Straightforward

Group Annual Report 2011

talanx.

Group key figures		2011	2010	2009
Talanx Group overall				
Gross written premium	*In EUR million*	**23,682**	**22,869**	**20,923**
by regions				
Germany	*In %*	38	39	42
Central and Eastern Europe (CEE)	*In %*	4	3	2
Rest of Europe	*In %*	26	27	27
North America	*In %*	14	16	16
Latin America	*In %*	7	6	5
Australia/Asia	*In %*	9	7	6
Other countries	*In %*	2	2	2
Net premium earned	*In EUR million*	**19,456**	**18,675** [5]	**17,323**
Underwriting result	*In EUR million*	**–1,690**	**–2,036**	**–1,031**
Net investment income	*In EUR million*	**3,262**	**3,224** [5]	**2,658**
Operating profit (EBIT)	*In EUR million*	**1,245**	**1,032**	**1,497**
Net profit/loss for the period (after financing costs and taxes)	*In EUR million*	**897**	**667** [5]	**893**
Group net income (after non-controlling interests)	*In EUR million*	**520**	**216** [5]	**485**
Return on equity [1]	*In %*	**10.0**	**4.5** [5]	**11.8**
Breakdown by segments [2]				
Industrial Lines				
Gross written premium	*In EUR million*	3,138	3,076	3,077
Net premium earned	*In EUR million*	1,375	1,413	1,405
Underwriting result	*In EUR million*	155	–57	134
Investment result	*In EUR million*	204	231	240
Operating profit (EBIT)	*In EUR million*	321	185	334
Retail Germany				
Gross written premium	*In EUR million*	6,710	6,823	6,614
Net premium earned	*In EUR million*	5,461	5,502	5,158
Underwriting result	*In EUR million*	–1,258	–1,631	–945
Investment result	*In EUR million*	1,530	1,577	1,207
Operating profit (EBIT)	*In EUR million*	110	–44	209
Retail International				
Gross written premium	*In EUR million*	2,482	2,233	1,827
Net premium earned	*In EUR million*	1,862	1,738	1,403
Underwriting result	*In EUR million*	–43	–136	–99
Investment result	*In EUR million*	159	151	121
Operating profit (EBIT)	*In EUR million*	54	27	–42
Non-Life Reinsurance				
Gross written premium	*In EUR million*	6,826	6,340	5,753
Net premium earned	*In EUR million*	5,961	5,395	5,237
Underwriting result	*In EUR million*	–264	78	136
Investment result	*In EUR million*	880	779	610
Operating profit (EBIT)	*In EUR million*	629	909	760
Life/Health Reinsurance				
Gross written premium	*In EUR million*	5,270	5,090	4,529
Net premium earned	*In EUR million*	4,789	4,654	4,078
Underwriting result	*In EUR million*	–281	–290	–258
Investment result	*In EUR million*	512	508	525
Operating profit (EBIT)	*In EUR million*	225	276	371
Combined ratio in non-life insurance and reinsurance [3]	*In %*	**101.0**	**100.9**	**96.7**
Combined ratio of the property/casualty insurers	*In %*	96.6	104.5	96.6
Combined ratio in non-life reinsurance	*In %*	104.2	98.3	96.7

		2011	2010	2009
Policyholders' surplus	*In EUR million*	**11,321**	**10,771**	**9,156**
Shareholders' equity of Talanx AG	*In EUR million*	5,421	4,945 [5]	4,574
Non-controlling interests	*In EUR million*	3,285	3,035	2,579
Hybrid capital	*In EUR million*	2,615	2,791	2,003
Investments under own management	*In EUR million*	**75,750**	**72,461**	**67,036**
Total investments	*In EUR million*	**87,467**	**83,422**	**76,385**
Return on investment [4]	*In %*	**4.0**	**4.2**	**3.7**
Total assets	*In EUR million*	**115,268**	**111,100** [5]	**101,213**
Staff	*Capacities*	**17,061**	**16,874**	**16,921**

[1] Net profit/loss for the year without non-controlling interests relative to average equity without non-controlling interests
[2] Before elimination of intra-Group cross-segment transactions
[3] Combined ratio adjusted for interest income on funds withheld and contract deposits, before elimination of intra-Group cross-segment transactions
[4] Investment result without interest income on funds withheld and contract deposits relative to average investments under own management
[5] Adjusted on the basis of IAS 8

OUR VISION

Talanx is the leading global B2B insurance group.

OUR MISSION

Optimised cooperation between our divisions enables us to take advantage of promising opportunities wherever they arise on the global insurance markets – to the benefit of all our stakeholders.

Group key figures
Segments and brands at a glance

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Key figures of the Group segments

Industrial Lines

- Major acquisitions and cooperation arrangements in the Netherlands and Vietnam
- Satisfactory underwriting result despite a high number of natural catastrophes, e.g. in Asia
- Significant rise in EBIT despite lower investment result

Retail Germany

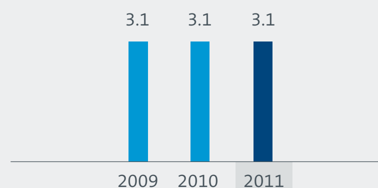
- Very good growth in new business, especially in co-insurance business and with unit-linked products
- Sales of property/casualty insurance products perform well
- Lower costs improve underwriting result and thus EBIT despite restructuring expenses

Retail International

- Several acquisitions in Latin America concluded, still under way in Poland
- Gross premium income rises thanks to acquisitions but also through organic growth
- EBIT doubled compared to previous year thanks to good underwriting and investment result

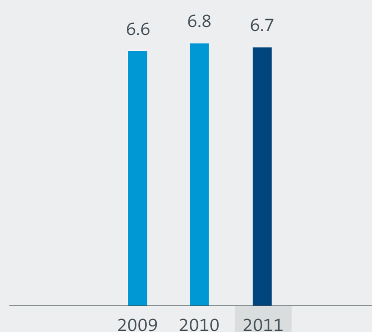
Gross written premium — Industrial Lines

In EUR billion



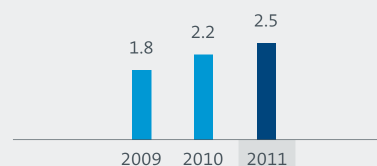
Gross written premium — Retail Germany

In EUR billion



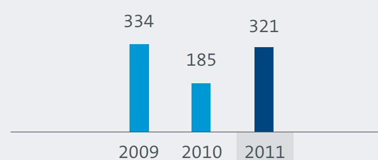
Gross written premium — Retail International

In EUR billion



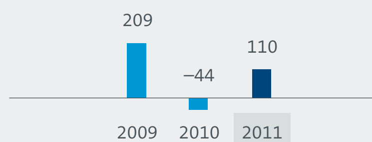
Operating profit (EBIT) — Industrial Lines

In EUR million



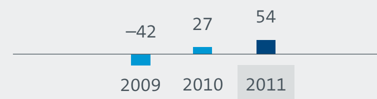
Operating profit (EBIT) — Retail Germany

In EUR million



Operating profit (EBIT) — Retail International

In EUR million



Non-Life Reinsurance

- Strong growth in gross premiums thanks to satisfactory renewals
- Unusually high claims expenditure weighs heavy on EBIT
- Good net investment income

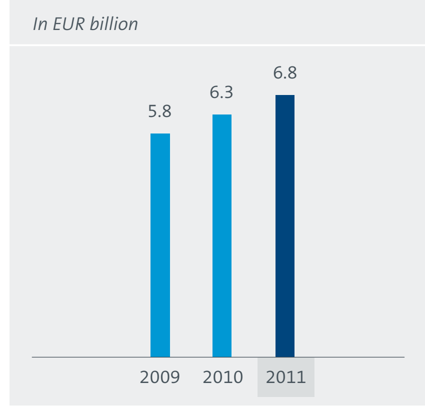
Life/Health Reinsurance

- Volatility on financial markets and debt crisis open up new business potentials
- Rise in business volume, for instance in emerging countries
- Situation on financial markets reduces EBIT despite encouraging underwriting performance

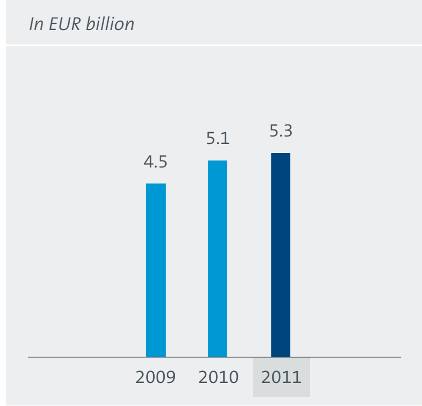
Corporate Operations

- Segment comprises in-house service companies, Group investment management, reinsurance broker and Talanx AG
- Further rise in investments under own management
- EBIT improves thanks to absence of special effects that impacted the previous year

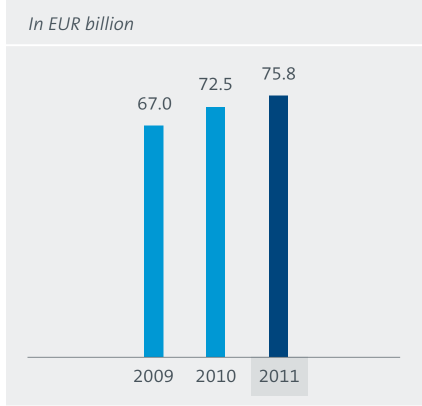
Gross written premium



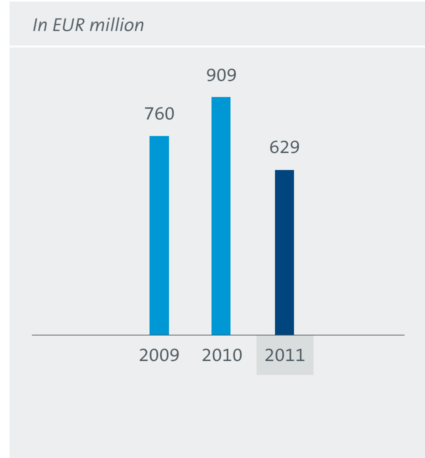
Gross written premium



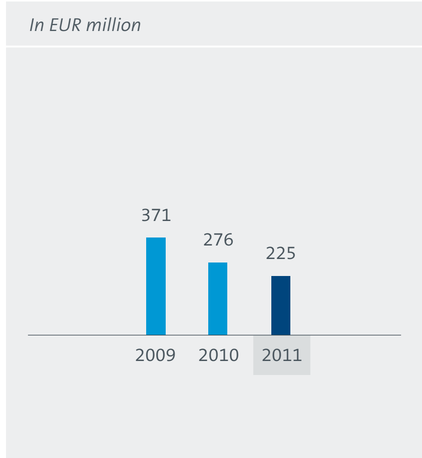
Investments under own management



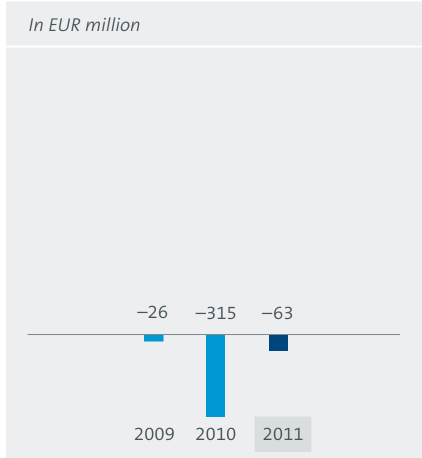
Operating profit (EBIT)

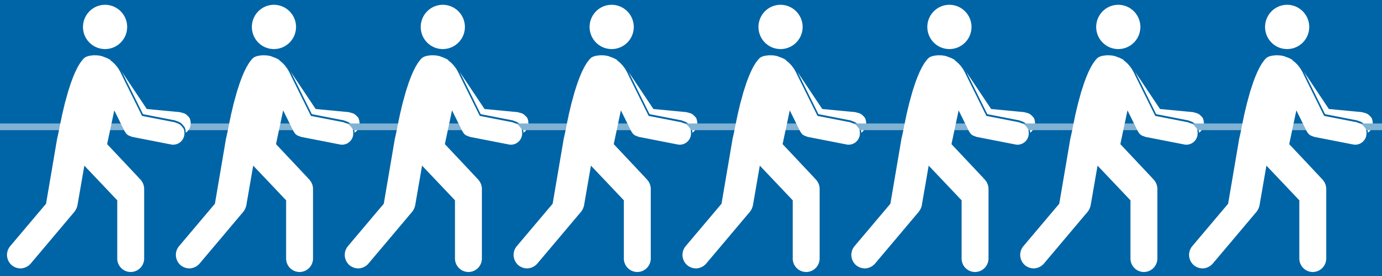


Operating profit (EBIT)



Operating profit (EBIT)





Our strength lies in our diversity. Talanx is visible on its markets with wide-ranging brand names, each catering to different client and product groups. But when it comes to the push, all pull together in pursuit of the common objective of ensuring the Group's longterm successful development.

Our major brand names in primary insurance and reinsurance and financial services are shown on the opposite page.

Our brands

talanx.

The Talanx brand name stands for the whole Group, but for some companies – foremost among them Talanx AG, which performs functions of a management and financial holding company within the Group but does not itself conduct any insurance business. Talanx Service AG, Talanx Systeme AG, Talanx Asset Management GmbH and Talanx Immobilien GmbH, and Talanx Reinsurance Broker act as in-house service companies, while the divisional companies Talanx Germany AG and Talanx International AG bring together the "visible" companies operating under various brands in Germany and abroad.

HDI-Gerling focuses particularly on industrial insurance business worldwide. Its products range from property, liability and accident insurance via life insurance to company pension schemes and retirement solutions for private clients.

This brand name is used by HDI Direkt Versicherung AG to market insurance products for private clients in Germany. Outside of Germany, some companies trade under the HDI name when transacting retail business and industrial lines.

neue leben insurers operate in the bancassurance sales channel as specialists for providential solutions for the Sparkasse savings institutions. They offer their clients and sales partners innovative insurance products at attractive terms.

PB Versicherungen

Partner der Postbank

PB Versicherungen operates in the bancassurance sales channel in exclusive cooperation with its partner Postbank: it is embedded in Postbank's market profile and geared to the needs of its clients, offering attractive insurance products at reasonable prices.

In the bancassurance sales channel the Targo insurers operate exclusively for their partner TARGOBANK, offering its clients a service based on quick and convenient handling of all banking, financial and insurance transactions.

The CiV brand name is shared by the Russian OOO Strakhovaya Kompaniya "CiV Life" and the Turkish company CiV Hayat Sigorta A.Ş. Both companies are bancassurance cooperation with Citibank and prove that Talanx's bancassurance approach can also be successfully applied to other countries.

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

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 has a staff of around 2,300 over all continents. E+S Rück is a specialist reinsurer serving the German market.

One of the largest non-bank asset managers in Germany. From funds business to asset management for private and institutional investors, AmpegaGerling covers the complete value-added chain in asset management.

Ladies and gentlemen,

The 2011 business year was a year with bright and dark sides for the Talanx Group, but all in all it can be summed up as "highly satisfactory." On the one hand, the Group had to cope with a very high claims burden, on the other the results it achieved were among the best in its history.

The general environment for the insurance industry was anything but propitious in 2011: never before had there been such an accumulation of costly natural catastrophes, not to mention the unimaginable human suffering they caused. Only once before had the insurance industry had to shoulder a higher burden due to extreme natural events within a single year. This series of large-scale losses impacted our Group to the tune of over one billion euros. However, in-house projects put a further strain on the situation: For instance, in 2011 we began to invest in building up client-focused, efficient structures in our German retail business. This is intended to put us in a position to secure profitable market shares on our home market, a project with which we are well on the way.

By contrast with the technical account, the investment result turned out better than expected, despite persistent turbulence on the international capital markets. We took advantage of the low interest level to sell off government bonds with a high credit rating and re-invest the proceeds mainly in corporate bonds. Nevertheless, the unrealised reserves in our investment portfolio increased still further. The liquidation of reserves thanks to two favourable court rules also had a positive effect. The first case involved a dispute over double taxation of investment income generated abroad, the second was an anti-trust case.

The key to judging the Group's performance capability is to look at the operative development of the divisions: Here we can say with some satisfaction that all areas of primary insurance were able to improve their result, and apart from German retail business all Group segments also managed to increase their gross premium. The overall operating result of EUR 520 million shows that the Group's broad diversification highlights how soundly Talanx is lined up and how well it can cope even with such high-loss years as last year.

The very good financial strength of the Talanx Group has not changed in the least. The best evidence of this is the 9% increase in the Group's equity to EUR 8.7 billion and the further improvement in our solvency rate, which is almost twice as high as legally required. In January, the rating agency Standard & Poor's re-affirmed its important "financial strength" rating of A+ (stable) for the Talanx primary insurance group, contrary to the insurance industry trend, emphasising the Group's capital strength and its leading competitive position in industrial business and in bancassurance in Germany.

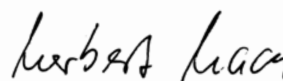
However, we also view 2011 as a success because we once more resolutely pursued our strategic objectives: even in its first year, our new, transparent Group structure with shared central functions has already significantly improved efficiency in primary insurance: our processes have been made simpler, faster and more efficient; our innovation capacity has grown.

Industrial Lines were again able to meet our ambitious expectations: in August we concluded a strategic partnership with the market leader in Vietnam, PVI Holdings, to bring our recognised expertise in industrial insurance to bear on the booming Vietnamese market. In the second quarter, Nassau Verzekering of the Netherlands, a well-established niche insurer for special lines of business such as professional indemnity, D&O and crisis management, was consolidated for the first time.

In international retail business, too, we were able to grow in our target markets: in Latin America we purchased companies in Mexico, Argentina and Uruguay, likewise in our other target market of Central and Eastern Europe, specifically in Poland. There we accomplished two spectacular take-overs in recent months, together with our Japanese cooperation partner Meiji Yasuda: TU Europa, which operates in bancassurance, and the number two company in the Polish market, Warta, will enable us to expand our market share there significantly. We are expecting to be given the approval of the regulatory authorities for these transactions in the near future.

At this point I would like to offer my most sincere thanks to all our staff. Their hard work and dedicated commitment have enabled the Group to continue to evolve successfully in 2011. My thanks go also to our cooperation partners and clients. We want not only to uphold the trust you have again placed in us in 2011, our efforts are all geared to deepening it! We see this as our most important mission, which we intend to accomplish by successfully evolving Talanx for your benefit in the coming years, too.

Yours sincerely



Herbert K. Haas

Board of Management

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Dr. Heinz-Peter Roß | Torsten Leue | Dr. Christian Hinsch, Deputy Chairman | Herbert K. Haas, Chairman | Dr. Immo Querner | Dr. Thomas Noth | Ulrich Wallin

Supervisory Board

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

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

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

Antonia Aschendorf
(from 1 September 2011)
Lawyer,
Hamburg

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

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

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

Gerald Herrmann
Trade union secretary,
Norderstedt

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

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

Otto Müller
Employee,
Hannover Rückversicherung AG,
Hannover

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

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

Katja Sachtleben-Reimann
Employee, Talanx Service AG,
Hannover

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

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

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

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

Supervisory Board Committees

Composition as at 31.12.2011

Finance and Audit Committee

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

Personnel Committee

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

Standing Committee

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

Nomination Committee

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

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

Tasks of the committees

Finance and Audit Committee

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

Personnel Committee

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

Standing Committee

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

Nomination Committee

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

Report of the Supervisory Board

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

The Board of Management provided us with regular, timely and comprehensive information about the business and financial situation – including the risk situation and risk management –, about major capital expenditure projects and fundamental issues of corporate policy as well as about transactions that – while not subject to the approval of the Supervisory Board – nevertheless need to be reported in accordance with the requirements of the Rules of Procedure. Further key areas of reporting covered fundamental matters of Group strategy, the repercussions of the financial crisis and the high indebtedness of certain EU countries as well as the earthquake and tsunami in Japan and the subsequent reactor disaster at Fukushima. 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 optimisation of Group structures, the reorientation of the Retail Germany division, the bringing together of IT and other services in two service companies, acquisitions and acquisition projects abroad as well as the planning for 2012 formed the primary focus of the reporting and were discussed in detail at our meetings. The reasons for divergences between the business experience and the relevant plans and targets in the financial year just-ended were explained to us, and we were able to satisfy ourselves accordingly with the explanations provided.

A further focus of our deliberations was risk management within the Group. The risk reporting by the Board of Management was a matter for discussion at each meeting of the Supervisory Board. In addition, we considered a number of acquisition, disposal and cooperation projects, which the Board of Management presented to us for discussion and adoption of a resolution. Specifically, reference may be made here to the purchase of two insurance companies in Poland (TU Europa and Warta), the acquisition of three insurance companies in Latin America, the sale of HDI-Gerling Rechtsschutz Versicherung AG and Clarus AG and the acquisition of a minority stake in a Vietnamese insurance company. The Supervisory Board also discussed the strategic orientation of the Retail Germany division and the growth strategy of the Retail International division. In this connection various acquisition projects were explored in 2011, inter alia in Israel, Turkey and South America; we were kept informed of the status of these deliberations and discussions.

With an eye to § 87 Para. 1 Stock Corporation Act (AktG) as amended by the Act on the Adequacy of Management Board Remuneration (VorstAG), the full Supervisory Board considered the setting of the bonuses for the 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. In addition, at its meeting on 18 November 2011 the Supervisory Board was informed about the structure of the remuneration systems within the Group as required by § 3 Para. 5 of the Regulation on the Supervisory Law Requirements for Remuneration Schemes in the Insurance Sector (Versicherungs-Vergütungsverordnung). The question of the adequacy of the remuneration system for managers within the Group was linked to the question of the adequacy of the amount of remuneration and discussed in the context of the setting of bonuses at the Supervisory Board meeting on 20 March 2012.

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

Work of the committees

Along with preparations for discussion and adoption of resolutions 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, which have also been published since Q3/2011. Furthermore, the Finance and Audit Committee discussed the findings of an actuarial audit of the net loss reserves for non-life insurance business within the Talanx Group as well as the profitability trend at the individual Group companies as at 31 December 2010 and considered the internal control system, risk reports, risk management activities and the annual report submitted by the Chief Compliance Officer.

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

The Nomination Committee met on 21 July 2011 and made a recommendation regarding a proposed nomination for election to be put forward by the Supervisory Board to the General Meeting with the aim of ensuring that the Supervisory Board has a balanced composition geared towards the principle of diversity.

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 Articles of Association and Rules of Procedure of the company were adjusted and consideration was also given to the recommendations of the Code, insofar as this was found to be appropriate for a company that is as yet unlisted. This includes, not least, disclosure for the first time on an individual basis of the remuneration received by the members of the Board of Management and Supervisory Board in the remuneration report contained in the 2011 Annual Report.

Audit of the annual and consolidated financial statements

The annual financial statements of Talanx AG submitted by the Board of Management, the financial statements of the Talanx Group – drawn up in accordance with International Financial Reporting Standards (IFRS) – as well as the corresponding management reports and the bookkeeping system were audited by KPMG AG, Wirtschaftsprüfungsgesellschaft, Hannover. The General Meeting appointed the auditors; the Finance and Audit Committee awarded the concrete audit mandate and defined as special audit concentrations – in addition to the usual audit tasks – the scrutiny of the provisions for taxes and pensions (in the case of the annual financial statements) and the examination of the valuation of level 2 and 3 assets, the intercompany true-up process with units abroad, the implementation of the IFRS Improvements 2010 and the cash flow statement (in the case of the consolidated financial statements). 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 19 March 2012 and at a meeting of the Supervisory Board on 20 March 2012. The auditor took part in the deliberations of the Finance and Audit Committee and of the full Supervisory Board regarding the annual and consolidated financial statements, reported on the conduct of the audits and was available to provide the Supervisory Board with additional information. In accordance with the final outcome of our own examination of the annual financial statements, the consolidated financial statements, the corresponding management reports and the audit reports, we concurred with the opinion of the auditors and approved the annual and consolidated financial statements drawn up by the Board of Management.

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

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

"Having audited the report in accordance with our professional duties, we confirm that

1. its factual details are correct,
2. in the case of the transactions detailed in the report, the expenditure of the company was not unreasonably high."

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

Changes on the Supervisory Board and Board of Management

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

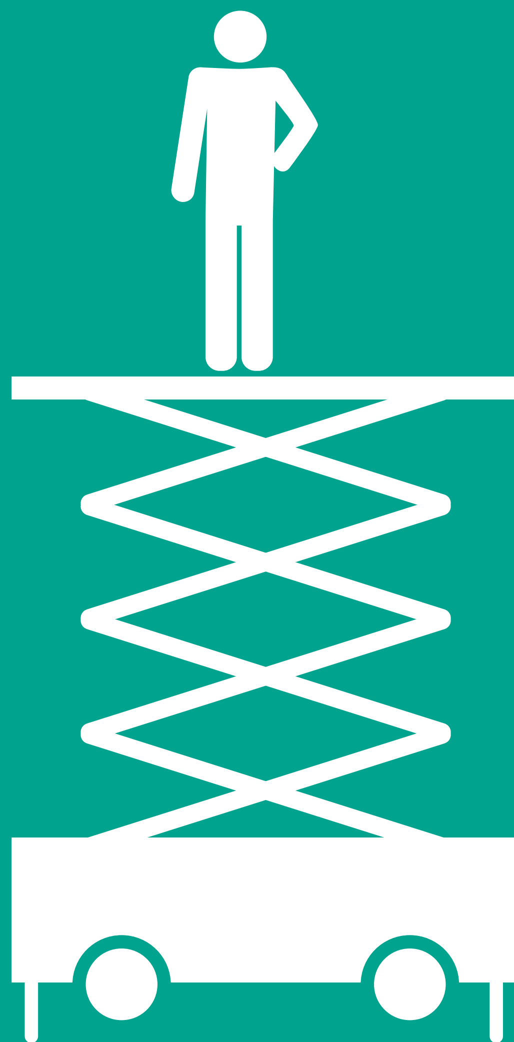
Word of thanks to the Board of Management and staff

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

Hannover, 20 March 2012

For the Supervisory Board

Wolf-Dieter Baumgartl
(Chairman)



Talanx is standing on a sound foundation. The path to further growth is clear – the Group is financially strong and fit for competition going forward.

This has been achieved thanks to the unswerving commitment of the Group's employees around the globe – around 18,300 today. They are still working on making it one of the leading globally operating insurance groups.

You can stand and work better on a strong foundation

You can only work confidently if you are standing on a sound foundation and have a steady footing. And only if you act confidently can you do sound work and strengthen the foundation.

A GLOBAL INSURANCE GROUP WITH STRONG ROOTS IN GERMANY

Nowadays Talanx is an insurance group with operations on all continents. Having strong roots in Germany, the Group has managed both to create a sound financial and strategic foundation that proved a robust starting-point for an extraordinary success story and to take the step to becoming a globally operating group that has grown particularly rapidly in the past decade.

The Talanx Group – with more than EUR 23 billion in gross premiums a major insurance group in Germany and Europe – operates under several well-known brand names in insurance and reinsurance. These include HDI and HDI-Gerling with insurance products for private, business and industrial clients, Hannover Re, one of the world's leading reinsurers, the bancassurance specialists neue leben, TARGO Versicherungen and PB Versicherungen, and AmpegaGerling as an investment fund operator and asset manager. Based in Hannover, Germany, the Group is active in 150 countries and enjoys excellent ratings: Standard & Poor's has rated the financial strength of the Talanx primary insurance group A+/stable (strong) and that of the Hannover Re group AA–/stable (very strong).

INTEGRATED GROUP WITH A B2B CUSTOMER ACCESS MODEL

What makes Talanx special in the insurance industry is its business alignment: the Group cooperates mainly with professional market players, for instance with other insurers, banks, professional brokers and large businesses and industrial corporations, some of them with their own insurance departments. On a lesser scale, the group also markets its products directly to small businesses and private clients.

To maximise transparency for clients and investors, the Group has tailored its modern, clear-cut and efficient structure to four operative client segments: Industrial Lines, Retail Germany, Retail International, and Reinsurance.

Insuring industrial clients is a business among professionals. Our industrial clients in Germany and abroad profit from decades of experience in risk assessment and management and our proven expertise in

PROGRESS AS TRADITION
In its over one hundred years of history, the Group has proven many times that lasting success is possible only on the basis of constant adaptability. Talanx anticipates market needs, responds promptly to demands, and implements change rapidly.

professional claims management. HDI-Gerling Industrie operates with about 2,600 in-house employees around the world. It accompanies its clients with customised solutions via primary insurance units of the Talanx Group in 32 countries and through network partners in a further 100 countries. And it continues to expand industrial insurance as the Group's traditional core business: HDI-Gerling Industrie is on the way to being a global player that is present and competitive worldwide on its own merits.

The Retail Germany Division with 5,500 employees is currently going through a fitness program with the aim of profitably expanding market share, making its cost ratio competitive and optimizing the value it offers its clients. This is to be achieved by setting up efficient structures and processes to improve its forcefulness on the market and its client focus. The ultimate goal is a profitably growing, modern insurer that offers its business partners lean processes and its clients best-quality products, in short: one of the most efficient and client-focused insurers in this market in Germany. In this business area, it pursues a filigree philosophy tailored with business partners in mind and with the ambitious aim of offering optimum conditions to its professional partners such as banks, large brokers, companies that offer property/casualty insurance or car manufacturers when selling motor insurance products.

The Retail International Division has an ambitious plan: with its 5,100 employees, the segment has set itself the task of growing in markets where we see high future potential and which we have accordingly defined as strategically important, specifically Central and Eastern Europe (including Turkey) and Latin America. Where Talanx International is already operating, activities are to be optimised and new market segments tapped. That this ambitious plan is not unrealistic is demonstrated by results in recent years: the segment has been able to expand particularly strongly through a mixture of organic growth and acquisitions. Here, too, cooperation with professionals prevails: the majority of policies are sold via brokers and free agents. A great advantage to the segment is the fact that, despite all differences between the target markets, experience, procedures and products can be adapted to other markets. Talanx International's familiarity with many international retail markets is the kind of know-how that makes it easier to expand business or to enter into new, lucrative markets.

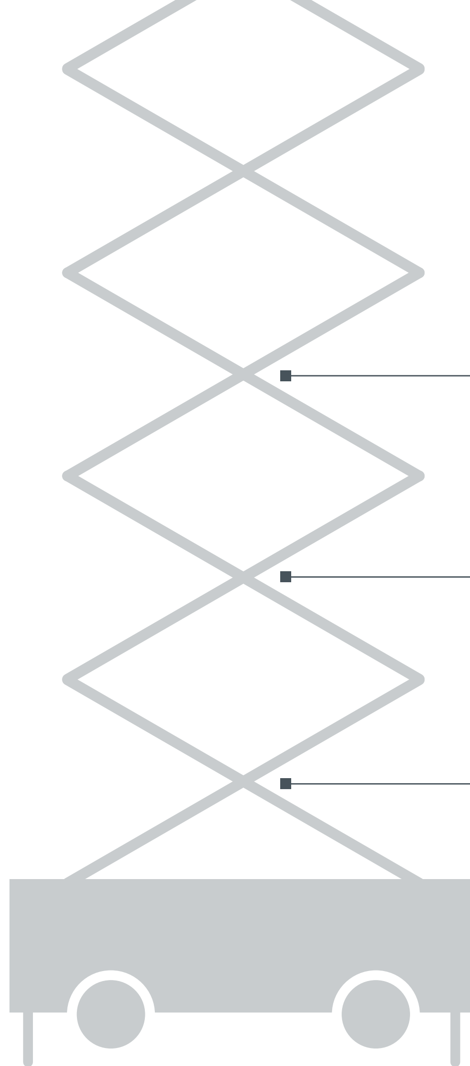
In reinsurance Hannover Re operates all lines of property/casualty and life/health insurance. Geared strictly to B2B, the group has reinsurance contracts with over 5,000 insurance companies and has about 2,200

Our recipe for success: a multi-brand Group

While the Talanx brand name primarily addresses the capital market, at the operative companies our considerable international product expertise, our forward-looking underwriting policy and our distribution resources are reflected in a multi-brand strategy.

Re-launch with a modern and efficient structure

The restructuring programme launched in 2010 is going according to plan and is already producing results. Since aligning its structure to client groups, the Group is concentrating on making its Retail Germany Division one of the most efficient and client-focused insurers in this market segment.



2012
As the next step, German retail business is being made fit for competition: business partners and clients are to be given more focused, transparent and efficient customer service.

01/2011
Talanx works with a Group and divisional structure that is in line with its defined strategy and can more easily achieve the profitability and growth targets set.

10/2009
Launch of one of the biggest restructuring efforts in the Group's history. The target: to establish the best possible conditions for succeeding in competition!

employees over all continents. Its German business is run by the subsidiary E+S Rück. Hannover Re has committed to efficiency and enjoys a good reputation among clients and investors. It is not only one of the world's biggest reinsurers but also extremely profitable. Life/health reinsurance is the division's strategic growth segment, in which it occupies a place among the large, globally operating corporations.

Highly capable and efficient central functions ensure that the Group remains on course. Talanx AG's duties are of a more strategic nature; it guides the basic positioning of the divisions to the extent necessary for achieving the overall strategy. Two central service companies are dedicated to standardising and harmonising processes and tapping synergies. The Corporate Operations segment also includes financial services, comprising mainly management of Group-wide investments and the investment fund operator AmpegaGerling, and also the Group's own reinsurance broker.

The Group's successful development to date proves that its history is a good basis on which to build further: today's Talanx is a platform capable of sustaining a wide range of business-policy options for upward movement, in other words, target-focused growth.

Talanx embarks on acquisition and strategic cooperation agreements to enhance its international options.

Purchasing well-established companies with a good sales line-up and expanding them under local management enables us to develop new markets and pursue a consistent growth strategy.

Forward together with a goal-oriented strategy

Our principle is to delegate responsibility for profit to our divisions and to allow them a high level of entrepreneurial freedom within the framework of our strategic alignment – because this joint commitment is the key to success and the basic prerequisite for taking advantage of our strong points and pooling resources within the Group.

In the past year, the Talanx Group has transformed itself completely from an organisation based on lines of business to one based on clients' needs. While the reinsurance division has remained unchanged, our core business was brought together in the globally aligned Industrial Lines Division. Retail insurance is geographically divided into German and international business.

Acquisitions are a permanent part of our strategy especially outside of Germany: for instance, the Retail International Division has purchased companies in five countries since 2009. The focus here was on the Central and Eastern Europe and Latin America regions.

However, this by no means prevents us from just as systematically withdrawing from participations that no longer fit in with our core business – in the year under review, for example, Clarus and the legal aid insurance specialist HDI-Gerling Rechtsschutzversicherung. We continue to offer legal aid insurance as part of industrial insurance, but no longer to private clients.

One of our main focal points is cost efficiency. We intend to achieve significant annual savings in a wide variety of ways, e.g. through leaner, centralised and automated service processes with a high synergy potential, including the harmonisation of our IT organisation. At the same time we are working on strengthening and restructuring organisational units, not only at Retail Germany.

PROFITABLE ORGANIC GROWTH AND FOCUSED ACQUISITIONS

As a glance in the rear-view mirror shows: when it comes to growth Talanx has been driving ahead at a high speed. The quadrupling of gross premiums in the last 15 years would not have been achievable by organic growth alone; we have regularly extended our Group by bringing in attractive companies in Germany and abroad. Our high international product expertise and strong marketing drive help us to adapt to the needs of different clients group, regions and cooperation partners. We have efficiently integrated new companies and divisions into the Group. We

The Talanx Group builds upon its regional know-how; retaining key staff after acquisitions so as to take advantage of their expertise.

Targeted expansion in defined regions

Central and Eastern Europe, Latin America and Asia are among the markets we are targeting for expansion. In line with the Talanx Group's internationalisation strategy, purchasing suitable companies in these regions is one way to enhance our visibility and to take advantage of promising opportunities on the insurance markets.

also have highly developed collaboration skills that can be fine-tuned to the most diverse professional partners and business models.

Industrial insurance is a mainstay of our globalisation strategy: its importance within the Group's portfolio is to be increased not only on our defined target markets, it also has a growth mandate in countries in which the Talanx Group has been operating for a long time. For example we intend to expand our business with internationally operating German industrial corporations by taking advantage of the sales networks of our retail insurance companies. This gives our industrial clients the benefit of decades of experience "on their own doorstep."

The Retail International Division is a real growth driver within our Group with its strategic target markets, Central and Eastern Europe (including Turkey) and Latin America; we expect it to make a higher participation to the Group's profit both

under its own power and through acquisitions. Here we see major opportunities for exporting our expertise, for instance in bancassurance, to international markets. Making use of local know-how and the presence of an extensive sales network help in identifying clients' specific needs and offering tailor-made solutions.

The strategic alliance we entered into with the Japanese insurance group Meiji Yasuda in 2010 enables us to take advantage of suitable opportunities together. More on this topic in the next section.

In Germany, too, we are determined not to stagnate in retail insurance. Even this highly competitive market harbours opportunities in profitable specialties and innovative niches. The aging population can be a boon for us, if we can offer bespoke products for the upper age group.

CHANNELING EFFICIENCY IN THE RIGHT DIRECTION

Since the beginning of the year under review, the primary insurance sector has been operating with shared central functions, which not only boosts efficiency but saves more than a little money.

So the first leg of our journey, re-focusing on our clients and restructuring our Group, is already behind us; having implemented these measures has already enhanced our cost awareness. And having set up Retail Germany as a separate division we are also on schedule for improving cost efficiency still further. The harmonisation of our IT landscape in Germany by the new company Talanx Systeme AG, founded in the year under review, is running smoothly.

The development of the Talanx Group to date shows: the actions taken by Talanx to be even more broadly lined up for the future and to further improve our ability to meet the demands of the capital market are taking effect.

Business processes follow client needs

We have put our clients behind the steering-wheel and aligned our new organisational structure to their needs.

This enables us to cater ideally to different client groups, regions and cooperation partners. And also makes it easier to integrate new companies and/or divisions into the Group. What is more, lean, efficient and uniform business processes are a major success factor in support of our Group strategy.

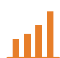
A strong financial basis allows Talanx to climb steep summits.

With a comfortable financial backpack, we can face up to the challenges of our industry and take advantage of acquisitions in promising markets.

Our targets: ambitious, but achievable

In the Talanx Group we aim for sustainable profitable growth. We want to expand organically, through strategic and complementary acquisitions, and through co-operation arrangements – and our financial strength stands us in good stead in this context.

Only with a sound financial basis will we be able to achieve targeted strategic and organic growth. We are working constantly on broadening and strengthening that basis so as to be well equipped for the future.



SOLID FINANCIAL PERFORMANCE

This sound performance is the starting point for attaining a leading market position in Germany. Here we want to become more profitable in retail business and go for focused growth. The new divisional company Talanx Deutschland AG, founded in the year under review – for the German retail business of HDI-Gerling and bancassurance – is the driving force in this context.

Bancassurance, our sales channel in cooperation with banks and the postal service, already features very efficient workflows and thus low cost ratios, thanks to a high level of automation and integration into the processes of the partner banks.

Our priority target, however, is to generate above-average successful business especially outside of Germany. In the longer term, our intention is for growth in international industrial and retail primary insurance business to bring gross premium generated abroad up to par with premiums from Germany. Up to now they account for about 30% of the total primary insurance premium income, but the share is constantly rising. Wherever we operate we strive to grow at above the average for the local market.

By purchasing L'Union de Paris Uruguay S. A. (now under the name of HDI Seguros), L'UNION de Paris Argentina S. A. and the Mexican company Metropolitana in the year under review, the Retail International Division has come another step closer to its aim of gaining a longterm foothold in Latin America. Our most important growth driver in this region at the moment is our company in Brazil, mainly thanks to its motor business.

