferred taxes are set out in the subsection entitled "Summary of major accounting policies". Deferred taxes are established on retained earnings of major affiliated companies in cases where a distribution is concretely planned.

The actual and deferred taxes on income can be broken down as follows:

Income tax	2010	2009[1]
Figures in EUR million		
Actual tax for the year under review	416	370
Actual tax for other periods	–79	24
Deferred taxes due to temporary differences	–27	74
Deferred taxes from loss carry-forwards	–82	1
Change in deferred taxes due to changes in tax rates	—	2
Recognized tax expenditure	**228**	**471**

[1] *Adjusted on the basis of IAS 8*

Domestic/foreign breakdown of recognized tax expenditure/income	2010	2009[1]
Figures in EUR million		
Current taxes	337	394
Germany	249	306
Outside Germany	88	88
Deferred taxes	–109	77
Germany	–123	100
Outside Germany	14	–23
Total	**228**	**471**

[1] *Adjusted on the basis of IAS 8*

The revenue authority took the view that not inconsiderable investment income generated by the Group's reinsurance subsidiaries domiciled in Ireland was subject to taxation as foreign-sourced income at the parent company in Germany on the basis of the provisions of the Foreign Transactions Tax Act. Appeals were filed against the relevant tax assessments – also with respect to amounts already recognized as a tax expense. Our opinion that the investment income was not subject to taxation in Germany was confirmed in lower court proceedings and in a procedure before the Federal Fiscal Court (BFH) for the 1996 assessment period. The corresponding basic assessments have in some cases already been cancelled by the revenue authority, and the remaining cancellation assessments will be issued shortly.

The actual and deferred taxes recognized directly in equity in the financial year – resulting from items charged or credited directly to equity – amounted to –EUR 20 (–94) million.

The following table presents a reconciliation of the expected expense for income taxes that would be incurred upon application of the German income tax rate to the pre-tax profit with the actual expense for taxes.

	2010	2009[1]
Figures in EUR million		
Profit before income taxes	898	1,364
Expected tax rate	31.6%	31.6%
Expected expense for income taxes	284	431
Change in deferred rates of taxation	—	1
Taxation differences affecting foreign subsidiaries	–42	–115
Non-deductible expenses	115	152
Tax-exempt income	–83	–65
Value adjustment	25	10
Tax expense not attributable to the reporting period	–84	45
Other	13	12
Recognized expense for income taxes	**228**	**471**

[1] *Adjusted on the basis of IAS 8*

The calculation of the expected expense for income taxes is based on the German income tax rate of 31.6%. This tax rate is made up of corporate income tax including the German reunification charge and a mixed trade tax rate.

The tax ratio, i.e. the ratio of the recognized tax expense to the pre-tax profit, stood at 25.4 (34.5)% in the year under review. The tax rate corresponds to the average income tax load borne by all Group companies.

Availability of capitalized loss carry-forwards

No deferred taxes were established on loss carry-forwards of EUR 610 (748) million and deductible temporary differences of EUR 23 (87) million because their realization is not sufficiently certain. In addition, tax credits of EUR 6 (22) million that had not been capitalized were available.

Availability of loss carry-forwards and tax credits that have not been capitalized:

	1–5 years	6–10 years	> 10 years	Unlimited	Total
Figures in EUR million					
Loss carry-forwards	69	—	44	497	610
Temporary differences	—	—	—	23	23
Tax credits	6	—	—	—	6
Total	**75**	**—**	**44**	**520**	**639**

Loss carry-forwards not recognized in previous years reduced the deferred expense for taxes by EUR 12 (2) million in the year under review. The devaluation of deferred tax claims recognized in previous years led to a deferred tax expense of EUR 12 (2) million in the 2010 financial year.

Other information

Staff

The average number of staff employed throughout the year can be broken down as follows:

	2010	2009
Primary insurance companies	15,256	14,935
Reinsurance companies	2,130	1,986
Companies in the Corporate Operations segment	394	431
Total excluding apprentices and student trainees	**17,780**	**17,352**
Apprentices and student trainees	442	453
Total	**18,222**	**17,805**

Expenditures on personnel	2010	2009
Figures in EUR million		
Wages and salaries		
Expenditures on insurance business	867	819
Expenditures on the administration of investments	58	52
	925	**871**
Social security contributions and expenditure on provisions and assistance		
Social security contributions	137	141
Expenditures for pension provision	19	59
Expenditures for assistance	19	12
	175	**212**
Total	**1,100**	**1,083**

Related party disclosures

IAS 24 "Related Party Disclosures" defines related parties inter alia as parent companies and subsidiaries, subsidiaries of a common parent company, associated companies, legal entities under the influence of management and the management of the company itself.

The related entities within the Talanx Group are comprised of HDI Haftpflichtverband der Deutschen Industrie Versicherungsverein auf Gegenseitigkeit (HDI V. a. G.), which directly holds all shares of Talanx, as well as all unconsolidated subsidiaries – which essentially encompasses the subsidiaries not included in the consolidated financial statement due their insignificant status – and the associated companies recognized at equity. In addition, there are the provident funds that pay benefits in favor of employees of Talanx AG or one of its related parties after termination of the employment relationship.

The related persons are the members of the Boards of Management and Supervisory Boards of Talanx AG and HDI V. a. G. Transactions between Talanx and its subsidiaries or between subsidiaries of Talanx AG are eliminated through consolidation and hence not discussed in the Notes. Business relations existing with unconsolidated companies or with associated companies are of minor importance overall.

For details of the remuneration received by the members of the Board of Management and Supervisory Board of Talanx AG please see the remarks on the compensation of the management boards of the parent company, pages 253 et seq.

Share-based payment

With effect from 1 January 2000 the Executive Board of Hannover Re, with the consent of the Supervisory Board, introduced a virtual stock option plan that provides for the granting of stock appreciation rights to certain managerial staff. The content of the stock option plan is based solely on the Conditions for the Granting of Stock Appreciation Rights. All the members of the Hannover Re Group's senior management are eligible for the award of stock appreciation rights. Exercise of the stock appreciation rights does not give rise to any entitlement to the delivery of Hannover Re stock, but merely to payment of a cash amount linked to the performance of the Hannover Re share. Recognition of transactions involving stock appreciation rights with cash settlement is governed by the requirements of IFRS 2 "Share-based Payment".

Stock appreciation rights were first granted for the 2000 financial year and are awarded separately for each subsequent financial year (allocation year), provided the performance criteria defined in the Conditions for the Granting of Stock Appreciation Rights are satisfied.

The internal performance criterion is achievement of the target performance defined by the Supervisory Board, which is expressed in terms of the diluted earnings per share (EPS) calculated in accordance with IAS 33 "Earnings per Share". If the target EPS is surpassed or undershot, the provisional basic number of stock appreciation rights initially granted is increased or reduced accordingly to produce the EPS basic number. The external performance criterion is the development of the share price in the allocation year. The benchmark used in this regard is the (weighted) RBS Global Reinsurance Index. This index encompasses the performance of listed reinsurers worldwide. Depending upon the outperformance or underperformance of this index, the EPS basic number is increased – albeit by at most 400% of the EPS basic number – or reduced – although by no more than 50% of the EPS basic number.

The maximum period of the stock appreciation rights is ten years, commencing at the end of the year in which they are awarded. Stock appreciation rights which are not exercised by the end of the 10-year period lapse. Stock appreciation rights may only be exercised after a waiting period and then only within four exercise periods each year. For 40% of the stock appreciation rights (first tranche of each allocation year) the waiting period is two years, for each additional 20% (tranches two to four of each allocation year) of the stock appreciation rights the waiting period is extended by one year. Each exercise period lasts for ten trading days, in each case commencing on the sixth trading day after the date of publication of the quarterly report of Hannover Rückversicherung AG.

On 4 November 2009 the Supervisory Board of Hannover Re decided to extend the waiting period applicable to members of the Executive Board from two to four years for stock appreciation rights granted from the 2010 allocation onwards; on 23 November 2009 the Executive Board of Hannover Re decided to extend the waiting period accordingly for the other members of the Group's senior management. Upon expiry of this waiting period a maximum 60% of the stock appreciation rights awarded for an allocation year may be exercised. The waiting period for each additional 20% of the stock appreciation rights awarded for this allocation year to a member of the managerial staff is one year.

Upon exercise of a stock appreciation right the amount paid out to the entitled party is the difference between the basic price and the current market price of the Hannover Re share at the time of exercise. In this context, the basic price corresponds to the arithmetical mean of the closing prices of the Hannover Re share on all trading days of the first full calendar month of the allocation year in question. The current market price of the Hannover Re share at the time when stock appreciation rights are exercised is determined by the arithmetical mean of the closing prices of the Hannover Re share on the last 20 trading days prior to the first day of the relevant exercise period.

The amount paid out is limited to a maximum calculated as a quotient of the total volume of compensation to be granted in the allocation year and the total number of stock appreciation rights awarded in the year in question.

In the event of cancellation of the employment relationship or termination of the employment relationship as a consequence of a termination agreement or a set time limit, a holder of stock appreciation rights is entitled to exercise all such rights in the first exercise period thereafter. Stock appreciation rights not exercised in this period and those in respect of which the waiting period has not yet expired shall lapse. Retirement, disability or death of the member of management shall not be deemed to be termination of the employment relationship for the purpose of exercising stock appreciation rights.

The allocations for the years 2000, 2002 to 2004, 2006, 2007 and 2009 gave rise to the following commitments in the 2010 financial year. No allocations were made for 2001, 2005 or 2008.