Key figures
Talanx Group

+4%
growth in gross written premiums

EUR 3.3 billion
investment result in 2011

EUR 8.7 billion
group equity in 2011

202%
adjusted solvency in 2011

We pursue acquisition opportunities in other strategically important regions just as consistently: we check where we can optimise our activities on our long-standing markets and at the same time systematically look around for suitable partners. With Meiji Yasuda as our cooperation partner since 2010, we have found a company that is excellently positioned on the Japanese market and closely matches our own targets and objectives. A project launched in the Eastern Europe region towards the end of 2011 shows how successfully this cooperation works: together with Meiji Yasuda we have agreed a longterm strategic bancassurance cooperation in Poland and other selected countries of Central and Eastern Europe with the Getin Holding Group. In this connection we have taken over a majority share in the Polish TU Europa insurance group*. We also made a further significant purchase in Poland in January 2012: Talanx International AG has reached an agreement with the Belgian KBC Group to take over 100% of its holding in the second-largest insurance group in the country, TUiR Warta S. A.*. Our cooperation partner Meiji Yasuda is to take over 30% of the Warta shares immediately after closure of the purchase.

In industrial insurance we intend to further expand our business in Europe and Latin America, (South) East Asia and on the Arabian peninsula; we are also planning to set up a branch office in Singapore. Industrial insurance will continue to play an important role in meeting Talanx Group's earnings expectations going forward.

The Hannover Re group, which constitutes our Reinsurance Division, operates in an environment that is volatile by nature. It pays close attention to the profitability of its business and consistently pursues cycle management.

STABLE IN A VOLATILE BUSINESS

The Group's diversified structure with primary insurance and reinsurance divisions helps to keep the Group's operating result steady. That is why the reported Group result never once turned negative in the last ten years; in the ups and downs of the insurance industry, that can by no means be taken for granted. Despite one-off effects in 2010 and high catastrophe claims in the year under review, we have been able to keep our premium income and result quite steady over the years and to maintain our strong capitalisation in the growth phase of recent years.

* *subject to the approval of the cognisant regulatory and anti-trust authorities*

Our premium volume has risen steadily in recent years. However, this is just one yardstick for measuring our success: in the light of the different risk profiles of our areas of insurance and reinsurance activity, we set ourselves only earnings targets and not sales targets in the more volatile segments. In less risk-exposed segments we define both earnings and sales targets. It is then up to the individual divisions to fill in the strategic framework: in terms of products, client groups, sales channels and countries they define their client and business relationships largely at their own discretion. We rely on the tried-and-tested principle: as local as possible, as centralised as necessary, and so we expect the individual divisions of the Talanx Group to make the most of their growth and earnings opportunities with the maximum of entrepreneurial freedom and responsibility for the own results.

By implementing this strategy we continue to work on optimizing our opportunity/risk profile in a European comparison.

Talanx's financial strength offers advantages also for its staff and anybody interested in joining it. It makes the Group a secure and attractive employer.

Record result

Our Group result more than doubled in the year under review

Talanx Highlights in 2011

01/2011

HDI-GERLING TAKES OVER DUTCH PROPERTY/CASUALTY INSURER

HDI-Gerling Industrie Versicherung AG takes over the Dutch property/casualty insurer Nassau Verzekering Maatschappij, N.V., Rotterdam. The company with 160 employees specialises in lines of business such as professional indemnity, D&O and crisis management.

HANNOVER RE BUYS REINSURANCE PORTFOLIO

Hannover Re takes over Scottish Re's entire portfolio, which covers the mortality risk under term life and endowment products and was taken on by Scottish Re from 2000 to 2003. The business is expected to generate an annual premium volume of about USD 80 million.

02/2011

MADRID BECOMES AN INDUSTRIAL INSURANCE HUB

The Spanish company HDI Seguros, a subsidiary of HDI-Gerling Industrie Versicherung AG, is to be expanded into a hub for industrial insurance solutions in Latin America.

AWARD FOR COMPANY PENSION PROVIDER

In a survey of competence and expertise in company pension schemes, the independent Institut für Vorsorge und Finanzplanung (IVFP) studied 22 providers. HDI-Gerling was given the top mark "excellent" and thus ranks supreme in terms of insurance cover, service, advice and administration.

03/2011

TOP MARKS FOR DISABILITY INSURANCE

Analysts Morgen & Morgen give HDI-Gerling five stars in their survey of disability insurance products – and that despite stricter criteria. The rating applies to several products from the "EGO" product family.

04/2011

PURCHASES IN ARGENTINA AND URUGUAY

Talanx is extending its presence on its strategic target market of Latin America by taking over two insurance companies: L'UNION de Paris Cía. Argentina de Seguros S. A. and L'Union de Paris Cía. Uruguaya de Seguros S. A. The hitherto privately owned companies had a staff of just on 140 in the 2010 business year and generated a premium volume of around EUR 44 million. The two are to operate under the name of HDI Seguros.

07/2011

NEW ACQUISITION IN MEXICO

Talanx International AG takes over the Mexican company Metropolitana Compañía de Seguros. The portfolio comprises mainly motor business and thus ideally complements the Group's activities in Mexico: the already established HDI Seguros likewise gets about 80% of its business from the motor line. The two companies are to be merged and will then rank among the top ten motor insurers in Mexico.

Our target: to be fit for the future. The manifold activities of the past year prove that we are making steady progress along this path.
Adapting our structure, cooperation agreements and take-overs, and our excellent products are our answer to the challenges of the future.

08/2011

STRATEGIC PARTNERSHIP IN VIETNAM

The Talanx Group and PVI Holdings, Hanoi, agree on a strategic partnership. HDI-Gerling Industrie Versicherung AG takes over 25.1% of the Vietnamese company. The aim is to join forces in promoting the business development of PVI Holdings on the Vietnamese insurance market. The Talanx Group will cooperate closely with PVI Holdings and its subsidiaries to achieve this aim.

10/2011

SIMPLIFIED STRUCTURE AT PB VERSICHERUNGEN

With retroactive effect to 1 January 2011, PBV Lebensversicherung AG, formed out of BHW Lebensversicherung AG in 2008, is merged into PB Lebensversicherung AG. This move is intended to make cooperation between PB Versicherungen and their sales partners and clients more efficient.

11/2011

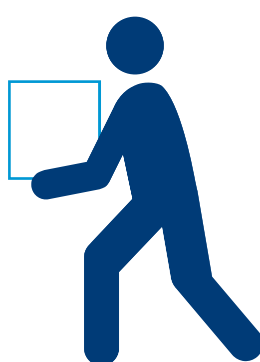
NEW OFFICE BUILDING IN HANNOVER INAUGURATED

1,852 of the Group's employees at its Hannover location move into a new office building after only two years under construction. The address is HDI-Platz 1. The new building stands out by its transparency and lightness.

12/2011

TALANX STEPS UP ITS PRESENCE IN POLAND

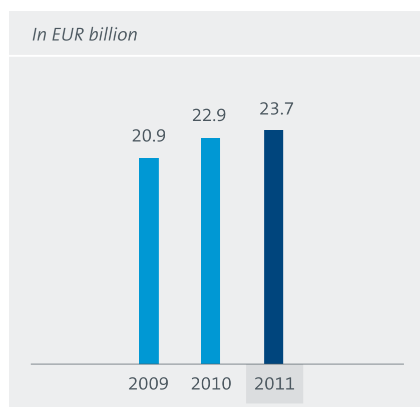
Talanx and its Japanese partner Meiji Yasuda Life Insurance Company join together with the Polish financial services corporation Getin Holding Group in a longterm strategic bancassurance alliance in Poland and selected countries of Central and Eastern Europe. As part of the agreement they will – subject to the approval of the regulatory and anti-trust authorities – take over the insurance companies Europe Life and Europe Non-Life, headquartered in Wroclaw. Talanx already operates in Poland with two companies in the motor, liability, general property/casualty and life insurance lines.



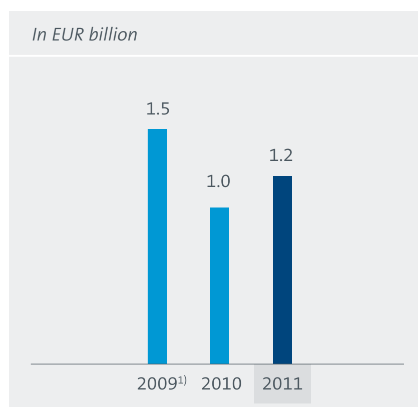
The Talanx Group can look back on an altogether highly satisfactory 2011 business year: its gross premium income increased by 4%; its investment profits stayed much the same as in the previous year, despite the difficult capital market environment. Talanx had to cope with very high claims but nevertheless achieved one of the best results in its history. Its operating profit (EBIT) showed a double-digit percentage increase; the Group net income more than doubled. This improvement in results was driven by primary insurance: the Group's diversification paid off.

The Group's corporate development in 2011 was characterised mainly by acquisitions and alliances: to achieve stronger growth in its target markets of Latin America and Eastern Europe, the Group has purchased companies in Mexico, Argentina, Uruguay and Poland. With the aim of gaining profitable market shares on our home market, we started to invest in building client-focused, efficient structures in our German retail business in the year under review.

Gross written premium

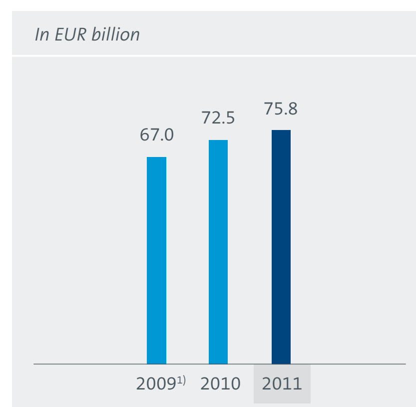


Operating profit (EBIT)



[1] Adjusted on the basis of IAS 8

Investments
(excluding funds held by ceding companies)



[1] Adjusted on the basis of IAS 8

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The Talanx Group

Business activities

The Talanx Group operates as a multi-brand provider in the insurance and financial services sector. At the end of 2011 we employed around 18,300 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.

The 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 aid 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 on all continents. In retail business Germany is one area of concentration, while internationally the principal focus markets are the growth regions of Central and Eastern Europe, 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 year under review was the first year in which the new configuration of our Group segments took full effect. Our organisation had become highly complex and needed to be put on a more competitive footing for the future to enable us to achieve our growth and profitability targets. Functions which had previously been performed in parallel in various parts of the Group have now been concentrated at just a few sites.

In primary insurance we operate with three divisions that are oriented towards specific client segments and each 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 as a global player operates worldwide: it is largely independent of third parties and has the resources to lead international consortia. The Retail Germany segment interlinks the German companies conducting retail business, across the traditional dividing lines between life and property/casualty insurance. The Retail International segment operates mainly in our strategic target markets of Central and Eastern Europe including Turkey, and Latin America. The bancassurance cooperation alliances outside of Germany are also assigned to this segment.

The Reinsurance segments, led by Hannover Re, remain unchanged.

The Corporate Operations comprise – as a financial and management holding without any business activities of its own – Talanx AG, which performs primarily strategic duties, plus the two service companies Talanx Service AG and Talanx Systeme AG, Talanx Reinsurance Broker, and the Financial Services sector, which is primarily concerned with managing the Group's investments.

Konzernstruktur
Group Structure

Talanx AG

Geschäftsbereich Industrieversicherung
Industrial Lines Division

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

Geschäftsbereich Privat- und Firmenversicherung Deutschland
Retail Germany Division

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

Geschäftsbereich Privat- und Firmenversicherung International
Retail International Division

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

Geschäftsbereich Rückversicherung
Reinsurance Division

Schaden-Rückversicherung
Non-Life Reinsurance

Personen-Rückversicherung
Life and Health Reinsurance

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

Konzernfunktionen
Corporate Operations

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

Nur die wesentlichen Beteiligungen
Main participations only

Stand / As at: 31.12.2011

Strategy

The Talanx Group is internationally active in primary insurance and reinsurance and in both property/casualty and life business. In the more than 100 years of our history we have evolved from a single-line liability insurer for industry into a global insurance group with a focus on the industrial and retail lines and reinsurance business. We attach particular importance to successful cooperation with professional partners. In the Talanx Group, we optimise the interplay of insurance and reinsurance as an integral component of our business model with the aim of consistently enhancing our opportunity/risk profile and improving capital efficiency. The composition of the Group's portfolio ensures that, even in difficult market phases, our Group has sufficient independent risk capacities at its disposal to support its clients reliably and over the long term and to tap into promising markets. Through this approach we safeguard our independence and can sustainably enhance the success of the Group to the benefit of our investors, clients, staff and other stakeholders.

The Group is headed by Talanx AG as a financial and management holding company. Its remit is to make sure that we achieve our primary objective: sustainable, profitable growth. This is also the guiding principle for all divisional strategies deriving from the Group strategy. The Talanx Group's organisation is geared towards centralising the Group steering and service functions while delegating responsibility for profit to the divisions. This organisational structure, which accords the individual divisions a high level of entrepreneurial freedom and responsibility, is key to the success enjoyed by the Talanx Group, as it enables the various units to take maximum advantage of their growth and profit opportunities.

While the Talanx brand is oriented primarily towards the capital market, on the operating side our sound international product expertise, our forward-looking underwriting policy and our strong distribution resources are reflected in a multi-brand strategy. This enables us to optimally align ourselves to the needs of different client groups, regions and cooperation partners. Moreover, it facilitates the efficient integration of new companies and/or business sectors into the Group. This structure also promotes highly developed cooperation skills which can be harmonised with a diverse range of partners and business models.

Lean, efficient and standardised business processes combined with a state-of-the-art and uniform IT structure are further key success factors in the context of Group strategy.

Strategic objectives of Talanx

The Group's policies and primary strategic objectives are focused on reliable continuity, financial strength and sustainable profitable growth and are thus geared towards longterm value creation. This guiding principle is the basis for all other corporate goals. An essential prerequisite for achieving these aims is a soundly capitalised Talanx Group which provides its clients with effective cover for their risks. By giving that assurance we serve the interests of our shareholders, clients, staff and other stakeholders and create the greatest possible benefit for all concerned.

Our strategy for human resources management is described at length in the section "Non-financial performance indicators," pages 82 et seqq., while our risk management approach is described in the "Risk report," pages 100 et seqq. These two aspects are therefore not discussed further at this point.

Profit target

The Talanx Group strives for longterm, above-average profitability, measured in terms of our return on equity under IFRS and in a comparison with Europe's 20 largest insurance groups. Our minimum target for Group net profit after tax and 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.

From this profit target we derive the benchmarks we use to steer the operative divisions. Talanx AG makes sure that the sum of the profit targets of the individual divisions is at least equal to the Group's defined return on equity.

Capital management

Capital management at the Talanx Group aims to ensure an optimised risk-commensurate capital structure in order to reinforce the Group's financial strength.

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

Enterprise management

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

Growth target

Within the Talanx Group, we strive for sustainable profitable growth while keeping a close eye on our opportunity/risk profile and maintaining an adequately diversified portfolio. We achieve this organically, by way of strategic and complementary acquisitions, and through cooperation arrangements.

We are aiming for above-average growth especially in the industrial insurance lines and in international retail. In the longer term, our intention is for gross premium income from primary insurance (industrial and retail) generated outside Germany to account for half of the total gross premium volume in primary insurance.

In industrial insurance we are already recognised as a leading insurer in Europe and are expanding our global presence. We are concentrating our efforts to build up activities in international retail insurance on the central and eastern Europe including Turkey and Latin America regions. In German retail insurance business we are aiming to improve our profitability and achieve focused growth. As a longterm majority shareholder in Hannover Re, we are pursuing the goal of consolidating and selectively expanding the company's standing as a global player.

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

This strategic framework is fleshed out in terms of products, client groups, sales channels and countries by our individual divisions.

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

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

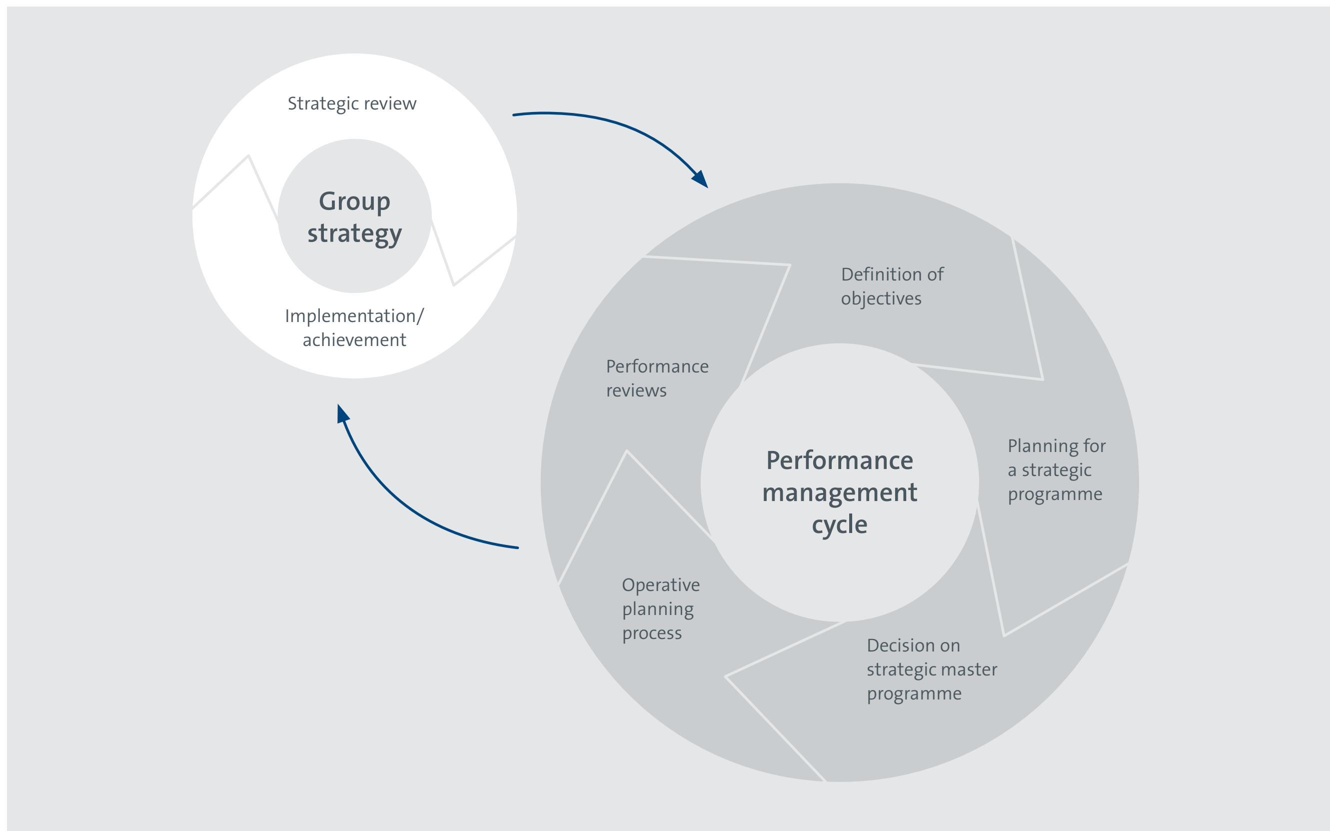
We pursue these goals with the aid of our holistic, integrated management system, in which we devote special attention to the four fundamental management processes that govern the interplay between the holding company Talanx AG and the Group's various divisions: capital management, performance management,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

Performance management

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

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

Performance management cycle



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

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

- The Board of Management of Talanx AG (the holding company) defines strategic objectives as a framework for planning and aligning business activities. The focus is on the Group's core management ratios and on Group-wide strategic initiatives. The objectives formulated by the holding company thus define the Group's aspirations in terms of economic value creation, profitability, level of security and growth initiatives.
- The holding company and the Group's divisions use a consistent performance metric to manage their business. This performance metric encompasses not only financial core management ratios but also other relevant operational management ratios from four different perspectives: the financial perspective, the market/client perspective, the process perspective and the staff perspective.
- The Boards of Management of the holding company and the divisions meet regularly to discuss and assess performance on the basis of this performance metric.

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

Core management ratios

From Group parameters and strategic programme 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.

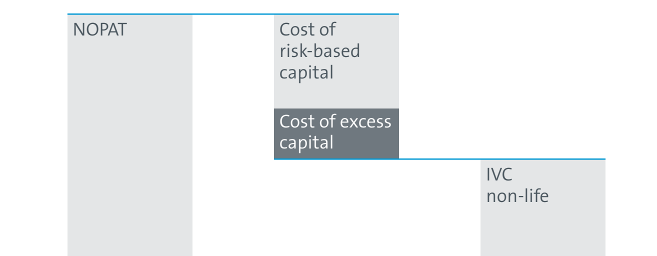
Management indicators

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

The IVC enables us to identify and consistently allocate the value contributions of the Group at different hierarchical levels – Group, 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 and compared – making allowance for their specific characteristics – in order to reliably identify value-creating areas. The core management ratios, the operational management ratios and their respective degrees of goal accomplishment create the transparency needed to optimise the allocation of capital and resources, to pinpoint risks and opportunities and to initiate further measures.

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

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



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

The NOPAT is an economically informative performance and management ratio for the reporting period in question. It is composed of the net income for the year as recognised 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 (e.g. loss reserve discount, excess loss reserves, fair value changes not recognised in income).

The cost of capital reflects the expectations of lenders/investors as regards interest on the capital they have provided; this must be deducted from the NOPAT to arrive at the IVC and hence at the true value created in the context of value-based management. It consists of the costs associated with the allocated risk-based capital and the cost of excess capital. The risk-based capital is the capital a company or unit needs to adequately cover its risks with a defined level of security. It thus reflects the amount of capital required to protect the entity against financial insolvency. While the risk-based capital is divided between the profit centres in accordance with their actual risks on the basis of a 99.97 percent value at risk, the excess capital is obtained as the difference between the risk-based capital and the company's capital. The cost of the risk-based capital is calculated from a risk-free basic interest rate, a risk premium reflecting the current market situation, and friction costs. By contrast, calculation of the cost of excess capital takes only the risk-free interest rate and the friction costs into account, since the capital itself is not at risk.

Definition of capital cost factors

- The risk-free basic interest is an interest rate that contains no allowance for the risk of losing the capital invested but may well contain market-related risks (e.g. the risk of interest rates changing in the future). In the context of risk-based capital, we use the three-year average of ten-year swap rates as the risk-free interest rate.

- The risk premium is the consideration an investor expects for investing in a vehicle that involves some kind of risk (e.g. company stocks). As the risk premium cannot be defined individually for each investor, it is calculated on the basis of the average excess return generated by a selected share index compared to that from a risk-free investment. We use an index with a broad geographic and sectoral spread, as this makes it possible to eliminate systematic risks from our portfolio through diversification.

- Friction costs are opportunity costs incurred by a shareholder through investing his capital not directly in the capital market but rather indirectly via a company in which the capital is tied down and no longer freely fungible. This generic term encompasses elements such as double taxation, the risk of insolvency and agency costs.

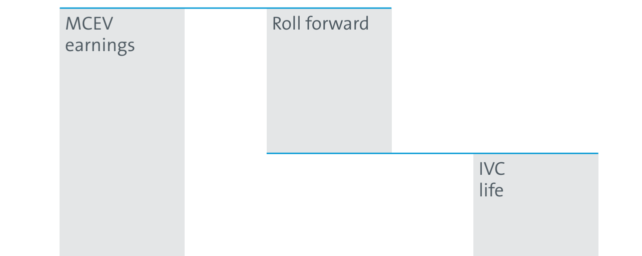
The following table shows the capital cost rates underlying the value-based management of our non-life business; they are based on a one-year ruin probability at a security (measured in terms of value at risk) of 99.5% – this corresponds to the regulatory capital requirement – and the Talanx Group's own, higher benchmark with a value at risk of 99.97%, which is also in line with our target rating of AA from Standard & Poor's.

Cost of equity for non-life business	VaR 99.97 %
Security level	
Capital cost rates	
Risk-free interest (EUR)[1)]	3.5%
Risk premium	3.0%
Friction cost	1.5%

[1)] Basis: three-year average of ten-year swap rates at 31 December 2008, 2009, 2010

Raising the security level to 99.97% increases the risk-based capital, whereas the excess capital is reduced; the risk premium and the friction cost decrease in the same measure. On the basis of our current procedure for calculating the cost of capital, maintaining the risk-based capital at a security level of 99.97% generates opportunity costs to the investor that are 450 basis points above the risk-free interest rate. Above this rate of return, value is created. The return on equity of at least 750 basis points above "risk-free" targeted for the Group as a whole in our strategy thus already includes a not inconsiderable aspiration to intrinsic value creation.

In the year under review, we further refined and balanced our value-based management methods for non-life business with the aim of improved operationalisation. In line with the principle of correlating results with their respective sources, the IVC of each operative unit is now broken down into separate "pots" for results from insurance operations, investment and capital-management. This breakdown also permits an accurate allocation of results in the context of a market-compliant and competitive remuneration system from the perspective of sustainable value-based corporate development.



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

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

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

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

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 the methods and processes that are necessary in order to fulfill our business purpose, especially in the area of risk management. In the various divisions we analyse trends such as demographics or climate change and develop products tailored to specific markets and clients.

Markets, business climate and legal environment

Overall economic development

The overriding topic in the year under review was the worsening European sovereign debt crisis and its repercussions for the finance industry, in particular the banks. The resulting general cooldown of the global economy left its mark, in particular, on the Eurozone. Countries on the Eurozone periphery – which are faced with austerity drives on a massive scale – suffered marked slumps in growth. In the course of these critical circumstances, some countries saw their credit ratings downgraded significantly. The USA lost its top rating, and several European countries were further downgraded – among these, heavyweights Italy and Spain, who saw risk premiums on their government bonds hit new heights as a result.

In response to the debt crisis, numerous measures have been proposed at recent EU summits. However, neither the initiative to encourage private banks to accept a voluntary 50% "haircut" on Greek debt, calls for the recapitalisation of European banks, nor efforts to expand the EFSF bailout fund have so far succeeded in calming market nerves to any lasting extent. The agreement reached by European heads of government for a separate accord enforcing stricter budgetary discipline was for many an essential measure.

Change in real gross domestic product relative to the previous year	2011	2010
% change relative to the previous year		
US	+1.7	+3.0
Eurozone	+1.5[1]	+1.9
Germany	+3.0	+3.7
United Kingdom	+0.9[1]	+2.1
Japan	−0.9	+4.5

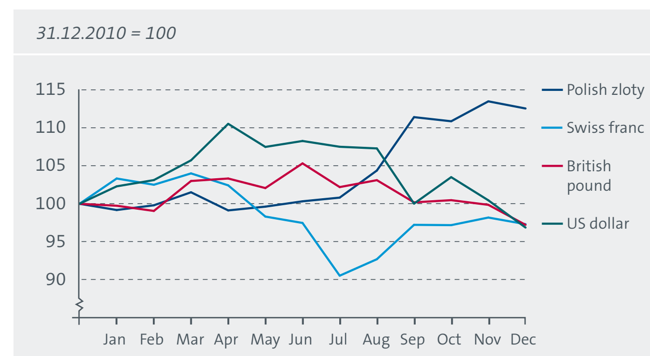
[1] Bloomberg consensus forecasts, valid 15 February 2012; 2011: provisional figures

In the final quarter of 2011, relatively robust economic data from the USA had a stabilising effect. According to information from Bloomberg, in the fourth quarter, the US economy grew at an annualised rate of 2.8% compared with the previous quarter, and the unemployment rate of 8.5% in December 2011 was the lowest for three years. In the Eurozone, GDP fell by 0.3% in the fourth quarter over the previous quarter, a rise of just 0.7% compared with the prior-year quarter. Within the Eurozone, Germany recorded growth of 1.5% in the fourth quarter compared with the same quarter of the previous year.

The monetary policy pursued by the major central banks remained expansive in the course of the year. The fraught situation in the money markets prompted a concerted action by the central banks to cut the interest rate at which banks borrow dollars against eligible collateral. Since Mario Draghi, the new president, took office, the ECB has reduced the key rate (interest rate on the main refinancing operations) to 1.0% in two increments and, in December, held its first ever three-year tender. In opting to commence buying up European government bonds again, the ECB has reverted to crisis mode once again.

Inflation in the Eurozone increased markedly in the course of the year and was above the ECB target range at the end of 2011. Thus, the annual inflation rate published by the ECB for December 2011 rose to 2.7%, while in the USA, the inflation rate recorded in December 2011 was 3.0%. In the United Kingdom, inflation even exceeded the 4% mark at times during the year.

Movement of the euro relative to other currencies

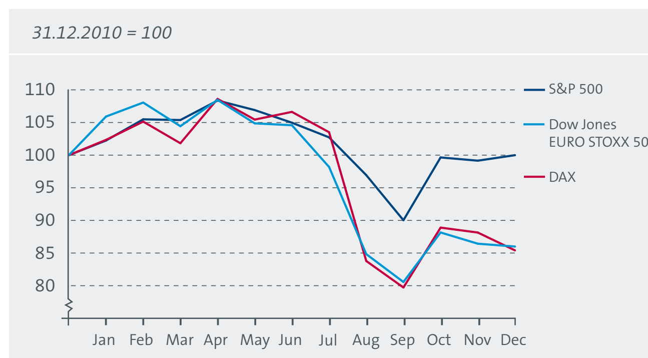


Whereas, in the first half of the year, the euro profited from a somewhat more restrictive ECB monetary policy, at times reaching highs of more than 1.45 USD/EUR, it fell sharply in the final quarter against the backdrop of the ongoing euro debt crisis, ultimately falling to below the 1.30 USD/EUR mark. A similar picture emerged for the GBP/EUR exchange rate: from a starting point of 0.86 GBP/EUR at the beginning of the year, the euro rose to 0.90 GBP/EUR mid-year before slumping to 0.83 GBP/EUR by the end of 2011. In the light of the weak euro, which impacted on the Swiss franc too, the Swiss central bank declared in September 2011 that it was no longer prepared to tolerate exchange rates of below 1.20 CHF/EUR. In the course of the year, the euro gained around 13% on the Polish zloty.

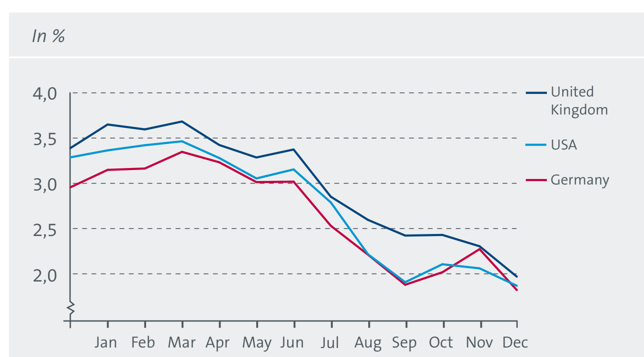
Capital markets

Equity markets were extremely volatile throughout 2011. In the first quarter, the disastrous consequences of the Tsunami in Japan sent global markets tumbling for a short while. Boosted by a healthy earnings season, however, markets recovered over the course of the first six months. Escalation of the European sovereign debt and banking crises saw global equity markets record major losses in the third quarter of the year. Germany's DAX index shed almost 2,500 points within the space of a few weeks, losing almost a third of its value, and the picture for the EURO STOXX 50 was similar. Although European markets managed to claw back some lost ground in the final quarter, they closed the year deep in the red, with the DAX shedding almost 15% and the EURO STOXX 50 around 17% of the respective prior-year values. The American indices fared much better: the Dow Jones ended 2011 with a performance plus of around 5% on the previous year, while the S&P 500 closed virtually unchanged.

Movements on equity markets in 2011



Yields on 10-year government bonds in 2011



In 2011, bond markets were dominated primarily by the unresolved debt and credit crisis afflicting the GIIPS countries (Greece, Ireland, Italy, Portugal, Spain). Government- and covered bonds, as well as downstream asset classes such as bank- and corporate bonds were all targeted for downgrading by the rating agencies. Despite two EU summits, the situation was no less fraught in the fourth quarter of the year. As the mood of gloom and doom surrounding the "big" GIIPS countries, notably Italy, deepened, the markets once again turned their attention to the looming banking crisis. In our opinion, banks are, in many cases, no longer able to perform their role of financial intermediaries, and inter-bank trading is hardly taking place at all. As we see it, the gap between secured and unsecured money-market trading bears all the hallmarks of a renewed crisis. The liquidity supply is principally provided through extended central bank lines, e.g. the 3-year tender at 1%, which enjoyed a take-up volume of some EUR 489 billion. The ECB remained active on the secondary market with its purchasing of government bonds issued by countries on the Eurozone periphery, while a new programme to buy up covered bonds was also implemented. The need to bolster confidence in the banking sector increasingly came into the political focus, too.

The positive mood at the start of the year paved the way for slightly higher yields in the first few months of the year under review, with 10-year government bonds almost hitting the 3.5% mark at the start of April. From April on, however, the mood deteriorated considerably due to the unresolved debt crisis, and yields fell dramatically. With yields listing at well under 2%, the situation became even more acute in the third quarter, before the market swung round in the fourth quarter to produce yields of around 2.3% in November. That said, yields slumped markedly again towards the end of the year in expectation of very high debt-refinancing demand predicted for the start of 2012. On 31 December 2011, 2-year government bonds listed at 0.14%, 5-year bonds at 0.76%, and 10-year bonds at 1.83%. At some points in the year, short-term debt was even being traded at negative yields, a phenomenon reflected in central bank policy-making. The ECB has adopted a much more cautious stance since the interest-rate hike of July. In November and December, interest rates were cut by 0.25 percentage points respectively to currently 1.00% (interest rate on the main refinancing operations).

With regard to the market for government bonds, the trend toward investing in the few remaining safe havens continued. That said, credit products remained very stable up to the end of July. Not until the banking crisis began to take centre stage did bank issues, particularly in the area of subordinated debt, start to stutter badly here too.

The market for new issues was extremely buoyant in the first three months of 2011, especially for covered bonds. Around 50% of issues in the entire year under review were transacted in the first quarter. As the crisis worsened, the market for new issues virtually dried up across the board; capital-market experts expect pent-up demand for refinancing programmes to be very high indeed.

International insurance markets

The notes on the insurance industry are based mainly on Swiss Re's sigma study, and on information provided by the ifo Institute for Economic Research and the German Insurance Association (GDV).

2011 was not an easy year for the international insurance markets. Aside from the severe losses resulting from the major natural disasters in what proved to be the most loss-prone insurance year of all time, the slump in the world economy in the second half of the year, the sovereign debt crisis in Europe and the USA, and the enduring low interest rates conspired to challenge insurers around the globe. Despite this negative backdrop, the insurance sector actually performed very creditably in our opinion. Although the dynamic growth of the emerging countries slackened somewhat in the year under review, it remained well above anything witnessed in the developed nations. Developments in the growth regions of Latin America and Central and Eastern Europe, in particular, are important for the Talanx Group, as we have defined these regions as targets for expanding our international business.

Property and casualty insurance

In the developed markets, premium growth in property and casualty insurance increased somewhat in 2011 on the back of robust demand for insurance products in the wake of the preceding recession. Growth rates in the emerging nations fell slightly, but they still exceeded by far the figures for the industrialised markets. In contrast to the previous year, all global growth regions contributed to the increase in general demand for insurance covers. After set-backs in 2009 and 2010, Central and Eastern Europe recorded positive growth again thanks primarily to rising demand from Russia and higher prices in the Polish property insurance market. In Latin America, growth in premium income accelerated. In many of our new key markets, increasing auto sales gave rise to a rise in demand for motor insurance policies. Growth was also recorded in the field of health- and private accident insurance and – albeit on a relatively small scale – in agricultural insurance.

Profitability in property and casualty insurance was less impressive due to both underwriting and investment results. The huge claims expenses generated by the major loss events in 2011 took a heavy toll on underwriting results. It was the insurers from the industrialised markets who bore the brunt of the erosion in profitability from the major loss events, while insurers in the emerging countries were hardly affected at all. In contrast, the impact of the flood disaster in Thailand was felt by local insurers, too. The total claims burden from this loss event has yet to be fully evaluated.

According to Swiss Re's Global Insurance Review (GIR), the investment climate for the insurance sector remained troubled in year four of the financial crisis, and pressure was brought to bear on investment income. Fears of a renewed recession together with the European debt crisis prompted poor performances in the capital markets. The ratio of investment income to overall profitability remained low in a historical context. Insurance industry estimates for 2011 put investment income at around 10% of net earned premiums, compared with 13.5% on average for the period 1999 through 2007. All told, the sector is probably looking at a return on equity in property and casualty insurance of 4% (6% in the previous year), a figure that is not only below pre-crisis levels but also below the cost of capital. All in all, experts are predicting a better market situation in 2011 for Europe's property and casualty insurers. The improvement in underwriting results compared with 2010 was felt especially in motor insurance. According to the GIR, initial premium adjustments were pushed through for motor policies in the United Kingdom and Italy in 2010, and this trend may well continue in 2011 in other markets, namely Germany and France.

For the reinsurance sector in general, 2011 was a year of extremely high catastrophe losses; according to experts' predictions, therefore, reinsurers are looking at combined ratios of between 108% and 110% for the year under review. Since the repercussions of the November flood disaster in Thailand cannot yet be fully evaluated, higher claims burdens for global reinsurers cannot be ruled out. Coupled with unfavourable conditions in the capital markets, this will lead to a marked deterioration in profitability for most reinsurers. Return on equity for this sector is expected to slump to between 3% and 4% for the year as a whole, whereas in the previous year it was 11%.

Life insurance

After a brief recovery in the previous year, global premium volumes in life insurance fell slightly in the year under review, the developed insurance markets feeling the pinch to a greater extent than the emerging countries. However, 2011 saw the latter experience stagnating premium income for the first time. This is largely due to a major fall-off in premiums in China which, due to the sheer scale of its premium volume, dominates aggregate growth figures for the emerging markets. If China is omitted from the equation, the emerging markets actually recorded a marked increase in premium income in 2011 too. Of these markets, Latin America was the most conspicuous in terms of growth with an increase in premium income of almost 10%. League leaders in the growth stakes in Central and Eastern Europe were Poland and Russia. Russia shone out from the rest with a growth rate in excess of 50%, albeit from a very low starting point.

According to experts, life insurers' return on equity in the international insurance markets has remained on or around the 12% mark since the beginning of 2010. As such, profitability remains below the pre-crisis level of 2007 and there are no signs that the 15% mark will be reached in the foreseeable future.

Global premium income from conventional life reinsurance business fell in the year under review, this slump resulting in the main from the industrialised markets. A rise in premium income is still being predicted for the growth regions in the year under review. Nevertheless, the ten biggest life reinsurers succeeded in increasing net premium income by around 7% in the first nine months of the year alone, this gratifying development being achieved mainly by company acquisitions.

German insurance industry

Development of gross premium income in the individual insurance lines in Germany	2011[1]	2010
In % compared to previous year		
Property and casualty insurance	+2.5	+0.9
Life insurance	–5.7	+6.0
Private health insurance	+4.9	+5.7
Total	**–1.2**	**+4.4**

[1] Provisional figures

Source: GDV

2011 saw the financial and debt crisis enter its fourth consecutive year. Thanks to their broadly diversified, longterm investment policies and only minor exposure to government bonds from the so-called GIIPS countries, German insurers were largely able to absorb the negative impact of the crisis on business and clients. Despite the crisis and signs throughout the year that the recovery was stalling again, business development was satisfactory in our opinion. The slight fall in premium income recorded by all lines of business was mainly attributable to a normalisation of single-premium business in life insurance, which had experienced significant volume increases in the two preceding years. With a total premium volume of EUR 176.7 billion, the GDV reported its second-highest figures of all time in 2011 for the German insurance industry. Benefits paid by primary insurers increased in the year under review on the back of an increase in the number of routinely maturing life policies, coupled with rising claims expenditure in the property and casualty line of business.

Property and casualty insurance

At around 2.5%, premium growth in the property and casualty line of insurance in the year under review was the biggest since 2003, continuing the upward trend of the previous year. This was mainly thanks to growth in premiums in motor insurance, which increased markedly in 2011. Tariff increases were pushed through for both new and in-force business in this sector.

All other lines of insurance are expected to show positive growth as well, with marine and credit insurance faring particularly well. Although, the industry recorded only a small percentage rise in claims expenditure in the year under review, 2011 delivered the second-highest burden of losses in absolute terms the industry has had to cope with since the River Elbe floods of 2002. The situation was compounded by key loss events such as the lengthy frost period at the start of the year and two extreme weather fronts that arrived on the scene in August and September. Although relatively localised, they gave rise to an extremely high claims burden. All told, with the positive effects of the growth in premium income outweighing the rise in claims expenditure, the underwriting profit of property and casualty insurers actually grew again in 2011 for the first time in two years. According to the GDV, these results are likely to be reflected in a 1 percentage-point rise in the combined ratio.

Life insurance

All in all, the life insurance line of business returned to normal in the year under review. Against the backdrop of the financial and economic crisis, 2009 and 2010 had been marked by an extreme trend towards single-premium business. This expansive development was not maintained in 2011 – indeed, as expected in our opinion, it actually fell perceptibly. In contrast to single-premium business, new business with regular premium payments – much more important for sustaining future growth in this class of insurance – grew by 8.1% to EUR 6.1 billion in 2011 following declines in the two preceding years. Thus, in terms of aggregate premiums – the benchmark by which policies with regular premium payments are weighted with their respective terms – new business grew by 5.5% in total during the year under review. In contrast, total gross premium income in life insurance contracted by 4.8% in the year under review as a result of the trend toward single-premium business. Once again, the number of lapsed policies fell slightly, this despite the ongoing financial crisis.

The continuing low interest-rate environment is becoming an increasingly serious challenge for Germany's life insurers. Whereas in 2011, it was still possible for the industry to generate adequate net returns on its capital investments, cross-sector announcements on reducing shared profits suggest that the trend, should it continue, is likely to affect life insurance benefits in the future.

Legal and regulatory environment

The business of the Talanx Group is subject to regulatory rules and requirements that are both numerous and detailed. The supervisory authorities of the countries in which Talanx operates enjoy far-reaching authorities and powers of intervention. Observing these regulations and requirements, and continually adjusting its business and products to new laws, entails a considerable financial outlay on the part of Talanx. Talanx currently sees itself confronted by far-reaching changes in the regulatory environment in which it operates, particularly in the wake of recent national and international efforts aimed at avoiding another financial crisis.

A global trend is now discernible towards tightening the regulatory and supervisory framework governing banks and insurance companies – including even stress tests, along with increased requirements in terms of capital adequacy. A particular focal point is a financial institution's "system relevance". Companies whose collapse would have unforeseeable consequences for the entire financial and insurance industry will face much more stringent regulatory requirements in the future, especially with regard to their capital base. This is in line with a resolution drawn up on 4 November 2011 in Cannes, by the G-20 group of key industrialised and emerging nations, which named 29 banks deemed "too big to fail". The International Association of Insurance Supervisors (IAIS) has been given the task of verifying, by the G-20 summit in June 2012, whether certain conventional insurance companies – contrary to industry assessments – should also be given the "globally system-relevant" stamp. It has also been asked to develop appropriate test criteria, and, where necessary, identify these top global insurance players. The Talanx Group, too, is involved in this assessment process. The latest opinion of the administrative court in Frankfurt suggests, however, that the Group is not deemed system-relevant within the above meaning of the term. Other proposed reforms currently under debate relate e.g. to the introduction of a financial transaction tax in the European Union.

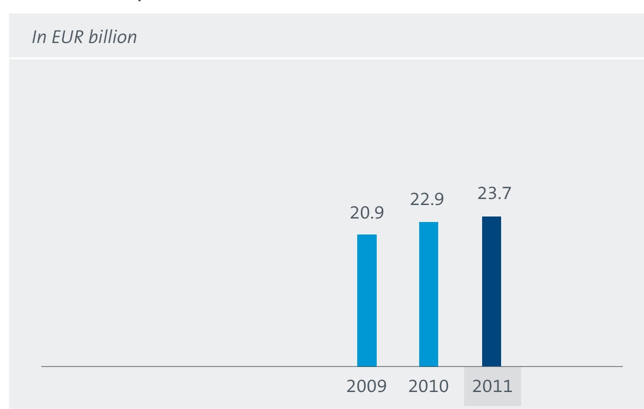
Recent times have also seen fundamental changes made to the structure of supervisory bodies, particularly at EU level. On 1 January 2011, the new Frankfurt-based European Insurance and Occupational Pensions Authority (EIOPA) replaced the former Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS). The EIOPA's main task is to draw up technical standards, recommendations and guidelines for coordinating the national supervisory authorities. Although the EIOPA has no authority per se over German insurance companies, it can request that a national supervisory authority justify any divergence in its own supervisory practices from those set down by the EIOPA (what is known as the comply-or-explain principle). In exceptional cases, the EIOPA can also issue instructions to national authorities and, in the case of non-compliance, take action directly in the form of binding decisions applicable to the insurance companies in question. Furthermore, in accordance with the Treaty on the Functioning of the European Union, the EIOPA – in some cases with only limited control by the European Parliament – is set to play a key role in the rulemaking process for substantiating the Solvency II Directive that has yet to come into force. There is no doubt that the EIOPA's work will have significant practical implications for Germany's insurers; even in the current preparatory stage, it has resulted in a barely manageable proliferation of supervisory rules and regulations across the whole sector.

What is more, the so-called Omnibus Directive is currently implementing changes to certain details of the Solvency II Directive. Although precise details of the Directive's content and how it is to be implemented and transposed into the national laws of EU member states are not yet known, it is certain to result in the wholesale harmonisation of supervisory legislation across the EU. The quantitative and qualitative tightening of supervision already incorporated in the Directive, together with requirements for greater transparency – in particular through more stringent capital adequacy requirements and demands for in-house risk control systems, as well as reporting and documentation processes – is being addressed by German legislators in the form of a current draft bill to amend the country's Insurance Supervisory Act (VAG). Against this backdrop, Talanx intends to submit an application for the approval of its own in-house risk model. Developed on a proprietary basis by Talanx, the risk model will be used instead of the alternative standard formula in the Solvency II Directive in order to enable solvency capital requirements for the Talanx Group to be calculated with greater precision. Developed in constant dialog with the supervisory body, the in-house model aims to take maximum possible account of the Group's individual business model, its legal structure and, above all, its risk structure. European and national supervisory bodies alike have expressed the wish that the major insurance groups develop in-house models as early as possible.

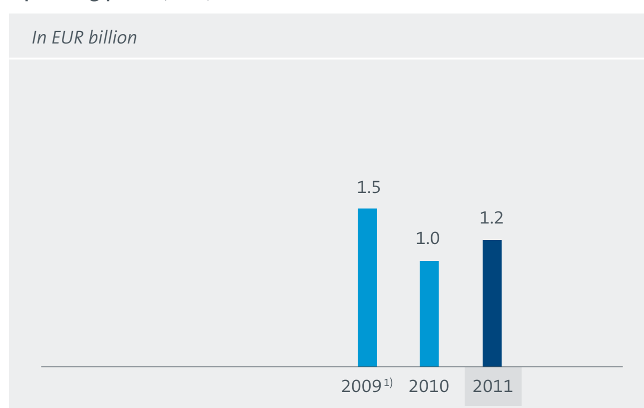
Business development

In the year under review, the Talanx Group achieved one of the best results in its history and recorded single- to double-digit percentage growth in a number of key indicators: gross premium, Group net income and return on equity. The underwriting result also improved considerably in 2011, so that the operating profit (EBIT), at EUR 1.2 billion, was also significantly higher than in the previous year (EUR 1.0 billion). This was due mainly to improved results in primary insurance, whereas the contribution of reinsurance to the EBIT dropped sharply compared to the previous year. Our financial strength, expressed in terms of the Group's solvency ratio – which was twice as high as prescribed by law – remains at a high level.

Gross written premium



Operating profit (EBIT)



[1] Adjusted on the basis of IAS 8

Restructuring well on the way

Even in its first year, our new Group structure with shared central functions in primary insurance has already resulted in cost savings. The aim was to optimise our structures to make them more transparent to our clients and the capital market and at the same time to improve our efficiency as a prerequisite for achieving our strategic objectives more quickly.

In the year under review, the Talanx Group's restructuring efforts in primary insurance focused on German retail business. This was necessary because the German market harbours only limited potential for growth and competition is mainly via pricing. The restructuring campaign is intended to improve efficiency and to gear our organisation more closely to the needs of our clients. The first signs of success are already visible. The goal is to be a profitably growing, modern insurer that offers its business partners – banks, large brokers, industrial cooperation partners – optimum conditions and its clients products tailored to their needs.

Expanding international business and new business in Germany

In our growth area industrial insurance we entered into a strategic partnership with the Vietnamese company PVI Holdings in the year under review. Our aim here is to bring our recognised expertise in industrial insurance to bear on the booming Vietnamese market. We also took over Nassau Verzekering of the Netherlands, a well-established niche insurer for special lines of business such as professional indemnity, D&O and crisis management.

We were also able to expand our international retail business: in our Latin America target market we acquired companies in Mexico, Argentina and Uruguay, while in our other target market, Central and Eastern Europe, we purchased companies in Poland: late last year and at the beginning of this year, we got together with our Japanese cooperation partner Meiji Yasuda to purchase the Polish companies TU Europa and Warta, both of which operate in bancassurance; this should enable us to increase our share in the local market significantly. We are expecting to be given the approval of the cognisant regulatory and anti-trust authorities for these transactions in the near future.

On our home market we saw a very encouraging increase in new business. Despite a drop in single-premium business, we were again able to gain ground over last year.

Business experience of the Group

In 2011, the Group's gross written premiums rose by 4% (5% adjusted for exchange-rate effects) over the previous year, to EUR 23.7 billion. With the exception of Retail Germany, all segments of the Group made a contribution to this increase. The top performer in terms of growth was Retail International, up 11% followed by non-life reinsurance with 8%.

As a result of a slight increase in our retention rate to 87.9 (87.3)%, net premiums earned rose by 4% to EUR 19.5 (18.7) billion.

The underwriting result improved by EUR 346 million or 17% to –EUR 1.7 billion. Here a marked recovery in the primary insurance lines helped to compensate for poorer results in non-life reinsurance. The Group's combined ratio remained virtually unchanged at 101.0 (100.9)%, an improved cost ratio counter-acting a slight increase in the claims ratio by 0.9 percentage points.

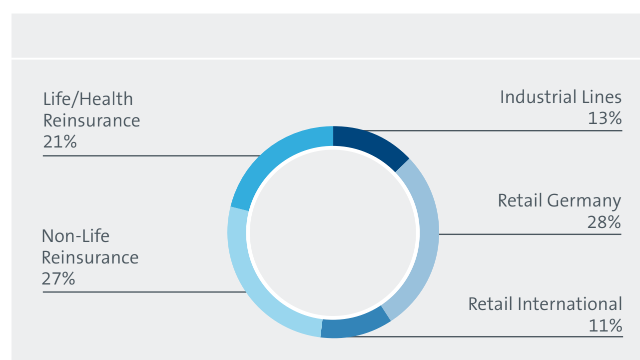
Given the turbulence on the international capital markets in 2011, the stable profit yielded by the Group's investments under own management, at EUR 3.0 (2.9) billion, is highly satisfactory. This figure represents the balance of an increase in ordinary investment income and a decline in extraordinary income. We took advantage of the low interest level to sell off government bonds with a high credit rating and re-invest the proceeds mainly in corporate bonds. Nevertheless, the unrealised reserves in our investment portfolio increased still further. Due to the two tranches of subordinated debt totalling EUR 800 million issued in the third and fourth quarters of 2010, our financing costs rose by EUR 27 million.

The other income/expenses dropped sharply to –EUR 327 (–139) million, above all due to declining exchange rates and to restructuring expenses in the Retail Germany segment. However, this development was more than compensated by the improved underwriting result, so that the EBIT rose by 21% compared to 2010, to EUR 1,245 (1,032) million. This improvement is mainly attributable to primary insurance, although the liquidation of reserves thanks to two favourable court rules also had a positive effect. The first case involved a dispute over double taxation of investment income generated abroad, the second was an anti-trust case (see Notes, pages 270 and 282).

At EUR 520 (216) million, the Group's net income was 141% up on the previous year. The return on equity rose from 4.5 to 10.0%.

Development of the divisions within the Group

Segmental breakdown of gross premium



Industrial Lines

	2011	2010	2009
Figures in EUR million			
Gross written premium	3,138	3,076	3,077
Net premium earned	1,375	1,413	1,405
Underwriting result	155	–57	134
Net investment income	204	231	240
Operating result (EBIT)	321	185	335
Combined ratio (net)[1] in %	88.6	104.1	90.5

[1] Including income from interest on deposits

The Industrial Lines Division is led by HDI-Gerling Industrie Versicherung AG (HG-I). The company offers the entire spectrum of individual products and services for its clients from eleven locations in Germany. Through subsidiaries, dependent branches and network partners its activities span the globe. 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. Comprehensive insurance solutions are assembled on the basis of customised coverage concepts, thereby providing the complete product range 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.

In the year under review, Nassau Verzekering Maatschappij N. V. joined the Group and was merged with our existing Dutch subsidiary. The purchase of this established niche insurer strengthened our position in special lines of business such as professional indemnity, D&O insurance and crisis management as a service. HG-I also took a 25% stake in Petro Vietnam Insurance Holdings.

Gross written premium slightly up

The segment's gross written premium amounted to EUR 3.1 (3.1) billion in the year under review. The individual companies made the following contributions (before consolidation) to the overall growth of EUR 62 million: EUR 191 million from HG-I, EUR 40 million from our Dutch subsidiary and around EUR 20 million each from our Belgian subsidiary and the reinsurer HDI-Gerling Welt Service AG. Our US subsidiary HDI-Gerling America Insurance Company, Chicago, also reported a EUR 20 million increase. HG-I grew especially in motor lines thanks to premium rises in the in-force portfolio and a gratifying level of new business, fire business did especially well outside of Germany. In the Netherlands the take-over of Nassau Verzekering Maatschappij N. V., Rotterdam (Nassau) by HG-I and its merger with the Dutch subsidiary HDI-Gerling Verzekeringen N. V., Rotterdam (HDI Netherlands) were the main source of additional premium income. The increase in Belgium came mainly from the successful acquisition of new business, especially in the casualty, fire, marine and engineering lines.

The Spanish subsidiary stayed more or less on a par with the previous year's level, market-related declines being compensated by new business in property/engineering in Latin America and in the middle market segment. The EUR 87 million drop at HDI Versicherung AG, Vienna (HDI Austria) was due entirely to the fact that, whereas in 2010 the entire company's results were reported in the Industrial Lines segment, as of 2011 45% of its business is booked in the Retail International segment, which showed a corresponding increase.

The net premium earned in the segment dropped by EUR 38 million to EUR 1.4 (1.4) billion. This was mainly due to the higher cessions to reinsurers, which rose by EUR 97 million to EUR 1.7 (1.7) billion, disproportionately to the premium growth. Most of this increase came from HG-I which, in addition to purchasing higher reinsurance cover for natural catastrophes, posted reinsurance premiums (before consolidation) that were EUR 225 million higher, at EUR 1.6 (1.3) billion, due to a one-off effect. Because of the integration of Nassau, HG-I's Dutch subsidiary also posted EUR 21 million higher premium cessions to reinsurers. By contrast, HDI Austria's reinsurance premiums dropped by around EUR 57 million due to transfer of business to the Retail International segment.

Underwriting result

The other underwriting income rose by around EUR 99 million in the period under consideration to EUR 109 (10) million; essentially due to a special effect at HG-I that had the opposite effect on reinsurance premiums ceded as mentioned above.

The net technical expenses fell by EUR 153 million to EUR 1.3 (1.5) billion. This was mainly due to a drop in net claims expenditure by EUR 162 million to EUR 1.0 (1.2) billion, although administrative expenses for own account declined by around EUR 18 million to EUR 212 (230) million; while acquisition costs rose slightly from EUR 7 million to EUR 89 (82) million. The other technical expenses showed a more significant change at EUR 20 (–1) million. Here, too, the largest company in the segment, HG-I, had a major influence, its net claims expenditure declining considerably – despite a year fraught with natural catastrophes. The take-over of Nassau made its mark on the Netherlands subsidiaries with a rise in claims expenditure, which also increased at HDI-Gerling America Insurance Company and HDI-Gerling Welt Service.

The net claims ratio improved significantly to 66.8 (82.0)%, while the net expense ratio remained relatively stable at 21.9 (22.1)%. The combined ratio was 88.6 (104.1)%. The net underwriting result improved by a EUR 212 million in all to EUR 155 (–57) million.

Net investment income slightly down

The Division's net investment income declined by EUR 27 million to EUR 204 (231) million. This was due to a slight drop of EUR 14 million in ordinary income, but also to an extraordinary result down EUR 11 million and slightly higher investment-related expenditure. The main drivers here were higher impairments on fixed-interest securities at HG-I.

Segment's results shaped by its biggest company

Other income was likewise quite significantly down by EUR 49 million; a loss of EUR 38 million contrasted with a profit of EUR 11 million achieved in the previous year. This change was again attributable chiefly to HG-I, which strengthened its provisions for one-off eventualities in the year under review and, what is more, had in the previous year posted considerable income from release of sundry provisions and from reversal of impairments on reinsurance recoverables.

The major companies in Industrial Lines and their key figures[1]	Property/casualty insurance products					
	HDI-Gerling Industrie Versicherung AG			HDI Versicherung AG, Austria		
	2011	2010	2009	2011	2010	2009
Figures in EUR million						
1. Gross written premium including premiums under unit-linked life and annuity insurance	2,721	2,530	2,524	105	192	193
2. Savings elements of premiums under unit-linked life and annuity insurance	—	—	—	—	—	—
3. Ceded written premium	1,563	1,338	1,386	67	124	122
4. Change in gross unearned premium	–67	–1	–15	–1	–1	1
5. Reinsurers' share in change in gross unearned premium	–31	14	–51	–1	–2	—
Net premium earned	**1,122**	**1,177**	**1,174**	**38**	**69**	**72**
6. Claims expenditure (gross)	2,043	1,646	1,524	72	142	123
Reinsurers' share	1,201	642	698	44	92	69
Claims expenditure (net)	**842**	**1,004**	**826**	**28**	**50**	**54**
7. Acquisition costs and administrative expenses (gross)	485	463	508	21	37	37
Reinsurers' share	230	190	241	14	26	27
Acquisition costs and administrative expenses (net)	**255**	**273**	**267**	**7**	**11**	**10**
8. Other underwriting income	106	5	1	1	2	3
Other technical expenses	–6	–7	55	—	1	2
of which: amortisation of PVFP	—	—	—	—	—	—
Other technical result	**112**	**12**	**–54**	**1**	**1**	**1**
Net underwriting result	**137**	**–88**	**27**	**4**	**9**	**9**
9. a. Investment income	263	250	276	6	10	11
b. Investment expenses	74	30	53	1	1	4
c. Interest income on funds withheld and contract deposits	2	—	—	—	—	—
Net investment income	**191**	**220**	**223**	**5**	**9**	**7**
Other income/expenses	**–71**	**25**	**–23**	**—**	**—**	**—**
Result before goodwill impairments	**257**	**157**	**227**	**9**	**18**	**16**
Investments	**6,229**	**5,946**	**5,762**	**160**	**309**	**247**
Reinsurance recoverables on technical provisions	**3,884**	**3,325**	**3,350**	**89**	**146**	**162**
Deferred acquisition costs	**17**	**16**	**2**	**1**	**2**	**2**
Technical provisions	**7,779**	**7,481**	**7,224**	**172**	**297**	**262**
In %						
Administration expenses ratio (gross)	6.3	7.2	6.8	10.8	10.2	9.8
Administration expenses ratio (net)	15.0	15.4	14.5	29.5	27.9	26.6
Acquisition cost ratio (gross)	11.9	11.2	13.5	9.2	9.4	9.2
Acquisition cost ratio (net)	7.8	7.8	8.3	–11.9	–11.7	–13.1
Claims ratio for property/casualty insurance products (gross)	77.3	65.2	62.0	68.9	74.1	62.9
Claims ratio for property/casualty insurance products (net)	65.1	84.3	75.0	71.6	69.5	73.5
Combined ratio of the property/casualty insurers (net)	87.7	107.5	97.8	89.3	85.7	87.0
Net earnings	3.1	3.8	4.1	2.1	3.1	3.0

[1] Before consolidation
[2] Other companies as well as consolidation within the segment if applicable

Property/casualty insurance products														
HDI-Gerling Verzekeringen N. V., Netherlands			HDI HANNOVER International España Cía de Seguros y Reaseguros S. A., Spain			HDI-Gerling Assurances S. A., Belgium			Other [2]			Industrial insurance		
2011	2010	2009	2011	2010	2009	2011	2010	2009	2011	2010	2009	2011	2010	2009
300	260	243	110	109	157	137	116	104	−235	−131	−144	3,138	3,076	3,077
—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
196	171	161	77	75	89	117	102	92	−265	−152	−118	1,755	1,658	1,732
−20	−1	4	−2	3	−2	−2	4	1	24	33	30	−28	37	19
2	1	3	−1	1	1	−1	4	2	12	24	4	−20	42	−41
122	87	83	32	36	65	19	14	11	42	30	—	1,375	1,413	1,405
204	141	156	89	143	108	97	76	71	−182	−101	−205	2,323	2,047	1,777
122	83	106	65	105	57	83	69	70	−199	−113	−91	1,316	878	909
82	58	50	24	38	51	14	7	1	17	12	−114	1,007	1,169	868
68	54	52	21	20	35	21	15	14	−37	−21	−24	579	568	622
34	35	33	14	15	17	20	17	14	−35	−27	−31	277	256	315
34	19	19	7	5	18	1	−2	—	−2	6	−7	302	312	307
—	—	—	1	3	5	1	—	—	—	—	—	109	10	9
—	—	—	—	1	5	—	—	—	26	4	48	20	−1	105
—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	1	2	—	1	—	—	−26	−4	−43	89	11	−96
6	10	14	2	−5	−4	5	9	10	1	8	78	155	−57	134
14	20	7	6	7	12	4	2	2	−11	−21	3	282	268	311
1	—	1	1	2	3	1	1	1	1	3	8	79	37	70
—	—	—	—	—	—	—	—	—	1	—	—	1	—	—
13	20	6	5	5	9	3	1	1	−13	−24	−6	204	231	240
−7	−3	−4	—	—	—	−1	−3	−5	41	−9	−7	−38	11	−39
12	27	16	7	1	5	7	7	6	−29	−25	65	321	185	335
272	192	173	192	179	141	54	59	70	−266	−50	64	6,641	6,635	6,457
345	296	287	267	271	251	275	251	219	−528	−423	−322	4,332	3,866	3,947
5	3	2	—	1	—	−1	—	—	5	4	2	27	26	8
579	433	418	425	424	352	300	267	230	−479	−368	−278	8,776	8,534	8,208
4.3	5.1	5.1	2.6	3.2	4.4	6.0	3.6	4.3				6.8	7.4	7.1
11.4	15.1	15.1	8.7	10.2	10.5	42.2	30.8	40.1				15.4	16.3	15.7
16.8	15.6	15.9	16.3	14.3	18.4	9.9	9.3	8.6				11.8	10.9	13.0
16.0	6.7	7.5	11.8	1.9	17.4	−34.7	−42.8	−45.0				6.5	5.8	6.2
63.5	54.3	63.4	81.0	126.3	68.9	71.3	63.6	67.8				75.5	65.9	59.7
66.7	66.2	60.0	71.8	101.9	77.2	68.7	50.7	12.8				66.8	82.0	68.6
94.2	87.9	82.6	92.4	114.0	105.0	77.1	40.1	9.9				88.6	104.1	90.5
5.7	10.6	3.5	2.4	3.5	5.3	6.6	2.3	1.9				3.1	3.6	3.9

HG-I's operating profit (EBIT) improved by EUR 100 million to EUR 257 (157) million, mainly thanks to a significant rise in the net underwriting result by EUR 225 million to EUR 134 (88) million. Although the year under review was marred by natural catastrophes, for instance in Japan and Thailand, and sizeable extra provisions had to be posted in the liability line, the net underwriting expenses dropped considerably by EUR 162 million to EUR 842 (1,004) million. This was essentially due to two factors: high reinsurance relief on the major loss events of the business year prevented the gross expenditure from leading to a disproportionate increase in the net burden; and a re-calculation of a number of future claims estimates on the basis of a revised assessment generated high run-off profits, despite the aforesaid additions to provisions.

HG-I's Dutch subsidiary's EBIT dropped relatively sharply by EUR 15 million versus the previous year. This was largely due to the integration of the new acquisition Nassau, after Nassau transferred a pure financial loss liability portfolio to its sister company HDI-Gerling Firmen und Privat Versicherung AG (Retail Germany). Although gross premiums showed a relatively strong rise of EUR 40 million to EUR 300 (260) million, this was overcompensated mainly by higher net underwriting expenses and a deterioration in the other earnings.

HDI Austria's EBIT declined by EUR 9 million to EUR 9 (18) million, reflecting the transfer of a part of its business to another Group segment, as mentioned earlier. The Spanish subsidiary's operating profit (EBIT) improved to EUR 7 (1) million, thanks to its underwriting performance. The net underwriting result improved to EUR 2 (–5) million as the large-claims history returned to normal. In the previous year the company had been hit by an earthquake in Chile and by the net loss from the commutation of a reinsurance relationship.

All in all, the Division's operating profit (EBIT) increased by EUR 136 million to EUR 321 (185) million – mainly thanks to the significant improvement in the net underwriting result, which more than compensated for the deterioration in other factors contributing to the result.

Retail Germany

Figures in EUR million	2011	2010[1]	2009[1]
Gross written premium	6,710	6,823	6,614
Net premium earned	5,461	5,502	5,158
Underwriting result	−1,258	−1,631	−945
Net investment income	1,530	1,577	1,207
Operating result (EBIT)	110	−44	209
Combined ratio (net)[2] in %	101.6	104.2	99.2

[1] Adjusted on the basis of IAS 8
[2] Including interest income on funds withheld and contract deposits

The Retail Germany Division bundles the German retail clients served by HDI Direkt, HDI-Gerling and the Talanx-Group's bancassurance activities and offers them insurance cover tailored to their needs. Talanx Germany AG heads the Division. The product range extends from property/casualty insurance via life insurance to company pension schemes. All distribution channels are available – not only a tied agents' network but also sales through independent intermediaries and multiple agents, direct marketing and bancassurance cooperations.

The functional organisation ensures clear responsibilities and establishes the foundations for operating across the previous line-based boundaries separating property/casualty and life insurance. This multi-line perspective is a vital prerequisite for improving processes and services to the benefit of clients.

Premium volume slightly down, but encouraging new business

Gross written premiums in the Retail Germany segment – including the savings elements under unit-linked life insurance – came to EUR 6.7 (6.8) billion in the year under review. The performance of our property/casualty insurance products was particularly encouraging: premium income from these products was up 3% on the previous year at EUR 1.5 (1.5) billion. They thus accounted for 23 (21)% of the entire segment. Our most important property/casualty line – motor – profited from a high volume of new business and premium adjustments, exhibiting growth both in premiums from business in force and in the number of policies in the portfolio. In absolute terms, growth in our liability lines of business even surpassed that in motor. Premium income from our "Compact" product, which allows policyholders to bundle various risks, was particularly gratifying. On the bottom line, net premiums earned from our property/casualty insurance products amounted to EUR 1.4 (1.3) billion.

Reflecting the general market trend, the gross written premium booked by our life insurers – including savings elements from premiums under unit-linked life insurance products – contracted slightly on account of reduced single premiums overall and totalled

EUR 5.2 (5.4) billion. Developments at the individual companies varied: neue leben Lebensversicherung AG beat the trend and recorded appreciable growth in single premium business, thus boosting its premium volume by 3%. In the case of TARGO Lebensversicherung AG, the favourable development of business with a regular premium payment was more than offset by declining single premiums and resulted – as was also true of PB Lebensversicherung AG (merged with PBV Lebensversicherung AG with retroactive effect from 1 January 2011) – in decreased premium income. For portfolio-related reasons, the premium development at HDI-Gerling Lebensversicherung AG was also influenced by high maturities relative to new business; with single premiums falling here too, the company's premium income declined.

The segment's retention ratio remained nearly constant at 93.4 (92.6)%. An upward trend came from lower reinsurance cessions in life insurance as a result of the discontinuation of quota-share treaties in the previous year and in the year under review. The decline in single-premium business led to lower savings components for our unit-linked products. Allowing for the change in unearned premiums, the net premium earned remained unchanged overall at EUR 5.5 (5.5) billion.

New business – measured by the internationally recognised yardstick of the Annual Premium Equivalent (APE) – grew again: despite the decline in single-premium business, it reached EUR 734 million, significantly higher than the previous year's EUR 704 million. Thanks to its success in co-insurance business, HDI-Gerling Firmen und Privat Versicherung AG achieved an outstanding increase of 29% to EUR 108 million. New business in life insurance products profited from the continuing upward trend in unit-linked annuity business offered by neue leben Lebensversicherung AG and HDI-Gerling Lebensversicherung AG, which again accounted for the lion's share of new business. Especially thanks to our success with innovative unit-linked products with variable guarantees, we achieved growth from EUR 201 to 206 million. TARGO Lebensversicherung AG and PB Lebensversicherung AG were able to compensate for the anticipated decline in our life insurers' single-premium business and again brought in new business on a par with the previous year.

Underwriting result significantly improved

The underwriting result picked up substantially, by 23% to –EUR 1.3 (–1.6) billion. As usual, it was dominated by the life insurance products, where the result improved by 21% over the previous year to –EUR 1.2 (–1.6) billion. This includes factors such as compounding of the technical liabilities (allocation to the benefit reserve) and participation of our policyholders in the investment income (allocation to the provision for premium refunds). The income opposing these expenses, however, is recognised in the investment income, so that – seen in isolation – the underwriting result is of little information value. The improvement in the underwriting results of the life insurers in the period under consideration was attributable primarily to declining write-downs on purchased in-force insurance portfolios. The net claims expenditure for life insurance products dropped to –EUR 4.7 (–4.9) billion, in part as a result of the lower single premiums.

The change in the underwriting result from our property/casualty insurance products was due primarily to higher amortisation of deferred acquisition costs. This caused the acquisition costs and administrative expenses (net) to increase to –EUR 480 (–470) million, despite cost savings achieved. The positive premium development in combination with a slightly higher claims ratio for the year and a run-off profit took some of the strain off the results. On the bottom line, the underwriting result in this sector was –EUR 22 (–56) million.

Net investment income slightly down on last year

The segment's net investment income fell by 3% to EUR 1.5 (1.6) billion. Life insurance products account for 93% of this income. Of the total investment income, around EUR 1.4 (1.5) billion was credited in very large measure pro rata to the holders of life insurance policies. The increase in interest-bearing assets thanks to the high level of single-premium business booked in the previous year generated higher ordinary investment income. Overall, however, it was the extraordinary investment income that dominated: after EUR 114 million in the previous year – mainly from gains from disposals of equity funds – the figure in the year under review was EUR 17 million.

Operating result turns positive

The longterm re-alignment of the Division is making its mark on the segment's results. For instance the associated one-off expenses, especially the commutation of reinsurance treaties in connection with the merger of ASPECTA into HDI-Gerling Lebensversicherung AG and impairments from revaluation of various life insurance items as a result of developments on the capital markets and changing cost structures, had led to an operating result of –EUR 44 million in the previous year. The positive trend in the year under review – driven by very good growth in new business and sustainable cost cuts – corroborates the effectiveness of the measures taken and is already helping to compensate for extraordinary burdens. Accordingly, the operating result improved to EUR 110 million, mainly thanks to the better underwriting result. Other major factors were the decline in investment income and lower write-downs on purchased in-force insurance portfolios.

The most important companies within Retail Germany and their key figures[1]	Property/casualty insurance products HDI-Gerling Firmen und Privat Versicherung AG		
	2011	2010	2009
Figures in EUR million			
1. Gross written premium including premiums under unit-linked life and annuity insurance	750	708	725
2. Savings elements under unit-linked life and annuity insurance	—	—	—
3. Ceded written premium	53	55	71
4. Change in gross unearned premium	–2	1	2
5. Reinsurers' share in the change in gross unearned premium	—	—	3
Net premium earned	**695**	**654**	**653**
6. Claims expenditure (gross)	537	465	418
Reinsurers' share	32	31	43
Claims expenditure (net)	**505**	**434**	**375**
7. Acquisition costs and administrative expenses (gross)	279	266	280
Reinsurers' share	8	12	12
Acquisition costs and administrative expenses (net)	**271**	**254**	**268**
8. Other underwriting income	3	1	1
Other technical expenses	1	5	1
of which: amortisation of PVFP	—	—	—
Other technical result	**2**	**–4**	**—**
Net underwriting result	**–79**	**–38**	**10**
9. a. Investment income	62	67	87
b. Investment expenses	11	29	20
c. Interest income on funds withheld and contract deposits	–1	—	—
Net investment income	**50**	**38**	**67**
Other income/expenses	**–53**	**–10**	**–30**
Result before goodwill impairments	**–82**	**–10**	**47**
Investments	**1,663**	**1,691**	**1,607**
Investments for the account and risk of holders of life insurance policies	**—**	**—**	**—**
Reinsurance recoverables on technical provisions	**91**	**95**	**103**
Deferred acquisition costs	**20**	**20**	**1**
Technical provisions	**1,338**	**1,248**	**1,230**
In %			
Administration expenses ratio (gross)	15.4	16.7	16.4
Administration expenses ratio (net)	16.6	18.1	18.3
Acquisition cost ratio (gross)	21.9	20.8	22.1
Acquisition cost ratio (net)	22.4	20.7	22.7
Claims ratio for property/casualty insurance products (gross)	71.8	65.7	57.5
Claims ratio for property/casualty insurance products (net)	72.4	66.9	57.5
Combined ratio of the property/casualty insurers (net)	111.5	105.7	98.5
Net earnings	3.0	2.3	4.2

[1] Before consolidation

Property/casualty insurance products					
HDI Direkt Versicherung AG			TARGO Versicherung AG		
2011	2010	2009	2011	2010	2009
588	562	557	97	102	110
—	—	—	—	—	—
74	88	101	27	29	32
—	–1	1	9	12	13
—	–1	1	—	—	—
514	**474**	**456**	**79**	**85**	**91**
380	417	390	30	33	45
30	50	57	9	12	14
350	**367**	**333**	**21**	**21**	**31**
140	145	147	60	64	64
15	17	19	11	12	14
125	**128**	**128**	**49**	**52**	**50**
1	—	—	—	—	—
2	2	1	—	—	—
—	—	—	—	—	—
–1	**–2**	**–1**	**—**	**—**	**—**
38	**–23**	**–6**	**9**	**12**	**10**
52	61	70	8	9	11
10	8	17	—	1	2
–1	—	—	—	—	—
41	**53**	**53**	**8**	**8**	**9**
–44	**–11**	**–11**	**–1**	**–3**	**—**
35	**19**	**36**	**16**	**17**	**19**
1,348	**1,377**	**1,394**	**192**	**191**	**197**
—	**—**	**—**	**—**	**—**	**—**
98	**144**	**163**	**24**	**23**	**23**
4	**5**	**—**	**27**	**28**	**32**
682	**782**	**826**	**186**	**190**	**197**
12.3	14.4	13.7	2.7	6.0	5.4
14.1	17.1	16.8	3.6	8.1	7.4
11.5	11.4	12.7	54.3	49.6	46.6
10.3	9.9	11.4	58.3	52.4	47.6
64.9	74.4	70.0	27.8	28.9	36.5
68.3	77.6	73.4	25.3	25.3	34.6
92.9	104.6	101.5	87.8	86.1	90.0
3.1	3.9	3.9	4.1	4.2	4.4

The most important companies in Retail Germany and their key figures[1]	Life insurance products					
	HDI-Gerling Lebens-versicherung AG			neue leben Lebens-versicherung AG		
	2011	2010	2009	2011	2010	2009
Figures in EUR million						
1. Gross written premium including premiums under unit-linked life and annuity insurance	2,405	2,486	1,999	1,065	1,029	943
2. Savings elements under unit-linked life and annuity insurance	658	683	329	90	105	98
3. Ceded written premium	152	228	138	17	17	18
4. Change in gross unearned premium	—	–7	–81	—	—	—
5. Reinsurers' share in the change in gross unearned premium	—	–12	—	—	—	—
Net premium earned	**1,595**	**1,580**	**1,451**	**958**	**907**	**827**
6. Claims expenditure (gross)	2,190	2,442	1,844	1,215	1,140	1,039
Reinsurers' share	45	76	86	5	7	9
Claims expenditure (net)	**2,145**	**2,366**	**1,758**	**1,210**	**1,133**	**1,030**
7. Acquisition costs and administrative expenses (gross)	178	268	172	73	84	40
Reinsurers' share	81	74	35	4	4	4
Acquisition costs and administrative expenses (net)	**97**	**194**	**137**	**69**	**80**	**36**
8. Other underwriting income	5	2	2	—	3	1
Other technical expenses	132	161	42	2	33	18
of which: amortisation of PVFP	40	85	38	2	33	18
Other technical result	**–127**	**–159**	**–40**	**–2**	**–30**	**–17**
Net underwriting result	**–774**	**–1,139**	**–484**	**–323**	**–336**	**–256**
9. a. Investment income	1,088	1,104	884	438	357	356
b. Investment expenses	211	110	287	87	26	97
c. Interest income on funds withheld and contract deposits	–25	–27	–26	–1	–1	–1
Net investment income	**852**	**967**	**571**	**350**	**330**	**258**
Other income/expenses	**–46**	**126**	**–49**	**1**	**2**	**3**
Result before goodwill impairments	**32**	**–46**	**38**	**28**	**–4**	**5**
Investments	**19,432**	**19,617**	**18,528**	**8,075**	**7,974**	**7,351**
Investments for the account and risk of holders of life insurance policies	**3,727**	**3,753**	**1,478**	**674**	**690**	**557**
Reinsurance recoverables on technical provisions	**2,069**	**2,349**	**731**	**28**	**26**	**22**
Deferred acquisition costs	**1,084**	**860**	**604**	**250**	**226**	**214**
Technical provisions	**20,661**	**20,862**	**19,755**	**7,963**	**7,720**	**7,326**
In %						
Administration expenses ratio (gross)	1.7	1.9	1.7	1.0	3.3	3.1
Administration expenses ratio (net)	2.6	3.0	2.3	1.1	3.8	3.5
Acquisition cost ratio (gross)	5.7	8.9	7.3	5.9	4.8	1.2
Acquisition cost ratio (net)	3.5	9.2	7.2	6.0	5.0	0.9
Claims ratio for property/casualty insurance products (gross)	—	—	—	—	—	—
Claims ratio for property/casualty insurance products (net)	—	—	—	—	—	—
Combined ratio of the property/casualty insurers (net)	—	—	—	—	—	—
Net earnings	4.5	5.2	3.2	4.4	4.3	3.6
Lapse rate of life insurance products	5.9	4.9	6.3	5.2	5.2	5.8
Acquisition costs (life) in % of premium income from new business	1.3	3.4	3.5	2.9	2.4	0.4

[1] Before consolidation
[2] Merger of PBV Lebensversicherung AG and PB Lebensversicherung AG on 1 January 2011
[3] Other companies (property/casualty and life insurance products) and consolidation within the segment
[4] Adjusted on the basis of IAS 8

	Life insurance products																	
	Targo Lebens-versicherung AG			PB Lebens-versicherung AG[2]			PBV Lebens-versicherung AG[2]			Others[3]			Retail Germany		
	2011	2010	2009	2011	2010	2009	2011	2010	2009	2011	2010	2009	2011	2010[4]	2009[4]
	811	896	795	756	179	189	—	589	498	238	272	798	6,710	6,823	6,614
	68	72	78	43	19	21	—	28	28	12	25	281	871	932	835
	56	36	41	44	2	27	—	28	26	–40	–46	171	383	437	625
	6	40	65	–2	–3	–8	—	1	2	–6	5	173	5	48	167
	—	—	—	—	—	—	—	—	—	—	13	159	—	—	163
	693	828	741	667	155	133	—	534	446	260	285	360	5,461	5,502	5,158
	534	626	524	719	158	152	—	555	467	211	184	354	5,816	6,020	5,233
	23	26	29	27	–1	18	—	14	9	–31	–16	37	140	199	302
	511	600	495	692	159	134	—	541	458	242	200	317	5,676	5,821	4,931
	259	276	283	102	25	24	—	102	59	37	52	525	1,128	1,282	1,594
	28	8	9	16	2	4	—	13	14	–2	30	397	161	172	508
	231	268	274	86	23	20	—	89	45	39	22	128	967	1,110	1,086
	—	—	—	3	—	—	—	15	6	1	7	1	13	28	11
	—	—	—	32	7	8	—	18	8	–80	4	19	89	230	97
	—	—	—	10	7	8	—	15	7	3	7	4	55	147	75
	—	—	—	–29	–7	–8	—	–3	–2	81	3	–18	–76	–202	–86
	–49	–40	–28	–140	–34	–29	—	–99	–59	60	66	–103	–1,258	–1,631	–945
	132	113	127	183	46	40	—	106	102	–42	–70	79	1,921	1,793	1,756
	21	8	40	8	2	2	—	9	13	11	–12	35	359	181	513
	–1	–1	–1	–4	–4	–4	—	—	—	1	–2	–4	–32	–35	–36
	110	104	86	171	40	34	—	97	89	–52	–60	40	1,530	1,577	1,207
	–3	–7	–6	–5	–1	—	—	–7	–2	–11	–79	114	–162	10	19
	58	57	52	26	5	5	—	–9	28	–3	–73	51	110	–44	281
	2,585	2,520	2,215	3,876	989	868	—	2,433	2,030	913	874	2,002	38,084	37,666	36,192
	531	549	439	284	137	112	—	137	110	67	153	1,507	5,283	5,419	4,203
	34	36	37	103	109	117	—	5	3	7	10	1,460	2,454	2,797	2,659
	191	207	222	129	1	3	—	113	114	34	38	187	1,739	1,498	1,377
	2,643	2,531	2,286	4,028	982	873	—	2,590	2,200	972	760	2,091	38,473	37,665	36,784
	1.5	3.4	3.7	2.1	4.8	5.9	—	7.4	10.9				4.2	5.7	5.8
	1.7	3.8	4.3	2.4	5.4	8.0	—	8.2	12.2				5.1	7.1	7.7
	30.3	26.2	29.2	11.4	9.2	7.4	—	9.9	0.9				12.6	13.0	17.7
	31.7	28.6	32.5	10.6	9.2	6.8	—	8.5	–2.1				12.6	13.1	13.4
	—	—	—	—	—	—	—	—	—				65.0	67.4	61.8
	—	—	—	—	—	—	—	—	—				67.5	69.4	62.5
	—	—	—	—	—	—	—	—	—				101.6	104.2	99.2
	4.3	4.4	4.1	7.2	4.7	4.6	—	4.4	4.8				4.1	4.4	3.5
	19.7	21.7	28.5	7.9	8.5	12.0	—	8.7	9.3				—	—	—
	8.0	8.3	9.6	4.6	7.2	4.4	—	3.6	–0.7				—	—	—

The segment at a glance – further key figures

	2011	2010[1]	2009[1]
Figures in EUR million			
Gross written premium	**6,710**	**6,823**	**6,614**
Property/casualty	1,515	1,466	1,507
Life	5,195	5,357	5,107
Net premium earned	**5,461**	**5,502**	**5,158**
Property/casualty	1,409	1,352	1,296
Life	4,052	4,150	3,862
Underwriting result	**–1,258**	**–1,631**	**–945**
Property/casualty	–22	–56	11
Life	–1,239	–1,577	–956
Other	3	2	—
Net investment income	**1,530**	**1,577**	**1,207**
Property/casualty	108	126	126
Life	1,422	1,451	1,080
Other	—	—	1
New business measured in Annual Premium Equivalent	**734**	**704**	**657**
Single-premiums (life)	1,278	1,372	975
Regular premiums (life and non-life)	606	567	559
New business by products in Annual Premium Equivalent	**734**	**704**	**657**
Motor	137	131	133
Property/casualty insurance	12	10	10
Liability insurance	21	18	15
Accident insurance	14	15	19
Other property/casualty insurance	22	14	17
Unit-linked life and annuity insurance	178	174	154
Classical life and annuity insurance	270	271	239
Term life products	72	69	64
Other life products	8	2	6

[1] Adjusted on the basis of IAS 8

Retail International

	2011	2010[1]	2009
Figures in EUR million			
Gross written premium	2,482	2,233	1,827
Net premium earned	1,862	1,738	1,403
Underwriting result	–43	–136	–99
Net investment income	159	151	121
Operating result (EBIT)	54	27	–42
Combined ratio (net, property/casualty insurance only)[2] in %	99.3	105.2	102.5

[1] Adjusted on the basis of IAS 8
[2] Including interest income on funds withheld and contract deposits

The Retail International segment brings together the activities of the companies serving retail clients in property/casualty insurance, life insurance and bancassurance outside of Germany and is by now operating in 15 countries with over eight million clients. The segment is headed by Talanx International AG.