Stock appreciation rights of Hannover Re	Allocation year						
	2009	**2007**	**2006**	**2004**	**2003**	**2002**	**2000**
Award date	15.03.2010	28.03.2008	13.03.2007	24.03.2005	25.03.2004	11.04.2003	21.06.2001
Period	10 Years	10 Years	10 Years	10 Years	10 Years	10 Years	10 Years
Waiting period	2 Years	2 Years	2 Years	2 Years	2 Years	2 Years	2 Years
Basic price (in EUR)	22.70	34.97	30.89	27.49	24.00	23.74	25.50
Participants in year of issue	137	110	106	109	110	113	95
Number of rights granted	1,569,855	926,565	817,788	211,171	904,234	710,429	1,138,005
Fair value at 31.12.2010 (in EUR)	7.30	7.86	9.77	16.16	8.99	8.79	5.49
Maximum value (in EUR)	8.76	10.79	10.32	24.62	8.99	8.79	5.49
Weighted exercise price	—	1.52	5.32	8.51	8.99	8.79	5.49
Number of rights existing at 31.12.2010	1,535,600	889,858	691,751	126,622	3,316	2,365	—
Provisions at 31.12.2010 (in EUR million)	3.90	6.10	6.48	2.05	0.03	0.02	—
Amounts paid out in the 2010 financial year (in EUR million)	—	0.02	0.50	0.25	0.49	0.07	0.01
Expense in the 2010 financial year (in EUR million)	3.90	2.40	2.53	0.59	0.01	—	—

In the 2010 financial year the waiting period expired for 100% of the stock appreciation rights awarded in 2000 and 2002 to 2004, 60% of those awarded in 2006 and 40% of those awarded in 2007. 1,503 stock appreciation rights from the 2000 allocation year, 7,682 stock appreciation rights from the 2002 allocation year, 52,581 stock appreciation rights from the 2003 allocation year, 29,832 stock appreciation rights from the 2004 allocation year, 95,380 stock appreciation rights from the 2006 allocation year and 10,399 stock appreciation rights from the 2007 allocation year were exercised. The total amount paid out stood at EUR 1.3 million.

The stock appreciation rights of Hannover Re developed as follows:

Development of the stock appreciation rights of Hannover Re/	Allocation year						
Number of options	**2009**	**2007**	**2006**	**2004**	**2003**	**2002**	**2000**
Granted in 2001	—	—	—	—	—	—	1,138,005
Exercised in 2001	—	—	—	—	—	—	—
Lapsed in 2001	—	—	—	—	—	—	—
Number of options at 31.12.2001	**—**	**—**	**—**	**—**	**—**	**—**	**1,138,005**
Granted in 2002	—	—	—	—	—	—	—
Exercised in 2002	—	—	—	—	—	—	—
Lapsed in 2002	—	—	—	—	—	—	40,770
Number of options at 31.12.2002	**—**	**—**	**—**	**—**	**—**	**—**	**1,097,235**
Granted in 2003	—	—	—	—	—	710,429	—
Exercised in 2003	—	—	—	—	—	—	—
Lapsed in 2003	—	—	—	—	—	23,765	110,400
Number of options at 31.12.2003	**—**	**—**	**—**	**—**	**—**	**686,664**	**986,835**
Granted in 2004	—	—	—	—	904,234	—	—
Exercised in 2004	—	—	—	—	—	—	80,137
Lapsed in 2004	—	—	—	—	59,961	59,836	57,516
Number of options at 31.12.2004	**—**	**—**	**—**	**—**	**844,273**	**626,828**	**849,182**
Granted in 2005	—	—	—	211,171	—	—	—
Exercised in 2005	—	—	—	—	—	193,572	647,081
Lapsed in 2005	—	—	—	6,397	59,834	23,421	25,974
Number of options at 31.12.2005	**—**	**—**	**—**	**204,774**	**784,439**	**409,835**	**176,127**
Granted in 2006	—	—	—	—	—	—	—
Exercised in 2006	—	—	—	—	278,257	160,824	153,879
Lapsed in 2006	—	—	—	14,511	53,578	22,896	10,467
Number of options at 31.12.2006	**—**	**—**	**—**	**190,263**	**452,604**	**226,115**	**11,781**
Granted in 2007	—	—	817,788	—	—	—	—
Exercised in 2007	—	—	—	12,956	155,840	110,426	3,753
Lapsed in 2007	—	—	8,754	13,019	38,326	10,391	—
Number of options at 31.12.2007	**—**	**—**	**809,034**	**164,288**	**258,438**	**105,298**	**8,028**
Granted in 2008	—	926,565	—	—	—	—	—
Exercised in 2008	—	—	—	1,699	121,117	93,747	—
Lapsed in 2008	—	—	3,103	1,443	2,162	944	—
Number of options at 31.12.2008	**—**	**926,565**	**805,931**	**161,146**	**135,159**	**10,607**	8,028
Granted in 2009	—	—	—	—	—	—	—
Exercised in 2009	—	—	—	1,500	79,262	560	6,525
Lapsed in 2009	—	17,928	16,158	3,192	—	—	—
Number of options at 31.12.2009	**—**	**908,637**	**789,773**	**156,454**	**55,897**	**10,047**	**1,503**
Granted in 2010	1,569,855	—	—	—	—	—	—
Exercised in 2010	—	10,399	95,380	29,832	52,581	7,682	1,503
Lapsed in 2010	34,255	8,380	2,642	—	—	—	—
Number of options at 31.12.2010	**1,535,600**	**889,858**	**691,751**	**126,622**	**3,316**	**2,365**	**—**

The existing stock appreciation rights are valued on the basis of the Black/Scholes option pricing model.

The calculations were based on the year-end closing price of the Hannover Re share of EUR 41.38 as at 22 December 2010, expected volatility of 39.69% (historical volatility on a five-year basis), a dividend yield of 5.32% and risk-free interest rates of 1.02% for the 2002 allocation year, 1.39% for the 2003 allocation year, 1.76% for the 2004 allocation year, 2.38% for the 2006 allocation year, 2.64% for the 2007 allocation year and 3.05% for the 2009 allocation year.

On this basis the aggregate provisions, which are recognized in the sundry non-technical provisions, amounted to EUR 18.6 (10.5) million for the 2010 financial year. The expense totaled altogether EUR 9.4 (7.5) million.

Lawsuits

As a consequence of the merger with Gerling Konzern Allgemeine Versicherungs-AG, HDI-Gerling Industrie Versicherung AG – as the acquirer – became party to anti-trust administrative proceedings. In March 2005 the Federal Cartel Office had imposed a fine of EUR 19 million on Gerling Konzern Allgemeine Versicherungs-AG – along with other German insurers – on account of alleged cartel agreements in the German industrial insurance market. In January 2010 the Dusseldorf Higher Regional Court (OLG) cleared HDI-Gerling Industrie Versicherung AG of the cartel accusations because liability as the legal successor to Gerling Konzern Allgemeine Versicherungs-AG was out of the question. The chief public prosecutor's office in Dusseldorf than appealed the ruling, as a result of which the matter is now before the Federal Court of Justice awaiting a decision.

In the context of the acquisition of Lion Insurance Company, Trenton/USA, by our subsidiary Hannover Finance, Inc., Wilmington/USA, a legal dispute exists with the former owners of Lion Insurance Company regarding the release of a trust account in an amount of around USD 14 million that serves as security for liabilities of the former owners in connection with a particular business segment.

The proceedings with the revenue authority relating to investment income generated by the reinsurance subsidiaries of some Group companies domiciled in Ireland were resolved in favor of the Talanx Group in the year under review when the Federal Fiscal Court (BFH) handed down its decision in October 2010. With regard to the implications we would refer the reader to our explanatory remarks in the Notes (item 35 "Taxes on income") pages 242 et seq. and to the corresponding subsection in the risk report.

With the exception of the aforementioned proceedings, no significant court cases were pending during the year under review or as at the balance sheet date – with the exception of proceedings within the scope of ordinary insurance and reinsurance business activities.

Contingent liabilities and other financial commitments

Hannover Re has placed four subordinated debts on the European capital markets through its subsidiary Hannover Finance (Luxembourg) S. A. Hannover Re has secured by subordinated guarantee both the debt issued in 2001, the volume of which now stands at EUR 138 million, and the debts from financial years 2004 in an amount of EUR 750 million as well as 2005 and 2010 in amounts of EUR 500 million each (for further information on the subordinated debts please see the item of the Notes 17 "Subordinated liabilities", pages 216 et seq.).

The guarantees given by Hannover Re for the subordinated debts take effect if the issuer in question fails to render payments due under the bonds. The guarantees cover the relevant bond volumes as well as interest due until the repayment dates. Given the fact that interest on the bonds is partly dependent on the capital market rates applicable at the interest payment dates (floating rates), the maximum undiscounted amounts that can be called cannot be estimated with sufficient accuracy. Hannover Re does not have any rights of recourse outside the Group with respect to the guarantee payments.

Talanx AG has provided a subordinated guarantee to the holders of the subordinated debt issued in February 2005 by its subsidiary Talanx Finanz (Luxemburg) S. A. The subordinated guarantee had a volume of EUR 243 million at the end of the year under review.

Pension commitments to former members of staff give rise to contingent liabilities of EUR 366 million against Group companies.

As security for technical liabilities to US clients, Hannover Re has established two trust accounts (master trust and supplemental trust) in the United States. They amounted to EUR 2,576 (2,341) million and EUR 10 (—) million respectively as at the balance sheet date. The securities held in the trust accounts are shown as available-for-sale investments. Hannover Re has furnished further collateral in an amount of EUR 299 (310) million in the form of so-called "single trust funds".