This segment offers private and commercial customers abroad comprehensive insurance cover tailored to their needs. The product range encompasses 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 are the segment's hallmarks. Our local, industry-specific know-how and our presence via an extensive distribution network enable us to identify our clients' particular requirements and provide customised solutions in all markets in which we operate.

Outside of Germany, business is to a large extent written through brokers and agents. Post offices and banks are also becoming more and more important as sales channels for many of our companies.

In the year under review, Talanx expanded its business above all in its target market of Latin America: A company operating in the life and property/casualty lines in Argentina and a property insurer in Uruguay are now members of the Group. In Mexico the contract was signed for the purchase of another company that joins the Group with effect from 1 January 2012. Talanx International AG has also signed a public take-over bid for the Polish TU Europa group, which offers both life and property/casualty insurance products, and expects to close the deal in the near future. Shortly after the balance-sheet date, we also signed a purchase agreement with the Belgian KBC Group for 100% of the shares of TUiR WARTA S. A., the second-largest insurance group in Poland by gross premium. Subject to the approval of the cognisant regulatory and anti-trust authorities we are expecting the closing in the second half of 2012. Our strategic partner Meiji Yasuda is then to take over 30% of these shares. Our Retail International Division is thus gaining ground on the second target market: Central and Eastern Europe.

Developments in the key markets

In addition to the general information already given on the international insurance markets (pages 40 et seq.), the following applies with respect to our highest-volume markets in this segment – Brazil, Italy and Poland: Brazil's economy is on an upward trend. In this market we are particularly active in motor insurance, which has been profiting strongly from the favourable economic environment. Poland's economic output has been showing softer, but nevertheless positive growth since 2009 – despite the global economic and financial market crisis. This environment also promises further growth for the country's insurance market. In addition to motor insurance, we transact other lines in Poland such as liability, general property and casualty insurance and life insurance. On the Italian market we operate both in the life insurance market and in property/casualty business – predominantly motor insurance where, after several years of stiff competition and pressure on prices, we were at last able to push through premium increases.

Double-digit growth in premium volume

The segment's gross written premium (including premiums under unit-linked life and annuity insurance policies) rose by around 11% compared to the previous year, to a total of EUR 2.5 (2.2) billion. Of this increase, 6% or about EUR 128 million came from anorganic growth; the major part, EUR 86 million, being attributable to the first-time inclusion of Austrian retail business. Somewhat weaker, at 5% or about EUR 121 million, was organic growth of gross premiums. This was impacted by a one-off effect in the life insurance business of HDI Assicurazioni, which will be discussed in the following section, and the discontinuation, for the most part, of new business sales at ASPECTA Liechtenstein and ASPECTA Luxembourg. Without these special effects, premium growth would have totalled 26%. The major driver behind the rise was HDI Seguros in Brazil, with premium growth of EUR 141 million after currency conversion. Organic growth in the segment's property/casualty products was to some extent influenced by exchange rate effects; the exchange rates of the Turkish and Mexican currencies experienced particularly wide swings. For instance HDI Seguros Mexico's property premiums grew by 25% in local currency; after conversion into euros it was still a noteworthy 21%, making it one of the drivers of the increase in premium volume in property business. Thanks to reinforced marketing activities, cooperation agreements with banks and opening new agencies, the Turkish HDI Sigorta was able to increase its premium volume in local currency by 29%; however, after conversion into euros the rise was only 11%.

The companies in Uruguay and Argentina acquired in the year under review are contained in the premium income figures for three quarters. Argentina contributed a premium volume of EUR 36 million in all, while the company in Uruguay booked premiums of just on EUR 6 million.

At the Italian company HDI Assicurazioni, life insurance premiums dropped by comparison with the previous year, in which a tax amnesty had been a major premium driver by making large amounts of capital available for investment as single premiums, from which life insurance policies benefited as an attractive option. Although this effect was no longer present in 2011, the company was nevertheless able to expand in classical life insurance business. In property/casualty business, too, and especially in motor TPL, higher average premiums and numerous new policies increased premium volume by around 15%, above the average growth rate of the Italian property/casualty market.

Among the companies transferred to Talanx International AG as part of the restructuring of the Group in the past year, the Polish life insurance subsidiary was able to boost its premium volume by 60% in euros (64% in local currency) thanks to a cooperation agreement with the Polish BRE Bank especially from sales of unit-linked life insurance. The Russian CiV Life posted 36% higher premium volume in euros (38% in local currency). The premium income of the Turkish company CiV Hayat Sigorta remained constant at the previous year's level in euro terms. Measured against the total volume of the sector, these two companies are still of minor importance, but they are among the fastest-growing on their markets. The Hungarian life insurer Magyar Posta Életbiztosító was able to increase its premiums by 7% in 2011 compared to the previous year, more than the average market growth. As already in the previous year, it is the sixth-largest life insurer in Hungary.

In the context of the strategic re-alignment of our international retail business, the ASPECTA companies in Luxembourg and Liechtenstein largely discontinued their new business sales efforts with effect from 1 January 2011, with the result that premium volume in Luxembourg dropped by just on 30% and in Liechtenstein by 12% in local currency or 1% in euros.

The most important companies in Retail International and their key figures[1]	Property/casualty insurance products					
	HDI Seguros S. A., Brazil			HDI Asekuracja TU S. A., Poland		
	2011	2010	2009	2011	2010	2009
Figures in EUR million						
1. Gross written premium including premiums under unit-linked life and annuity insurance	810	669	461	248	240	193
2. Savings elements under unit-linked life and annuity insurance	—	—	—	—	—	—
3. Ceded written premium	44	25	19	25	24	41
4. Change in gross unearned premium	–63	–51	–33	–11	–10	—
5. Reinsurers' share in the change in gross unearned premium	–15	–5	–3	–2	–3	–1
Net premium earned	**718**	**598**	**412**	**214**	**209**	**153**
6. Claims expenditure (gross)	540	438	281	148	190	127
Reinsurers' share	41	33	4	10	25	25
Claims expenditure (net)	**499**	**405**	**277**	**138**	**165**	**102**
7. Acquisition costs and administrative expenses (gross)	205	172	131	69	70	56
Reinsurers' share	2	1	1	2	1	9
Acquisition costs and administrative expenses (net)	**203**	**171**	**130**	**67**	**69**	**47**
8. Other underwriting income	1	—	—	4	3	2
Other technical expenses	12	8	4	7	5	14
of which: amortisation of PVFP	—	—	—	—	—	—
Other technical result	**–11**	**–8**	**–4**	**–3**	**–2**	**–12**
Net underwriting result	**5**	**14**	**1**	**6**	**–27**	**–8**
9. a. Investment income	66	44	25	19	19	16
b. Investment expenses	9	5	—	3	1	2
c. Interest income on funds withheld and contract deposits	—	—	—	—	—	—
Net investment income	**57**	**39**	**25**	**16**	**18**	**14**
Other income/expenses	**–24**	**–22**	**–9**	**–1**	**–2**	**–2**
Result before goodwill impairments	**38**	**31**	**17**	**21**	**–11**	**4**
Investments	**526**	**464**	**322**	**324**	**336**	**270**
Reinsurance recoverables on technical provisions	**107**	**70**	**39**	**55**	**64**	**49**
Deferred acquisition costs	**68**	**63**	**50**	**15**	**15**	**13**
Technical provisions	**634**	**572**	**390**	**363**	**389**	**297**
In %						
Administration expenses ratio (gross)	2.9	2.9	2.5	12.1	13.5	13.5
Administration expenses ratio (net)	3.0	3.0	2.6	13.4	14.9	16.9
Acquisition cost ratio (gross)	24.5	24.9	28.1	17.0	16.9	15.3
Acquisition cost ratio (net)	25.2	25.6	29.0	18.0	18.1	13.5
Claims ratio for property/casualty insurance products (gross)	73.9	72.3	66.4	64.2	83.4	71.5
Claims ratio for property/casualty insurance products (net)	71.2	69.2	68.0	66.4	80.3	73.6
Combined ratio of the property/casualty insurers (net)	99.5	97.8	99.7	97.8	113.3	104.1
Net earnings	11.6	9.7	9.6	4.8	5.9	10.4

[1] Before consolidation
[2] Other companies (property/casualty and life insurance products) and consolidation within the segment
[3] For technical reasons, no separate figures for life and non-life for Italy in 2009 are available, so the totals for 2009 are shown in property/casualty
[4] Adjusted on the basis of IAS 8

	Property/casualty insurance products			Life insurance products							
	HDI Assicurazioni S. p. A., Italy			HDI Assicurazioni S. p. A., Italy		Other[2]			Retail International		
	2011	2010	2009[3]	2011	2010	2011	2010	2009	2011	2010[4]	2009[4]
	306	265	602	187	325	931	734	571	2,482	2,233	1,827
	—	—	—	—	—	241	207	144	241	207	144
	17	16	25	10	9	185	129	157	281	203	242
	–10	–1	–2	—	—	–23	–14	3	–107	–76	–32
	—	–1	—	—	—	8	18	10	–9	9	6
	279	**249**	**575**	**177**	**316**	**474**	**366**	**263**	**1,862**	**1,738**	**1,403**
	204	185	564	206	338	459	281	273	1,557	1,432	1,245
	6	1	17	7	7	110	–44	71	174	22	117
	198	**184**	**547**	**199**	**331**	**349**	**325**	**202**	**1,383**	**1,410**	**1,128**
	69	63	84	12	16	181	336	206	536	657	477
	5	3	6	3	1	28	204	113	40	210	129
	64	**60**	**78**	**9**	**15**	**153**	**132**	**93**	**496**	**447**	**348**
	2	2	1	—	—	7	12	5	14	17	8
	6	5	8	3	4	12	12	8	40	34	34
	—	—	1	—	—	1	1	—	1	1	1
	–4	**–3**	**–7**	**–3**	**–4**	**–5**	**—**	**–3**	**–26**	**–17**	**–26**
	13	**2**	**–57**	**–34**	**–34**	**–33**	**–91**	**–35**	**–43**	**–136**	**–99**
	19	15	76	59	62	47	34	29	210	174	146
	7	5	21	21	7	10	4	2	50	22	25
	—	—	–1	–1	–1	—	—	1	–1	–1	—
	12	**10**	**54**	**37**	**54**	**37**	**30**	**28**	**159**	**151**	**121**
	–12	**–12**	**–16**	**–2**	**–2**	**–23**	**67**	**–22**	**–62**	**29**	**–49**
	13	**—**	**–19**	**1**	**18**	**–19**	**6**	**–29**	**54**	**44**	**–27**
	459	**441**	**1,769**	**1,391**	**1,493**	**784**	**588**	**490**	**3,484**	**3,322**	**2,851**
	25	**25**	**64**	**34**	**35**	**362**	**519**	**547**	**583**	**713**	**699**
	76	**79**	**92**	**8**	**7**	**43**	**38**	**43**	**210**	**202**	**198**
	645	**610**	**1,968**	**1,414**	**1,487**	**1,034**	**885**	**838**	**4,090**	**3,943**	**3,493**
	4.2	4.6	2.5	2.5	1.6				6.0	5.6	5.4
	4.5	4.9	2.6	2.6	1.7				7.6	7.0	6.9
	19.3	19.4	11.5	4.1	3.4				16.6	24.8	21.2
	18.5	19.2	11.0	2.7	3.0				19.0	18.7	17.9
	70.5	71.3	—	—	—				70.2	76.0	71.7
	72.8	75.7	—	—	—				70.5	75.6	71.6
	95.8	99.8	—	—	—				99.3	105.2	102.5
	2.6	—	3.3	2.6	—				4.7	4.8	5.2

Underwriting result significantly improved

The combined ratio in international property/casualty insurance was 99.3 (105.2)%, 5.9 percentage points better than in the previous period. This positive development was influenced by results at the Italian company HDI Assicurazioni, which was able to achieve substantial improvements especially in motor TPL business.

In Poland, flooding and winter storm damage had severely impacted the result of HDI Asekuracja in 2010. As these events were not repeated and thanks to a significant improvement in the claims ratio in motor insurance in 2011, HDI Asekuracja was again able to post a positive underwriting result in the year under review.

The Turkish HDI Sigorta was also able to make its contribution. Thanks to improvements in the motor lines of business and its step-by-step implementation of its strategic goal of achieving above-average premium growth in the non-motor lines, it was able to improve its underwriting result compared to the previous year.

At HDI Seguros, Brazil, inflation-related value adjustments on claims pending before the courts were reflected in a rise in insurance expenses and the claims ratio. The lower average premium in motor insurance also had a negative effect on the claims ratio.

The overall underwriting result in the segment came to –EUR 43 (–136) million and was thus about 69% better than in the previous period.

Investment income slightly up on the previous year

In 2011, the Retail International segment was able to achieve a net investment income of EUR 159 million, a rise of 5% compared to the previous period. This came essentially from ordinary investment income, the extraordinary investment income having declined by 63% compared to 2010, mainly as a result of write-downs.

The main reason for the increase in the ordinary investment income was larger investment portfolios across the board and a more favourable interest level in some countries. The main source of the deterioration in the extraordinary investment income was the Italian company HDI Assicurazioni, which had to take impairments on investments in the amount of around EUR 14 million plus unrealised losses to the tune of about EUR 6 million. The Polish company HDI Asekuracja was likewise hit by developments on the capital markets and posted impairments on investments amounting to roughly EUR 2 million.

Operating result doubles

Thanks to improvements in both the underwriting result and the investment income, we were able to close the year under review with an EBIT of EUR 54 (27) million and an EBIT margin of 2.9 (1.5)% in the Retail Insurance segment, both improved over the previous year.

The segment at a glance – further key figures	**2011**	**2010[1]**	**2009**
Figures in EUR million			
Gross written premium	**2,482**	**2,233**	**1,827**
Property/casualty	1,775	1,435	1,084
Life	707	798	743
Net premium earned	**1,862**	**1,738**	**1,403**
Property/casualty	1,476	1,235	905
Life	386	503	498
Underwriting result	**–43**	**–136**	**–99**
Property/casualty	24	–64	–24
Life	–67	–72	–75
Other	—	—	—
Net investment income	**159**	**151**	**121**
Property/casualty	101	77	63
Life	57	74	58
Other	1	—	—
New business measured in Annual Premium Equivalent	**897**	**778**	**598**
Single-premiums (life)	406	517	477
Regular premiums (life and non-life)	856	726	550
New business by products in Annual Premium Equivalent	**897**	**778**	**598**
Motor insurance	612	509	362
Property/casualty insurance	72	53	41
Liability insurance	30	26	18
Accident insurance	16	14	14
Other property/casualty insurance	85	70	56
Unit-linked life and annuity insurance	27	41	46
Classical life and annuity insurance	18	19	18
Term life products	16	12	11
Other life products	21	34	32

[1] Adjusted on the basis of IAS 8

Non-Life Reinsurance

	2011	2010	2009
Figures in EUR million			
Gross written premium	6,826	6,340	5,753
Net premium earned	5,961	5,395	5,237
Underwriting result	–264	78	136
Net investment income	880	779	610
Operating result (EBIT)	629	909	760
Combined ratio (net)[1] in %	104.2	98.3	96.7

[1] Including interest income on funds withheld and contract deposits

By far the bulk of the non-life reinsurance transacted within the Talanx Group is written by the Hannover Re Group. Here we offer our clients a comprehensive product range in treaty and facultative reinsurance and structured reinsurance solutions. We attach great importance to geographic diversification of our business, most of which is written at headquarters in Hannover with support from numerous branch and representative offices world-wide.

In non-life reinsurance we do not pursue any growth targets, but instead pursue active cycle management, expanding our business if the rate situation is favourable and scaling back our portfolio if prices do not appear commensurate with the risks.

Business experience in line with expectations

The situation on the international reinsurance markets was largely favourable in the year under review. The renewals round in the lead-up to 1 January 2011 – which is when 67% of our treaties in traditional reinsurance were re-negotiated – went off better than some market players had initially expected. Even if market conditions tended softer, we had enough opportunities to write profitable business. Prices and terms remained essentially stable, and we were able to increase our premium volume by around 2% overall.

Mid-year renewals brought rate increases especially in the reinsurance lines with a natural catastrophe exposure. The price rises were driven by the huge loss events in the first quarter of 2011. However, rate increases were also achieved on some claims-free reinsurance programs from regions that were not affected by large-scale losses.

After the devastating earthquake in Japan in March of the year under review, it proved possible to obtain the expected price increases for non-proportional earthquake covers and improved terms under proportional treaties. Prices also picked up in private accident reinsurance and for industrial fire programs. We made a point in the renewal round of standing by our Japanese cedants in these difficult times and provided them with the capacity they required. Treaty negotiations for Australia and New Zealand also ended with substantial price adjustments, both for programs with a recent claims record and for loss-free programs. This was particularly true for New Zealand, which had suffered severe earthquake damage in both 2010 and 2011. We were also satisfied with renewals in other Asian countries; here, too, our premium volume grew slightly. In North America – our largest single market – we were able to achieve rate improvements in the course of the year. This was the result both of the US insurance industry having been impacted by tornado and flood events and of adjustments to the Risk Management Solutions (RMS) agency model.

All in all, market opportunities in non-life reinsurance were highly satisfactory, so that we were able to grow profitably and expand our market share in the year under review. The focus of our activities was on the Chinese, Central and Eastern Europe markets, on facultative reinsurance and on agricultural risks.

Premium growth satisfactory

The gross premium volume in our non-life reinsurance segment rose by 8% in the year under review to EUR 6.8 (6.3) billion. Without exchange rate effects, it would have been 1 percentage point more. The retention rate rose from 88.9% to 91.3%. Net premium earned increased by 11% to EUR 6.0 (5.4) billion, which was better than expected.

Heavy loss expenditure weighs on results

Although the hurricane season in North and Central America again passed off quite moderately, the (re)insurance industry was exceptionally hard hit in the year under review. The largest loss event for the insurance industry was the earthquake in Japan and the ensuing tsunami. This event cost us EUR 229 million net. However, the floods in Thailand and the earthquake in New Zealand also led to high loss expenditure, impacting Hannover Re with EUR 196 and 121 million, respectively. These and other natural catastrophes and a series of high-frequency losses resulted in a net expenditure of EUR 981 (662) million on large-scale claims in the year under review. This figure not only exceeded the already above-average figure of the previous year but was also much higher than the EUR 530 million anticipated. Against this backdrop, the combined ratio rose from 98.3% to 104.2%.

In our target markets of Germany and North America, our business fared better in the year under review than had been expected after high losses at the beginning of the year: premium volume rose to EUR 1.9 (1.8) billion. The combined ratio stood at 106.1%, after 97.4% in the previous year, the operating profit (EBIT) was EUR 184 (301) million.

The underwriting result of the segment as a whole deteriorated to –EUR 264 (78) million. Net investment income rose by 13% to EUR 880 (779) million. The operating profit (EBIT) for the non-life reinsurance at 31 December 2011 fell to EUR 629 (909) million due to high expenditure on large-scale claims.

Life/Health Reinsurance

	2011	2010	2009
Figures in EUR million			
Gross written premium	5,270	5,090	4,529
Net premium earned	4,789	4,654	4,078
Underwriting result	–281	–290	–258
Net investment income	512	508	525
Operating result (EBIT)	225	276	371

The Life/Health Reinsurance segment brings together our reinsurance activities in the life, annuity and health lines under the Hannover Life Re brand name. Hannover Life Re is one of the four biggest life/health reinsurers in the world. It has operating units at more than twenty locations on all five continents so as to be able to offer the clients optimum on-the-spot service.

Tried and trusted business model

We carry on the international life/health reinsurance activities of the Hannover Re group under the brand name Hannover Life Re. We offer customised reinsurance solutions in the fields of life, annuity and health insurance worldwide, deliberately concentrating on providing cover for the biometric risks of mortality, longevity and morbidity. We also write the accident line in this segment to the extent that it is transacted by life insurers, and also retakaful business, i.e. reinsurance specifically for insurance products compliant with Islamic law.

Our core business policy is based on the five pillars of conventional reinsurance, new markets, multinational insurers, bancassurance and financial solutions. Each of these pillars calls for special skills, features a unique marketing approach and is geared towards different client needs and products. Within the conventional reinsurance segment we selectively participate in attractive, traditional life/health reinsurance business. Through the other four pillars we offer customised, innovative and targeted insurance solutions.

Conventional reinsurance traditionally accounts for the lion's share of our portfolio. But especially through our activities in the UK enhanced annuities sector we have significantly increased our business volume in the new markets, so that this pillar is making a consistently growing contribution to our business results.

Good business trends despite a difficult environment

The ongoing volatility on the international financial markets and the government debt crisis in Europa are causing uncertainty among private and corporate investors worldwide. In the wake of the banking sector, the insurance industry is also being affected more and more by these developments. This has enabled us as a financially strong business partner to tap into new business potentials by offering our crisis-stricken clients the security they are looking for. For this reason, and despite unfavourable market conditions, we have been able to achieve largely satisfactory results in our life/health reinsurance business.

On the life primary insurance side, the pronounced fluctuations on the money markets, stock exchange swings and the persistently low interest level are fueling demand by for reinsurance cover. More and more primary insurers are showing an interest in tailor-made reinsurance solutions to enable them on the one hand to keep their cost of equity to a moderate level while on the other complying with more stringent solvency requirements.

Over the past four years we have been able to significantly expand our market share in US organic new business by chalking up double-digit percentage increases in new business every year, despite the US reinsurance market overall having shrunk in the period in question.

In the United Kingdom we are one of the leading reinsurers for longevity covers and a preferred business partner for private annuities taken out by individuals with a reduced life expectancy – so-called "enhanced annuities". We also assume pension payment commitments from large pension funds under portfolio acquisitions which are normally limited to the part on which benefits are already being paid.

Market position strengthened

In the year under review our business volume in some major emerging markets showed gratifying growth. We expanded at an extraordinary pace on the Eastern European markets. In Russia, particularly, we were able to improve our market position significantly. In South Africa we continue to show excellent performance in the field of personal life insurance and offer our clients comprehensive service, including assistance in direct marketing of insurance products. On the Indian market our cooperation with the local company GIC Re enabled us to substantially increase our market penetration. We have reinforced our local presence on the Asian markets in recent years. Here we were able to boost our business volume considerably in the year under review: particularly in the Greater China region (People's Republic of China, Hong Kong and Taiwan), we again achieved above-average growth. In the year under review we also our stepped up our business in the Islamic countries such as Bahrain, Saudi Arabia and the United Arab Emirates. In this region we write shariah-compliant insurance via our subsidiary Hannover ReTakaful in Manama/Bahrain.

Gratifying premium growth

The gross premium income booked in the year under review totalled EUR 5.3 billion, an increase of 4% compared to the previous year's figure of EUR 5.1 billion. At constant exchange rates, growth would have been 1 percentage point higher in this segment, too. Our net retention dropped slightly to 91.0 (91.7)% at a net earned premium of EUR 4.8 (4.7) billion.

The core of our business is in the life and annuity lines, i.e. in taking on mortality and longevity risks. In the year under review, this accounted for 89% of the segment's premium income. Providing cover for the morbidity biometric risk brought in 9% of our global written premiums in the year under review. At 2%, accident business made the smallest contribution to our premium income.

Results fall slightly short of expectations

All in all, we were able to post a net investment income of EUR 512 (508) million.

The operating profit (EBIT) for the year under review totalled EUR 225 (276) million. Financial solutions and bancassurance again delivered an excellent performance, but despite the positive course taken by insurance business overall, the result – and thus the EBIT margin – in the segment as a whole fell slightly short of our expectations because of the difficult situation on the international capital markets.

Corporate Operations

The Corporate Operations segment comprises, in addition to Talanx AG, the in-house service providers Talanx Service AG and Talanx Systeme AG, the Talanx investment companies Talanx Asset Management GmbH, AmpegaGerling Investment GmbH and Talanx Immobilien Management GmbH, and the in-house reinsurance broker Talanx Reinsurance Broker AG.

Investment specialists within the Talanx-Group

Talanx Asset Management GmbH – in cooperation with its subsidiary AmpegaGerling Investment GmbH – is chiefly responsible for handling the management and administration of the Group companies' securities portfolios and provides related services such as investment accounting and reporting. Following introduction of a new Group fee model, the operating profit of all Talanx investment companies dropped to EUR 33 (43) million.

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 turnover situation in the investment sector in 2011 was strongly influenced by the spreading financial market crisis, which again intensified significantly due to the unresolved debt crises in the US and Europe. As a result, according to statistics by the German investment and asset management umbrella organisation BVI, the funds under management experienced outflows totalling EUR 13.4 billion, with the negative trend accelerating towards the end of the year.

In this difficult situation, AmpegaGerling Investment GmbH faired comparatively well, as there was no net outflow of funds over the year as a whole and new inflows amounting to EUR 33 million were generated even in the difficult fourth quarter. In business with clients from outside the Group, AmpegaGerling Investment GmbH achieved a net cash inflow of EUR 66 million in the year under review. At EUR 3.3 billion, the total assets under management in the public funds administered by AmpegaGerling Investment GmbH at the end of 2011 were – despite the positive cash inflow – 6% lower than at year-end 2010 (EUR 3.5 billion). The reason for this decline in the assets under management was the pronounced slump in share prices on the international stock markets in the second half of 2011, which reduced the value of the assets in the funds. In addition to retail business, the company also serves institutional clients outside the Group and – on the basis of its know-how profile – positions itself as an outsourcing partner for non-Group insurers.

At the end of 2011, assets under own management in the Talanx Group amounted to EUR 75.8 (72.5) billion, an increase of 4.5%.

Talanx Reinsurance Broker – brokers for reinsurance cessions

Talanx Reinsurance Broker AG is allocated to the Corporate Operations segment within the Talanx Group and is wholly owned by Talanx AG. In the course of the year, the company, hitherto known as Protection Re, was renamed and has been trading as Talanx Reinsurance Broker since 1 September 2011. The company serves as the professional reinsurance advisor and broker for non-life reinsurance cessions for the Talanx Group. Its core business consists of providing advice on all aspects of outward reinsurance. Talanx Reinsurance Broker AG 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, specialised teams develop and support viable solutions that help Group cedants to achieve their business objectives on a lasting basis.

The reinsurance capacities required for all Group cedants served by Talanx Reinsurance Broker AG were again successfully obtained for 2012 on the world market. The operating profit (EBIT) for 2011 totalled EUR 13 (8) million. As from this financial year, significant parts of this profit will be reallocated to the ceding business segments. Thus, the Corporate Operations segment is set to retain around EUR 2 (8) million in earnings in the year under review. The branch established in 2009 in London was closed with effect from 31 May 2011. Business is now operated from Germany again.

Operating result

The operating result of –EUR 63 (–315) million for the Corporate Operations segment was overshadowed in the previous year by the deficit posted by Talanx AG, which arose out of various contributions and provisions associated with indemnity commitments given to the Retail Germany and Retail International segments. They were, 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. For these reasons, the contribution of Talanx AG to the segment result rose to –EUR 114 (–373) million.

Essentially, the service companies Talanx Service AG and Talanx Systeme AG do not contribute to earnings as they operate on a cost reimbursement basis by agreement. This notwithstanding, Talanx Service AG posted an operating result of EUR 12 million in the year under review resulting from the release of a provision. The other companies (first and foremost HDI Reinsurance (Ireland) Ltd.) made a total contribution of EUR 4 (7) million to the operating result.

Assets and financial position

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 predominant item on the assets side is the investments which – including funds held by ceding companies – accounted for EUR 87.5 billion or 76% of total assets. They serve first and foremost as security for the provisions constituted in insurance business, which – excluding provisions in the area of life insurance insofar as the investment risk is borne by policyholders – totalled EUR 75.8 billion. The most important sources of funding are the shareholders' equity (8% of the balance sheet total) and the issued subordinated debt (2% 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.

Analysis of the capital structure

Capital structure over a multi-year period	2011		2010[1]		2009[1]	
	In EUR million	*In %*	*In EUR million*	*In %*	*In EUR million*	*In %*
Intangible assets	2,210	2	2,172	2	2,427	2
Investments	87,467	76	83,422	75	76,385	76
Investments for the account and risk of holders of life insurance policies	6,067	5	6,414	6	4,975	5
Reinsurance recoverables on technical provisions	6,462	6	5,523	5	5,962	6
Accounts receivable on insurance business	4,729	4	5,011	5	4,342	4
Deferred acquisition costs	4,013	3	3,715	3	3,544	3
Cash	1,570	1	1,265	1	1,685	2
Deferred tax assets	320	<1	268	<1	203	<1
Other assets	1,865	2	1,781	2	1,655	2
Non-current assets and assets of disposal groups classified as held for sale	565	1	1,529	1	35	<1
Total assets	**115,268**	**100**	**111,100**	**100**	**101,213**	**100**

[1] Adjusted on the basis of IAS 8

The substantial increase of EUR 4.2 billion in our total assets to EUR 115.3 billion can be attributed first and foremost to the marked growth in our investments of around EUR 4.1 billion equivalent to 5% – to EUR 87.5 (83.4) billion. The growth in the portfolio of assets under own management (+EUR 3.3 billion) reflects – along with the favourable development of the underwriting business – portfolio growth arising from the effect of foreign currency translation of US dollar-held assets investments and lower interest rates. The latter give rise to a positive development in the fair values of our fixed-income securities recognised as "available for sale". The significant increase of EUR 1.0 billion (17%) in reinsurance recoverables on technical provisions is due to the growth in Group insurance business. This positive development was partly offset by the contrasting effect of a reduction in non-current assets and assets of disposal groups classified as held for sale. With regard to the development of this item, please see our remarks in the section "Non-current assets held for sale and disposal groups". 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 186 et seqq. of the Notes, and "Notes on the consolidated balance sheet" from page 209 of the Notes.

Intangible assets

The intangible assets shown in the balance sheet (EUR 2.2 billion are attributable largely to insurance-related intangible assets arising out of the acquisition of past insurance portfolios (EUR 1.3 billion after EUR 1.4 billion in the previous year). In addition, a not insignificant amount of EUR 690 (589) 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 209 et seqq.

The amortisation 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 58 (152) million. The recognised insurance-related assets – in relation to the policyholders' share – are opposed by corresponding provisions for premium refunds.

The balance sheet item "Technical provisions in the area of life insurance insofar as the investment risk is borne by policyholders" fell by EUR 347 million in step with the decrease 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.

In addition to the sale of the insurance portfolios of PB Pensionskasse AG, Hilden, (Retail Germany segment) and HDI Seguros S. A. de C. V., León, (Mexico) (Retail International segment), the sale of PARTNER OFFICE AG (Retail Germany segment) and the scheduled sale of ASPECTA Assurance International AG, Vaduz (Liechtenstein) (Retail International segment) are also recognised under the item "Non-current assets and assets of disposal groups classified as held for sale". It is highly likely that all of the above sales transactions will be concluded within one year. In the previous year, the sale of the operating companies of Clarendon Insurance Group, Inc. (CIGI), Wilmington (Non-Life Reinsurance segment) scheduled for the year under review was recognised under this item. An overall presentation of these procedures and of the assets classified as held for sale during the year and disposal groups can be found in the subsection of the Notes entitled "Non-current assets held for sale and disposal groups.

Asset management and objectives

Group assets are managed according to the fundamental principle of perpetual growth and performance. A systematic and disciplined investment process ensures consistency and sustainability of results. In this context, strategic and tactical asset allocation is a main focus of our efforts. In addition to regulations governing Group risk, and the general legal framework, asset allocation also takes full account of the requirements of the respective business models. Mapping of the liabilities side of the balance sheet in the form of a cashflow- and currency structure, duration matching, and the fulfillment of specific requirements with regard to cash holding are all factors which exert a key influence on asset allocation and, thus, also on the risk-weighted return of our portfolios.

Moreover, the forthcoming enactment of Solvency II is exerting an ever greater influence on the way in which the Group manages its assets. Thus, derivative financial instruments are increasingly being used in connection with e.g. life insurance companies in the Retail Germany segment in order to secure satisfactory returns in the future, and to make a positive contribution to meeting Solvency II criteria. In addition, durations have been increased successively in order to harmonise the Group's liability/asset profile. The high ratings quality of the invested assets in the respective portfolios has always been maintained.

Although numerous rating downgrades left their mark on 2011, more than 86% of instruments in the asset category of fixed-income securities are rated "A" or better. A broad-based system designed to limit accumulation risks results in a balanced mix of assets, the risk-reducing aspects of which have proven their worth during the Eurozone crisis, too.

Asset risk management is embedded in the Group system of limits and thresholds, which itself is derived from the Group's holistic risk management concept. The goal here is to deploy asset allocation in order to achieve the best possible returns without jeopardising the risk budget which must be adhered to at all times.

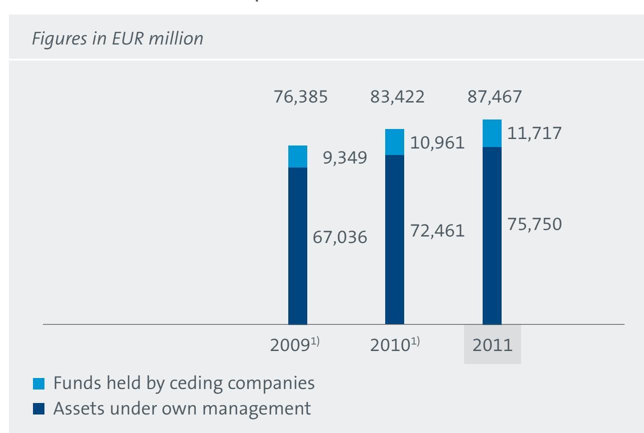
Numerous instruments are deployed in order to measure and monitor key risks comprehensively and continuously. They include stress tests, value-at-risk calculations, and the daily monitoring of limits, e.g. in respect of accumulation risks. With the aid of instruments such as these, it has been possible even in times of crisis to manage the corresponding risks and to tailor portfolios accordingly. It would be accurate to say that the Talanx Group pursues a conservative investment policy.

Talanx Asset Management GmbH functions as a central interface for risk measurement and risk controlling in relation to the Group's investments. In this way, Group units acquired or newly established in the context of the strategic corporate objectives are also promptly integrated into the systems of Talanx Asset Manage-

ment GmbH in order to ensure consistent limit controlling across the Group. Overshoots and undershoots are flagged on a same-day basis, thereby facilitating the definition of measures to rectify limit violations without delay. In addition, thresholds are specified for key indicators, upon attainment of which steps can be taken in a timely manner in order to prevent a possible overstep of limits or jeopardising of targets at an early stage.