As part of its business activities Hannover Re holds collateral available outside the United States in various blocked custody accounts and trust accounts, the total amount of which in relation to the major companies of the Hannover Re Group was EUR 1,851 (1,588) million as at the balance sheet date.

HDI-Gerling Industrie Versicherung AG has blocked holdings of EUR 51 (36) million. The securities held in the master trust are shown as available-for-sale investments.

Outstanding capital commitments with respect to certain special investments exist in the amount of EUR 295 (351) million. The commitments exist at various Group companies. They involve primarily private equity funds and venture capital firms in the form of private limited companies.

As security for technical liabilities, various financial institutions have furnished sureties for us in the form of letters of credit. The total amount as at the balance sheet date was EUR 2,842 (2,648) million. The standard market contractual clauses contained in some of the underlying letter of credit facilities regarding compliance with stipulated conditions are explained in the subsection "Management of liquidity risks" of the section "Nature of risks associated with insurance contracts and financial instruments", pages 184 et seqq.

For liabilities in connection with participating interests in real estate companies and real estate transactions Hannover Re Real Estate Holdings has furnished the usual collateral under such transactions to various banks, the amount of which totaled EUR 258 (174) million as at the balance sheet date.

At some Group companies potential financial obligations relating to investments existed at the end of the financial year in the amount of altogether EUR 170 million in connection with structured securities through issuers' rights to take delivery. The potential amounts that could be drawn upon totaled EUR 159 million for 2011 and EUR 11 million for 2012.

In addition, other financial commitments existed as at 31 December 2010 for investment volumes taken up but not yet paid out in an amount of EUR 38 million. Building loans to policyholders that had been awarded but not yet disbursed totaled EUR 1 million.

Commitments for contractually agreed future services in connection with IT outsourcing contracts amounted to altogether EUR 174 (102) million as at 31 December 2010.

Contractual obligations in an amount of EUR 12 million existed on the basis of various service agreements that had been concluded.

Further financial commitments exist on the basis of guarantee facilities (EUR 7 million) and other contractual relationships (EUR 28 million).

As guarantor institutions for Gerling Versorgungskasse VVaG, various Group companies are liable pro rata for any deficits that may be incurred by Gerling Versorgungskasse.

The Group's life insurance companies are members of the Security Fund for Life Insurers pursuant to §§124 et seq. Insurance Supervision Act (VAG). On the basis of the Security Fund Financing Ordinance (Life), the Security Fund collects annual contributions of at most 0.2 per mille of the total net technical provisions until security funds of 1 per mille of the total net technical provisions have been accumulated. In addition, the Security Fund may collect special contributions in an amount of a further 1 per mille of the total net technical provisions. Furthermore, the companies have undertaken to make financial resources available to the Security Fund or alternatively to Protektor Lebensversicherung AG, Berlin, insofar as the resources of the Security Fund are not sufficient if a company has to be rehabilitated. The commitment amounts to 1% of the total net technical provisions (German Commercial Code) after allowance for the contributions already made to the Security Fund at this point in time. When the aforementioned payment commitments from the contributions payable to the Security Fund are taken into account, the total commitment of the companies stands at EUR 372 million.

Several Group companies are members of the association for the reinsurance of pharmaceutical risks, the association for the insurance of German nuclear reactors and the traffic accident pool Verkehrsopferhilfe e.V. In the event of one of the other pool members failing to meets its liabilities, an obligation exists to take over such other member's share within the framework of the quota participation.

Rents and leases

Leases under which Group companies are the lessee

Outstanding commitments from non-cancellable contractual relationships existed in an amount of EUR 492 million as at the balance sheet date.

Future rental and leasing commitments	2011	2012	2013	2014	2015	Sub-sequent years
Figures in EUR million						
Payments	51	43	41	39	37	281

Operating leasing contracts produced expenditures of EUR 51 (22) million in the year under review. Multi-year lease contracts existed above all with respect to subsidiaries of Hannover Re in Africa and the United States. Further commitments refer to multi-year lease contracts entered into by primary insurance companies in Germany.

Leases under which Group companies are the lessor

The total amount of rental income due under non-cancellable contracts in subsequent years is EUR 340 million.

Future rental income	2011	2012	2013	2014	2015	Sub-sequent years
Figures in EUR million						
Payments to be received	62	57	58	58	55	50

Rental income in the year under review totaled EUR 65 million. It resulted principally from the renting out of properties by a US-based real estate company in the Non-Life Reinsurance segment as well as from the renting out of properties in Germany by primary insurance companies.

Remuneration of the management boards of the parent company

Total remuneration of EUR 6,224 (8,399) thousand was paid to the Board of Management.

The total remuneration paid to the Supervisory Board amounted to EUR 1,857 (1,148) thousand.

Former members of the Board of Management and their surviving dependants received total remuneration of EUR 790 (399) thousand. An amount of EUR 11,747 (6,678) thousand was set aside to cover projected benefit obligations due to former members of the Board of Management and their surviving dependants.

No advances or loans were extended to members of the management boards in the year under review.

IAS 24 provides for detailed presentation of the remuneration components received by members of management in key positions. Specifically, this group of persons encompasses the members of the Board of Management and Supervisory Board of Talanx AG. The aforementioned group of persons received the following remuneration components:

	2010	2009
Figures in EUR thousand		
Salaries and other remuneration due in the short term	8,081	9,547
Expenses for retirement provision	4,616	3,088
Granting of equities and other equity-based remuneration	—	—
Total	**12,697**	**12,635**

Fee paid to the auditor

The appointed auditor of the Talanx Group's consolidated financial statement is KPMG AG Wirtschaftsprüfungsgesellschaft (KPMG AG).

The fees expensed by KPMG AG and its affiliated companies* in the 2010 financial year within the meaning of § 318 German Commercial Code (HGB) amounted to EUR 12.7 (13.7) million. The amount includes a fee of EUR 9.2 (8.1) million for the auditing of the financial statement, EUR 0.1 (1.0) million for other appraisals and valuations, EUR 0.9 (0.9) million for tax consultancy services and EUR 2.5 (3.7) million for consultancy and other services performed for the parent or subsidiary companies.

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

On 8 November 2010 the Executive Board and Supervisory Board of our listed subsidiary Hannover Rückversicherung AG (Hannover Re) submitted the declaration of conformity regarding the recommendations made by the Government Commission on the German Corporate Governance Code that is required pursuant to § 161 German Stock Corporation Act (AktG) and made this declaration available to the shareholders by publishing it in its annual report. The present and all previous Declarations of Conformity of the company are published on Hannover Re's website (http://www.hannover-re.com/about/corporate/declaration/index.html).

Events after the balance sheet date

Catastrophe losses and major claims

We anticipate a net burden of losses in the range of EUR 40 million to EUR 100 million from the flooding that occurred in the Australian city of Brisbane in January 2011.

On 22 February 2011 an earthquake with a magnitude of 6.3 occurred in New Zealand. This was the second quake to hit Christchurch in the space of five months. We anticipate a net burden of losses in the order of EUR 150–160 million in primary and reinsurance business from this latest earthquake in New Zealand.

** As at 31 December 2009 KPMG AG and its affiliated companies encompassed the KPMG companies in Germany, the United Kingdom, Spain, Switzerland, Belgium, the Netherlands, Luxembourg and Turkey. The KPMG companies in the CIS countries of Russia, Ukraine, Kazakhstan, Kyrgyzstan, Georgia and Armenia were added effective 1 February 2010. Fees relating to 2009 were adjusted accordingly.*

The magnitude 9.0 earthquake that struck Japan on 11 March 2011 will impact our account through our worldwide industrial and reinsurance activities. In view of the complexity of the event, reliable information on the total market loss for the insurance industry is not yet available. Any assessment of the loss amount is therefore still subject to considerable uncertainty. Based on initial treaty analyses, we currently anticipate a total net burden of losses for the Group in the order of EUR 300 million before taxes.

Other events

In a press release dated 20 January 2011 our subsidiary HDI-Gerling Industrie Versicherung AG, Hannover, announced that it had acquired the Dutch property/casualty insurer Nassau Verzekering Maatschappij N.V. with retroactive effect from 30 September 2010 for a purchase price of EUR 195 million. Since the closing is expected in the second quarter of 2011 disclosures pursuant to IFRS 3 have been omitted. It is intended that the acquired company will subsequently be merged with retroactive effect from 1 January 2011 into the Dutch insurer HDI Verzekeringen N.V. The latter company is a wholly owned subsidiary of HDI-Gerling Industrie Versicherung AG.

HDI-Gerling Lebensversicherung AG is currently considering the possible sale of a real estate portfolio. It is aiming for disposal in 2011. The relevant assets were not carried as "held for sale" because the requirements of IFRS 5 had not been fully satisfied as at the balance sheet date (see also the section "Non-current assets held for sale and disposal groups", pages 164 et seq.).

The subordinated debt of EUR 350 million issued in 2001 by Hannover Finance (Luxembourg) S. A. can be called for the first time on 14 March 2011 and has a remaining volume of EUR 138.1 million after the offer made in 2005 to existing issue holders to exchange into a new bond. As announced on 1 February 2011, the issuer exercised its call option and repaid the outstanding bond volume in full effective 14 March 2011. Further details of the debt are provided in item 17 of the Notes "Subordinated liabilities", pages 216 et seq.

In a press release dated 11 January 2011 the Executive Board of Hannover Re advised that the New York State Insurance Department had allowed Hannover Re to qualify as a so-called "Eligible Reinsurer". Under this regulation the collateral requirements for our non-life reinsurance business written in the state of New York are reduced. Whereas it had previously been necessary to post collateral for 100% of the technical reserves, the required collateral level now stands at just 20%.