Movements in investments

Breakdown of the investment portfolio



[1)] Adjusted on the basis of IAS 8

The investment portfolio continued to grow in 2011, on balance posting a rise of almost 5% to close the year at EUR 87.5 billion. This development was the result of an increase in the funds held by ceding companies to EUR 11.7 billion (+6.9%), together with growth of 4.5% in the volume of assets under own management to EUR 75.8 billion. Besides the company acquisitions made in the reporting period, the expansion of the portfolio of assets under own management was largely due to cash inflows from underwriting business which were reinvested in accordance with corporate guidelines.

Market developments also resulted in changes in the portfolio. The second half of 2011, in particular, saw interest rates fall significantly across all maturities and this was reflected in a corresponding increase in the fair values of our fixed-income investments. With interest rates already low, two-year German government bonds lost around 75 basis points, closing the year at 0.1%. The cut in the interest rate for ten-year maturities amounted to around 100 basis points, with the interest rate slumping to 1.8% by the turn of the year.

In addition to these influencing factors, the movement in the USD exchange rate had a direct effect on our invested assets, too. The USD stood at 1.34 to the euro on 31 December 2010 and rose in the first six months of 2011 to over 1.45 to the euro, before the trend reversed completely in the second half of the year. Slumping to 1.29 to the euro on 31 December 2011, the USD was therefore worth less than it had been at the same period in the preceding year. Exchange rate fluctuations alone resulted in an increase in value of almost 4% in our USD holdings after translation into the Group reporting currency (euros). At the end of the year, our portfolio of USD holdings was worth EUR 11.4 billion, 15% of the total assets under own management.

In recent years, fixed-income investments have always been the most significant category of asset, but in 2011 they became even more important. The proportion of the total investment portfolio attributable to fixed-income securities was 78%, a rise of 2 percentage points on the preceding year. The contribution made by this category of asset to earnings amounted to EUR 2.7 billion, and this sum was reinvested in the year under review. The Group actively reduced its equity exposure to a minimum in the course of 2011, the equity ratio amounting to 1.0% by the end of the year. Although the proportion of the total investment portfolio attributable to alternative investments and real estate remained low, these investments did help to diversify and thus stabilise the various portfolios.

In compliance with all legal requirements and internal Group guidelines, the diversification of the investment portfolio as at 31 December 2011 compared to year-end 2010 was as follows:

Breakdown of the investment portfolio

The composition of the assets under own management recognised in the balance sheet is as follows:

Breakdown of the assets under own management by asset class

	2011		2010 [1]		2009 [1]	
	In EUR million	*In %*	*In EUR million*	*In %*	*In EUR million*	*In %*
Investment property	1,100	2	1,095	2	955	2
Investments in affiliated companies and participations	78	<1	74	<1	61	<1
Investments in associated companies	209	<1	144	<1	134	<1
Loans and receivables						
Loans incl. mortgage loans	1,291	2	1,439	2	1,584	2
Loans and receivables due from governmental or quasi-governmental entities, as well as fixed-income securities	31,670	42	30,904	43	29,964	45
Financial assets held to maturity	4,294	6	2,999	4	2,858	4
Financial assets available for sale						
Fixed-income securities	31,009	41	28,330	39	24,226	36
Variable-yield securities	1,132	2	2,070	3	2,022	3
Financial assets at fair value through profit or loss						
Financial assets classified at fair value through profit or loss						
Fixed-income securities	856	1	974	1	834	1
Variable-yield securities	16	<1	15	<1	27	<1
Financial assets – trading						
Fixed-income securities	5	<1	69	<1	64	<1
Variable-yield securities	70	<1	83	<1	62	<1
Derivatives [2]	53	<1	80	<1	112	<1
Other invested assets	3,967	4	4,185	6	4,133	6
Total investments under own management	**75,750**	**100**	**72,461**	**100**	**67,036**	**100**

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

Fixed-income securities

The portfolio of fixed-income investments (not incl. mortgage and policy loans) rose by EUR 4.6 billion in 2011, closing at EUR 67.8 billion in total by the end of the year. At 78% of total investments (the figure is still rising), this asset category continues to be the most important part of our investments in financial terms. Fixed-income investments were primarily divided into the holding categories of "Loans and receivables" and "Financial assets available for sale".

As was the case in 2010, the holding category of "Financial assets available for sale" experienced significant increases. Indeed, this category became the principle class of investment in 2011. The portfolio of these financial instruments, changes in the holdings of which have a direct impact on shareholders' equity, rose by EUR 2.7 billion (+9%) to EUR 31.0 billion. As in 2010, the proportion of fixed-income securities attributable to industrial bonds increased in the course of 2011, too. This strategy helped to enhance the yield situation of the portfolios as well as to improve diversification. The proportion of the total investment portfolio attributable to industrial bonds was thus increased by 3 percentage points to 18%.

The unrealised gains and losses attributable to the item "Financial assets available for sale" (excluding other invested asset) increased by EUR 154 million during the 2011 financial year due to lower interest rates, amounting to EUR 461 million (net) as at the balance sheet date. What is more, the Group increasingly exploited the positive development of market values in order to realise gains.

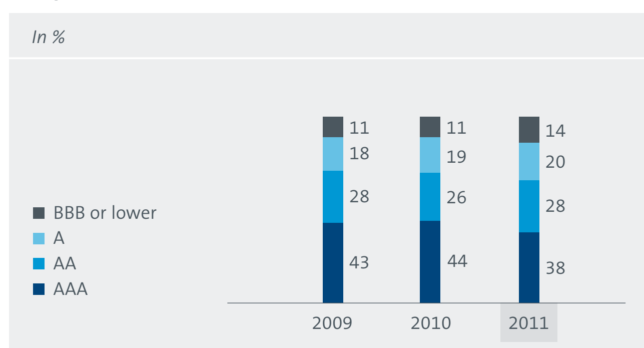
"Loans and receivables" rose by EUR 0.6 billion (+2%) to EUR 33.0 billion in the financial year, while the valuation reserves grew to EUR 2,263 (842) million as a result of lower interest rates. In this investment category, German covered bonds (Pfandbriefe), in addi-

tion to industrial bonds, were increasingly favoured as investment targets due to their positive risk-return credentials. Investments in government bonds were somewhat limited in the wake of downgrading by the rating agencies in the course of the year. Thus, our portfolio of government securities or securities with a similar level of security in this category of holdings amounted to EUR 10.2 billion or 13% of the total investment portfolio.

By the end of the year, the Group had only minor exposure to government bonds from the so-called GIIPS countries. At the end of the year, our investment exposure to these countries was worth EUR 1.3 billion, 1.7% of the total assets under own management. Our Italian exposure (market value of EUR 634 million) is due to the Group's presence in this country. As part of our ongoing risk management, we intend to reduce this exposure nominally by EUR 86 million by the end of the first quarter of 2012. Given the inherent risk factor, we intend to adhere to our current strategy of not expanding our investment exposure to the GIIPS countries any further. At this point, we refer to our remarks on page 104 of the risk report.

2011 also witnessed an increase in our investment portfolio in the "Financial assets held to maturity" category, which was largely attributable to the two reinsurance segments. The increase in this item was made possible by divestments and reclassifications in "Financial assets available for sale". In the reinsurance segment, the Group reclassified fixed-income securities with a total market value of EUR 1.3 billion from "Financial assets available for sale" to the "held to maturity" category. The option and intention of holding these assets to maturity enables the companies to reduce the volatility of their balance sheets due to interest rate movements.

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 197–205 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 11.0 billion at year-end 2010 to EUR 11.7 billion. Allowing for increased total asset holdings, this corresponds to a ratio of 13%, as in the previous year.

Equities and equity funds

In 2011, European equity markets were pulled into a downward spiral of global proportions. In the first half of the year, the trend was set in motion by the disasters in Japan while, in the second, it was further fuelled by the escalation of the European sovereign debt and banking crises. Reflecting developments in the markets, our equity portfolios – valued at EUR 1.9 billion at the start of the year – were reduced significantly in the first quarter of 2011. The remaining equities are held mainly in equity funds, where they are hedged accordingly. Most of the equities are held in portfolios belonging to our companies in the Retail Germany and Retail International segments. The other portfolios are attributable strategic commitments. At the end of the financial year, the Group's equities exposure amounted to EUR 0.9 billion, an equity ratio of 1.0%.

The net balance of unrealised gains and losses on holdings within the Group (excluding other invested assets) fell by EUR 179 million and now amount to EUR 129 (308) million.

Real estate including shares in real estate funds

Investment property with a value of EUR 1.1 billion was held at the end of 2011, a minor increase of EUR 5 million compared with the preceding year. Along with scheduled depreciation of EUR 20 million, impairments of EUR 19 million were taken in the year under review on the basis of market valuations. These write-downs were opposed by write-ups in the same amount.

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

Net investment income

Development of net investment income	2011	2010[1]	2009
Figures in EUR million			
Ordinary investment income	2,938	2,782	2,607
of which current income from interest	2,734	2,616	2,457
of which profit/loss from shares in associated companies	—	2	–6
Realised net gains on investments	309	385	236
Write-ups/write-downs on investments	–112	–78	–332
Unrealised net gains/losses on investments	–30	–12	52
Other investment expenses	149	133	145
Income from investments under own management	2,956	2,944	2,418
Interest income on funds withheld and contract deposits	306	280	240
Total	**3,262**	**3,224**	**2,658**

[1] In the reporting year, expenses in connection with the management of third-party holdings were recognised under Other investment expenses. The figures for the previous year were adjusted accordingly

The net investment income for the year under review of EUR 3.3 billion was a slight increase on the previous year. As before, current income from interest was again the main driver in 2011, its share of total investment income increasing from 81% to 84%.

Ordinary investment income amounted to EUR 2,938 million (+EUR 156 million, or +6%), while the portfolio of assets under own management returned a plus of 5% due to cash inflows from underwriting business. In contrast to the slump in interest rates in the capital markets, the average coupon of the portfolio of fixed-income securities of 4.2% was a slight increase on the preceding year's value of 4.1%. Indeed, increased reinvestment in industrial bonds helped to cushion the impact of the downward trend in the interest rate environment. Derivative financial instruments (including forward purchases) were used to hedge the risk associated with future reinvestments, notably in the case of life insurers operating in our Retail Germany segment. On the financial implications, please refer to item 12 of the Notes "Derivative financial instruments and hedge accounting", pages 231 et seqq. of the Notes.

In 2011, total realised net gains on investments were well below the previous year's level, amounting to EUR 309 (385) million. A significant increase in realised gains from fixed-income securities on account of the favourable market conditions was offset by a rise in losses of, above all, equities (EUR 60 million). In addition, portfolio adjustments initiated in 2010 primarily in the two reinsurance segments led to an increase in realised gains. In the interest of diversification and yield enhancement, investments in government bonds were shifted to industrial bonds. What is more, the sale of Greek government bonds in the first quarter of the year ran up losses to the tune of EUR 30 million attributable in the main to the Retail Germany segment.

The higher impairment in 2011 compared with the year before was the result, above all, of movements in the equity markets, together with the effect of the sovereign debt crisis. The Group as whole posted write-downs on equities – including several strategic holdings – of EUR 91 (45) million. Impairments of EUR 30 (17) million were required in respect of our fixed-income securities. On account of the deteriorating sovereign debt crisis, we elected to write down our portfolio of Greek government bonds at fair value in the third and fourth quarters of the year (average valuation price of 22%). The depreciation expenses amounted to EUR 12 million. In addition, we posted write-downs of EUR 9 million on subordinated bonds which had come under increasing pressure in the wake of the crisis affecting Germany's "Landesbanken".

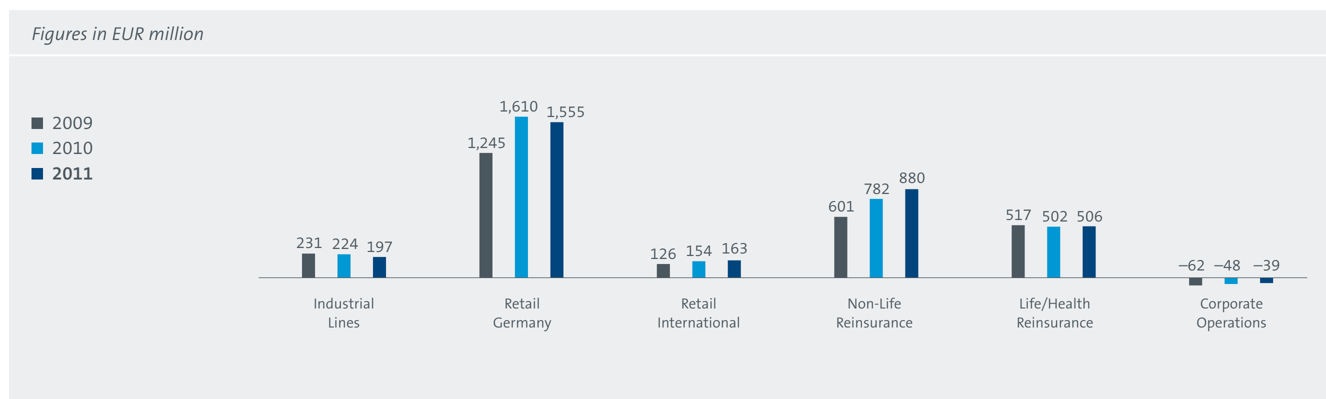
Across all asset categories, write-downs were opposed by write-ups of EUR 74 (37) million. Of the total write-ups, EUR 30 million was attributable to alternative investments and EUR 19 million to real estate.

The unrealised result fell by EUR 18 million to –EUR 30 million.

Interest income/expenses on funds withheld and contract deposits totalled EUR 306 (280) million.

Below is a breakdown of our net investment income in 2011 by Group segment. The fall in income in the Industrial Lines and Retail Germany segments was more than offset by significant increases in income from Non-Life Reinsurance. The main drivers of this outcome were rising returns on investments, coupled with higher unrealised gains of EUR 8 (–32) million resulting from inflation swaps concluded in 2010 in order to hedge some of the inflationary risk inherent in our technical loss reserves. This generated recognised unrealised gains of EUR 12 (–31) million. For more details, please refer to our remarks in item 29 of the Notes "Investment income".

Breakdown of net investment income by Group segments [1)]



1) Presentation after elimination of intra-Group relations between the segments

The investment income reported by the Group segment of Corporate Operations consists principally of the costs of managing all assets.

Off-balance sheet financing instruments

The Talanx Group enters into various commitments. Of material significance to the assessment of its assets are letters of credit and trust accounts put up as security for technical liabilities (EUR 6,300 million), blocked custody accounts and other trust accounts (EUR 2,071 million), guarantee payments under issued subordinated bonds (EUR 1,959 million), outstanding commitments under existing capital participations (EUR 648 million), commitments arising out of rental/lease agreements (EUR 477 million), and obligations under §§ 124 et seq. of the Insurance Supervision Act (VAG) as a member of the Security Fund for Life Insurers (EUR 410 million). In addition, there were "Other liabilities" of EUR 861 million as at 31 December 2011.

Furthermore, the Talanx Group is subject to contingent liabilities due to its involvement in court proceedings and arbitration procedures. All these liabilities, including the figures for the previous year, are set out in the subsections of the Notes entitled "Other information – Contingent liabilities and other financial commitments" and "Other information – Rents and leases".

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.

Analysis of the capital structure

Capital structure over a multi-year period

	2011		2010 [1]		2009 [1]	
	In EUR million	*In %*	*In EUR million*	*In %*	*In EUR million*	*In %*
Shareholders' equity	8,706	8	7,980	7	7,153	7
Subordinated liabilities	2,615	2	2,791	3	2,003	2
Technical provisions – gross	83,100	72	77,510	70	73,210	72
Technical provisions in the area of life insurance insofar as the investment risk is borne by policyholders	6,067	5	6,414	6	4,975	5
Other provisions	2,589	2	2,751	2	2,644	3
Liabilities	10,212	9	10,829	10	9,750	10
Provisions for deferred taxes	1,488	1	1,444	1	1,478	1
Liabilities of disposal groups classified as held for sale	491	1	1,381	1	—	—
Total liabilities	**115,268**	**100**	**111,100**	**100**	**101,213**	**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 pay claims in their respective national currencies. This means that assets to cover liabilities are also held in foreign currencies. Matching currency coverage is required for this purpose. At this point, 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 "Summary of the major accounting policies – Currency translation".

Development of major items

In the financial year just ended, the shareholders' equity increased by EUR 726 million – or 9% – to EUR 8,706 (7,980) million. The equity without minority interests amounted to EUR 5,421 (4,945) million.

The volume of subordinated liabilities dropped slightly by EUR 176 million to EUR 2.6 billion as a result of the exercise of a cancellation option and full repayment of a bond issued by Hannover Finance (Luxembourg) S. A. in the first quarter of 2011 (EUR 138 million). The features of the bonds are described in item 17 of the Notes "Subordinated liabilities."

In addition, a line of credit with a volume of nominally EUR 1.5 billion is available to Talanx AG, of which – as in the previous year – an amount of EUR 550 million was utilised. The available floating-rate loan matures at the latest on 31 July 2012. Furthermore, on 13 July 2011 and 21 December 2011 Talanx AG concluded agreements on two syndicated variable-interest credit lines in the amounts of EUR 500 million and EUR 650 million, respectively, each with a term of five years. These are follow-on funding agreements that come into effect only when the existing credit line matures or is cancelled or when the new credit line is paid out.

With respect to further loan agreements and letters of credit, please see the presentation of off-balance sheet financial instruments and the explanatory remarks in the Notes on pages 208 and 283, respectively.

Composition of the provisions connected with the insurance business (after consolidation)

	2011	2010 [1]	2009 [1]
Figures in EUR billion			
Unearned premium reserve	4.7	4.3	3.8
Benefit reserve	45.7	43.6	41.0
Loss and loss adjustment expense reserve	31.4	28.5	27.3
Provision for premium refunds	1.0	0.8	0.9
Other technical provisions	0.3	0.3	0.2
Total	**83.1**	**77.5**	**73.2**

[1] Adjusted on the basis of IAS 8

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

	2011	2010 [1]	2009 [1]
Figures in EUR billion			
Unearned premium reserve	4.3	3.9	3.5
Benefit reserve	44.7	42.6	40.1
Loss and loss adjustment expense reserve	26.5	24.5	22.5
Provision for premium refunds	1.0	0.8	0.9
Other technical provisions	0.3	0.3	0.3
Total	**76.8**	**72.1**	**67.3**

[1] Adjusted on the basis of IAS 8

Liabilities to policyholders must 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 88 (86)%. The provisions thus include surplus coverage in the amount of EUR 10.7 (11.3) billion.

The provisions are at the Group's disposal during the respective times to maturity. In this context please refer 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 243 and 244).

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 (56)% of the total provisions were attributable to the benefit reserves.

Gross provisions by segments (after consolidation)

Gross provisions by segments (after consolidation)	Benefit reserve			Loss and loss adjustment expense reserve		
	2011	2010 [1]	2009 [1]	2011	2010	2009
Figures in EUR million						
Industrial Lines	1	—	—	7,883	7,746	7,388
Retail Germany	34,099	33,338	31,922	2,579	2,695	2,772
Retail International	1,811	1,869	1,727	1,285	1,130	936
Non-Life Reinsurance	—	—	—	16,979	14,577	14,163
Life/Health Reinsurance	9,828	8,403	7,328	2,694	2,390	1,991
Corporate Operations	—	—	—	—	—	6
Total	**45,739**	**43,610**	**40,977**	**31,420**	**28,538**	**27,256**

[1] Adjusted on the basis of IAS 8

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

Altogether, the gross provisions increased by 7% or EUR 5.6 billion relative to the previous year. This growth was driven largely by the rise in the benefit reserve (+5% or EUR 2.1 billion) and in the loss and loss adjustment expense reserve (+10% or EUR 2.9 billion).

The increase in the benefit reserve can be attributed to the natural aging of the in-force portfolios and to organic growth. Of the total increase of EUR 2.1 billion, the Retail Germany segment accounts for EUR 0.7 billion and the Life/Health Reinsurance segment for EUR 1.4 billion.

The rise in the loss and loss adjustment expense reserve resulted mainly from increased claims in the Non-Life Reinsurance segment. The reason for this was the many and severe natural catastrophes such as earthquakes in Japan and New Zealand and floods in Northern and Central Thailand. Apart from the Retail Germany segment, all the other segments posted higher loss reserves.

Disposal groups

In accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations," we reported the planned sale of the operative companies of our US subgroup Clarendon Insurance Group, Inc. (CIGI), Wilmington, to Enstar Group Ltd., Hamilton, Bermuda, in the Non-Life Reinsurance segment as a disposal group last year. This transaction was completed in the year under review. In 2011 we posted the technical provisions from the intended transfer of insurance portfolios of HDI Seguros S. A. de C. V., León (Mexico), and of PB Pensionskasse AG, Hilden, and also the assets and liabilities of PARTNER OFFICE AG and ASPECTA Assurance International AG, Vaduz (Liechtenstein), separately as disposal groups. The assets and liabilities attributable to these 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 182 et seqq.

Off-balance-sheet transactions

There are also a number of contingent liabilities as described in the Notes under "Contingent liabilities and other financial commitments" (page 283).

Asset/liability management

The structure of our technical provisions and other liabilities essentially determines 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 balance out any changes in the technical liabilities and keep track with requirements on the liabilities side. This stabilises our positions in the face of fluctuations on the capital markets.

To this end we mirror the major characteristics of our liabilities such as the maturity and currency structure – and also susceptibility to inflation – by purchasing, as far as possible, investments that respond in a similar manner. In this context we would also refer the reader to our remarks in the risk report as of page 100.

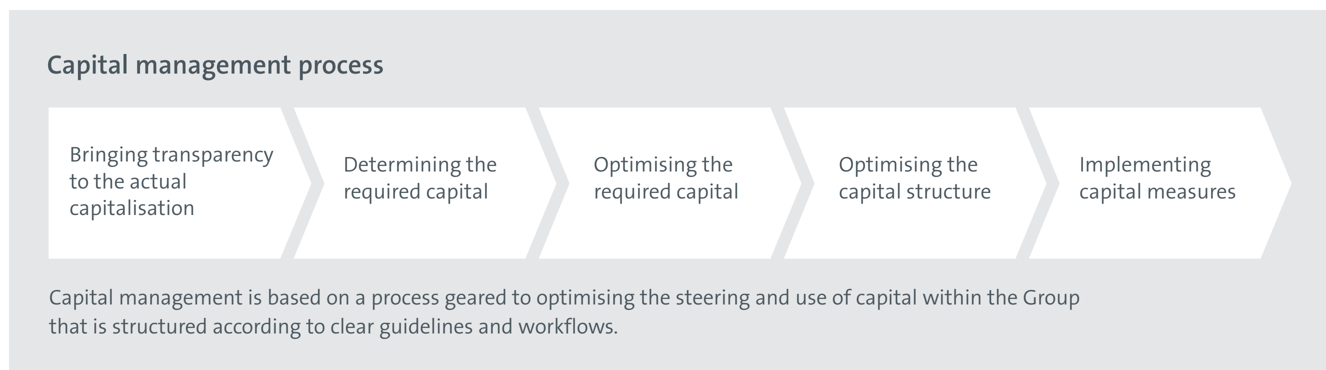
The duration (average period of capital commitment) of the overall investment portfolio of fixed-income securities held within the Talanx-Group was slightly higher in 2011 at 6.3 years. Duration management within the individual segments is guided by the needs arising out of their respective underwriting business. Thus, for example, the modified asset duration in Retail Germany, at 8.2 years, is relatively long compared to that in the Industrial Lines (3.7 years), reflecting the capital commitment period especially in the context of life insurance products. The assets-side duration is reconciled with the requirements of the liabilities side between the insurance carriers and Talanx Asset Management at regular intervals.

With a view to matching currency coverage, USD-denominated investments continue to account for the lion's share – at 15% – 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.

We also use derivative financial instruments in order to structure our 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 231 et seqq.).

The Hannover Re subgroup has taken out an inflation swap to hedge its loss reserves against inflation risks.

Capital management



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 attributable to the shareholder. It is composed of the IFRS shareholders' equity and what is known as "soft capital." We count as soft capital, which includes unrealised gains/losses on the assets and liabilities sides after taxes, e.g. the loss reserve discount, a level of overreserving in property/casualty insurance that goes beyond best-estimate reserving, the non-capitalised value of in-force business in life insurance and life/health reinsurance, and the unrealised 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 and the shareholder's expectations of returns above and beyond the cost of capital (cf. also the explanation of xRoCC on pages 35 and 37).

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 remainder of the company's capital minus the risk-based capital; it thus consists of capital that is not at risk. Since it is not required for covering business risks and insofar as it also cannot be used to take on additional risk, 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 attributable to the shareholder. There are, however, restrictions on the repatriation of excess capital; these are associated with both regulatory/legal considerations and rating requirements.

The general goal of capital management within the Talanx Group – an optimised risk-appropriate capital structure of the Group – is explicitly anchored in our 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 a view to 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 undercapitalisation, the next step is to take appropriate corrective actions to rectify or at

least alleviate it. In the case of significant overcapitalisation 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 utilisation of our capital while at the same time ensuring appropriate capital adequacy and making allowance for the effects of diversification.

Another major objective is to substitute shareholders' equity by equity surrogates such as hybrid capital, which has a positive effect on the capital structure of the Group and the ability of Talanx AG to make own funds available to the operational units.

By optimising 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 returns 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 make it possible to respond to organic and inorganic growth opportunities at both the Group and company level and it must provide 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 utilises 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
- optimise the capital structure, implement financing measures and support all structural changes that have implications for the required capital.

In the context of preparations for Solvency II, the intention is to allocate our capital according to a new in-house model in 2012.

Shareholders' equity

Profit target

The Talanx Group sets itself the goal of generating above-average profitability in the long term. Our yardstick for this is the return on equity under IFRS. We compare ourselves with the 20 largest insurance companies in Europe. Our minimum target in terms of Group profit after taxes and minority interests is an IFRS return on equity 750 basis points above 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 equity ratio, defined as the total of all equity components relative to total assets, has performed as follows:

History of equity ratio		2011	2010[1)]	2009[1)]
Total equity as shown in the balance sheet	*In EUR million*	8,706	7,980	7,153
of which minority interests	*In EUR million*	3,285	3,035	2,579
Total assets	*In EUR million*	115,268	111,100	101,213
Equity ratio	*In %*	7.6	7.2	7.1

[1)] Adjusted on the basis of IAS 8

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

Other equity components and modified equity ratio		2011	2010[1)]	2009[1)]
Other equity components	*In EUR million*	1,497	1,469	1,117
Modified equity ratio	*In %*	8.9	8.5	8.2

[1)] Adjusted on the basis of IAS 8

History of return on equity [1]

		2011	2010[2]	2009[2]
Group net income [3]	*In EUR million*	520	216	485
Return on equity [1]	*In %*	10.0	4.5	11.8
Risk-free interest rate	*In %*	3.1	3.5	3.6
Target	*In %*	10.6	11.0	11.1
Performance	*In %*	–0.6	–6.5	0.7

[1] The return on equity is the net profit for the year relative to the average equity (both after non-controlling interests)
[2] Adjusted on the basis of IAS 8
[3] Net profit for the year after non-controlling interests

In this context, the performance represents the over- or underfulfillment of the target for the year. In 2009 we accomplished the target we had set ourselves. The earnings situation in the 2010 financial year was mainly the result of a high number of one-off effects, especially significantly higher risk provisions at German life insurance companies and poorer results in international retail business. At the same time, the underwriting result in the Industrial Lines and Non-Life Reinsurance segments deteriorated, coming after an unusually low level of claims in 2009.

With regard to developments in the current financial year, please see our remarks in the section entitled "Business development," pages 43 et seqq.

Movements in shareholders' equity

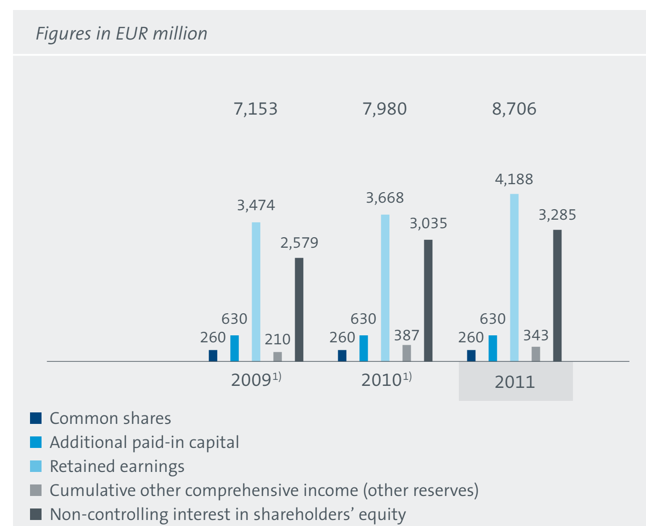
The major movements in shareholders' equity were driven by the following factors:

The Group net income apportionable to our shareholders increased significantly by 141% to EUR 520 (216) million and was allocated in full to retained earnings.

"Cumulative other comprehensive income and other reserves" dropped sharply, by 11% compared to the previous year, to EUR 343 million. The main reasons for this reduction were a decline by –EUR 106 million to EUR 416 (522) million in the non-realised gains/losses on investments and to –EUR 59 (15) million in the other changes in shareholders' equity; principally changes in policyholder participation/shadow accounting. The decline in the non-realised gains/losses on investments mainly stemmed from our direct shareholdings. These factors were partly offset by an increase of EUR +43 million in "gains/losses from currency translation" to EUR 46 million as a result of changes in the exchange rates of some foreign currencies versus the euro in the period under review. The cash flow hedge reserve increased appreciably to –EUR 60 (–123) million.

The non-controlling interests in shareholders' equity increased by EUR 250 million – or 8% – to EUR 3.3 billion. The non-controlling interest share in net income amounted to EUR 377 (451) million. Higher dividends paid to non-Group shareholders, principally from the Hannover Re Group, produced an opposing effect in an amount of EUR 183 million (+13%).

Changes in shareholders' equity



[1] Adjusted on the basis of IAS 8

Shareholders equity by segments[1] including non-controlling interests

Figures in EUR million	2011	2010[2]
Segment		
Industrial Lines	1,683	1,612
of which non-controlling interests	—	—
Retail Germany	2,417	2,635
of which non-controlling interests	23	6
Retail International	709	514
of which non-controlling interests	7	10
Reinsurance	5,595	5,073
of which non-controlling interests	3,295	3,040
Corporate Operations	–1,702	–1,912
of which non-controlling interests	—	—
Consolidation	4	58
of which non-controlling interests	–40	–21
Total shareholders' equity	**8,706**	**7,980**
Group shareholders' equity	5,421	4,945
Non-controlling interest in shareholders' equity	3,285	3,035

[1] The shareholders' equity per segment is defined as the difference between the assets and liabilities of each segment
[2] Adjusted on the basis of IAS 8

Note: For simplicity's sake, the non-controlling interests in equity for the reinsurance business sector are derived from the Group non-controlling interests in Hannover Re; for this purpose the two reinsurance segments are combined.

The Corporate Operations segment posts a negative value that reflects the debt leverage of Talanx AG. As the Group's holding company, Talanx AG performs a financing function for the Group in the primary insurance sector and for the companies in corporate operations. The liabilities concerned are mainly retirement pension provisions in the amount of EUR 753 (632) million, subordinated liabilities of EUR 300 (300) million, and loans in the amount of EUR 559 (559) million. These liabilities are offset on Talanx AG's balance sheet by the value of its participations in its subsidiaries, which are consolidated against the pro-rata equity of the subsidiaries in the Group financial statements.

The balance in the consolidation column is essentially the result of differences in the valuation of receivables from life reinsurance and liabilities under life primary insurance policies. These differences are unavoidable due to mandatory application of different accounting standards for primary insurance and reinsurance.

Valuation reserves not recognised in the balance sheet

The unrecognised valuation reserves shown in the following table make no allowance for technical liabilities. The valuation reserves are attributable principally – in an amount of EUR 2.263 (842) 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."

Shareholders' equity and valuation reserves not recognised in the balance sheet

Figures in EUR billion	2011	2010[1]	2009[1]
Group shareholders' equity	8.7	8.0	7.1
Valuation reserves not recognised in the balance sheet before taxes, including the shares of policyholders and non-controlling interests	2.7	1.2	1.1

[1] Adjusted on the basis of IAS 8

Liquidity and financing

We generate liquidity primarily from our operational insurance and reinsurance business, from current income on our investments and from financing measures. Regular liquidity planning and an investment strategy aligned with liquidity requirements ensure that the Talanx Group is able to meet its payment obligations at all times. Accordingly, no liquidity shortages were experienced.

Analysis of the consolidated cash flow statement

In the case of the Talanx Group, the consolidated cash flow statement is of minimal informational value. The Group's cash flow is primarily governed by the business model typical of insurance and reinsurance: normally, we receive premiums up front for the risks we have taken on but do not have to make payments until some later date in the event of a claim. Until they are needed, we invest the funds in interest-bearing instruments so as to 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.

Summary of cash flow	2011	2010[1]	2009[1]
Figures in EUR million			
Cash flow from ongoing operative activities	3,837	4,650	5,472
Cash flow from investment activities	–2,976	–5,652	–5,072
Cash flow from financial activities	–510	553	–129
Change in cash and cash equivalents	351	–449	271

[1] Adjusted on the basis of IAS 8

The cash flow from operating activities, which also includes inflows from the investment income generated, dropped significantly year-on-year to EUR 3,837 (4,650) million. The calculation adjusts the net income of EUR 897 (667) million in the consolidated cash flow statement to allow for the increase in the technical provisions (net perspective) (EUR 4.2 (3.9) billion). The reasons for this development were the rise in the benefit reserves in the Retail Germany and Life/Health Reinsurance segments and a significant increase in the claims reserve driven by the Non-Life Reinsurance segment (see 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 2.3 billion is almost offset by the change in the funds held and in accounts receivable and payable under financing activities in the amount of EUR +2.1 billion. On the bottom line, the drop in the cash flow from ongoing operative activities in the amount of EUR 813 million is mainly due to the decline in the changes in other non-cash expenses and income in the amount of –EUR 1.3 billion and is due above all to the change in the technical provisions in life insurance insofar as the investment risk is borne by the policyholders; these provisions had increased sharply, particularly in 2010 (see the corresponding development in the cash flow from investment activities). The change in the funds held and in accounts receivable and payable results from the furnishing of collateral by reinsurers. Please see the comments on the development of investments.

The cash outflow from investment activities is determined by payments made in purchasing investments. As in the previous year, the outflows associated with the purchase of investments amounting to EUR 3.1 (4.2) 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 totalling EUR +63 (–1.394) million. Of the previous year's outflows, an amount of EUR 1.2 billion derived from increased investments in these assets in the Retail Germany segment. In the year under review, that segment's outflows of EUR 133 million were offset by inflows from Retail International.

The cash inflow from financial activities in the year under review came mainly from net changes in the other financing activities in the amount of –EUR 328 (719) million. The increase in the previous year had been attributable above all to the issue of subordinated bonds and to bank borrowings and notes payable. The cash outflow in the year under review was mainly in respect of payment of dividends in the amount of EUR 183 (162) million and the repayment of a subordinated liability in the amount of EUR 138 million in the first quarter of 2011. On balance, the capital outflow from financing activities was EUR 1.1 billion lower than in the previous year.

In the year under review, the cash and cash equivalents increased by EUR 305 million in all to EUR 1.6 billion. An amount of EUR 42 (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 on pages 109 et seq.

Financing

Along with funds from changes in shareholders' equity as described above and the assets available to cover provisions and liabilities, the Group has at its disposal the following lines of credit that can be drawn upon as required:

Talanx AG has concluded a firm agreement with a broad consortium of banks regarding a floating-rate line of credit that may be drawn upon as necessary. At the balance-sheet date 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 date. In 2011 Talanx AG concluded agreements on two syndicated variable-interest credit lines in the amounts of EUR 500 million and EUR 650 million, respectively, each with a term of five years. These are follow-on funding agreements that come into effect only when the existing credit line matures or is cancelled or when the new credit line is paid out.

Various financial institutions have given us guarantees in the form of letters of credit as surety for our technical liabilities. At the balance-sheet date, the amount available totalled EUR 3,2 (2,8) billion.

Among these are unsecured letter of credit facilities with various terms (maturing at the latest in 2021) and a total volume equivalent to EUR 2,403 (1,207) million issued by financial institutions on a bilateral basis to cover liabilities in the reinsurance sector. The Life/Health and Non-Life Reinsurance segment has a credit line in the amount of EUR 773 million in the form of an unsecured syndicated guarantee facility to replace the syndicated (LoC) facilities from 2005 and 2006. This features an initial maturity of 2017 with extension options. Several bilateral credit agreements have also been concluded. After interim maturities, the 2005 syndicated facility amounted to EUR 27 million at the balance-sheet date and finally runs out in early January 2012. The syndicated LoC from 2006 was repaid in full in the course of the refinancing operation. Furthermore, a longterm unsecured line of credit with a total volume equivalent to at most EUR 386 (566) million was concluded in December 2009; this 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."

A number of LoC facilities include standard market clauses that grant rights of cancellation to the issuing 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 materialisation of major events, for example if our rating is significantly downgraded.

More detailed information on our liquidity management is provided in the section on liquidity risks in the risk report.

Analysis of debt

With the aim of optimising the capital structure, our subordinated bonds and debentures (abbreviated for present purposes 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 our "strategic debt."

Of the credit line in the amount of EUR 1.5 billion provided by a broad consortium of banks in 2009, Talanx AG had at the balance-sheet date used one tranche amounting to EUR 550 million, unchanged from the previous year. This line of credit matures at the latest on 31 July 2012 and can be called at three months' notice. Arrangements for follow-on funding have been made as described in the previous section. Another EUR 9 million of Talanx AG's liabilities is attributable to intra-Group bearer debentures. Furthermore, several Group companies have taken up longterm debt – principally in the form of mortgage loans – amounting to EUR 203 (188) million.

Effective 14 March 2011, the subordinated debt of nominally EUR 138 million issued in September 2001 through Hannover Finance (Luxembourg) S. A. was called as scheduled and fully repaid (EUR 33 million).

Issued debt was repurchased only on a minor scale in 2011.

Changes in the strategic debt	2011	2010	2009
Figures in EUR million			
Subordinated bonds of Hannover Finance (Luxembourg) S. A.	1,732	1,869	1,365
Subordinated bonds of HDI-Gerling Industrie Versicherung AG	261	265	269
Subordinated bonds of HDI-Gerling Lebensversicherung AG	113	115	105
Subordinated bonds of Talanx Finanz (Luxemburg) S. A.	209	242	264
Subordinated bonds of Talanx AG	300	300	—
Bank borrowings of Talanx AG	550	550	550
Mortgage loans of Hannover Re Real Estate Holdings, Inc., Orlando	203	188	116
Other bank borrowings of Talanx AG	—	—	57
Other	9	9	9
Total	**3,377**	**3,538**	**2,735**

For further explanations please see our remarks in the Notes on items 16 "Shareholders' equity," 17 "Subordinated liabilities," 25 "Notes payable and loans," 26 "Other liabilities" and 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 at 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 entails 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 transacted (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 some of the subordinated liabilities and valuation reserves not included in equity and is reduced by the intangible assets. The Talanx Group's eligible capital is twice as high as legally required.