In October 2010 the Federal Fiscal Court (BFH) confirmed a decision of the lower court according to which investment income of Irish subsidiaries is not subject to taxation of foreign-sourced income. Since tax assessments were amended accordingly or the amendment thereof was announced by the revenue authority in February 2011, the refund of prepaid taxes and interest in a substantial amount is anticipated for the Hannover Re subgroup in the 2011 financial year. The effect on net income is likely to be in the order of EUR 100 to 120 million.

In a press release dated 22 December 2010 the Executive Board of Hannover Re reported that Hannover Re had reached agreement on the sale of all operational companies of its US subsidiary Clarendon Insurance Group, Inc., New York, to the Bermuda-based Enstar Group Ltd., Hamilton. Since this transaction was still subject to the customary regulatory approvals at the time when the consolidated financial statement was released for publication, it remains our expectation that the sale will be closed in the second quarter of 2011. Please see our remarks in the section "Non-current assets held for sale and disposal groups".

List of shareholdings for the consolidated financial statement of Talanx AG pursuant to § 313 (2) Commercial Code (HGB)

1. Subsidiaries Companies included in the IFRS consolidated financial statement	Calculated share of capital[1] in %		Capital and reserves[2] in EUR thousand		Result before profit/loss transfer[2] in EUR thousand
Industrial Lines					
Gerling Insurance Agency, Inc., Chicago, USA[7]	100.00	USD	—	USD	—
HDI Gerling Insurance of South Africa Ltd., Johannesburg, South Africa	100.00	ZAR	39,989	ZAR	1,688
HDI HANNOVER International Espana, Cía de Seguros y Reaseguros S. A., Madrid, Spain[18]	100.00		44,898		4,911
HDI Versicherung AG, Vienna, Austria[18]	100.00		41,930		7,512
HDI-Gerling America Insurance Company, Chicago, USA	100.00	USD	124,801	USD	11,928
HDI-Gerling Assurances S. A., Brussels, Belgium[18]	100.00		36,637		4,602
HDI-Gerling Australia Insurance Company Pty. Ltd., Sydney, Australia	100.00	AUD	23,796	AUD	–802
HDI-Gerling de Mexico Seguros S. A., Mexico City, Mexico[18]	100.00	MXN	53,101	MXN	–921
HDI-Gerling Industrie Versicherung AG, Hannover, Germany[3]	100.00		406,536		130,813
HDI-Gerling Verzekeringen N.V., Rotterdam, Netherlands[18]	100.00		70,885		15,932
HDI-Gerling Welt Service AG, Hannover, Germany[3]	100.00		90,986		5,231
HG Sach AltInvest GmbH & Co. KG, Cologne, Germany[13, 19]	100.00		37,699		1,123
IVEC Institutional Venture and Equity Capital AG, Cologne, Germany[13]	100.00		178,003		21,171
Riethorst Grundstückgesellschaft mbH, Hannover, Germany[13, 18]	100.00		43,246		–137
Retail Germany					
Alstertor Zweite Beteiligungs- und Investitionssteuerungs-GmbH & Co. KG, Hamburg	100.00		30,596		–24
CiV Grundstücksgesellschaft mbH & Co. KG, Hilden[18]	100.00		25,565		530
Clarus AG, Wiesbaden (formerly: DTPVO Deutsche Privatvorsorge AG, Darmstadt)[3]	100.00		222		–25,189
Erste Credit Life International AG, Hilden	100.00		264		–1,772
GERLING Pensionsenthaftungs- und Rentenmanagement GmbH, Cologne	100.00		5,458		–2,023
HDI Direkt Versicherung AG, Hannover[3]	100.00		162,088		4,657
HDI-GERLING Financial Service GmbH, Vienna, Austria	100.00		781		112
HDI-Gerling Firmen und Privat Versicherung AG, Hannover[3]	100.00		154,926		–56,373
HDI-Gerling Friedrich Wilhelm Rückversicherung AG, Cologne[3]	100.00		39,619		111,006
HDI-Gerling Leben Betriebsservice GmbH, Cologne[3, 16]	100.00		171		130
HDI-Gerling Leben Vertriebsservice AG, Cologne[3, 16]	100.00		4,028		—
HDI-Gerling Lebensversicherung AG, Cologne	100.00		234,593		15,000
HDI-Gerling Pensionsfonds AG, Cologne	100.00		5,278		133
HDI-Gerling Pensionskasse AG, Cologne	100.00		28,248		—
HDI-Gerling Pensionsmanagement AG, Cologne[3, 16]	100.00		6,414		–1,462
HDI-Gerling Rechtsschutz Schadenregulierungs-GmbH, Hannover[3, 16]	100.00		288		–27
HDI-Gerling Rechtsschutz Versicherung AG, Hannover[3]	100.00		18,951		–21,664
HDI-Gerling Vertrieb Firmen und Privat AG, Hannover[3, 16]	100.00		55		–2,806
HNG Hannover National Grundstücksverwaltung GmbH & Co. KG, Hannover[18]	100.00		37,957		3,871
neue leben Holding AG, Hamburg	67.50		75,960		20,456
neue leben Lebensversicherung AG, Hamburg	67.50		64,566		17,800
neue leben Unfallversicherung AG, Hamburg[3]	67.50		3,596		3,814
PARTNER OFFICE AG, Cologne[3, 16]	100.00		3,041		–16,189
PB Lebensversicherung AG, Hilden	100.00		31,587		14,739
PB Pensionsfonds AG, Hilden[3]	100.00		5,038		235
PB Pensionskasse AG, Hilden	100.00		6,030		79
PB Versicherung AG, Hilden	100.00		10,473		4,003
PBV Lebensversicherung AG, Hilden	100.00		46,987		10,772

1. Subsidiaries Companies included in the IFRS consolidated financial statement	Calculated share of capital[1] in %		Capital and reserves[2] in EUR thousand		Result before profit/loss transfer[2] in EUR thousand
Proactiv Communication Center GmbH, Hilden[3]	100.00		630		538
Proactiv IT Servicegesellschaft mbH, Munich[3]	100.00		50		453
Proactiv Servicegesellschaft mbH, Hilden[3]	100.00		7,025		2,176
Talanx Deutschland AG, Hannover (formerly: HDI-Gerling Leben Serviceholding AG, Cologne)[3]	100.00		2,899,468		–428,051
TARGO Lebensversicherung AG, Hilden	100.00		73,774		40,119
TARGO Versicherung AG, Hilden[3]	100.00		27,106		16,751
Zweite Credit Life International AG, Hilden	100.00		1,854		–684
Retail International					
ASPECTA Assurance International AG, Vaduz, Liechtenstein[12]	100.00	CHF	1,054	CHF	–3,427
ASPECTA Assurance International Luxembourg S. A., Luxembourg, Luxembourg[12]	100.00		273		–16,798
CiV Hayat Sigorta A. Ş., Istanbul, Turkey[12]	100.00	TRY	14,152	TRY	–3,698
HDI Asekuracja Towarzystwo Ubezpieczen S. A., Warsaw, Poland[12]	100.00	PLN	273,770	PLN	–34,996
HDI Assicurazioni S. p. A., Rome, Italy[12]	100.00		170,116		8,736
HDI Immobiliare S. r. L., Rome, Italy[12]	100.00		63,033		343
HDI Seguros S. A. de C.V., León, Mexico[12]	99.48	MXN	276,970	MXN	29,347
HDI Seguros S. A., Santiago, Chile[12]	99.93	CLP	7,145,291	CLP	–1,534,363
HDI Seguros S. A., São Paulo, Brazil[12]	100.00	BRL	367,740	BRL	58,972
HDI Sigorta A. Ş., Istanbul, Turkey[12]	100.00	TRY	58,191	TRY	106,698
HDI STRAKHUVANNYA (Ukraine), Kiev, Ukraine[12]	99.22	UAH	40,537	UAH	–16,242
HDI Zahstrahovane AD, Sofia, Bulgaria[12]	94.00	BGN	8,134	BGN	254
HDI-Gerling Zycie Towarzystwo Ubezpieczen S. A., Warsaw, Poland[12]	100.00	PLN	31,226	PLN	–8,385
InChiaro Assicurazioni S. p. A., Rome, Italy[12]	51.00		7,888		–962
InLinea S. p. A., Rome, Italy[12]	70.00		591		145
Inversiones HDI Limitada, Santiago, Chile[12]	100.00	CLP	13,011,024	CLP	186,548
Magyar Posta Biztosító Részvénytársaság, Budapest, Hungary[12]	66.93	HUF	1,738,292	HUF	–457,831
Magyar Posta Életbiztosító Részvénytársaság, Budapest, Hungary[12]	66.93	HUF	3,006,804	HUF	35,383
OOO Strakhovaya Kompaniya "HDI Strakhovanie", Moscow, Russia[12]	100.00	RUB	49,186	RUB	1,535
OOO Strakhovaya Kompaniya CiV Life, Moscow, Russia[12]	100.00	RUB	26,262	RUB	–69,937
Talanx International AG (formerly: HDI-Gerling International Holding AG), Hannover, Germany[3]	100.00		595,337		21,449
Non-Life Reinsurance					
300 S. Orange Avenue LLC, Wilmington, USA[6, 12]	47.71	USD	55,392	USD	1,743
402 Santa Monica Blvd. LLC, Wilmington, USA[6, 12]	47.71	USD	31,673	USD	1,139
465 Broadway LLC, Wilmington, USA[6, 12]	47.71	USD	42,394	USD	1,088
5115 Sedge Boulevard LP, Chicago, USA[6, 12]	40.12	USD	1,012	USD	231
5115 Sedge Corporation, Chicago, USA[6, 12]	47.76	USD	2,582	USD	277
Atlantic Capital Corporation, Wilmington, USA[4, 21]	50.22	USD	–113,387	USD	—
Cargo Transit Insurance (Pty) Ltd., Helderkruin, South Africa[5, 11]	20.49	ZAR	–269	ZAR	–769
Clarendon America Insurance Company, Trenton, USA[4, 10, 11]	50.22	USD	131,093	USD	–7,999
Clarendon Insurance Group Inc., Wilmington, USA[4, 10, 11]	50.22	USD	–46,297	USD	–36,624
Clarendon National Insurance Company, Trenton, USA[4, 10, 11]	50.22	USD	–46,580	USD	–33,254
Clarendon Select Insurance Company, Tallahassee, USA[4, 10, 11]	50.22	USD	13,412	USD	–867
Compass Insurance Company Limited, Johannesburg, South Africa[5]	50.22	ZAR	111,083	ZAR	–13,847
Construction Guarantee (Pty.) Ltd., Parktown, South Africa[5]	13.06	ZAR	1,476	ZAR	1,152
E+S Rückversicherung AG, Hannover, Germany[14]	31.98		683,413		176,000

1. Subsidiaries Companies included in the IFRS consolidated financial statement	Calculated share of capital[1] in %		Capital and reserves[2] in EUR thousand		Result before profit/loss transfer[2] in EUR thousand
Envirosure Underwriting Managers (Pty.) Ltd., Durban, South Africa[5]	15.37	ZAR	–1,849	ZAR	–618
Film & Entertainment Underwriters SA (Pty). Ltd., Northcliff, South Africa[5, 11]	13.06	ZAR	–610	ZAR	–860
Funis GmbH & Co. KG, Hannover, Germany[19]	50.22		7,996		–4
Garagesure Consultants and Acceptances (Pty) Ltd., Johannesburg, South Africa[5]	20.49	ZAR	1,926	ZAR	220
Gem & Jewel Acceptances (Pty) Ltd., Johannesburg, South Africa[5, 11]	17.93	ZAR	459	ZAR	393
GLL HRE CORE PROPERTIES LP, Wilmington, USA[6, 12]	47.71	USD	111,270	USD	2,058
GLL Terry Francois Blvd. LLC, Wilmington, USA[6, 12]	24.32	USD	24,801	USD	1,768
Hannover America Private Equity Partners II GmbH & Co. KG, Cologne, Germany[19]	47.85		167,582		5,832
Hannover Euro Private Equity Partners II GmbH & Co. KG, Cologne, Germany[13, 19]	58.52		5,747		454
Hannover Euro Private Equity Partners III GmbH & Co. KG, Cologne, Germany[13, 15, 19]	51.73		62,438		4,723
Hannover Euro Private Equity Partners IV GmbH & Co. KG, Cologne, Germany[13, 15, 19]	53.82		72,582		8,946
Hannover Finance (Luxembourg) S. A., Luxembourg, Luxembourg[11]	50.22		31,244		–2,331
Hannover Finance (UK) Limited, Virginia Water, United Kingdom[11]	50.22	GBP	131,095	GBP	–12
Hannover Finance Inc., Wilmington, USA[9, 11]	50.22	USD	307,866	USD	–34,956
Hannover Insurance-Linked Securities GmbH & Co. KG, Hannover, Germany[19]	50.22		65,883		8,585
Hannover Life Reassurance Africa Ltd., Johannesburg, South Africa[5, 11]	50.22	ZAR	411,113	ZAR	69,634
Hannover Re (Bermuda) Ltd., Hamilton, Bermuda[11]	50.22		920,679		27,287
Hannover Re Advanced Solutions Ltd., Dublin, Ireland[22]	50.22		31		—
Hannover Re Euro PE Holdings GmbH & Co. KG, Cologne, Germany[19]	45.66		25,979		691
Hannover Re Euro RE Holdings GmbH, Cologne, Germany[19]	41.10		56,057		–305
Hannover Re Real Estate Holdings Inc., Orlando, USA[9, 12]	47.76	USD	254,774	USD	2,838
Hannover Reinsurance (Ireland) Ltd., Dublin, Ireland[11]	50.22		462,537		46,010
Hannover Reinsurance Africa Ltd., Johannesburg, South Africa[5, 11]	50.22	ZAR	726,038	ZAR	151,044
Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg, South Africa[9, 11, 14]	50.22	ZAR	155,813	ZAR	138,961
Hannover Reinsurance Mauritius Ltd., Port Louis, Mauritius[5]	50.22	MUR	50,613	MUR	2,824
Hannover ReTakaful B. S. C (c), Manama, Bahrain[11, 14]	50.22	BHD	28,198	BHD	6,208
Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover, Germany[3, 14]	50.22		2,621,855		164,970
Hannover Rückversicherung AG, Hannover, Germany[14]	50.22		1,682,903		302,000
Hannover Services (UK) Ltd., Virginia Water, United Kingdom[11]	50.22	GBP	763	GBP	–17
HAPEP II Holding GmbH, Cologne, Germany[19]	47.85		41,565		1,702
Harbor Specialty Insurance Company, Trenton, USA[4, 10, 11]	50.22	USD	37,840	USD	1,804
HEPEP II Holding GmbH, Cologne, Germany[13, 19]	58.52		2,944		483
HEPEP III Holding GmbH, Cologne, Germany[13, 15, 19]	51.73		11,925		56
HILSP Komplementär GmbH, Hannover, Germany[19]	50.22		22		—
Hospitality Industries Underwriting Consultants (Pty) Ltd., Johannesburg, South Africa[5]	18.77	ZAR	3,071	ZAR	2,763
Indoc Holdings S. A., Luxembourg, Luxembourg[5, 21]	50.22	CHF	—	CHF	—
Inter Hannover (No. 1) Ltd., London, United Kingdom[11]	50.22	GBP	1	GBP	—
International Insurance Company of Hannover Ltd., Bracknell, United Kingdom[11]	50.22	GBP	119,353	GBP	9,134
Landmark Underwriting Agency (Pty) Ltd., Bloemfontein, South Africa[5]	20.62	ZAR	1,873	ZAR	374
Lireas Holdings (Pty) Ltd., Johannesburg, South Africa[5]	25.61	ZAR	185,175	ZAR	36,888
Micawber 185 (Pty) Ltd., Johannesburg, South Africa[5]	50.22	ZAR	18,257	ZAR	3,225
MUA Insurance Acceptances (Pty) Ltd., Cape Town, South Africa[5]	25.61	ZAR	3,751	ZAR	4,696
MUA Insurance Company Ltd., Cape Town, South Africa[5]	25.61	ZAR	19,673	ZAR	5,655
One Winthrop Square LLC, Wilmington, USA[6, 12]	47.71	USD	23,123	USD	1,078
Oval Office Grundstücks GmbH, Hannover, Germany[11, 13]	75.11		57,789		1,878
Peachtree (Pty) Ltd., Johannesburg, South Africa[5, 21]	50.22	ZAR	—	ZAR	—
Secquaero ILS Fund Ltd., Georgetown, Grand Cayman, Cayman Islands[11, 12]	50.22	USD	51,472	USD	26
SUM Holdings (Pty) Ltd., Johannesburg, South Africa[5]	18.77	ZAR	21,469	ZAR	478
Thatch Risk Acceptances (Pty) Ltd., Cape Town, South Africa[5]	16.89	ZAR	764	ZAR	1,008
Transit Underwriting Managers (Pty) Ltd., Cape Town, South Africa[5]	25.61	ZAR	1,332	ZAR	2,552
Woodworking Risk Acceptances (Pty) Ltd., Pietermaritzburg, South Africa[5]	15.37	ZAR	1,001	ZAR	209

1. Subsidiaries Companies included in the IFRS consolidated financial statement	Calculated share of capital[1] in %		Capital and reserves[2] in EUR thousand		Result before profit/loss transfer[2] in EUR thousand
Life/Health Reinsurance					
Hannover Life Re AG, Hannover, Germany[3]	50.22		1,032,596		23,499
Hannover Life Re of Australasia Ltd., Sydney, Australia[11]	50.22	AUD	251,641	AUD	27,673
Hannover Life Reassurance (Ireland) Ltd., Dublin, Ireland[11]	50.22		922,025		84,505
Hannover Life Reassurance (UK) Ltd., Virginia Water, United Kingdom[11]	50.22	GBP	40,509	GBP	–461
Hannover Life Reassurance Bermuda Ltd., Hamilton, Bermuda[12]	50.22		163,387		15,451
Hannover Life Reassurance Company of America, Orlando, USA[11]	50.22	USD	166,599	USD	217
Corporate Operations					
Alstertor Erste Beteiligungs- und Investitionssteuerungs-GmbH & Co. KG, Hamburg, Germany[18]	100.00		5,263		578
AmpegaGerling Asset Management GmbH, Cologne, Germany[3]	100.00		83,600		39,918
AmpegaGerling Immobilien Management GmbH, Cologne, Germany[3]	100.00		2,837		–2,029
AmpegaGerling Investment GmbH, Cologne, Germany[3]	100.00		16,936		7,258
GERLING Beteiligungs-GmbH, Cologne, Germany	100.00		4,792		–582
HAPEP II Komplementär GmbH, Cologne, Germany[19]	100.00		26		1
HDI Reinsurance (Ireland) Ltd., Dublin, Ireland[18]	100.00		5,102		102
HEPEP II Komplementär GmbH, Cologne, Germany[19]	100.00		27		–1
HEPEP III Komplementär GmbH, Cologne, Germany[19]	100.00		21		–1
HEPEP IV Komplementär GmbH, Cologne, Germany[19]	100.00		22		–1
Protection Reinsurance Intermediaries AG, Hannover, Germany[3]	100.00		389		7,575
Talanx Beteiligungs-GmbH & Co. KG, Hannover, Germany[8]	100.00		146,024		1,242
Talanx Finanz (Luxemburg) S. A., Luxembourg, Luxembourg	100.00		8,260		2,201
Talanx Service AG (vormals: HDI-Gerling Sach Serviceholding AG), Hannover, Germany[3, 16]	100.00		1,605		–2,593
Talanx Systeme AG, Hannover (formerly: HDI-Gerling Gesellschaft für IT-Dienstleistungen AG, Cologne), Germany[3]	100.00		130		7