Adjusted solvency[1]		2011	2010	2009
Eligible capital of the Group	*In EUR million*	6,843	6,363	5,639
Solvency ratio	*In %*	201.8	196.7	184.2

[1] Calculated pro rata for Talanx from the adjusted solvency of the HDI Group

The increase in the adjusted solvency ratio from 196.7% to 201.8% can be attributed essentially to the rise in the IFRS Group shareholders' equity as a consequence of the Group's net income being allocated to the retained earnings. The other items to be deducted or added were 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 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	
	Rating	Outlook	Rating	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 is "HDI V. a. G. and Talanx AG's leading non-life direct insurance operation and leading life insurance operation"
[2] This rating applies to the subgroup of primary insurers (the Talanx Group divisions 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 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 in the second-best rating category. The outlook for the rating of Hannover Re is assessed as positive in light of the company's excellent capitalisation, while the outlook for the rating of the primary insurance companies is stable.

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 A+ ("Strong"). The outlook for the ratings of both subgroups is assessed as stable in both cases.

The strong competitive position of both subgroups is highlighted by S&P as a particularly impressive strength. S&P names the Talanx Primary Group's strong capitalisation and conservative investment strategy as additional strengths. In S&P's view Hannover Re is conspicuous for its very good risk management. A. M. Best acknowledges, among other things, the very good capitalisation of both subgroups and their excellent competitive positions. In the view of the rating agencies Talanx Group has benefited also from its restructuring programme "Fokus", which it launched in 2009.

After the end of the financial year – in February 2012 – A. M. Best confirmed its excellent ratings of the insurance companies in the primary insurance sector. In the case of S&P there was even a positive change in this regard, inasmuch as TARGO Lebensversicherung was upgraded in January from A to A+. The financial strength ratings of companies in the primary insurance sector are summarised in the following table:

Companies of the Talanx Primary Group	Location	Standard & Poor's		A. M. Best	
		Rating	Outlook	Rating	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	—	—
TARGO 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	—	—

The ratings of the four companies evaluated by A. M. Best were affirmed at A with a stable outlook. At S&P there have been two changes vis-à-vis 2010: TARGO Lebensversicherung has been upgraded from A to A+ as it is now considered a “core” company. With this decision S&P recognises the strategically important position and the strong earnings capacity of TARGO Lebensversicherung. The second change is that S&P withdrew its rating of PBV Lebensversicherung when the latter merged with PB Lebensversicherung.

S&P defines the first eight companies in the table as “core companies” of the Talanx Primary Group. For this reason they are assigned 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.

Current ratings of Hannover Re subsidiaries are available on the Hannover Re website (www.hannover-re.com). At Hannover Re there were no ratings changes in the year under review.

Issuer Credit Ratings of companies belonging to the Talanx Group

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

[1] In order to distinguish its Financial Strength Ratings from its Issuer Credit Ratings A. M. Best uses lower-case letters 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”, thus 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.

* A notch is an increment within a single rating category

Overall assessment of the economic situation

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 rated lower 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 CreditRating 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 item 17 "Subordinated liabilities" of the Notes.

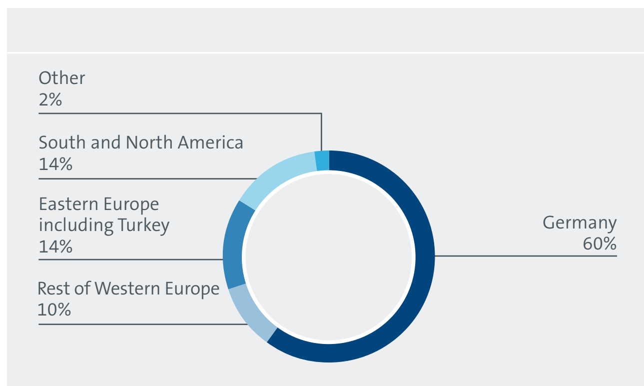
The Management of Talanx AG assesses the development of business in 2011 – in light of the business environment – as satisfactory overall. The Group was able to significantly improve return on equity, operating profit (EBIT) and particularly net income compared to the – admittedly weak – previous year. However, the technical result could not completely meet expectations as it was burdened by natural catastrophes to an extent that exceeded all expectations. Nonetheless there was an improvement that can be attributed to, among other things, the increase in new business from primary insurance in Germany and the Industrial Lines segment despite the decline in the single-premium business in life insurance. Against the background of the turbulence on the international capital markets the steady investment income of the Group is especially gratifying. The result is good also from a structural perspective: The Group's financial strength continues to be high; in particular its solvency ratio is significantly higher than required by law. At the time when the management report was being prepared the Group's economic situation continued to be favourable.

Non-financial performance indicators

Staff

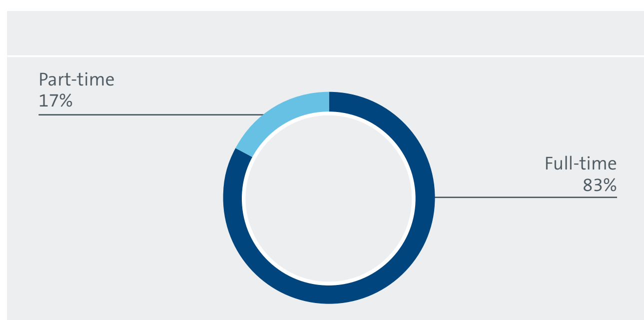
The number of staff employed in the Talanx Group at year-end stood at 18,314 (18,006); this was equivalent to 17,061 (16,874) full time positions. As a result of acquisitions, the number of staff outside of Germany rose to 7,251 (6,865). Within Germany, the headcount dropped to 11,063 (11,141) as a consequence of the sale of our legal aid insurer and organisational changes. Our Group has employees in 40 countries on five 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, 33% were women; at the senior executive level, women accounted for 13% of positions.

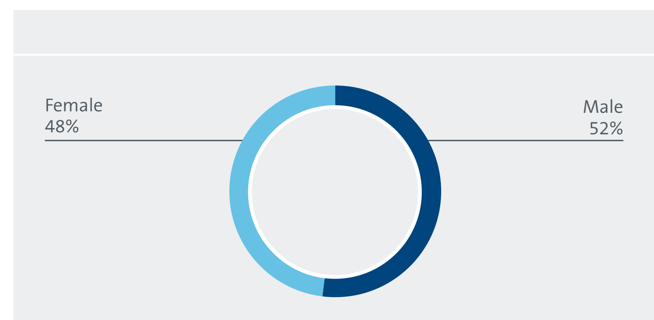
Headcount by part-time/full-time status in Germany



It is a fundamental principle at Talanx that high performers with potential are fostered without regard to their ethnic origin, gender or religion. The participation of women in most of our development programs for management trainees and newly appointed managers has averaged around 30% in recent years. Female participation in the management program for future senior executives, at 20%, is significantly higher than the current representation of women among the ranks of senior management.

Working-time models geared to the various phases of life – such as part-time working and telecommuting – and assistance given to families in searching for suitable daycare facilities are helping to advance and retain women with management potential. These measures are intended to enable more women to move into all echelons of management.

Headcount by gender in Germany



In 2011, our human resources effort focused on preparing for the re-alignment of the Retail Germany division. In the year under review, we have continued to engage our staff in paving the way for the forthcoming changes. A project team accompanied the various forms of our "resonance rounds" – for gathering feedback from employees on project issues – and the dialogue events bringing together Board of Management members and employees. In addition, teams have been set up to provide ongoing advice and support for the Board members of the division, e.g. in devising and chairing workshops and events.

A further focus was on implementing the organisational reconfiguration of the Group decided upon in 2010. On the primary insurance side, this involves aligning ourselves towards our clients' needs and bundling inter-divisional functions on the basis of a multi-site concept. In order to be able to adapt rapidly to constantly changing background conditions, the major part of the human resources effort for the entire Talanx Group in Germany, except for Hannover Re, is since 2011 being handled by Talanx Service AG.

Besides efficient organisational structures, qualified and motivated employees with a sense of personal responsibility and a creative drive are crucial to the success of the Talanx Group. Our human resources management can succeed only by ensuring that the right employees are in the right place to meet today's and future challenges. Targeted human resources marketing, development and professional training are therefore essential components of our Group-wide human resources work. A further key topic in the year under review was reviewing the remuneration structure for managers within the Group.

Demographic change is making it essential to retain qualified and motivated employees within the Group and to recruit new staff. In 2011, the "Talanx your career" image campaign launched in the previous year was extended to the internet and presented in the print media and at selected university graduate recruitment events. On the reinsurance side, the employer branding campaign initiated in 2010 was supplemented in the year under review by a new spot in the careers section of the Hannover Re website.

In addition to professional human resources marketing, ongoing staff development is of outstanding importance. As in past years, a large number of training events were staged and development programmes pursued to systematically qualify our employees and enhance their skills. Thanks to these efforts, we are able to fill most of our management vacancies out of our own ranks. The qualification programmes within the Group are continuously adapted to changing requirements and are geared towards developing both specialist and generic competences.

The Talanx Corporate Academy played an important part in the Group's human resources development efforts in the year under review. Founded in 2010, the Academy offers Board members and senior managers from Group companies around the world high-grade advanced training opportunities. It serves in particular to convey the Group's strategy and management methods while at the same time promoting mutual communication and networking. The lecturers and discussion-leaders are members of the Talanx Board of Management and professors from reputable business schools.

Our Industrial Lines division has continued its systematic focus on fostering young talent with trainee programs for activities in account management and underwriting and in sales and broker support. These – in most cases – one-year courses convey a solidly grounded grasp of the various fields of work involved in industrial insurance. In 2012, we are continuing these programmes in order to meet the ongoing and increasing need for specialist staff.

Systematic advancement of high-potentials, specialists and managers is also at the focus of management development at the Retail Germany division. For instance, a series of events has been devised to promote the exchange of experience and networking among the managers of the various companies that make up the division. Other, longer-standing development programmes have been revised together with Talanx Service AG.

Our Hannover Re subsidiary introduced blended learning in 2011 as an additional, contemporary learning method that further improves access by employees in Germany and abroad to its in-house qualification programme. Blended learning is a combination of tutored online self-study phases and classroom training that makes learning independent of time and place. Classical face-to-face sessions with their communicative, bonding and motivating character continue to be used wherever they are didactically meaningful, for example in seminars serving to enhance the participants' intercultural skills or to sharpen their client focus.

Basic training in the Talanx Group is renowned for its high quality: it has won German insurance industry training awards four times since 2005 alone. Practical orientation and self-reliant working as part of a team are very important in vocational training. The training we provide spans the entire company and offers trainees a wide range of career opportunities when they have completed their courses. That is why the numbers of trainees permanently taken on after completing their training has been consistently high for years. The most commonly taken courses were those leading to commercial qualifications in insurance and finance and the dual-track Bachelor of Arts and Bachelor of Science programmes. At 31 December 2011, there were 415 (404) apprentices and student trainees in the Talanx Group in Germany.

Acknowledgements to staff and bodies

The Board of Management would like to express its appreciation to all of the Group's staff for their high level of personal dedication and their valuable contribution to the Group's good business results. It thanks the Group Employee Council and all the other employee council bodies for their cooperation, which was at all times trusting and constructive.

Corporate social responsibility

Within the terms of our responsible enterprise management geared towards sustainable value creation, we attach particular importance to the prudent use of all resources and to our commitment to societal and social projects.

Sustainability

In pursuing our aim of keeping our environmental footprint as small as possible, we at the Talanx Group concentrate essentially on three courses of action: sustainable enterprise management; developing products that preserve the environment, save energy and encourage social responsibility; and an investment policy that takes sustainability into account in making investment decisions.

A current example of energy-saving policy in the Group are our new corporate premises in Hannover, which were inaugurated in December of the year under review. The technical blueprint was geared to minimising consumption of energy and resources. Regenerative energy and resources are used wherever possible, e.g. by tapping the earth's natural potential (geothermal energy) to meet basic heating and cooling needs. A highly insulated building envelope, triple glazing and the greening of roof surfaces similarly contribute to the building's sustainability.

In all its current fonds policies, HDI-Gerling offers am actively managed portfolio dedicated to the theme of sustainability. Its "future Plus" investment strategy contains sustainable and ecological investments. The classification is specified by the independent research agency Feri EuroRating Service AG. The selection criteria are conservation of the natural environment, economical use of resources, fair treatment of people and an attractive return.

AmpegaGerling, our investment company for third-party clients, offers public funds for which sustainability is an important investment criterion. 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 long-term company strategy and which are considered trailblazers in assuming responsibility for a sustainable future.

Our Group's own investment policy pays attention to the aforesaid criteria and also to compliance with certain ethical, social and ecological standards on the part of the issuers of our investment products.

Social responsibility

Our commitment to society, also known as "good corporate citizenship," is many-faceted. For instance some divisions sponsor their own projects, and our staff demonstrate social involvement through numerous honorary activities. At Group level we have devoted our efforts especially to the area of "education and training." As a central step, the Talanx Foundation, set up in 2009, has since the summer term in 2010 been awarding up to ten scholarships per term to talented students in insurance-related disciplines at the universities of Hannover, Leipzig, Cologne, Karlsruhe and Ulm. In 2012, this scheme is to be enlarged to provide up to 15 scholarships and extended to further universities. The scholarships are granted to particularly strong students who themselves lack the resources to complete their degrees within the standard course duration.

In addition to having founded the Talanx Foundation, Talanx has since the spring of 2011 been sponsoring the international student organisation SIFE Germany e. V. SIFE stands for "Students In Free Enterprises" and is a non-profit organisation, founded in the USA in 1975, that today has activities at over 1,800 universities in 47 countries worldwide. In Germany, SIFE branches have by now been set up at 32 universities and, besides Talanx, has won the support of 40 other leading companies as sponsors. In practical projects of their own choosing, the students help disadvantaged persons and organisations to improve their situation and to stabilise themselves sustainably by their own efforts. The students prepare their social, ecological, charitable and cultural projects themselves and carry them out entirely on their own. Target orientation, budget planning and measuring success are integral components of all SIFE projects.

Cooperation between Talanx and SIFE takes many forms. In addition to financial assistance from Talanx as SIFE's sponsor, staff from Talanx's human resources organisation serve as jurors in local competitions. Talanx managers and staff also provide SIFE groups at the universities with direct moral and practical support as business advisors. It suits us ideally that SIFE is highly successful not only in Germany but also in other countries in which Talanx has major operations, such as Brazil, Poland and Italy. This makes it easier to expand the initiative on an international scale.

Marketing and advertising, sales

The multi-brand principle pursued within the Talanx Group is reflected in the diverse forms of communication with which the subsidiaries with their different brand names seek to address their specific customer segments through tailored marketing and advertising. The primary insurers within the Group, such as HDI and HDI-Gerling, engage directly with the general public by means of e.g. TV commercials, publicity campaigns and sponsorship activities. Our reinsurance division and asset management operations focus on their particular target groups. Talanx AG's communication activities, in turn, are addressed first and foremost to the broader financial community and business journalists.

The sales channels employed by the Group's companies are extremely diverse: they range from our own tied agents' organisations and local representation by branch offices and sales outlets through the use of brokers and independent agents to highly specialised bancassurance cooperations. For further information please see the sections 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 investors, our business partners and employees, and the public at large. We also attach great importance to the efficient conduct of their work by the Board of Management and Supervisory Board, good cooperation between these bodies and with the company's staff, and to open and transparent corporate communications.

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

In accomplishing its goal of sustainably enhancing the value of the company, Talanx AG is guided extensively by the principles of the German Corporate Governance Code (DCGK), with the aid of which it has largely brought itself into line with the standards of German listed enterprises.

Board of Management

The Board of Management leads the company at its own responsibility and defines goals and corporate strategy. In accordance with § 9 Para. 1 of the Articles of Association, the Board of Management is comprised of at least two persons. Beyond that, the Supervisory Board determines the number of members. The Board of Management currently consists of seven members. The Supervisory Board's Rules of Procedure state that it should appoint only persons who are not yet 65 years old to the Board of Management. The term of their appointment should be chosen to end not later than in the month in which the Board member turns 65.

The current composition of the Board of Management is set out on page 6 of this Annual Report.

The working practice of the Board of Management is governed by Rules of Procedure adopted by the Supervisory Board. These define the areas of responsibility of the individual members of the Board of Management. Notwithstanding their overall responsibility, each member of the Board heads up 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 and the required voting majorities. The full Board of Management decides in all cases where adoption of a resolution by the full Board of Management is stipulated by law, the Articles of Association or the Rules of Procedure.

The Board of Management meets at least once a month. The Board of Management reports regularly and comprehensively to the Supervisory Board on the strategic orientation, the development of business, the company's financial position and results of operations, planning and goal accomplishment, and current opportunities and risks.

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

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

Members of the Board of Management may take on other activities, in particular posts on supervisory boards outside the Group, only with the consent of the Chairman of the Supervisory Board.

Supervisory Board

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

The Supervisory Board consists of 16 members. Half of these are chosen by the shareholders and the other half are elected by the company's staff. According to the Rules of Procedure, the members of the Supervisory Board should not be older than 72 years of age at the time of their election.

The Board of Management informs the Supervisory Board in a regular and timely manner about the development of business, the implementation of strategic decisions, material opportunities and risks, and the company's planning. The Chairman of the Supervisory Board is in constant contact with the Chairman of the Board of Management to discuss the company's strategy, business development and risk management. The composition of the Supervisory Board and its committees is set out on page 8 et seq. of this Annual Report.

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

To assist the Supervisory Board in performing its tasks effectively, it has formed the following committees:

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

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

The Finance and Audit Committee (FAC) monitors the financial reporting process and the effectiveness of the system of internal controls, of risk management and of the internal audit system. It also deals with compliance and information system issues on behalf of the Supervisory Board and discusses the quarterly reports published starting in Q3/2011. It prepares for the Supervisory Board's review of the annual financial statements, the Management Report, the Board of Management's proposal for the appropriation of the disposable profit, and the consolidated financial statements and the Group Management Report. In this context, the FAC informs itself in detail of the Auditor's opinion as to the net assets, financial position and results of operations and has the effects of any changes in accounting and recognition methods on the net assets, results of operations and financial position, and possible alternatives, explained to it. It deals with issues concerning the requisite independence of the Auditor, the awarding of the audit mandate, focal points to be addressed in the audit, and the Auditor's fees.

The Standing Committee prepares the decisions of the Supervisory Board relating to the members of the Board of Management and decides in lieu of the Supervisory Board on the content, conclusion, amendments to and termination of the service contracts with the members of the Board of Management with the exception of remuneration issues and resolutions as to their implementation. It is responsible for granting loans to the persons referred to in §§ 89 Para. 1, 115 AktG (German Stock Corporations Act) and persons assigned similar status in § 89 Para. 3 AktG, and for approving contracts with Supervisory Board members pursuant to § 114 AktG. It exercises the authorities deriving from § 112 AktG on behalf of the Supervisory Board and attends to longterm Board membership planning together with the Board of Management.

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

Further details on the activities of the Supervisory Board committees are given in the Supervisory Board's report as of page 10 of this Annual Report.

General Meeting

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

Each share carries one vote in the voting on resolutions. The General Meeting elects the members of the Supervisory Board representing the shareholders and votes to ratify the conduct of business by the Board of Management and the Supervisory Board. It decides upon the appropriation of the disposable profit, on capital measures and the approval of affiliation agreements, on the remuneration of the Supervisory Board and on amendments to the company's Articles of Association. An ordinary General Meeting is held each year 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 convening 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 Talanx compliance officers.

The Code of Conduct formulated for our staff defines standards for responsible and ethical behaviour at 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 impeccable and responsible conduct of our employees towards each other, our business partners and the general public. Only in this way can we create trust – an especially crucial competitive factor in our industry.

By organising training events and programmes we offer staff the opportunity to refresh, broaden and deepen their knowledge of and familiarity with selected compliance-related topics.

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

Risk monitoring and steering

The Group-wide risk management system of Talanx AG is based on our risk strategy, which in turn is derived from our corporate strategy. A core component is systematic and comprehensive tracking of all risks that from the today's perspective could conceivably jeopardise the company's profitability and continued existence. Further details in this connection are given in the risk report on page 100 of this Annual Report.

Remuneration

The structure of the remuneration of the Board of Management and the Supervisory Board and of the directors and managers below the Group Board of Management is described in detail in the Remuneration Report. The emoluments of the individual members of the Board of Management and the Supervisory Board are disclosed for the first time in that report.

Remuneration report

The remuneration report describes and explains the basic features of the remuneration structure for the Board of Management of Talanx AG, the amount of the remuneration of the Board of Management, and the criteria for its calculation. The description covers the payments made to the Board of Management in the 2011 financial year in respect of the activities of the members of the Board of Management on behalf of Talanx AG and its affiliated companies. It also explains the structure and the amount of the remuneration paid to the Supervisory Board of Talanx AG and the basic principles for remuneration of the directors and managers other than those on the Group Board of Management.

The remuneration report follows the recommendations of the German Corporate Governance Code and contains information that is required pursuant to IAS 24 "Related Party Disclosure" as part of the Notes on the 2011 Group financial statements. Pursuant to German commercial law, the information also contains mandatory items of the Notes (§ 314 HGB) and the Management Report (§ 315 HGB), all of which are discussed in this remuneration report and are also summarised in the Notes in accordance with the applicable statutory provisions.

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

Remuneration of the Board of Management

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

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

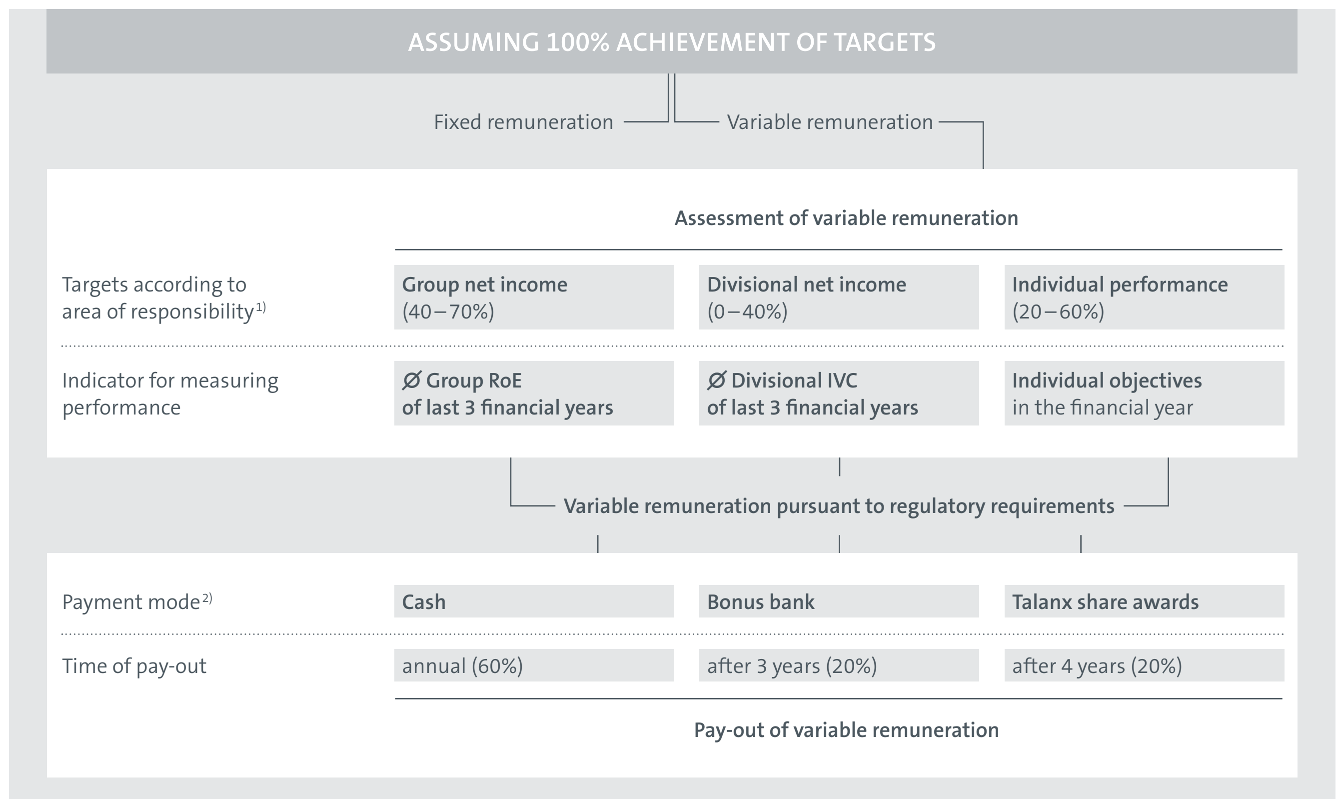
Structure of remuneration for the Board of Management

The aim of the remuneration system for the Board of Management is to pay the members of the Board a reasonable remuneration. The remuneration of the Board of Management takes into account the size and activity of the company, its economic and financial situation, its success and future outlook, and the comparability of the remuneration in the light of the peer environment (horizontal) and the remuneration levels for the rest of the company's staff (vertical). It also takes the tasks and duties of the individual members of the Board of Management, their personal performance and the performance of the Board of Management as a whole into consideration. Altogether, the remuneration is such that it makes allowance for both positive and negative developments, is in line with the market and competitive, and promotes the sustainable, longterm development of the company.

The remuneration of the Board of Management comprises an annual fixed remuneration and a variable component based on a multi-year assessment. The proportion of the variable remuneration within the overall remuneration package differs in each individual case and ranges from 44% to 68% for 100% achievement of the Board members' personal targets.

The Supervisory Board decides regularly, and in exceptional circumstances at its prudent discretion, whether the variable remuneration needs to be adapted or pay-outs restricted.

Board remuneration model from 1 January 2011



[1] Chairman/Chief Financial Officer: 70% Group net income, 30% individual performance (achievement of individual objectives)
Deputy Chairman: 50% Group net income, 30% divisional net income, 20% individual performance
Managers responsible for divisions: 40% Group net income, 40% divisional net income, 20% individual performance
Chief Information Officer: 40% Group net income, 60% individual performance

[2] Split dictated by statutory minimum requirements

Components of the remuneration of the Board of Management

Fixed remuneration

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

Non-cash/fringe benefits

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

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

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

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

Breakdown of pay-out of the variable remuneration

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

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

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

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

Divisional bonus
The divisional bonus is to be geared to the average intrinsic value creation (IVC) of the division for which the Board member is responsible over the previous three-year period. Work is currently still in progress to fine-tune a universally applicable concept for measuring the IVC. The procedure for calculating the performance of the divisions on the basis of the divisional IVC is to be applied for the first time to the 2013 financial year.

Until these arrangements have been finalised, the divisional bonus will be established by the Supervisory Board at its prudent discretion. In this context, the Supervisory Board will 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 fulfilment is payable if the criteria are achieved in full. Over- or underfulfilment 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 fulfilment of the criteria.

Individual bonus
In addition, individual qualitative and, as appropriate, quantitative personal goals are defined annually for each Board member to meet in the next year. The criteria applied may be the individual Board member's personal contribution to achieving the overall business result, their leadership skills, power of innovation and entrepreneurial abilities, and other quantitative or qualitative personal goals, making special allowance for the particular features associated with their area of responsibility within the Board. The degree to which the goals have been attained is determined by the Supervisory Board at its prudent discretion at the Supervisory Board meeting at which the consolidated financial statements for the financial year are approved. The amount payable for 100% goal attainment is established on a personal basis. Over- or underfulfilment results in additions or deductions. The minimum personal bonus amounts to EUR 0, while the maximum is double the bonus payable on complete attainment of the defined goals.

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

The amount of the variable remuneration is set at the Supervisory Board meeting at which the consolidated financial statements are approved.

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

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

Share awards
The other 20% of the total defined variable remuneration is granted as a share-based entitlement in the form of virtual share awards. The total number of share awards allocated depends – once Talanx AG has gone public – upon the value per share of Talanx AG at the time of allocation. The value per Talanx AG share is established as the unweighted arithmetic mean of the Xetra closing prices of Talanx shares over a period of five trading days before to five trading days after the meeting of the Supervisory Board that approves the consolidated financial statements. The share awards are allocated automatically, without the need for a declaration by Talanx AG or the Board member. Until such time as Talanx shares are listed on the stock exchange, the value per share of Talanx AG shall be taken as the book value of the shareholders' equity obtained from the consolidated financial statement for the financial year just-ended, drawn up in accordance with international financial reporting standards as defined by § 315a of the Commercial Code (HGB). The total number of share awards to be allocated is arrived at by dividing the amount to be credited by the value per share, rounded up to the next full share. For each share award, the value of one Talanx share calculated (using the same procedure as for allocation) on the disbursement date is paid out after expiry of a vesting period of four years. The Board member is not entitled to demand crediting of actual shares.

One member of the Board of Management is also allocated virtual share awards, the total number of which depends on the value per share of Hannover Re at the time of allocation. The value per share of Hannover Re is established as the unweighted arithmetic mean of the Xetra closing prices of Hannover Re shares over a period of five trading days before to five trading days after the meeting of the Supervisory Board that approves the consolidated financial statements of Hannover Rückversicherung AG for the financial year just ended. In this case, the value of one Hannover Re share calculated (using the same procedure as for allocation) on the disbursement date, plus an amount equal to the dividend if dividends are paid out to shareholders, is paid out for each share award after expiry of a vesting period of four years. The Board member is not entitled to demand crediting of actual shares.

Under the remuneration model applicable until 31 December 2010 the variable remuneration of the Board member in question consisted of a profit bonus and a performance bonus. In contrast to the current remuneration structure, the profit bonus was measured by the arithmetic mean of the actual earnings per share (EPS under IFRS) for the last three complete financial years; the performance bonus corresponded roughly to the individual bonus in the new remuneration model. Instead of virtual share awards, the old remuneration structure provided for the award of stock appreciation rights of Hannover Re. Stock appreciation rights were awarded for the last time in the year under review for the 2010 financial year. The virtual stock option plan with stock appreciation rights remains in force until all awarded stock appreciation rights have been exercised or have lapsed. The detailed conditions are explained in the section of the notes to this Group Annual Report entitled "Share-based remuneration".

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

If the Board member becomes permanently incapacitated during the term of their contract, the contract ends at the end of the sixth month after the permanent incapacitation was ascertained, but not later than upon expiry of the contract term. A Board member shall be deemed to be permanently incapacitated if he or she will presumably be unable to attend to his or her duties without restriction within the foreseeable future.

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

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

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

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

Amount of remuneration for the Board of Management
The total remuneration of the Board of Management in respect of its activities on behalf of Talanx AG and its affiliated companies was EUR 9,939 (7,035) thousand. The table below shows the breakdown into the components according to DRS 17. In the 2011 financial year, the emoluments of the individual members of the Board of Management are voluntarily disclosed for the first time in line with new commercial reporting regulations.

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

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

	Non-performance-based remuneration		Performance-based remuneration[1]							
			Short-term		Medium-term	Longterm				
					Bonus bank	Share awards				
	I	II	III	IV	V	VI	VII			
Name	Fixed remuneration	Non-cash compensation/fringe benefits	Variable remuneration payable (60%)	thereof remuneration from seats with Group bodies[2]	Amount allocated to bonus bank[3] (20%)	Value of share awards granted[4] (20%)	Expense for share-based remuneration[5]	Total[6]	Estimated number of Talanx share awards[7]	Estimated number of Hannover Re share awards[8]
In EUR thousand										
Herbert K. Haas	714	21	708	468	236	236	40	1,915	7.05	—
Dr. Christian Hinsch	504	14	430	14	143	143	24	1,234	4.27	—
Torsten Leue[9]	560	113	415	11	138	138	25	1,364	4.12	—
Dr. Thomas Noth	500	17	196		65	65	16	843	1.94	—
Dr. Immo Querner	544	9	436	204	145	145	25	1,279	4.33	—
Dr. Heinz-Peter Roß[9]	560	165	415	83	138	138	34	1,416	4.12	—
Ulrich Wallin[10, 11]	520	33	824		275	572	232	2,224	1.25	6,072
Total 2011[12]	**3,902**	**372**	**3,088**	**780**	**1,140**	**1,437**	**396**	**9,939**	**27.08**	**6,072**
Total 2010[13]	2,717	358	3,702	575	—	258	246	7,035	—	—

1) As at the 2011 balance sheet date no Board resolution was available regarding the amount of performance-based remuneration for 2011. The amounts are recognised on the basis of estimates and the provisions constituted accordingly

2) Remuneration from supervisory board seats at affiliated companies netted with the variable remuneration payable for 2011

3) The nominal amount is stated; full or partial payment is made in 2015, depending on the development until such time of the balance in the bonus bank

4) The nominal amount of the share awards to be granted is stated; the equivalent amount of the share awards will be paid out in 2016 at the relevant value prevailing at this time. In the case of Mr. Wallin including stock appreciation rights of Hannover Re awarded in the year under review in an amount of altogether EUR 297 (258) thousand (cf. footnote 11)

5) The expense for share awards is recognised pro rata in the year under review depending upon the duration of the respective contract of employment. In the case of Mr. Wallin including the expense for stock appreciation rights of Hannover Re exercised in the year under review in an amount of EUR 139 (22) thousand as well as the 2011 allocation to the provision for existing stock appreciation rights in an amount of EUR 29 (224) thousand

6) Total of I, II, III, V, VI

7) In order to calculate the number of Talanx share awards reference was made to the book value of the shareholders' equity per share, as calculated from the consolidated financial statement for the year under review drawn up in accordance with international accounting standards as defined by § 315a German Commercial Code (HGB)

8) In order to calculate the number of Hannover Re share awards reference was made to the Xetra closing price of the Hannover Re share on 31 December 2011. The number of Hannover Re share awards to be actually awarded is established from the arithmetic mean of the Xetra closing prices of the Hannover Re share in a period from five trading days before to five trading days after the meeting of the Supervisory Board that approves the consolidated financial statement in March 2012

9) The non-cash compensation and fringe benefits of Mr. Leue and Dr. Roß include the non-performance-based additional payments granted with the fixed remuneration for the month of December

10) For the 2011 financial year Mr. Wallin receives Talanx share awards worth EUR 42 thousand (1.25 share awards) and Hannover Re share awards worth EUR 233 thousand (6,072 share awards)

11) For the 2010 financial year Mr. Wallin was granted 57,500 stock appreciation rights of Hannover Re worth altogether EUR 297 thousand in the year under review. These were recognised at their fair value (according to the Black-Scholes option pricing model) at the time when they were granted (8 March 2011). Since the Supervisory Board of Hannover Re decides upon the final allocation of stock appreciation rights at the meeting after the balance sheet date and given that the period of the stock appreciation rights commences in each case on 1 January of the following year, the stock appreciation rights awarded for the financial year are not expensed until the following year.
On account of the changeover from the stock appreciation rights programme to the share awards programme in 2011 and the different booking rules applicable to these programmes, DRS 17 requires that both share-based payment programmes be shown in 2011 even though they refer to different years

12) For the 2010 bonus payments altogether EUR 336 thousand less was paid out than reserved. The total amount for the variable remuneration payable in 2011 was reduced accordingly

13) The total amounts for 2010 reflect the old remuneration structure and are therefore only comparable to a limited extent with the total figures for 2011

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

Name	Non-performance-based remuneration	Performance-based remuneration [1]	Total
In EUR thousand			
Herbert K. Haas	714	1,263	1,977
Dr. Christian Hinsch	504	647	1,151
Torsten Leue	660	178	838
Dr. Thomas Noth	500	275	775
Dr. Immo Querner	544	623	1,167
Dr. Heinz-Peter Roß	725	564	1,289
Ulrich Wallin [2]	520	684	1,204
Total 2011	**4,167**	**4,234**	**8,401**
Total 2010	2,982	4,866	7,583

[1] Performance-based remuneration paid out in the year under review for the 2010 financial year
[2] Including the stock appreciation rights of Hannover Re exercised in the year under review in an amount of EUR 139 (22) thousand; recognised under performance-based remuneration

Retirement provisions

The contracts between the members of the Board of Management and Talanx AG – with one exception granting an annual pension fund contribution based on the member's fixed remuneration – provide for an annual retirement pension calculated as a percentage of the fixed annual remuneration ("defined benefit"). The amount of the agreed maximum pension varies according to the particular contract and is between 35% and 65% of the Board member's monthly fixed salary at the time of scheduled retirement at or after the age of 65. In connection with the new remuneration structure as of the 2011 financial year, a non-pensionable component of the fixed remuneration was introduced.

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

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

Survivor pensions

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

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

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

Adjustments

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

Amount of pensions paid

The pension commitments for the active members of the Board of Management totalled EUR 1,509 (1,558) thousand. The expenditure in respect of pensions (service cost) for the active members of the Board of Management amounted to EUR 1,060 (796) thousand. The details on the amount of the retirement provisions for the Board of Management of Talanx AG are disclosed for the individual members by name for the first time in the year under review.

The total payments made to former members of the Board of Management and their surviving dependants, for which there were six commitments in force in the year under review, amounted to EUR 1,493 (790) thousand. The provisions set up in respect of pension obligations towards this group of persons totalled EUR 10,736 (11.747) thousand.

Pension entitlements of the active members of the Board of Management

Name	Pension commitment [1]	Present value of DBO [2] as at 31.12.2011	Expenses for retirement provision [3]
In EUR thousand			
Herbert K. Haas	390	5,369	195
Dr. Christian Hinsch	275	3,653	142
Torsten Leue	225	266	225
Dr. Thomas Noth [4]			100
Dr. Immo Querner	250	1,707	150
Dr. Heinz-Peter Roß	149	273	123
Ulrich Wallin	220	2,531	125
Total 2011	**1,509**	**13,799**	**1,060**
Total 2010	1,558	13,804	796

[1] Value of the agreed annual maximum pension on leaving the company as contractually agreed after reaching the age of 65
[2] DBO = defined benefit obligation
[3] The service cost recognised in the year under review for pensions and other post-retirement benefits is stated
[4] In the case of Dr. Noth a defined contribution commitment exists with an annual funding contribution of 20% of the annual fixed remuneration. The funding contribution of EUR 100 (100) thousand is stated here

Remuneration of the Supervisory Board

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

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

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

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

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

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

The total remuneration for the Supervisory Board of Talanx AG amounted to EUR 2,135 (1,857) thousand. The details are given in the table below. The emoluments are disclosed for the individual members by name for the first time in the year under review.