2. Special purpose entities and special funds a) Special funds included in the consolidated financial statement pursuant to IAS 27/SIC 12	Share of fund assets[1] in %		Fund assets[2] in EUR thousand		Change in fund assets incl. cash inflows and outflows[2] in EUR thousand
Industrial Lines					
Ampega-Vienna-Bonds-Fonds, Vienna, Austria	100.00		264,297		53,762
GERLING EURO-RENT 3, Cologne, Germany[18]	100.00		594,660		169,873
HDI Gerling-Sach Industrials, Cologne, Germany[13), 18]	100.00		171,287		–149,415
Retail Germany					
Ampega-nl-Balanced-Fonds, Cologne[18]	67.50		54,571		–121,927
Ampega-nl-Euro-DIM-Fonds, Cologne[18]	67.50		437,366		24,385
Ampega-nl-Global-Fonds, Cologne[18]	67.50		47,187		2,293
Ampega-nl-Rent-Fonds, Cologne[18]	67.50		780,130		64,371
Ampega-TAL-A-Fonds, Cologne[18]	100.00		93,583		7,263
Gerling Immo Spezial 1, Cologne[18]	100.00		269,383		2,674
GKL SPEZIAL RENTEN, Cologne[18]	100.00		599,516		50,720
HGLV-Corporates, Cologne[18]	100.00		1,081,286		278,276
HGLV-Financial, Cologne[18]	100.00		1,047,099		117,219
PBVL-Aktien, Cologne[18]	100.00		52,062		8,127
PBVL-Corporate, Cologne[18]	100.00		106,927		58,335
terrAssisi Aktien I AMI, Cologne	69.02		7,408		505
Retail International					
BNP-HDI Credit FI Renda Fixa Credito Privado, São Paulo, Brazil	100.00	BRL	66,468	BRL	24,727
Credit Suisse HDI RF Créditor, São Paulo, Brazil	100.00	BRL	61,131	BRL	5,482
CSHG Hannover FI Multimercado Credito Privado, São Paulo, Brazil	100.00	BRL	20,190	BRL	20,190
HSBC FI Renda Fixa Hannover, São Paulo, Brazil	100.00	BRL	95,963	BRL	–38,307
HSBC Performance HDI RF Crédito, São Paulo, Brazil	100.00	BRL	70,121	BRL	11,020
UBS Pactual HDI RF Crédito, São Paulo, Brazil	100.00	BRL	65,392	BRL	11,222
Non-Life Reinsurance					
FRACOM FCP, Paris, France[18]	49.90		708,449		116,703

2. Special purpose entities and special funds b) Special purpose entities included in the consolidated financial statement pursuant to IAS 27/SIC 12	Calculated share of capital[1] in %		Capital and reserves[2] in EUR thousand		Result before profit/loss transfer[2] in EUR thousand
Non-Life Reinsurance					
Hannover Re (Guernsey) PCC Ltd., St. Peter Port, United Kingdom[11]	50.22		261		–42
Kaith Re Ltd., Hamilton, Bermuda[11), 12]	44.19	USD	640	USD	–441

3. Associated companies recognized at equity in the consolidated financial statement	Calculated share of capital[1] in %		Capital and reserves[2] in EUR thousand		Result before profit/loss transfer[2] in EUR thousand
Apulia Prontoprestito S. p. A., Rome, Italy[17), 18)]	10.60		236,795		35
Aviation Insurance Company Limited, Johannesburg, South Africa[5), 11)]	8.01	ZAR	6,270	ZAR	–140
C-QUADRAT Investment AG, Vienna, Austria[19)]	25.10		33,111		9,342
Carmargue Underwriting Managers (Pty) Ltd., Parktown, South Africa[5)]	6.66	ZAR	9,012	ZAR	1,666
Clarendon Transport Underwriting Managers (Pty) Ltd., Johannesburg, South Africa[5), 11)]	9.56	ZAR	3,880	ZAR	30,190
Commercial & Industrial Acceptances (Pty) Ltd., Johannesburg, South Africa[5), 11)]	10.24	ZAR	5,147	ZAR	15,703
Flexible Accident & Sickness Acceptances (Pty) Ltd., Johannesburg, South Africa[5)]	10.24	ZAR	1,811	ZAR	2,995
Hannover Finanz GmbH, Hannover, Germany[18)]	12.56		69,093		5,617
ITAS Vita S. p. A., Trento, Italy[18)]	17.52		75,355		5,572
neue leben Pensionsverwaltung AG, Hamburg, Germany	33.08		15,176		408
Takafol South Africa (Pty) Ltd., Johannesburg, South Africa[5)]	12.55	ZAR	825	ZAR	351
WeHaCo Unternehmensbeteiligungs-GmbH, Hannover, Germany[18)]	16.44		73,950		192

4. Associated companies not recognized at equity in the consolidated financial statement owing to subordinate importance	Calculated share of capital[1] in %		Capital and reserves[2] in EUR thousand		Result before profit/loss transfer[2] in EUR thousand
Energi Holding Inc., Peabody, USA[18)]	14.31	USD	4,805	USD	–190
Hannover Care AB, Stockholm, Sweden[18)]	15.07	SEK	570	SEK	–2,657
Hannoversch-Kölnische Handels-Beteiligungsgesellschaft mbH & Co. KG, Hannover, Germany[18)]	50.00		28,326		2,564
PlaNet Guarantee (SAS), Saint-Ouen, France[11)]	11.84		1,069		–927
Sciemus Power MGA Limited, London, United Kingdom[18)]	12.55	GBP	1	GBP	—
XS Direct Holding Ltd., Dublin, Ireland[18)]	12.55		658		16

5. Joint ventures included in the consolidated financial statement pursuant to IFRS	Calculated share of capital[1] in %		Capital and reserves[2] in EUR thousand		Result before profit/loss transfer[2] in EUR thousand
Credit Life International Services GmbH, Neuss, Germany	50.00		64		38

6. Affiliated companies not included in the consolidated financial statement pursuant to IFRS	Calculated share of capital[1] in %		Capital and reserves[2] in EUR thousand		Result before profit/loss transfer[2] in EUR thousand
Bureau für Versicherungswesen Robert Gerling & Co. GmbH, Cologne, Germany[3]	100.00		26		–5
CiV Immobilien GmbH, Hilden, Germany[18]	100.00		28		1
Clarendon Services of New Jersey, Inc., Trenton, USA[10), 11), 21]	50.22	USD	—	USD	—
Clarenfin (Pty) Ldt., Johannesburg, South Africa[22]	9.56	ZAR	—	ZAR	—
Desarollo de Consultores Profesionales en Seguros S.A. de CV, León, Mexico[7]	99.47	MXN	—	MXN	—
Gente Compania de Soluciones Profesionales de Mexico, S.A. de C.V., León, Mexico[12]	100.00	MXN	12,840	MXN	2,744
Gerling Norge A/S, Oslo, Norway[18]	100.00	NOK	228	NOK	21
GERLING Sustainable Development Project-GmbH, Cologne, Germany	100.00		55		–6
Gerling-Konzern Panamericana Ltda., São Paulo, Brazil[18]	100.00	BRL	629	BRL	–67
H.J. Roelofs Assuradeuren B.V., Rotterdam, Netherlands[18]	100.00		718		8
Hannover Life Re Consultants, Inc., Orlando, USA[18]	50.22	USD	181	USD	37
Hannover Re Consulting Services India Private Limited, Mumbai, India[20]	50.22	INR	45,643	INR	5,643
Hannover Re Services Italy S.r.L., Milan, Italy[11]	50.04		313		91
Hannover Re Services Japan, Tokyo, Japan	50.22	JPY	90,297	JPY	3,690
Hannover Re Services USA, Inc., Itasca, USA	50.22	USD	794	USD	78
Hannover Risk Consultants B.V., Rotterdam, Netherlands[18]	100.00		349		7
Hannover Rückversicherung AG Escritorio de Representação no Brasil Ltda., Rio de Janeiro, Brazil[18]	50.22	BRL	35	BRL	107
Hannover Services (Mexico) S.A. de C.V., Mexico City, Mexico[11]	50.22	MXN	11,022	MXN	1,031
Hannoversch-Kölnische Beteiligungsgesellschaft mbH, Hannover, Germany[7]	50.00		—		—
HDI Direkt Service GmbH, Hannover, Germany[3]	100.00		51		–319
HDI-Gerling Beschäftigungs-und Qualifizierungsgesellschaft mbH, Hannover, Germany[3]	100.00		25		–22
HDI-Gerling Services S.A., Brussels, Belgium[18]	100.00		143		31
HDI-Gerling Sicherheitstechnik GmbH, Hannover, Germany	100.00		1,875		1,233
HDI-Gerling Versicherungs-Service AG, Zurich, Switzerland[18]	100.00	CHF	1,346	CHF	–61
HR Hannover Re Correduria de Reaseguros S.A., Madrid, Spain[11]	50.22		198		30
International Mining Industry Underwriters Ltd., London, United Kingdom[11]	50.22	GBP	358	GBP	57
Kommanditgesellschaft Trans Leben Grundstücksverwaltungs-GmbH & Co., Hamburg, Germany[18]	100.00		1		–356
LRA Superannuation Plan Pty Ltd., Sydney, Australia[22]	50.22	AUD	—	AUD	—
Mediterranean Reinsurance Services Ltd., Hong Kong, China[21]	50.22	USD	—	USD	—
Paetau Sports Versicherungsmakler GmbH, Berlin, Germany	99.00		344		11
Scandinavian Marine Agency AS, Oslo, Norway[18]	52.00	NOK	5,196	NOK	1,483
Shamrock Marine-Insurance Agency GmbH, Hamburg, Germany[3]	100.00		25		–5
SSV Schadenschutzverband GmbH, Hannover, Germany[3]	100.00		200		234
Svedea AB, Stockholm, Sweden[23]	37.77	SEK	—	SEK	—
THS Services Versicherungsvermittlungs GmbH, Berlin, Germany	99.00		13		15
THV Versicherungsmakler GmbH, Berlin, Germany	99.00		2,014		251
VES Gesellschaft f. Mathematik, Verwaltung und EDV mbH, Gevelsberg, Germany[3]	100.00		195		–950

7. Participating interests	Calculated share of capital[1] in %		Capital and reserves[2] in EUR thousand		Result before profit/loss transfer[2] in EUR thousand
DFA Capital Management, Inc., Wilmington, USA[18]	25.40	USD	1,177	USD	–1,928
IGEPA Gewerbepark GmbH & Co. Vermietungs KG, Munich, Germany[18]	37.50		–11,272		8,764

8. Participating interests of Hannover Re in large public limited companies in respect of which the participation exceeds 5% of the voting rights	in %		Capital and reserves[2] in EUR thousand		Result before profit/loss transfer[2] in EUR thousand
Acte Vie S. A. Compagnie d'Assurances sur la Vie et de Capitalisation, Strasbourg, France[18]	9.38		8,118		136

[1] *In the case of participating interests held in part indirectly, the calculated shares have been specified*
[2] *The figures correspond to the annual financial statements of the companies according to the applicable local law or international accounting; diverging currencies are indicated*
[3] *A profit/loss transfer agreement exists*
[4] *Subgroup accounts: included in the figures for Hannover Finance Inc.*
[5] *Subgroup accounts: included in the figures for Hannover Reinsurance Group Africa (Pty) Ltd.*
[6] *Subgroup accounts: included in the figures for Hannover Re Real Estate Holdings Inc.*
[7] *No data pursuant to § 286 Para. 3 Commercial Code (HGB)*
[8] *The exemption afforded by § 264 b Commercial Code (HGB) was utilized*
[9] *The company prepares its own subgroup accounts*
[10] *Certain equity items are not counted under IFRS, as a consequence of which the amount of capital and reserves can be negative here. According to the local accounting practice relevant for supervisory purposes, the company is adequately capitalized.*
[11] *Provisional/unaudited figures*
[12] *Figures as per IFRS*
[13] *Also allocated to the Retail Germany segment*
[14] *Also allocated to the Life/Health Reinsurance segment*
[15] *Also allocated to the Industrial Lines segment*
[16] *The facilities afforded by § 264 Para. 3 Commercial Code (HGB) were utilized*
[17] *Significant influence evidenced by board representation pursuant to IAS 28.7 (a)*
[18] *Figures at financial year-end 2009*
[19] *Figures as at 30 September 2010*
[20] *Figures at financial year-end 31 March 2010*
[21] *Company is in liquidation*
[22] *Company is inactive and does not compile an annual report*
[23] *Company was newly established in 2010; an annual financial statement is not yet available*

Drawn up and released for publication in Hannover, 28 March 2011

Hannover, 28 March 2011

Board of Management

Haas	Dr. Hinsch	Leue	Dr. Noth
Dr. Querner	Dr. Roß	Wallin	

Auditors' report

We have audited the consolidated financial statements prepared by Talanx Aktiengesellschaft, Hannover, comprising the consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, cash flow statement and notes to the consolidated financial statements, together with the group management report for the business year from 1 January to 31 December 2010. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Para 1 HGB and supplementary provisions of the Articles of Incorporation are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Para. 1 HGB and the supplementary provisions of the Articles of Incorporation and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and appropriately presents the opportunities and risks of future development.

Hannover, 28 March 2011

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Glossary. A–C

Accumulation risk
Underwriting risk that a single trigger event (e.g. an earthquake or hurricane) can lead to an accumulation of claims within a > portfolio.

Acquisition costs
Costs incurred by an insurance company when insurance policies are taken out or renewed (e.g. new business commission, costs of proposal assessment or underwriting).

Actuary
Mathematician who deals with questions relating to insurance, investments and retirement provision.

Administrative expenses
Costs of current administration connected with the production of insurance coverage.

Annual Premium Equivalent – APE
Industry standard for measuring new business income in life insurance.

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

Associated company
Company included in the consolidated financial statement not through full or proportionate consolidation but normally using the > equity method and over whose business or company policy a company included in the consolidated financial statement exerts a significant influence.

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.

Black/Scholes option pricing model
Analytical model used to calculate theoretical option prices. It makes allowance for the current price of the underlying stock, the risk-free interest rate, the remaining time until option expiration, the > volatility and possible dividend payments within the remaining period.

Cash flow statement
Statement on the origin and utilization of cash and cash equivalents during the accounting period. It shows the changes in liquid funds separated into cash flows from operating, investing and financing activities.

Catastrophe bond (also: cat bond)
Instrument used to transfer catastrophe risks of a (re)insurer to the capital market.

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.

Claims equalization reserve
> equalization reserve

Coinsurance funds withheld treaty
Type of coinsurance contract where the ceding company retains a portion of the original premium at least equal to the ceded reserves. Similar to a > Modified coinsurance contract, the interest payment to the reinsurer reflects the investment return on the underlying asset portfolio.

Combined ratio
Sum of the > loss ratio and > expense ratio plus interest income on funds withheld and contract deposits in relation to earned premiums. When calculating the adjusted combined ratio, the claims and claims expenses are adjusted so as to eliminate the effect of interest income on funds withheld and contract deposits. This ratio is used by both property/casualty insurers and non-life reinsurers.

Commission
Remuneration paid by a primary insurer to agents, brokers and other professional intermediaries.

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

Consolidation
In accounting practice: combining of the individual financial statements of several companies belonging to one group into a consolidated financial statement. In so doing, internal transactions within the group are eliminated.

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.

D–H

Deferred taxes
Term denoting the difference between the taxes calculated on the profit reported in the commercial balance sheet and those carried in the tax balance sheet, which then evens out in subsequent months. Deferred taxes are recognized in order to offset this difference in those cases where it is evident that it will be eliminated over time.

Deposit accounting
An accounting method originating in US accounting principles for the recognition of short-term and multi-year insurance and reinsurance contracts with no significant underwriting risk transfer.

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 other reference asset. Derivatives include swaps, options and futures.

Due diligence audit
Auditing of a participating interest in the run-up to 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 represents the average commitment period of the cash value of a financial instrument. The duration can thus also be considered a measure of the interest rate risk associated with a financial instrument.

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

EBIT
Earnings before interest and tax. > operating profit

Embedded value
Benchmark used to measure the performance of life insurance enterprises. It is composed of the sum total of free assets (net asset value) plus the present value of the projected stream of future after-tax profits on the in-force insurance portfolio.

Equalization reserve
Provision constituted to offset significant fluctuations in the loss experience of individual lines over a number of years.

Equity method
Method of accounting used to measure equity investments (associated companies) in the consolidated financial statement.

Expenditures on insurance business (acquisition costs and administrative expenses)
Sum total of commissions, sales, personnel and material costs as well as regular administrative expenses.

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.

Facultative reinsurance
Participation on the part of the reinsurer in a particular individual risk assumed by the primary insurer.

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.

Funds held by ceding companies/ funds held under reinsurance treaties
Collateral provided to cover insurance liabilities which an insurer retains from the liquid funds which it is to pay to a reinsurer under a reinsurance treaty. In this case, the insurer shows funds held under a reinsurance treaty, while the reinsurer shows funds held by a ceding company. Interest is payable on such funds held. Fund held by ceding companies are also referred to as an investment surrogate.

Goodwill
The amount that a purchaser is prepared to pay – in light of future profit expectations – above and beyond the value of all tangible and intangible assets after deduction of liabilities.

Gross
In insurance: before deduction of reinsurance.

Hybrid capital
Capital in the form of subordinated debt and surplus debenture that exhibits a hybrid character of equity and debt.

I–P

Impairment
Unscheduled write-down taken if the present value of the estimated future cash flows of an asset falls below the carrying amount.

Insurance-linked securities
Financial instruments used to securitize risks under which the payment of interest and/or nominal value is dependent upon the occurrence and magnitude of an insured event.

Investment grade
Rating of BBB or better awarded to an entity on account of its low risk of default.

Issuer
Public entity or private enterprise that issues securities, e.g. the federal government in the case of German Treasury Bonds or a joint-stock corporation in the case of shares.

Letter of credit – LoC
Bank guarantee. In the United States, for example, a common way of furnishing collateral in reinsurance business.