Personal remuneration of the members of the Supervisory Board

Name	Function	Type of remuneration	Amount [1), 2)]
In EUR thousand			
Wolf-Dieter Baumgartl [3)]	■ Chairman of the ▪ Supervisory Board ▪ Personnel Committee ▪ Finance and Audit Committee ▪ Nomination Committee ▪ Standing Committee	Basic remuneration	163
		Variable remuneration	70
		Remuneration for committee activities	123
		Attendance allowances	22
			378
Prof. Dr. Eckhard Rohkamm	■ Deputy Chairman of the Supervisory Board ■ Member of the ▪ Personnel Committee ▪ Finance and Audit Committee ▪ Standing Committee	Basic remuneration	75
		Variable remuneration	31
		Remuneration for committee activities	50
		Attendance allowances	13
			169
Ralf Rieger	■ Deputy Chairman of the Supervisory Board ■ Member of the ▪ Finance and Audit Committee ▪ Standing Committee	Basic remuneration	77
		Variable remuneration	31
		Remuneration for committee activities	25
		Attendance allowances	9
			142
Antonia Aschendorf	■ Member of the Supervisory Board (since 1 September 2011)	Basic remuneration	17
		Variable remuneration	7
		Attendance allowances	2
			26
Karsten Faber	■ Member of the Supervisory Board	Basic remuneration	50
		Variable remuneration	20
		Attendance allowances	5
			75
Jutta Hammer	■ Member of the Supervisory Board (since 1 February 2011)	Basic remuneration	66
		Variable remuneration	19
		Attendance allowances	5
			90
Hans-Ulrich Hanke	■ Member of the Supervisory Board (until 31 January 2011)	Basic remuneration	24
		Variable remuneration	2
		Attendance allowances	—
			26
Gerald Herrmann	■ Member of the Supervisory Board	Basic remuneration	50
		Variable remuneration	20
		Attendance allowances	5
			75
Dr. Thomas Lindner	■ Member of the ▪ Supervisory Board ▪ Finance and Audit Committee ▪ Nomination Committee	Basic remuneration	50
		Variable remuneration	20
		Remuneration for committee activities	25
		Attendance allowances	10
			105
Jutta Mück	■ Member of the Supervisory Board	Basic remuneration	72
		Variable remuneration	20
		Attendance allowances	7
			99

Personal remuneration of the members of the Supervisory Board

Name	Function	Type of remuneration	Amount[1], [2]
In EUR thousand			
Otto Müller	■ Member of the Supervisory Board	Basic remuneration	80
		Variable remuneration	39
		Attendance allowances	8
			127
Dr. Hans-Dieter Petram	■ Member of the Supervisory Board	Basic remuneration	50
		Variable remuneration	20
		Attendance allowances	4
			74
Dr. Michael Rogowski	■ Member of the ▪ Supervisory Board ▪ Personnel Committee ▪ Nomination Committee	Basic remuneration	50
		Variable remuneration	20
		Remuneration for committee activities	25
		Attendance allowances	10
			105
Katja Sachtleben-Reimann	■ Member of the ▪ Supervisory Board ▪ Standing Committee	Basic remuneration	68
		Variable remuneration	20
		Remuneration for committee activities	—
		Attendance allowances	6
			94
Dr. Erhard Schipporeit[3]	■ Member of the ▪ Supervisory Board ▪ Finance and Audit Committee	Basic remuneration	80
		Variable remuneration	40
		Remuneration for committee activities	40
		Attendance allowances	15
			175
Bodo Uebber	■ Member of the Supervisory Board (until 31 August 2011)	Basic remuneration	33
		Variable remuneration	14
		Attendance allowances	1
			48
Prof. Dr. Ulrike Wendeling-Schröder	■ Member of the ▪ Supervisory Board ▪ Personnel Committee	Basic remuneration	50
		Variable remuneration	20
		Remuneration for committee activities	25
		Attendance allowances	9
			104
Werner Wenning	■ Member of the Supervisory Board	Basic remuneration	50
		Variable remuneration	20
		Attendance allowances	5
			75
Total 2011[4]			**2,135**
Total 2010			1,857

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

Loans to members of the management boards and contingent liabilities

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

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

There were no other reportable transactions with related parties pursuant to IAS 24 in the year under review.

IAS 24 provides for separate presentation of the remuneration components of key management personnel. Specifically, this group of persons encompasses the members of the Board of Management and Supervisory Board of Talanx AG. The remuneration of the aforementioned group of persons breaks down as follows:

Management remuneration pursuant to IAS 24	2011	2010
In EUR thousand		
Salaries and other short-term remuneration payable	9,497	8,634
Other longterm benefits payable [1]	1,140	
Granting of shares and other equity-based remuneration [2]	1,437	258
Expenses for retirement provision [3]	1,060	796
Total	**12,978**	**9,688**

[1] The nominal amount of the portion of the performance-based remuneration to be allocated to the bonus bank for 2011 for the members of the Board of Management is stated

[2] The nominal amount of the share awards to be granted to the members of the Board of Management for 2011 and the value of the stock appreciation rights of Hannover Re granted in the year under review is stated

[3] The service cost recognised in the year under review for pensions and other post-retirement benefits is stated

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

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

The individual divisions within the Talanx Group have separate remuneration systems for those directors and managers below the Group Board of Management who are not among the risk carriers; these systems reflect the remuneration strategy of the Group. Differences in the details of these systems are intended to take account of the specific factors in the divisions and to promote their competitiveness.

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

In the year under review, the ongoing harmonisation of the remuneration and management-by-objectives systems was a major focus of human resources effort within the Group.

For instance a new remuneration system for risk carriers was introduced and preparations continued for the Group-wide standardisation of the remuneration for managers. The amount and structure of the remuneration promote sustainable, longterm development of the company, are in line with the market and are competitive.

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

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

Within the Hannover Re sub-group, a harmonised remuneration system applies with effect from 1 January 2012 for all Group managers in Germany and abroad.

Here, too, the assessment of the variable remuneration is based on the elements of Group profit, divisional targets and personal objectives. The elements are weighted depending on whether responsibility is borne in the market or in the service sector. The divisional targets and personal objectives are agreed upon and the extent to which they have been accomplished is ascertained in the context of the MbO process. As part of the re-orientation of the remuneration system, the share-based remuneration for the Board of Management (the share award programme) has also been extended to managers at other levels.

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 forecast and opportunities report and in the subsection of the Notes entitled "Events after the balance sheet date," pages 286 et seqq.

Risk report

Risk strategy

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

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

The Talanx Group satisfies all currently applicable solvency requirements.

Functions within the risk management system

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

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

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

Risk management process

The Talanx Group and its divisions cover an extensive range of products – from insurance to financial and other services. Accordingly, Talanx AG and its subsidiaries use a diverse range of methods and tools to monitor and manage their risks. The Talanx Group follows a central/local approach: within the framework of the model to be used from now on (for Solvency II), overall responsibility for and to a very minor extent the operative running of models for the risk categories that are of Group-wide relevance rests with the Group. By contrast, the divisions operate those models that map the insurance risks. These models are evolved jointly by both levels, ownership of the models being vested with the Group holding company. The Group carries out dedicated audits to verify the adequacy of the models implemented and their compliance with Group guidelines.

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

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

In addition to this software-based risk identification procedure, Group Risk Management holds quarterly meetings with the local risk management experts of the divisions and service companies. These risk meetings leverage the analysis and evaluation of the risks at the Talanx AG level. An upward referral procedure has been arranged for bringing significant changes in the risk position to the attention of Group Risk Management, ensuring ad-hoc risk management at the Talanx AG level.

In order to measure, analyse and evaluate risks, Group Risk Management derives the risk situation of the Talanx Group from the local risks with the aid of an internal risk capital model. This internal risk capital model enables us to assess the risks. Still based during the reporting period in key respects (albeit refined) on the so-called GDV (German Insurance Association) standard model, it is used to analyse and measure individual risks and the Group's overall risk position. A primary purpose of risk quantification is to calculate the risk-based capital on the basis of a 99.97% value at risk. The internal risk model covers a time horizon of one calendar year and makes allowance for the effects of correlations between Group companies and risk categories.

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

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

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

The potential implications of risks are not only to be documented but must also be incorporated into the annual planning of the Group companies, thereby making it possible to allow for the risks of future development and to take appropriate countermeasures in a timely manner. The plans drawn up by all Group companies and the Group as a whole are discussed and approved by the Board of Management and Supervisory Board of Talanx AG. Talanx AG draws up its own results planning on this basis. The purpose of this planning process is to make allowance not only for future developments but also for the interdependencies between the planning of each subsidiary and that of Talanx AG. In the context of the performance management cycle both operational and strategic considerations are factored into the planning.

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

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

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

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

The hallmark of risk management within the Talanx Group is its decentralised organisational structure. Responsibilities are split between local risk management at the level of the divisions and central risk management at 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 financial reporting 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 main areas involved in the financial reporting process – Finance and Accounting – and those of Controlling are clearly separated. Areas of responsibility are unambiguously assigned (separation of functions).
- The financial systems used are protected against unauthorised access by appropriate measures on the IT side. Where possible, the systems concerned run on standard software.
- An adequate system of guidelines (e.g. on recognition and measurement of assets and liabilities, work procedures) has been set up and is constantly updated.
- The departments and units involved in the financial reporting process have the appropriate quantitative and qualitative resources at their disposal.
- Controls have been implemented in the financial reporting processes and workflows: bookkeeping data that is received or forwarded is checked for completeness and correctness by the responsible members of staff. The peer-review principle is consistently applied. In addition, programmed plausibility checks are run using database-supported software.

With regard to the Group financial reporting process, integrated controls ensure that the consolidated financial statements are correct and complete. The processes relating to the organisation and execution of the consolidation tasks and the preparation of the consolidated financial statement of Talanx AG together with the dedicated controls are documented in a comprehensive ICS documentation which is regularly reviewed and optimised in the light of compliance considerations.

The Group's in-house IFRS recognition and measurement rules are compiled in an accounting manual which is available to all Group companies in computerised form and provided to all employees indirectly or directly involved in the preparation of the consolidated financial statements. This 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 ensures compliance with the rules contained in the manual.

The consolidated financial statement of Talanx AG is drawn up at the parent company's headquarters in Hannover on the basis of IFRS packages requested and received from the contributing subsidiaries. The subsidiaries are themselves responsible for compliance with the Group-wide financial accounting regulations and for the proper and timely running of their financial reporting processes and systems; the capital investments of the German and the majority of the non-German subsidiaries are for the more part managed centrally by Talanx Asset Management GmbH. To this extent, the risk management measures taken at 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 and other data with a bearing on consolidation that are stored in databases 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 need to be released by the responsible members of staff in a process based on staggered value limits. Written procedures are available to assist in this process and in the case of exceptional and infrequent business transactions. Furthermore, the consolidation system incorporates an approval process for manual bookings that ensures compliance with the peer-review principle while taking certain value limits into account.

The consolidated financial statements of Talanx AG are examined by the independent auditor as at the balance sheet date; the Group's quarterly interim financial statements and the IFRS packages from the consolidated companies are also subject to review by the independent auditor.

Risks of future development

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

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
- operating risks
- other risks

Effects of the banking and economic crisis

In our assessment, the economic situation in Germany remains, if anything, robust and satisfactory. However, the weaker growth of the global economy and doubts as to the longterm financial viability of some countries are fueling forecasts of a slowdown. In the wake of the protracted stand-off between the US Administration and the opposition over national debt, the rating agency Standard & Poor's has downgraded the creditworthiness of the United States from the top-notch AAA to AA+. At the same time, the outlook was assessed as "negative". That means that the USA could face a further downgrade within the next two years. The Moody's rating agency has marked the longterm credits of some large US banks down by one notch, as the probability of the Administration being able to provide support in a crisis was thought to be low.

The problems resulting from the sovereign-debt crisis within the Eurozone, too, remain unsolved. By now, Greece, Ireland and Portugal are having to refinance their debt via European and international bail-out funds. In Greece, especially, the urgently necessary consolidation of the state-sector budgets is being impeded by the deep and persistent recession in conjunction with further increases

in expenditure. The market value of the Talanx Group's holding of Greek government bonds on the balance sheet date of 31 December 2011 was EUR 3.3 million. The debt write-down legislation approved by the Greek Parliament in February 2012 gave rise to the risk of further write-downs on this issuer exposure for the Talanx Group. Given our very modest holding at the end of the year under review, the write-downs required in 2012 will have only a minimal influence on the Group's investment income. Standard & Poor's downgraded Italy's rating in the year under review and assessed the outlook as negative. At 31 December 2011 the Talanx Group held investments (government and agency bonds) with a market value of EUR 1,297.2 million from the GIIPS countries (including Italy at EUR 634.3 million, Spain at EUR 405.8 million, Ireland at EUR 220.4 million and Portugal at EUR 33.5 million, excluding unit-linked investments for the account and risk of holders of life insurance policies), which may give rise to rating-related impairments. Thanks to support measures at the European level (the European "rescue package"), however, there is currently no elevated risk of default on the bonds – especially in the case of the GIIPS countries other than Greece.

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

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

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

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

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

Material underwriting risks

In addition to the information provided below, the Notes contain a detailed and quantified 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 the two sectors.

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 arises because insurance premiums defined up front are used to pay indemnifications at some stage in the future, although the amount of such payments is initially unknown. The actual claims experience may therefore diverge from the expected claims experience. This may be attributable to two reasons: the risk of random fluctuation and the risk of error.

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

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

The second underwriting risk in property/casualty business, namely the reserving risk, refers to the possibility that the underwriting reserves may not suffice to pay in full claims that have not yet been settled or reported. This may then give rise to a need to establish additional reserves. In order to manage this risk, the companies belonging to the Talanx Group measure their reserves prudently. They take into account not only the claims information provided by their clients but also insights from their own claims investigations and experience. Furthermore, an IBN(E)R (incurred but not (enough) reported) reserve is constituted for claims that have probably already occurred but have not yet been reported (in their full amount). The level of reserves is regularly reviewed – not only internally but also by external actuaries – and an external expert assessment of the reserves is commissioned in order to minimise the reserving risk. 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 244 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 line 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. For instance, new precedents set by court rulings may increase the number of cases in which claims are brought before the courts, with corresponding implications for indemnity payments. Risks may also ensue from inflation, since some claims are settled over a very long period of time. Owing to inflation, for example, the reserves once constituted may not suffice to meet future claims payments. Under liability insurance policies, the (re)insurer is liable for all insured events that occur during the policy period, even if the harm caused 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 used to calculate these reserves may involve a risk of error in the underlying assumptions.

Accident insurance policies provide cover against the economic repercussions of accidents. Depending on the consequences of the accident and the policy concerned, the Group companies typically pay a daily allowance, a lump-sum disability benefit or a 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 by taking out reinsurance coverage. Furthermore, the adequacy of the reserves is regularly reviewed.

Property insurance policies provide indemnity 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 cost of rebuilding and restoration or the compensation payable for building contents; in industrial and commercial insurance the losses resulting from business interruption are also covered. The benefits are, however, limited by the sum insured. Benefits under motor own damage insurance policies may be paid for replacement or repair of a destroyed or damaged vehicle.

Underwriting risks are of special importance under these policies. Incorrect pricing assumptions, inadequate accumulation control or errors of judgement in estimating future claims may result in key cash flows diverging from the expectations on which the calculation of the premiums were based. Climate change, for instance, can lead to frequent and severe weather events (e.g. floods or windstorm events) and correspondingly heavy losses. Under industrial property insurance policies, one-off loss events can trigger huge claims. In order to limit these risks we continually monitor the claims experience to identify any departures from expectations and, if necessary, we revise our pricing calculations. For example, the Group companies have an opportunity to adjust prices to the actual risk situation each time policies are renewed. They also manage these risks through their underwriting policy: here, too, there are underwriting exclusions and limits that serve as criteria for risk selection. Deductibles also apply in some lines. Substantial individual and accumulation risks are minimised through use of carefully selected reinsurance coverage to protect against peak losses.

Comprehensive scenario calculations are performed for the Hannover Re Group 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 analyse the worldwide implications of natural disasters due to climate change. The maximum exposure that Hannover Re should run for such risks and the retrocession cover needed are determined on the basis of these analyses. Retrocession – i.e. passing on 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 pay either a lump sum or a regularly recurring benefit. The premium is calculated on the basis of an actuarial interest rate and a number of biometric factors such as 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 guaranteed longterm benefits: while the premiums for a given benefit are fixed at the inception of the policy for the entire policy period, the underlying parameters (interest rate level, biometric assumptions) may change. This is also true – to an increasing extent – of the general legal framework underlying the contractual relationship; changes that can aggravate the risk in this regard are discussed under "Material operating risks."

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

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

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

In the case of life insurance policies with guaranteed interest payments, an interest guarantee risk arises if a guaranteed rate of interest on the savings element of the premium is agreed when the policy is taken out. The recent reform of the Insurance Contract Act (VVG) in Germany exacerbated the interest guarantee risk by entitling policyholders to a share in the unrealised reserves upon termination of the policy. In order to generate this guaranteed return, the insurance premiums must be invested at appropriate terms on the capital market. However, the capital market fluctuates over time; future investments are thus subject to the risk of poorer terms. What is more, the duration of the investments is generally shorter than the term of the insurance contracts, giving rise to a reinvestment risk. There is also an interest rate risk in

connection with guaranteed surrender values. A rapidly rising interest rate level, for example, may create hidden obligations. If contracts are terminated prematurely, the policyholders would be entitled to the guaranteed surrender values but would not share in any hidden losses incurred. Upon disposal of the corresponding investments the hidden losses would have to be borne by the life insurers, and in theory it is possible that the fair market value of the investments would not suffice to cover the guaranteed surrender values. As a further factor, the change in the distribution of acquisition costs in compliance with the amended Insurance Contract Act leads to higher surrender values in the initial phase. The Group reduces the interest guarantee risk primarily by constantly monitoring the asset portfolios and capital markets and taking appropriate countermeasures. To some extent interest rate hedging instruments such as swaptions, book yield notes and forward purchases are also used. For a large part of our life insurance portfolio the interest guarantee risk is reduced through contractual provisions that enable the surplus distributions paid in addition to the guaranteed interest rate to be adjusted to the situation on the capital market. Under unit-linked life insurance policies, the investment risks are borne by policyholders, who also profit from the associated opportunities. However, the investment risks could be shifted back onto the life insurers as a consequence of adverse legal developments.

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

The biometric risks described above are especially important in life and health reinsurance, particularly in the context of catastrophic events such as pandemics. Reserves in life and health reinsurance are based mainly on the information provided by our ceding companies. The plausibility of these figures is checked using reliable biometric actuarial bases. Further quality assurance measures ensure that the reserves calculated by the ceding companies in accordance with local financial reporting principles and assumptions satisfy all requirements with respect to the calculation methods used and assumptions made (e.g. use of up-to-date mortality and morbidity tables, assumptions regarding the lapse rate). The Group writes new business in all regions in compliance with globally applicable underwriting guidelines which set out detailed rules governing the type, quality, level and origin of risks and are revised annually. Specific underwriting guidelines give due consideration to the particular features of individual markets. By monitoring compliance with these underwriting guidelines, the Group minimises the credit risk associated with the potential insolvency or deterioration in the financial status of cedants. Whenever new business activities are launched or international portfolios taken over, regular reviews and holistic analyses are performed (e.g. with a focus on lapse risks). In life and health reinsurance, owing to the structure of the contracts, the interest rate risk which is so important in the primary life business by virtue of the guarantees given is of little relevance.

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

Receivables due under insurance business always entail a risk of default. This applies specifically to receivables due from reinsurers, retrocessionaires, policyholders and insurance agents. Value adjustments or write-downs on receivables would be the result.

The Group counteracts the risk of default by reinsurers and retrocessionaires by carefully selecting these 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 nature and the expected run-off period of the reinsured business and subject to a required minimum capital adequacy, reinsurers and retrocessionaires are selected on the basis of our own credit assessments and the minimum ratings assigned by the rating agencies Standard & Poor's and A. M. Best. A rating information system has been implemented for inclusion of the rating data.

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

Material risks associated with financial instruments

The risks associated with financial instruments must be seen in the context of investment policy. Within the Talanx Group, the investment policy of the individual companies is governed, within the applicable supervisory framework, by a Group investment guideline and in-house investment guidelines.

In the interests of policyholders and with a view to accommodating the future requirements of the capital market, our investment policy is essentially guided by the following maxims:

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

An essential component of risk management is the principle of separation of functions – i.e. maintaining a distinction between Portfolio Management, Settlement and Risk Controlling. Risk Controlling is organisationally and functionally separate from Portfolio Management and is responsible primarily for monitoring all risk limits and evaluating financial products. In this respect the management and control mechanisms are geared 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 define the framework for the investment strategy and are guided by the principles set out in § 54 of the Insurance Supervision Act (VAG) so as to achieve the greatest possible level of security and profitability while ensuring liquidity at all times and preserving an appropriate mix and spread within the portfolio. Compliance with the quotas and limits set out in these guidelines is monitored by Group Risk Management, the local risk managers and the Chief Financial Officer of each company. Any significant modification of the investment guidelines and/or investment policy requires the approval of the Board of Management of the company concerned and must be brought to the attention of its Supervisory Board.

The risks associated with financial instruments consist most notably of market price, creditworthiness 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 186 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 currency exchange rates. These can lead to impairments or result in losses being realised upon disposal of financial assets.

Our portfolio of fixed-income securities is exposed to the interest rate risk. Declining market yields lead to increases and rising market yields to decreases in the 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 the 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 in life insurance primarily by means of interest rate hedges (see under “Material underwriting risks”).

Equity price risks derive from unfavourable changes in the value of equities, equity derivatives or equity index derivatives held in the portfolio. We spread these risks through systematic diversification over 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 in which the obligations under our insurance contracts are to be fulfilled.

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

Real estate risks may result from unfavourable changes in the value of real estate held either directly or through fund units. They may be caused by a deterioration in the qualities of a particular property or by a general 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 at the level of individual properties and the portfolio as a whole. Risk controlling for indirect real estate investments, as with private equity funds, is based on regular monitoring of the development and performance of 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 for 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 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 statutory provisions governing the use of derivative financial instruments and structured products are kept up to date and constantly monitored within 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 evolving more and more from an 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 potential 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 Talanx Asset Management GmbH simulate possible market changes that can result in significant price and interest rate losses for the bulk of our securities. In addition, market price risks are identified using enterprise-specific stress tests and those required by regulators with the corresponding prescribed stress test parameters.

Credit risks

Default or credit risks refer to a potential deterioration in the financial situation of debtors resulting in their becoming unable to make contractually agreed payments in full as they fall due, or to declines in the value of financial instruments due to impaired creditworthiness of the issuer. The credit ratings assigned by agencies such as S&P and Moody's are a key pointer for the investment decisions taken by Portfolio Management. In the absence of ratings for individual issues, an in-house rating is determined. This is done by applying mark-ups and mark-downs to the issuer's rating or to the ratings for other instruments from the same issuer. In addition to the default probabilities associated with the respective rating class, further criteria for risk measurement and management are the type or product, the expected recovery ratio and the remaining term to maturity. As a further risk indicator, the "credit value at risk" is determined, defined as the unanticipated loss given a holding period of one year and a target confidence level of 99.97%.

Risks of counterparty default are controlled by applying various limits at the portfolio, rating class, issuer and issue levels. Any violation of these limits triggers defined referral measures. The Talanx Group also uses OTC on a minor scale, which may involve a counterparty risk. The risk of financial default by the issuers concerned is reduced by netting and by means of collateral security agreements.

Liquidity risks

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

As an aid to monitoring 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 are then included in the standardised portfolio reporting provided to the Chief Financial Officers. Compliance with the defined minimum and maximum limits for liquidity is monitored. Overstepping of any risk limits is immediately reported to the Chief Financial Officers and Portfolio Management.

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

Material operating risks

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

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

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

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

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

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

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

Legislation in other countries can also give rise to new risks. In March 2010, the "Foreign Account Tax Compliance Act" (FATCA) was passed in the USA and takes effect on 1 January 2013. The provisions of the new FATCA tighten US tax reporting by non-US financial institutions (including insurance companies) and are intended to combat evasion of US taxes on investments abroad. It is not yet fully clear which insurance products will be covered by the intended reporting requirements. As things stand, life insurance, property insurance and reinsurance benefits are to be exempt from the new requirements, whereas all so-called "cash-value products" and insurance agreements with investment components are to be included. The issue remains under observation.

In common with the entire insurance industry, the Talanx Group 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 German 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 have initiated measures to refine our risk management accordingly and hence to enable us to satisfy the more complex and extensive standards going forward.

Legal risks can also arise in the context of acquisitions. In the case of more recent foreign acquisitions with the involvement of our partner Meiji Yasuda as minority shareholder, there is a regulatory risk that under the internal model according to Solvency II risks from

these participating interests will in future have to be allowed for in full when calculating the required Group solvency capital, while at the same time no correlated allowance for the own funds of the minority shareholder will be permitted (haircut). In our opinion, the own funds of the minority shareholder should correctly be taken into account – or the portion of the risk attributable to the minority shareholder should be deducted. The discussions in this regard are still ongoing under the current Solvency II, and the outcome is uncertain. There is also the inherent risk typically associated with joint ventures, namely that in the event of differences of opinion – in view of the legal rights of protection of the minority shareholder and also rights of protection afforded by contract – deadlock situations may arise in the decision-making process of certain governing bodies of the acquired entity which can only be resolved by building a consensus or – in the absence of this – through share transfers with corresponding strains on liquidity.

Along with legal risks, other operating risks include failure of data processing systems and data security. Ensuring the availability of computer-based applications and protecting the confidentiality and integrity of data are of vital importance to the Talanx Group. Since information is increasingly shared worldwide via electronic data transfer, data exchange is also vulnerable to computer viruses. Dedicated investment in the security and availability of information technology preserves and enhances the existing high level of security.

Operating risks may also arise in the area of human resources, for example due to a shortage of the skilled experts and managers needed for running an increasingly complex business with a strong client orientation. The Group therefore attaches great importance to further and advanced training activities. Personalised development plans and targeted skills enhancement opportunities enable members of staff to keep abreast of the latest market requirements. In addition, state-of-the-art management tools and – where permissible under collective wage agreements – appropriate incentive schemes (both monetary and non-monetary) foster strong employee motivation. At Talanx, in-house guidelines governing areas of competence and workflows and regular checks and audits by subject experts counter the risk of personnel committing fraudulent acts to the detriment of the company.

On the marketing side, the Talanx Group works together not only with its own field service but also with external agents, brokers and a number of cooperation partners. In this respect there is, of course, always a risk of marketing agreements being 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 those associated with Talanx AG's participations in other enterprises.

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

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

With the Focus project completed in the year under review, the Talanx Group has restructured 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 operating more successfully in the market. Some small-scale risks still remain, for instance operating risks in connection with the simplification of processes within the central functions. Further Group-wide projects and a campaign have been launched to optimise the quality of our service and our cost structure. We are addressing the associated operating risks by adopting suitable measures already successfully applied in the Focus project.

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

Other risks also encompass Talanx AG's participation risks, especially those associated with the performance of subsidiaries, the stability of results in our portfolio of participating interests and a potentially inadequate balance in the business. Talanx AG participates directly in the business development and risks of its subsidiaries through profit transfer agreements and dividend payments. Negative results trends at the subsidiaries may also make it necessary to write down the values of participating interests on Talanx AG's books.

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 standardised reporting system regularly provides decision-makers with the latest information about the Group and business trends at all major subsidiaries, enabling them to intervene at any time to control risks. Risks associated with a lack of stability in the results of the portfolio of participating interests or with an inadequate business balance are reduced for the various risk sources primarily by means of segmental and regional diversification, appropriate strategies for risk minimisation and risk shifting, and by investing systematically in growth markets and in product and portfolio segments that stabilise results.

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

Forecast and opportunities report

The following remarks about the expected development of the Talanx Group and its member companies are based on well-founded assessments by external experts and on in-house plans and forecasts that we consider logically consistent; nevertheless, they are our own subjective assessments. Although we arrived at the underlying assumptions with great diligence and to the best of our knowledge, the fundamental uncertainties applicable to all statements regarding the future, and particularly as regards future developments on the capital markets, natural catastrophes and the legal environment, make it impossible to rule out that actual events may diverge from the developments anticipated here. The uncertainties inherent in any forecasting have been aggravated still further by the global intermeshing of economic relations and capital markets. The effects of the financial and economic crisis that have already made themselves felt in the year under review will, in our opinion, continue to reverberate in the insurance industry in the years ahead.

Economic environment

We consider a further slowdown in the pace of growth in the developed countries, such as was already becoming apparent in the last quarter of 2011, to be possible in the current year, too. We regard the economic environment, especially in the Eurozone, as critical in 2012. As the resources of both fiscal and monetary policy appear to be approaching exhaustion, it may well prove more difficult in future to revive the economy by means of stimulus packages or lowering interest rates. The labour markets in the countries on the Eurozone periphery are likely to remain under pressure due to austerity measures. Whether the USA manages to extricate itself from this trend, against the background of a slowdown in growth in the emerging countries, remains to be seen.

Given the global cool-down, we do not see prices coming under pressure despite ongoing monetary-policy interventions. All in all, the worsening European sovereign debt and banking crisis (including the ensuing recapitalisation requirements) and the debate about the disintegration of the Eurozone are likely to remain the major risk factors in 2012. Whether the emerging countries can continue to have the same stabilising effect as in the past appears doubtful.

Capital markets

The ultimately unresolved debt problems, the depressed mood in the banking sector and severely dampened expectations as regards the global economy give reason to fear that interest rates are set to remain low at least for the first half of 2012. After the rate reductions in November and December 2011, we anticipate a further decline in interest rates in the Eurozone in the first half year. The US has virtually committed to leaving base rates at their current low level over the next two years, unless their economy recovers considerably. The general risk situation will presumably stabilise only if the world's politicians manage to push through widely accepted measures and to establish a playing field that restores lasting confidence among the market players.

We expect the stock markets to move sideways overall but with high volatility in 2012. The urgent need to reduce debt on a global scale is likely to be a burden on trading. This damper is likely to hit financial-sector equities particularly hard, especially as the new recapitalisation requirements take effect. A macro-economic cool-down would also take its toll on corporate profits. However, thanks to much lower debt levels and comparatively healthy balance sheets, most companies appear to be well prepared for a cool-down. The already historically low fundamental valuations may well mitigate the risk of a further decline in stock prices.

Future state of the industry

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

The insurance industry in Germany

Against the background of ongoing macro-economic risk factors, any forecasts are bound to involve uncertainties. However, despite all imponderables, the insurance industry is looking forward to an overall improvement in the premiums situation in 2012. According to the GDV, demand for insurance remains stable. Current challenges such as stiffening competition and changes to the regulatory requirements are expected to lead to a further shift in the relative positions of the various market players. At the same time, trends such as increasing differentiation of client groups and the demographic shift in Germany are opening up fundamentally new business opportunities for insurers within the prevailing context of a high market penetration. This is expected to be reflected in further changes in the product landscape and increasing diversity in sales structures.

Despite all uncertainties, we are looking forward to further positive business development in property and casualty insurance in general in the next two years, though possibly somewhat lower than the growth level achieved in the past year, as – according to the ifo-Institut – on the one hand the already high market penetration in many lines of business is placing limits on further growth, and on the other the growth of the economy in general is expected to slow down. Nevertheless, we are counting on an economic environment that is likely to have a stabilising effect on business in property and casualty insurance in 2012.

The future development of business in the life insurance sector is likely to be shaped by opposing factors: on the positive side, according to GDV reports, the relatively sound economic situation of the private households, the still good competitive advantage of life insurance over other investment forms, and the recognised need for more private provision for old age; on the down side the persistent wait-and-see attitude of private households as regards longterm investments. This caution is being reinforced by the financial and economic crisis and the debate about the future of the euro and runs contrary to the need to build up capital-funded private provisions for old age. However, we see the crucial factor for the future development of life insurance as being interest levels. In the current, already long-persisting low-interest environment, it is becoming more and more difficult to earn the minimum returns guaranteed under the terms of long-running policies from earlier years. The German life insurance industry is soundly capitalised and has built up considerable reserves and a diversified, longterm investment portfolio. These circumstances will enable it to cope with the present low interest level for a few more years, if need be.

International markets

In the light of the lower economic growth forecast in Swiss Re's Global Insurance Review (GIR) for the developed insurance markets of Europe and North America for 2012, we likewise expect demand for insurance products to be slack in those markets. In the markets we have defined as our markets of the future – Latin America, Central and Eastern Europe and Asia – economic growth is also likely to slow down but will still remain at a significantly higher level than in the industrial nations. As we see it, economic growth should continue to peg demand for insurance and make for strong premium growth in these markets, even if the pace may slow down in some cases.

The main challenge for the EU member countries in Central and Eastern Europe will probably be the introduction of Solvency II, which will most likely trigger further consolidation among smaller insurance companies. In Russia, increased minimum capital requirements are expected, according to GIR, to speed up consolidation on the Russian insurance market.

Premium growth in property/casualty insurance in the emerging markets could be affected by the European financial crisis. Central and Eastern European insurance markets, especially, are finding themselves exposed – according to the observations of the GIR team – to a risk of a slowdown both in economic development as a whole and in premium growth in the property and casualty lines. Latin American insurance markets could be impacted by a potential weakness of the US economy, and especially as a result of exchange rate risks that could materialise in the context of investments in assets priced in US dollars. In the light of strong demand in personal lines and special lines of business, we regard continuing stable premium growth as not unlikely. The special lines segment, which includes e.g. surety and engineering insurance, should in our opinion profit from planned large-scale investments in infrastructure and energy projects. Agricultural insurance could also see rapid growth in the medium term, if international demand for produce from Latin America continues to rise.

The short-term prospects for the development of international life insurance business are in our view rather modest. The current macro-economic challenges – GDP trends, unemployment, incomes – are, according to e.g. the GIR's analysis, with some probability likely to slow down premium growth, because they limit both the savings capacities of consumers (and thus of personal-lines business) and also group business. In addition, historically low interest rates, high volatility on the financial markets and stricter capital requirements are hampering business.

In the emerging countries as a whole, a return of life insurance business to the path of growth should in our view be conceivable in 2012, after a temporary inroad in the year under review, assuming a recovery on the Asian and especially the Chinese and Indian insurance markets, which were responsible for the negative premium growth in the emerging countries in 2011. Latin American and Central and Eastern European insurance markets have, in our assessment, a realistic chance of continuing their robust premium growth in 2012, too. The ongoing demand for life insurance products in the emerging countries is essentially being driven by increasing prosperity, reforms to health and pension systems, and a growing awareness of the need for private cover. Major opportunities for growth going forward may emerge for life insurance products that serve only to transfer a risk (life insurance without savings component). Whereas in the past growth has been fueled mainly by life insurance products with a savings element, in many emerging countries there is still a huge backlog in terms of the need for cover against financial losses as a consequence of illness or death. Boosting demand for such products may be made easier by the unfavourable macro-economic environment in these countries, as historical experience shows that the number of classical term insurance policies taken out increases in times of high economic and financial risk. Thus, in terms of demand structure, the business prospects for life insurers in the emerging countries are in our opinion highly propitious.

Longer life expectancies (i.e. an increase in the actuarial longevity risk) naturally tend to increase demand. The longer the life expectancy, the greater is the risk of running out of financial reserves or of requiring longterm care in old age, and thus there is an objective need to make the necessary provisions, for instance with the aid of suitable life insurance products.

Demand for other life insurance products, such as term life or disability covers, is in our opinion also likely to remain stable, as these continue to address important needs and are difficult to substitute by non-insurance alternatives.

At this time we are not able to identify any concrete prospects of a really sustainable improvement in profitability in the life insurance product range above and beyond the current level, especially not in case of persistently low interest rates which are impacting our returns on investment and in some specific cases – e.g. in markets with products with longterm interest guarantees – could even jeopardise solvency. Furthermore, stricter capital requirements to cover the investment risk and the longterm guarantees (Solvency II) are putting a strain on the profitability of life insurance in general.

With the interest environment conceivably remaining unattractive in the longer term, we consider it possible that the economic development of traditional life reinsurance may stagnate in the coming years, despite the objectively rising need to make adequate provision for the future. In the industrialised markets, we can imagine growth rates in line with those in life primary insurance, i.e. in the lower single-digit percentage range. In the growth markets, reinsurance can offer considerable benefits in terms of assistance to primary insurers in product development, underwriting and claims management. Life reinsurers could tap new growth areas by targeting acquisitions of in-force business portfolios from primary insurers and pension funds. Opportunities in this context could arise particularly as a result of direct insurance companies being forced to give up unprofitable or marginal business areas due to increasing pressures on the capital side. We also see potential in connection with the transfer of longevity risks in selected countries.

Orientation of the Talanx Group over the next two financial years

To attempt to forecast results for the 2012 and 2013 financial years is, of course, particularly difficult given the current uncertainty on the capital markets. The ongoing sovereign debt and financial market crisis is set to remain one of the major challenges in the next two years. The Talanx Group aspires – despite the difficult terms of reference on the capital markets – to achieve a further improvement in results over the next two financial years. We expect nearly all divisions to contribute to this growth. However, for our Industrial Lines division we see a slightly higher risk of a temporary decline in profit in the coming year due to signs of a slowdown in economic growth after positive one-off effects in the year under review. The Talanx Group is planning to strengthen its capital base and thus its financial position using all suitable means and from all available sources, e.g. by issuing hybrid capital.

The restructuring effort set in motion in 2009 to concentrate our central functions was successfully completed in the year under review. Our aim now is to take advantage of the new structures to achieve the first synergy effects by the end of 2012. Furthermore, we will be focusing in the next two years on eliminating cost disadvantages especially in German retail business. To line this area up for the future, we need to make its processes more efficient and to introduce cross-company shared solutions. In international retail business, by contrast, we are striving for profitable growth in our strategic target markets of Latin America and Central and Eastern Europe.

Orientation towards the market

- holistic client view
- strengthening of retail business in Germany and abroad

Enhancing efficiency within the organisation

- reduction of complexity in the Group structure
- leverage of synergy potentials

The Strategic orientation of our Group segments at a glance:

Group segment	Our mission and strategic tasks
Industrial Lines	▪ Growth on international markets ▪ Development into a global player
Retail Germany	▪ Expansion of market shares with a view to improving profitability ▪ Elimination of cost disadvantages ▪ Establishment of clear and simple organisational structures ▪ Closer client focus
Retail International	▪ Growth in strategic target markets ▪ Optimisation of activities in existing markets
Non-Life Reinsurance	▪ To become one of the world's most profitable non-life reinsurers ▪ Correct and accurate assessment of risks ▪ Technically founded pricing and contract terms and an adequate level of reserving
Life/Health Reinsurance	▪ To become one of the three largest globally operating Life/Health reinsurers and achieve above-average profitability within five years ▪ Double-digit growth in volume and profitability indicators ▪ Regional and biometric balance of the portfolio

Probable development of the Group

For the Talanx Group on a consolidated basis, we are striving for organic growth in gross booked premiums on a par with the improvement rates of the past two years. The Industrial Lines, Retail International and reinsurance divisions are expected to play a major part in achieving this aim. Further contributions will be made by acquisitions such as the already announced purchases of the Europa Group and Warta in Poland.

Industrial Lines

HDI-Gerling Industrie Versicherung AG is one of the biggest insurers in Europe and one of the market leaders in Germany, measured in terms of premium volume. Rising premium income and expanding international business underline its strong position among the global competition. This basis allows us to look forward to further encouraging premium growth. Most of the increase should – in view of our already high domestic market penetration – be generated abroad.

We intend to achieve this increase in premium volume in the Industrial Lines by means of the following activities: we want to expand our leadership of co-insurers on international insurance programmes and to build up and upon cooperation arrangements. A further focus is on further developing innovative, complex insurance solutions, e.g. in the fields of renewable energy resources and pioneer technologies. In addition, we intend to exploit all sales potentials via cross-selling to further boost premium income. We are expecting longterm pressure on premiums as a result of essentially constant demand for cover in times of increasing insurance capacities. In the motor line of business, by contrast, historically low premium levels lead us to expect a moderate increase in rates. In the fire line, high claims due to natural catastrophes in the year under review will probably lead to rate increases in some markets. In the current market situation, meticulous underwriting and risk management are essential. Building upon the good capital base of our Industrial Lines segment, one of our strategic aims is to successively increase our retentions in the coming years so as to profit super-proportionally from premium growth.

As in previous years, the best opportunities for growth are in our opinion to be found outside of Germany. For this reason, we intend to reinforce our efforts as a global player in 2012 and 2013. With the Dutch company Nassau Verzekering Maatschappij N. V., Rotterdam, incorporated for the first time in the second quarter of 2011, which focuses as an established niche insurer on special lines of business such as professional liability, D&O insurance and crisis management as a service, we want to consistently pursue our defined objectives. Europe-wide we are striving to expand our industrial lines in the areas of local business, small and medium enterprises, and international insurance programmes. Our target regions outside of Europe continue to be Latin America, (South-)East Asia and the Arabian peninsula. Thanks to the expansion of HDI Seguros Madrid (Spain) into a hub for industrial insurance solutions in Latin America and our strategic partnership with PVI Holdings, the leading Vietnamese industrial insurer, we are well on the way. In India the launch of our joint venture with Magma is scheduled for 2012. New branches have opened in Canada and are planned for Singapore. We are also looking into setting up a presence on the Arabian peninsula.

Retail Germany

For 2012 we are aiming for a slight increase in gross premium income in the Retail Germany segment.