Life/health insurance
Lines of business concerned with the insurance of persons, i.e. life, annuity, health and personal accident.

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.

Loss ratio
Net loss ratio shown in the balance sheet: percentage ratio of claims expenditure (net) including other technical income (net), but excluding any consolidation differences for technical items – including amortization of the shareholders' portion of the PVFP – to net premium earned. > Present value of future profits

Major claim (also: major loss)
Claim that reaches an exceptional amount compared to the average claim for the risk group in question and exceeds a defined claims amount.

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

Modified coinsurance (ModCo) treaty
Type of reinsurance treaty where the ceding company retains the assets supporting the reinsured reserves by withholding a fund, thereby creating an obligation to render payments to the reinsurer at a later date. Such payments include a proportional share of the gross premium plus a return on the assets.

Morbidity
Incidence rate of disease relative to a given population group.

Mortality
Proportion of the total population dying within a given time interval.

Net
In insurance: used primarily to mean after deduction of reinsurance.

Non-proportional reinsurance
Reinsurance treaty under which the reinsurer assumes the loss expenditure or sum insured in excess of a defined amount.

Operating profit (EBIT)
Sum of the result of non-underwriting business and the underwriting result before the change (allocation or withdrawal) in the (claims) equalization reserve.

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

Passive reinsurance
Existing reinsurance programs of primary insurers for their own protection against underwriting risks.

Personal lines
> Life/health insurance

Policyholders' surplus
Total amount of shareholders' equity excluding minority interests, which is comprised of the common shares, additional paid-in capital, retained earnings and cumulative other comprehensive income, as well as the minority interests in shareholders' equity and so-called hybrid capital, as equity-replacing debt capital that encompasses the subordinated liabilities.

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

Premiums
Agreed compensation for the risks accepted by the insurer.

Present value of future profits – PVFP
Intangible asset primarily arising in particular from the purchase of life and health insurance companies or individual portfolios. The present value of expected future profits from the portfolio assumed is capitalized and amortized according to schedule. Impairments are taken on the basis of annual impairment tests.

P–R

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, organization).

Private equity
Investment capital raised by private investors in contrast to public equity, i.e. capital raised on the stock exchange.

Projected benefit obligation
The present value of the earned portion of commitments from a defined benefit obligation.

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)

Purchase cost, amortized
Cost of acquiring an asset item including all ancillary and incidental purchasing costs; in the case of wasting assets less scheduled and/or special amortization.

PVFP
> Present value of future profits

Quota share reinsurance
Form of reinsurance under which the percentage share of the written risk and the premium is contractually agreed. The administrative expenditure for the reinsurer is very low.

Rate
Percentage (normally applied to the subject premium) of a reinsured portfolio, which under a > non-proportional reinsurance treaty produces the reinsurance premium payable to the reinsurer.

Rating
Systematic evaluation of companies by a rating agency or bank with respect to their > credit status.

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

Renewal
Contractual relationships between insurers and reinsurers are maintained over long periods of time. The treaty terms and conditions are normally modified annually in so-called renewal negotiations, and the treaties are renewed accordingly.

Retail business
a) In general: business with private customers
b) 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 for > net. Net written premium in relation to gross written premium (excluding savings elements of premium under unit-linked life and annuity insurance policies).

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

Retrocessionaire
> Cedant, insofar as the ceded business involves reinsurance.

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

Run-off
Fulfillment of liabilities for which reserves have been constituted.

S–V

Segment reporting
Presentation of asset and income data broken down into business segments and regions.

Shareholders' equity
Funds provided by the owners of an enterprise for its internal financing or left within the company as earned profit (realized/unrealized). The capital providers are entitled to a share of the profit, e.g. in the form of a dividend, in return for making the shareholders' equity available. Shareholders' equity is equal to the total assets of the company less its total liabilities.

Soft capital
Capital components that are economically available but not yet recognized in the balance sheet: the loss reserve discount and the present value of future profits in life business that has not been capitalized, and on the company level the excess loss reserves.

Soft market
Market phase with oversupply of insurance, resulting in premiums that are not commensurate with the risk; this is in contrast to > hard market.

Solvency
Level of available unencumbered capital and reserves required to ensure that contracts can be fulfilled at all times.

Solvency II
Project of the European Commission to reform and harmonize European insurance regulations.

Specialty lines
a) In general: specialty insurance for niche business such as non-standard motor covers, fine arts insurance etc.
b) Hannover Re: segment of the non-life reinsurance business group, encompassing marine and aviation business, credit/surety, structured products, ILS (insurance-linked securities), the London Market and direct business.

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 optimize returns.

Swaption
Option contract which enables the buyer to enter into an interest rate swap (> swap) on or until a specific point in time in return for payment of a once-only premium. It facilitates hedging against rising interest rates without forfeiting the opportunity to obtain funding more reasonably if interest rates fall.

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

Underlying
Underlying instrument of a forward transaction, futures contract or option contract that serves as the basis for settlement and measurement of the contract.

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.

Unearned premium reserve
Premiums written in a financial year which are to be allocated to the following period on an accrual basis.

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.

Index of key terms

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This publication went to press on 28 March 2011
Published on 23 May 2011

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

Annual Report online:
http://annualreport2010.talanx.com

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America

BM Bermuda.
Hannover Life Re Bermuda, Hamilton
Hannover Re Bermuda, Hamilton

BR Brazil.
Hannover Re (Representative Office), Rio de Janeiro
HDI Seguros, São Paulo

CA Canada.
Hannover Re (Branch), Toronto

CL Chile.
HDI Seguros, Santiago

CO Colombia.
Hannover Re (Representative Office), Bogotá

MX Mexico.
Hannover Services (México), Mexico City
HDI-Gerling de México Seguros, Mexico City
HDI Seguros, León

US USA.
Hannover Life Re America, Orlando
Hannover Re Services USA, Itasca/Chicago
HDI-Gerling America Insurance Company, Chicago

Europe

AT Austria.
HDI-Gerling Lebensversicherung, Vienna
HDI Versicherung, Vienna

BE Belgium.
HDI-Gerling Assurances/Verzekeringen, Brussels

BG Bulgaria.
HDI Zahstrahovane, Sofia

CH Switzerland.
HDI-Gerling Industrie (Branch), Zurich

CZ Czech Republic.
HDI Versicherung (Branch), Prague

DE Germany.
AmpegaGerling, Cologne
E+S Rück, Hannover
Hannover Re, Hannover
HDI Direkt, Hannover
HDI-Gerling, Hannover/Cologne
Neue Leben, Hamburg
PB Versicherungen, Hilden
Protection Re, Hannover
Talanx, Hannover
Targo Versicherungen, Hilden

ES Spain.
HDI Seguros, Madrid/Barcelona
HR Hannover Re, Madrid

FR France.
Hannover Re (Branch), Paris
HDI-Gerling Industrie (Branch), Paris

GR Greece.
HDI-Gerling Industrie (Branch), Athens

HU Hungary.
HDI Versicherung (Branch), Budapest
Magyar Posta Biztosító, Budapest
Magyar Posta Életbiztosító, Budapest

IE Ireland.
Hannover Life Re (Ireland), Dublin
Hannover Re (Ireland), Dublin
HDI Reinsurance, Dublin

* Subject to regulatory approval

IT Italy.
Hannover Re Services Italy, Milan
HDI Assicurazioni, Rome
HDI-Gerling Industrie (Branch), Milan

LU Luxembourg.
Euro International Re, Luxembourg
Hannover Finance, Luxembourg
Talanx Finanz, Luxembourg

NL Netherlands.
HDI-Gerling Verzekeringen, Rotterdam

NO Norway.
HDI-Gerling Industrie (Branch), Oslo

PL Poland.
HDI Asekuracja, Warsaw
HDI-Gerling Życie, Warsaw

SE Sweden.
Hannover Re (Branch), Stockholm
International Insurance Company of Hannover (Branch), Stockholm

SK Slovak Republic.
HDI Versicherung (Branch), Bratislava

TR Turkey.
CiV Hayat Sigorta, Istanbul
HDI Sigorta, Istanbul

UA Ukraine.
HDI Strakhuvannya, Kiev

UK United Kingdom.
Hannover Life Re UK, Virginia Water
Hannover Services UK, Virginia Water
HDI-Gerling Industrie (Branch), London
International Insurance Company of Hannover, Bracknell/London

Africa

ZA South Africa.
Compass Insurance Company, Johannesburg
Hannover Life Re Africa, Johannesburg
Hannover Re Africa, Johannesburg
HDI-Gerling Insurance South Africa, Johannesburg

Australia

AU Australia.
Hannover Life Re Australasia, Sydney
Hannover Rück (Branch), Sydney
HDI-Gerling Australia Insurance Company, Sydney
HDI-Gerling Industrie (Branch), Sydney

Asia/Pacific

BH Bahrain.
Hannover ReTakaful, Manama
Hannover Re (Branch), Manama

CN China.
Hannover Re (Hong Kong Branch)
Hannover Re (Shanghai Branch)
HDI-Gerling Industrie (Branch), Hong Kong

IN India.
Hannover Re Consulting Services, Mumbai
Magma HDI General Insurance, Kolkata*

JP Japan.
Hannover Re Services Japan, Tokyo
HDI-Gerling Industrie (Niederlassung), Tokyo

KR Korea.
Hannover Re (Branch), Seoul

MY Malaysia.
Hannover Re (Branch), Kuala Lumpur

RU Russia.
CiV Life, Moscow
HDI Strakhovanie, Moscow

TW Taiwan.
Hannover Re (Representative Office), Taipei

Valid: April 2011

400-GB039

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