This is to be achieved essentially by boosting sales of life insurance products. We see opportunities for growth especially in the companies which use banks as a sales channel: neue leben, TARGO and PB Versicherungen. We want to build upon our positioning as a specialist in provision for the future and a strategic partner for our co-operating companies and to establish ourselves even more firmly on the market with innovative products and our proven strong performance. We see further opportunities especially in disability insurance and fund-linked life insurance; these are markets in which HDI-Gerling Lebensversicherung, particularly, has made a name for itself as a product provider. Further focal points of our efforts are sustaining profitable growth, excellent quality of our products and services, tapping new client segments and improving cost efficiency. Against the backdrop of an aging population, we plan to expand our company pension scheme business. We consider it possible for HDI-Gerling Lebensversicherung AG, especially, to profit from the demographic trend by winning new business and compensating for future expiries.

Due to our relatively high market penetration, we do not expect any major quantitative impact on premium growth in property/casualty. In motor insurance, which accounts for a high proportion of premium income in property, the market could see a slight improvement in price levels. All in all, we are aiming to keep premium volumes steady in 2012. We hope to be assisted in this by anticipated growth in Credit Life International Versicherung AG, which commenced business operations in late 2011 and provides cover against defaulting on payments due to inability to work or unemployment. We also see opportunities in establishing and building upon cooperation agreements and in exploiting cross-selling and up-selling potentials – i.e. by selling higher-value or extended products. In addition to our recently updated product range with its modular architecture, further strong points in Retail Germany are a broad band of sales channels with nation-wide coverage and specialist know-how in the freelance professions.

The restructuring of the Group will continue in Retail Germany. The aim here is to align our business processes and organisation to the wishes of our clients and sales partners in order to emerge as a particularly efficient and strongly client-focused insurer in Germany. Another focus in the next two years will be on eliminating cost disadvantages. A further step on the way to reducing complexity in the company and at the same time enhancing client focus will be to bundle the property insurance product range in a single company. Accordingly, the plan is to merge the risk carriers HDI Direkt Versicherung AG and HDI-Gerling Firmen und Privat Versicherung AG in the course of 2012.

Retail International

In our international retail business we are pursuing a clear expansionary strategy with an emphasis on premium growth and adequate profitability. We are concentrating on the further build-up of business in our target regions Latin America and Central and Eastern Europe and Turkey through both organic and inorganic growth. A further focus is on optimising our activities in existing markets. Outside of our target regions, we will consider acquisitions only if they generate added value clearly in excess of the parameters we have set as our benchmark.

We are expecting premium volume to grow in the international markets in which we operate in retail business. The purchase of the Polish insurers Europa Group and Warta, scheduled to be completed and go through the official approval procedure in 2012, will contribute additional premium income to this segment. The most dynamic driver of growth in international retail business up to now has been HDI Seguros in Brazil: we are expecting the upward trend in the Brazilian economy to continue and to work in favour of our local company, which operates mainly in motor insurance business.

In the Polish market, where up to now we have mainly transacted motor liability business, we will be the second largest insurance group in terms of premium volume once the acquisitions of Europa Group and Warta have gone through.

In cooperation with our strategic partner Meiji Yasuda, we are aiming at taking advantage of market opportunities to grow globally. These efforts will focus especially on investments in Central and Eastern Europe, Turkey and Latin America.

Non-Life Reinsurance

Further to the comments made on the individual Non-Life Reinsurance markets, it should be pointed out that the probability of occurrence of (natural) catastrophes is subject to pronounced fluctuations in terms of number, scale and insurance coverage. The 2011 financial year was marked by a large number of natural disasters that triggered significant claims on the insurance and reinsurance industry. It is worth noting that some large claims also resulted from catastrophes that were not or only inadequately modellable. In our opinion, the lesson to be learned from this is that the risk of limited modellability needs to be countered by even stricter risk management and withdrawing reinsurance capacities.

The sovereign debt of some member countries of the euro single currency zone and low interest levels in 2011 have been putting pressure on investment returns. In some of the largest insurance markets, surplus reserves had to be liquidated in order to meet earnings targets. These effects emphasise the need for profit-oriented underwriting, which is reflected in a higher price level. Major uncertainties persist in the context of estimating the number and the scale of insolvencies which could possibly impact the credit and surety lines.

Opportunities for growth can be discerned as a result of changes to natural hazards models for the principal hazards in the USA and Europe and demand for capacity in response to Solvency II regulations. Similar considerations concerning the capital base and associated increasing demand are also to be observed in some emerging countries.

Life/Health Reinsurance

The global terms of reference in life/health reinsurance remain encouraging. In the industrial nations such as the USA, UK, Japan and Germany, the demographic trend is unbroken and is triggering a steady rise in demand for senior-citizen, longterm care and pension insurance products. In the emerging countries such as India, China, Brazil and even Russia, the trend towards urbanisation continues. A middle class with high purchasing power is emerging that is increasingly interested in safeguarding their wealth, looking after their health, and providing for their dependants.

Primary insurers are taking advantage of tailor-made reinsurance cover to optimise their capital, liquidity and risk management and to reduce their underwriting risk. We are expecting increasing demand for customised reinsurance solutions, especially in the context of Solvency II, as a means of reducing the amount of risk capital the primary insurers need to hold themselves. Given these favourable conditions, we anticipate that the life/health reinsurance market will offer us encouraging earnings opportunities in the years to come.

Life/health reinsurance business typically follows a stable course with low susceptibility to random fluctuations in results over time. Nevertheless, attention must still be paid to economic risks such as the interest rate, default and exchange rate risks and to underwriting risks; these include in particular mortality and longevity, morbidity and invalidity, and the risk of cancellations. The trends in these parameters are fully factored into our risk management. We regularly review the adequacy of our risk management in terms of the underlying computational assumptions, ongoing research into developments in the biometric calculation basis, sufficient reserving to cover all our insurance obligations, and risk diversification (both geographic and by type of risk, e.g. mortality versus longevity).

Corporate Operations

Talanx AG heads up the Group, acting as a financial and management holding company with the associated central organisational units with responsibility for the Group as a whole.

The Corporate Operations segment also includes Talanx Reinsurance Broker AG, the in-house service companies Talanx Service AG and Talanx Systems AG, and asset management via the companies Talanx Asset Management GmbH, AmpegaGerling Investment GmbH and Talanx Immobilien Management GmbH.

Talanx Reinsurance Broker AG serves as a professional reinsurance consultant and intermediary for the non-life primary insurance companies of the Talanx Group in Germany and abroad. The primary objective is to secure reinsurance capacities for the Group companies in the long term, at the best possible terms, and with reinsurance partners of the best possible financial standing. There was no shortage of capacity for the 2012 reinsurance cessions of all Group cedants serviced by Talanx Reinsurance Broker AG.

The Group in-house service companies Talanx Service AG and Talanx Systems AG make no contribution to the Group's profit, as by agreement they work on an at-cost basis. Talanx Service AG was founded at the start of 2011 and offers bundled essential services primarily for our German primary insurance operations. In June 2011, Talanx Systems AG was set up, bundling essential services (first and foremost all IT functions) for our German primary insurance companies. Besides optimising the IT cost structure, the key elements of its mission are to improve the infrastructure and to standardise sales applications.

Talanx Asset Management GmbH manages the Group's own investments, including accounting, reporting and risk management. In line with our efforts to expand our insurance business, an increase in the investments managed for own account is also intended. As a result of the ongoing sovereign debt and financial market crisis, however, there is great uncertainty precisely as regards the future development of investments in general. Our strategic partnership with the Austrian asset manager C-QUADRAT Investment AG, in which Talanx Asset Management GmbH holds a share of 25.1%, is to be further strengthened going forward. One of the elements of this cooperation is an exchange of services between the partners along the lines of their respective skills profiles – especially AmpegaGerling's expertise in the management of annuity funds and C-QUADRAT's management of umbrella funds with an absolute-return profile. A further step in this partnership is the establishment, scheduled for the first half of 2012, of a joint venture that will be geared specifically toward institutional sales partners and will thus serve to open up new sales channels.

AmpegaGerling Investment GmbH manages mutual and special funds and offers financial portfolio management for institutional clients. Its focus is on portfolio and investment management for clients outside the Group. We expect the retail business to develop favourably in 2012. Our target in retail business is to achieve a positive business development by significantly increasing the volume of our mutual funds. In addition, the company offers services for institutional clients outside the Group and takes advantage of its know-how to position itself as a provider of outsourced services for non-affiliated primary insurers.

Opportunities management

Identifying, steering and taking advantage of opportunities is an integral part of our performance management process and has been firmly anchored in the Talanx Group's corporate culture and holistic management philosophy for years. We see consistently taking advantage of available opportunities as an elemental entrepreneurial challenge that is crucial to achieving our corporate objectives. The core element of our opportunities management process is an integrated performance metric built up along the lines of a balanced scorecard. This is applied across all levels of the hierarchy – from the top of the Group down to individual functions at the Group companies. It also constitutes the link between our strategic and operative opportunities management.

In strategic opportunities management, the annual performance management cycle starts off by Group management evaluating the strategic targets and specific strategic core issues identified on the basis of the umbrella strategy and breaking them down into targets for the divisions. On this basis the divisions then work out proposed specific targets and strategic action programmes in the course of their strategic program planning. After a strategy dialog between Group management and the managing boards of the divisions, the various strategic programmes are put together to form a strategic master program that is mandatory for the entire Group and that forms the starting point and the framework for the operative part of opportunities management.

In operative opportunities management, the strategic inputs are embodied in operative targets and a detailed activities schedule and are put into place as mandatory target agreements also on the levels beneath the division level. The integrated performance metric again comes into play here. Whether and to what extent the opportunities and potentials actually result in operative success is checked and followed up in mid-year and end-of-year performance reviews. These reviews in turn generate feed-forward inputs to the next opportunities management cycle.

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

Assessment of future opportunities and challenges

Opportunities associated with the development of the business environment

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

Turnaround in energy policy: Germany has decided in principle to meet its energy demand primarily from renewable sources in future. The Government's resolution to abandon nuclear power by 2022 has set the points for this objective. This reversal of energy policy is a major societal challenge. It involves on the one hand making renewable energy resources available nation-wide while at the same time finding new ways to save energy and to use it more efficiently. We see the new energy system as an opportunity to strengthen Germany as a business location by stimulating innovation and technological progress. As an insurance group, we are actively accompanying this transition. We offer our industrial clients tailor-made solutions for developing, marketing and using renewable energy resources. In addition to subsidies for wind farms, photovoltaic installations, biomass and hydro-electric power plants, expanding the electric power grid is of crucial importance. In the summer of 2011 we joined in a consortium to buy shares in the RWE power grid subsidiary Amprion as a longterm investment. We see this participation as a sustainable commitment and intend to make more such investments in future.

Financial market stability: Recent turbulence on the financial markets has severely shaken clients' trust in banks. Among policyholders, too, today's low interest levels and volatility on the stock markets have created a mood marked by a high degree of uncertainty. However, this macro-economic environment also offers opportunities for insurance companies to develop innovative products designed specifically to address these new concerns. In Europe, the USA and Asia, life insurers had been concentrating more on selling modern, versatile and stock-market-indexed products. Classical German life insurance, which gives guarantees for the entire policy term, was put to the test. Given the high equity requirements for conducting this business, it is in principle imaginable that in future the guarantees could be limited to a certain period.

Regulatory changes: Against the backdrop of impending and in some cases already effective regulatory amendments, the entire insurance industry is faced with extensive changes, especially in the context of IFRS, Solvency II and a deluge of associated European and German implementation provisions. We are following the financial reporting and regulatory changes closely, have identified the associated stricter requirements and have taken action accordingly. At the same time, this situation offers an opportunity to evolve our risk management to cope with the more complex and extensive future requirements. An in-house, Solvency II-compliant stochastic risk capital model for evaluating risk categories and the Group's overall risk position is currently being implemented which will make it possible to use in-house models across the Talanx Group and is already in the process of approval by BaFin.

In Europe, reinsurance companies may profit from demand for reinsurance solutions increasing as a result of the higher capital requirements under Solvency II, as transfering risk to reinsurers with good ratings offers an economically attractive alternative.

Opportunities created by the company

To make our Group more competitive and fit for the future and to eliminate cost disadvantages in German retail business, we are currently re-aligning our Retail Germany segment. The bottom-line aim is to reduce complexity and make our processes more efficient. The basis for this is the four action areas we have defined as: benefit for the client, profitable growth, efficiency and performance culture. Only if our clients are fully satisfied will we be successful. With this in mind we are working on making it as easy as possible for both end clients and sales partners to decide in our favour – a clear language, quick solutions, convincing products. For example we are introducing a new modular product structure which enables clients to put together their own ideal insurance cover – while pre-defined modules also reduce our own administrative effort. We are also improving our in-house cooperation. To achieve a positive development in premiums and results, we need to align our business to clear-cut risk and profit requirements and to consistently take advantage of opportunities arising in the market. For that reason we have to scrutinise each individual product for sustainable profitability. To improve profitability, we are also working on ways to make even more systematic cross-divisional use of existing client contacts. We are only working efficiently if the dedicated resources are reasonably proportionate to the results achieved. In this context we have already launched a number of initiatives to simplify complex processes and reduce inordinate costs. With our integrated annual planning cycle, for example, we have introduced a central management instrument for sales, operations, marketing

and product-related activities. This will make it possible going forward to work efficiently in terms of markets, resources and budgets across all divisions and segments. Further examples are a new SAP business-in-force management system and digital case processing. The re-alignment also presupposes the conviction that the way we think and act must be consistently geared towards the benchmark of performance. We want to actively encourage this kind of culture, for instance by working on a Group-wide variable remuneration system for first-level managers. Annual appraisal interviews with all employees are meant to help to discuss mutual expectations in a structured fashion.

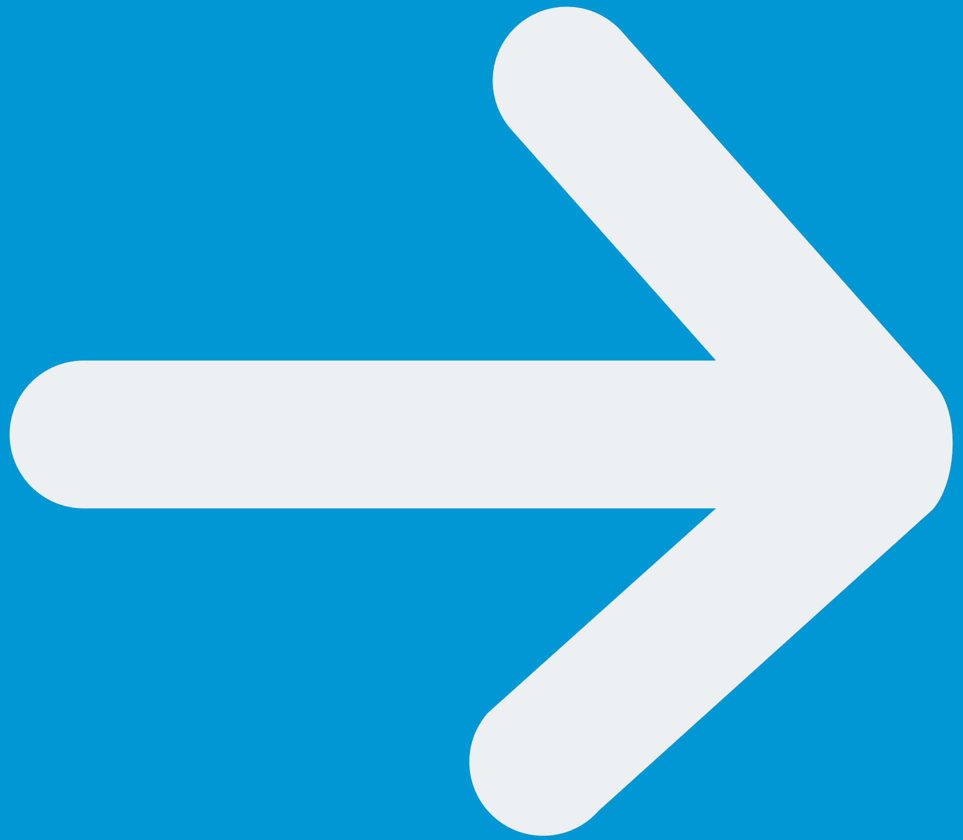
Promising sales channels

Bancassurance: Selling insurance products across the bank counter has been gaining ground in recent years under the name of bancassurance. At the Talanx Group, bancassurance has been a great success with encouraging prospects for the future. The basis of this success is the special business model in which the insurance business is fully integrated into the structures of the banking partners. The insurance companies design and develop the insurance products – the banks, savings banks or the post office provide various sales outlets. The Talanx insurance companies operating via bancassurance do not focus only on the German market, they have already exported the bancassurance model to Hungary, Turkey and Russia. This will in our opinion promote profitable growth with an emphasis on European markets. The success of Talanx's bancassurance model stems essentially from three core factors. Firstly the establishment of exclusive insurance companies: a dedicated insurance company is founded for each cooperation programme and is bound to the partner by means of exclusive longterm cooperation agreements with terms of up to 30 years; the insurance products are sold only via the co-operating partner's channels. Secondly the highest possible degree of integration and excellent quality of products and services: cooperation is embodied in the partner's strategic line-up. The insurance companies design exclusive and tailor-made products for the bank's client segments and are fully integrated into the partner's market presence. Integration into the partner's IT systems also makes it easier to provide all-round advice when selling banking and insurance products. And thirdly, success comes from providing customised sales support for the partner: the bank's sales staff are given personal training and exclusive guidance by sales coaches from the insurance companies. These convey both product expertise and sales approaches. The insurance companies also supply readily understandable and supporting sales materials.

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

The internet offers new potential for the future in the industrial lines, too. For this reason, HDI-Gerling Industrie Versicherung AG got together with other reputable partners in 2010 to set up the inex24 platform. This is the world's first neutral collaboration platform for the industrial lines sector. inex24 grants industrial enterprises, intermediaries and risk carriers access to a neutral, high-security internet platform with a large number of high-performance tools. This makes negotiating and concluding industrial insurance contracts faster, easier and more secure.

Brokers: Despite the increasing importance of internet selling, personal contact with the client will remain a major success factor in the future, too. We see high future growth potential especially for selling via brokers. Talanx AG has entered into a close partnership with Swiss Life, in which it holds a longterm share package of just on 10%. Under the terms of this cooperation, Talanx is to become an important product-supplying partner for the financial service provider AWD. Talanx also owns just on 10% of the financial service provider MLP. Both MLP and the AWD group, which nowadays belongs to Swiss Life, are important partners in brokered marketing. These participations provide an opportunity to strengthen and further expand our already existing business links with the brokers concerned.



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Consolidated balance sheet of Talanx AG as at 31 December 2011

Assets	Notes		31.12.2011	31.12.2010[1]
Figures in EUR million				
A. Intangible assets				
a. Goodwill	1	690		589
b. Other intangible assets	2	1,520		1,583
			2,210	**2,172**
B. Investments				
a. Investment property	3	1,100		1,095
b. Investments in affiliated companies and participating interests	4	78		74
c. Investments in associated companies	5	209		144
d. Loans and receivables	6	32,961		32,343
e. Other financial instruments				
i. Held to maturity	7	4,294		2,999
ii. Available for sale	8/11	32,141		30,400
iii. At fair value through profit or loss	9/11/12	1,000		1,221
f. Other invested assets	10/11	3,967		4,185
Investments under own management		**75,750**		**72,461**
g. Funds held by ceding companies		11,717		10,961
Investments			**87,467**	**83,422**
C. Investments for the account and risk of holders of life insurance policies			6,067	6,414
D. Reinsurance recoverables on technical provisions			6,462	5,523
E. Accounts receivable on insurance business	13		4,729	5,011
F. Deferred acquisition costs	14		4,013	3,715
G. Cash			1,570	1,265
H. Deferred tax assets	27		320	268
I. Other assets	15		1,865	1,781
J. Non-current assets and assets of disposal groups classified as held for sale			565	1,529
Total assets			**115,268**	**111,100**

[1] Adjusted on the basis of IAS 8

Liabilities	Notes		31.12.2011		31.12.2010[1]
Figures in EUR million					
A. Shareholders' equity	16				
a. Common shares		260			260
Nominal value: 260 Contingent capital: 26					
b. Reserves		5,161			4,685
Shareholders' equity excluding non-controlling interests			**5,421**		**4,945**
c. Non-controlling interests			3,285		3,035
Total shareholders' equity				**8,706**	**7,980**
B. Subordinated liabilities	17		2,615		2,791
C. Technical provisions					
a. Unearned premium reserve	18	4,677			4,267
b. Benefit reserve	19	45,739			43,610
c. Losses and adjustment expenses reserve	20	31,420			28,538
d. Reserve for premium refunds	21	1,008			845
e. Other technical provisions		256			250
			83,100		**77,510**
D. Technical provisions in the area of life insurance insofar as the investment risk is borne by policyholders			6,067		6,414
E. Other provisions					
a. Provision for pensions and similar obligations	22	1,343			1,316
b. Provisions for taxes	23	557			743
c. Sundry provisions	24	689			692
			2,589		**2,751**
F. Liabilities					
a. Notes payable and loans	25	762			747
b. Funds held under reinsurance treaties		5,039			5,224
c. Other liabilities	11/12/26	4,411			4,858
			10,212		**10,829**
G. Deferred tax liabilities	27		1,488		1,444
Total liabilities/reserves				**106,071**	**101,739**
H. Liabilities of disposal groups classified as held for sale				491	1,381
Total liabilities				**115,268**	**111,100**

[1] Adjusted on the basis of IAS 8

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

Consolidated statement of income of Talanx AG for the 2011 financial year

	Notes	2011		2010[1]
Figures in EUR million				
1. Gross written premium including premium from unit-linked life and annuity insurance		23,682		22,869
2. Savings elements of premium from unit-linked life and annuity insurance		1,112		1,139
3. Ceded written premium		2,732		2,767
4. Change in gross unearned premium		–385		–277
5. Change in ceded unearned premium		–3		11
Net premium earned	**28**		**19,456**	**18,675**
6. Claims and claims expenses (gross)	30	19,128		17,718
Reinsurers' share		2,381		1,698
Claims and claims expenses (net)			**16,747**	**16,020**
7. Acquisition costs and administrative expenses (gross)	31	4,716		4,887
Reinsurers' share		400		515
Acquisition costs and administrative expenses (net)			**4,316**	**4,372**
8. Other technical income		128		71
Other technical expenses		211		390
Other technical result			**–83**	**–319**
Net technical result			**–1,690**	**–2,036**
9. a. Income from investments	29	3,691		3,383
b. Expenses for investments	29	735		439
Net income from investments under own management		**2,956**		**2,944**
Net interest income on funds withheld and contract deposits	29	306		280
Net investment income			**3,262**	**3,224**
thereof income from investments in associated companies using the equity method		—		2
10. a. Other income	32	704		947
b. Other expenses	32	1,031		1,086
Other income/expenses			**–327**	**–139**
Profit before goodwill impairments			**1,245**	**1,049**
11. Goodwill impairments	33		—	17
Operating profit/loss (EBIT)			**1,245**	**1,032**
12. Financing costs	34		161	134
13. Taxes on income	35		187	231
Net income			**897**	**667**
thereof attributable to non-controlling interests			377	451
thereof Group net income			520	216

[1] Adjusted on the basis of IAS 8

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

Consolidated statement of comprehensive income of Talanx AG for the 2011 financial year

	2011	2010[1]
Figures in EUR million		
Net income	**897**	**667**
1. Unrealised gains and losses on investments		
Gains (losses) recognised directly in other income/expenses during the period	89	108
Reclassification of net realised gain (loss)	–132	–224
Tax income (expense)	–18	–3
	–61	**–119**
2. Currency translation		
Gains (losses) recognised directly in other income/expenses during the period	59	249
Reclassification of net realised gain (loss)	25	2
Tax income (expense)	–7	–12
	77	**239**
3. Changes from cash flow hedges		
Gains (losses) recognised directly in other income/expenses during the period	73	–103
Tax income (expense)	–10	3
	63	**–100**
4. Changes in policyholder participation/shadow accounting		
Gains (losses) recognised directly in other income/expenses during the period	–29	324
Tax income (expense)	–6	–7
	–35	**317**
5. Changes from the equity measurement of associated companies		
Gains (losses) recognised directly in other income/expenses during the period	–3	–2
Tax income (expense)	—	—
	–3	**–2**
6. Other changes		
Gains (losses) recognised directly in other income/expenses during the period	–30	4
Tax income (expense)	8	–1
	–22	**3**
Income and expense after taxes recognised in other income/expenses during the period	**19**	**338**
Total recognised income and expense during the period	**916**	**1,005**
thereof attributable to non-controlling interests	440	615
thereof attributable to the Group	476	390

[1] Adjusted on the basis of IAS 8

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

Consolidated statement of changes in equity

Figures in EUR million	Common shares	Additional paid-in capital	Retained earnings	Cumulative other comprehensive income (other reserves): Unrealised gains/losses on investments	Gains/losses from currency translation	Other changes in shareholders' equity	Measurement gains and losses from cash flow hedges	Shareholders' equity	Non-controlling interests	Total shareholders' equity
As at 31.12.2009	**260**	**630**	**3,474**	**667**	**–140**	**–294**	**–23**	**4,574**	**2,579**	**7,153**
Adjusted on the basis of IFRS 8	—	—	–22	29	—	–26	—	–19	—	–19
As at 1.1.2010 adjusted	**260**	**630**	**3,452**	**696**	**–140**	**–320**	**–23**	**4,555**	**2,579**	**7,134**
Changes in ownership interest[1]	—	—	—	—	—	—	—	—	7	7
Result for the period	—	—	216	—	—	—	—	216	451	667
Income and expenses recognised in other income/expenses	—	—	—	–174	143	305	–100	174	164	338
thereof adjustments pursuant to IAS 8	—	—	*–3*	—	*–1*	—	—	*–4*	—	*–4*
thereof currency translation	—	—	—	—	*143*	—	—	*143*	*96*	*239*
thereof unrealised gains and losses on investments	—	—	—	*–174*	—	—	—	*–174*	*55*	*–119*
thereof change from cash flow hedges	—	—	—	—	—	—	*–100*	*–100*	—	*–100*
thereof change from equity measurement	—	—	—	—	—	*–1*	—	*–1*	*–1*	*–2*
thereof sundry changes[2]	—	—	—	—	—	*306*	—	*306*	*14*	*320*
Investments including income and expenses	—	—	216	–174	143	305	–100	390	615	1,005
Dividends paid to shareholders	—	—	—	—	—	—	—	—	–162	–162
Capital reduction	—	—	—	—	—	—	—	—	–4	–4
As at 31.12.2010[3]	**260**	**630**	**3,668**	**522**	**3**	**–15**	**–123**	**4,945**	**3,035**	**7,980**
As at 1.1.2011	**260**	**630**	**3,668**	**522**	**3**	**–15**	**–123**	**4,945**	**3,035**	**7,980**
Changes in ownership interest[1]	—	—	—	—	—	—	—	—	–8	–8
Result for the period	—	—	520	—	—	—	—	520	377	897
Income and expense recognised in other income/expenses	—	—	—	–106	43	–44	63	–44	63	19
thereof currency translation	—	—	—	—	*43*	—	—	*43*	*34*	*77*
thereof unrealised gains and losses on investments	—	—	—	*–106*	—	—	—	*–106*	*45*	*–61*
thereof change from cash flow hedges	—	—	—	—	—	—	*63*	*63*	—	*63*
thereof change from equity measurement	—	—	—	—	—	*–2*	—	*–2*	*–1*	*–3*
thereof sundry changes[2]	—	—	—	—	—	*–42*	—	*–42*	*–15*	*–57*
Investments including income and expenses	—	—	520	–106	43	–44	63	476	440	916
Dividends paid to shareholders	—	—	—	—	—	—	—	—	–183	–183
Capital increase	—	—	—	—	—	—	—	—	1	**1**
As at 31.12.2011	**260**	**630**	**4,188**	**416**	**46**	**–59**	**–60**	**5,421**	**3,285**	**8,706**

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

The Notes that follow form an integral part of the consolidated financial statement.

Cash flow statement of Talanx AG for the 2011 financial year

Figures in EUR million	2011	2010 [1]
I. 1. Net income	897	667
I. 2. Changes in technical provisions	4,249	3,932
I. 3. Changes in deferred acquisition costs	–394	–38
I. 4. Changes in funds held and in accounts receivable and payable	–1,897	441
I. 5. Net changes in contract deposits	887	–1,230
I. 6. Changes in other receivables and liabilities	385	71
I. 7. Changes in financial assets held for trading	110	16
I. 8. Net gains and losses on investments	–308	–385
I. 9. Other non-cash expenses and income as well as adjustments to net income	–92	1,176
I. Cash flows from operating activities	**3,837**	**4,650**
II. 1. Cash inflow/outflow from the sale of consolidated companies	162	47
II. 2. Cash inflow/outflow from the purchase of consolidated companies	–153	—
II. 3. Cash inflow from the sale of real estate	105	41
II. 4. Cash outflow from the purchase of real estate	–167	–205
II. 5. Cash inflow from the sale and maturity of financial instruments	18,644	16,579
II. 6. Cash outflow from the purchase of financial instruments	–21,793	–20,801
II. 7. Changes in investments for the account and risk of holders of life insurance policies	63	–1,394
II. 8. Changes in other invested assets	260	162
II. 9. Cash outflows from the acquisition of tangible and intangible assets [2]	–116	–116
II. 10. Cash inflows from the sale of tangible and intangible assets [2]	19	35
II. Cash flows from investing activities	**–2,976**	**–5,652**
III. 1. Cash inflow from capital increases	1	—
III. 2. Cash outflow from capital reductions	—	–4
III. 3. Dividends paid	–183	–162
III. 4. Net changes from other financing activities	–328	719
III. Cash flows from financing activities	**–510**	**553**
Change in cash and cash equivalents (I.+II.+III.)	**351**	**–449**
Cash and cash equivalents at the beginning of the financial year	**1,265**	**1,685**
Cash and cash equivalents – exchange-rate differences on cash	**–2**	**56**
Cash and cash equivalents of companies no longer recognised in the consolidated financial statement	**2**	**—**
Cash and cash equivalents at the end of the financial year	**1,612**	**1,292**
Cash and cash equivalents of disposal groups	**42**	**27**
Cash and cash equivalents at the end of the financial year excluding disposal groups	**1,570**	**1,265**
Additional information		
Taxes paid	40	294
Interest paid	309	255
thereof from financing activities	161	134
thereof from operating activities	148	121

[1] Adjusted on the basis of IAS 8

[2] For 2011 we are reporting cash inflows and outflows from the sale and acquisition of tangible and intangible assets in accordance with DRS 2-20 for the first time separately; the previous year has been adjusted accordingly

The Notes that follow form an integral part of the consolidated financial statement.

Notes on the consolidated 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 precisely 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 reported separately 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 recognised here.

Income taxes paid are allocated to the cash flows from operating activities (IAS 7.35). In the year under review interest received amounted to EUR 2.7 billion; dividends received amounted to EUR 51 million.

Cash outflows for the acquisition of companies totalled EUR 232 million. As part of these purchases cash and cash equivalents totalling EUR 79 million were acquired; making allowance for these net cash outflows amounted to EUR 153 million. In the context of disposals an inflow of EUR 162 million resulted after allowance for the purchase price paid. There was also EUR 66 million in cash outflows from the acquisition of companies consolidated at equity (cash outflow from the purchase of financial instruments).

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.

Notes

General information

Based in Hannover/Germany, Talanx AG heads Germany's third-largest and Europe's eleventh-largest insurance group (based on gross premium income 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 2011 the companies belonging to the Talanx Group employed a total global workforce* of 17,061 (16,874).

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.

* 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 recognised 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 2011 as well as all interpretations issued by the IFRS Interpretations Committee (IFRSIC, formerly known as the International Financial Reporting Interpretations Committee (IFRIC)) and the previous Standing Interpretations Committee (SIC), application of which was mandatory for the 2011 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

Among the major new features of the amended IAS 24 “Related Party Disclosures”, which was ratified by the EU on 20 July 2010, is the requirement for disclosures of so-called “commitments” pertaining e.g. to guarantees, undertakings and other obligations that 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 Group applied the amended IAS 24 for the first time at the start of the financial year without significant implications.

The collective standard for amending various IFRSs (“Improvements to IFRSs”) was published in May 2010 as part of the IASB annual improvement process and features numerous minor IFRS changes. The amendments are, for the most part, applicable to financial years beginning on or after 1 January 2011 and became European law in February 2011. Insofar as they were of any practical relevance to the Group, the adoption of these amendments had no material influence on the Group’s assets, financial position or net income in the reporting period.

The other new standards, interpretations and amendments applicable as from 1 January 2011 and listed below did not have any effect on the Group either:

- 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.
- IAS 19 "Prepayments of a Minimum Funding Requirement" (Amendments to IFRIC 14): 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.
- 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 recognised in profit or loss.

Standards, interpretation and changes to published standards, application of which was not yet mandatory in 2011 and which were not applied early by the Group

In November 2009 the IASB published a new standard on the classification and measurement of financial instruments. IFRS 9 "Financial Instruments" is the first step in a three-phase project intended to replace IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 introduces new provisions for classifying and measuring financial assets. This standard was expanded in October 2010 to include rules governing the accounting of financial liabilities and derecognition of financial instruments, the latter having been imported 1:1 from IAS 39. The Group has still to analyse the full implications of IFRS 9. It is already becoming clear, however, that the revised rules will have an influence, inter alia, on the accounting of financial assets within the Group. In addition, on 16 December 2011 the IASB published further amendments to IFRS 9 and IFRS 7 "Financial Instruments: Disclosures" under the heading "Mandatory effective date and transition disclosures". Accordingly, the mandatory effective date of IFRS 9 has been deferred to financial years beginning on or after 1 January 2015. Also in this context, the IASB incorporated in IFRS 7 detailed disclosures related to transition to IFRS 9. The standard or its amendments have still to be ratified by the EU.

On 7 October 2010 the IASB published amendments to IFRS 7 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 were ratified by the EU on 22 November 2011. We are currently reviewing the implications for the consolidated financial statement.

In December 2010 the IASB published amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" concerning the abolition of fixed transition dates and the effects of severe hyperinflation. These amendments have still to be ratified by the EU. Reference to 1 January 2004 as the fixed date of transition was replaced by a more general wording. In addition, this standard for the first time provides guidance for cases in which an entity was unable to comply with IFRSs for a period prior to the date of transition because its functional currency was subject to severe hyperinflation. The amendment is applicable to financial years beginning on 1 July 2011. We do not expect the application of these amendments to have any effect on the consolidated financial statement.

In December 2010 the IASB published amendments to IAS 12 "Income Taxes", which still have 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.

On 12 May 2011 the IASB published three new and two revised standards governing consolidation, the accounting of investments in associated companies and joint ventures and the related disclosures in the notes.

IFRS 10 "Consolidated Financial Statements" replaces the regulations previously contained in IAS 27 "Consolidated and Separate Financial Statements" and SIC 12 "Consolidation – Special-purpose Entities"; it defines the principle of control as the universal basis for establishing the existence of a parent-subsidiary relationship. We are currently examining the implications of the new IFRS 10 for the consolidated financial statement.

In the future, the revised IAS 27 will contain only provisions on the accounting requirements for interests in subsidiaries, associated entities and joint ventures disclosed in the parent company's separate financial statement. Apart from several minor changes, the wording of the previous standard was retained.

IFRS 11 "Joint Arrangements" addresses the accounting requirements in cases where an entity shares management control over a joint venture or joint operation. The new standard replaces the pertinent regulations in IAS 31 "Interests in Joint Ventures" and SIC 13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers". According to IFRS 11, proportionate consolidation of the assets of a joint venture is no longer admissible, and the "equity method" must be applied in future. As things currently stand, the amendment affects us with regard to one case only (Credit Life International Services GmbH).

The revised IAS 28 "Investments in Associates" will be expanded to include rules governing accounting for investments in joint ventures. The "equity method" must be applied as standard in future.

The disclosure obligations in connection with the consolidation and accounting of interests in associated entities and joint ventures will in future be collated in IFRS 12 "Disclosure of Interests in Other Entities". To some extent, the duties of disclosure in the new standard extend far beyond what was previously the case, the aim being to provide users of financial statements with a clearer picture of the nature of the company's interests in other entities and the effects on the assets, financial position and net income.

The provisions of IFRS 10, 11 and 12, and the amended IAS 27 and 28 are applicable to financial years beginning on or after 1 January 2013. All these standards have yet to be ratified by the EU. We are currently reviewing the implications of these amendments for the consolidated financial statement.

12 May 2011 also saw the IASB publish its new IFRS 13 "Fair Value Measurement" which standardises the definition of fair value and sets down a framework of applicable methods for measuring fair value. Fair value is defined as the price that would be received to sell an asset, the measurement of this price being based as far as possible on observable market parameters. In addition, the quality of the fair-value measurement is to be described by way of comprehensive explanatory and quantitative disclosures. We are currently examining the implications of the new IFRS 13, but do not expect them to result in significant changes to our accounting practices. IFRS 13 is applicable to financial years beginning on or after 1 January 2013 and has yet to be ratified by the EU.

In June 2011 the IASB published amendments to IAS 1 "Presentation of Financial Statements" and to IAS 19 "Employee Benefits".

IAS 1 stipulates that in future, items in the Statement of Other Comprehensive Income must be disclosed separately according to whether or not they can be carried in the income statement through profit and loss. If certain items in Other Comprehensive Income are presented "before tax", corresponding tax entries must be disclosed separately for each group featured in the Statement of Other Comprehensive Income. The amendments to IAS 1 are applicable to financial years beginning on or after 1 July 2012. The key amendment to IAS 19 is the abolishment of the option available to companies to recognise future actuarial gains and losses either immediately (with no impact on profit and loss) under "Other Comprehensive Income" in their equity capital , or on a deferred basis using the "corridor method". Future actuarial gains and losses must now be accounted for fully under "Other Comprehensive Income" in the equity capital, the corridor method no longer being admissible. Moreover, calculation of the net interest income from so-called plan assets will be determined based on the discount rate rather than on the expected rate of return. The stated objective of the amended standard is also to introduce far-reaching disclosure obligations. As the Group currently uses the corridor method, implications are to be expected and these are currently being examined. Initial application of the amended IAS 19 is intended for financial years beginning on or after 1 January 2013.

The amendments to IAS 1 and IAS 19 have yet to be ratified by the EU.

The IASB has adapted the provisions governing the presentation of financial assets and liabilities and published changes on 16 December 2011 in the form of amendments to IAS 32 and IFRS 7. The presentation requirements set down in IAS 32 were retained more or less in their entirety and were merely fleshed out by additional guidelines on application. The amendment is applicable retrospectively to financial years beginning on or after 1 January 2014. IFRS 7 contains new disclosure requirements with regard to specific netting arrangements. These requirements must be observed regardless of whether the netting arrangement actually resulted in offsetting of the relevant financial assets and liabilities. The amendment is applicable retrospectively to financial years beginning on or after 1 January 2013. We are currently reviewing the implications of these two amendments for the consolidated financial statement.

Accounting policies

The annual financial statements of the subsidiaries 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. In the following we will describe the accounting policies applied, any amendments made to accounting policies in 2011 as well as major discretionary decisions and estimates. Newly applicable accounting standards in the 2011 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 168 et. seq.).

Changes in accounting policies and accounting errors

In the 2011 financial year we retrospectively adjusted the prior-year figures with respect to the following circumstances in accordance with the requirements of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors":

a) In the second quarter of 2011, we made a retrospective correction in the Retail International segment, which concerned the recognition of deferred tax liabilities for taxable temporary differences in respect of goodwill. The differences related to an earlier company acquisition and were not attributable to the first-time recognition of goodwill. In the opening balance sheet as at 1 January 2010, deferred tax liabilities increased by EUR 7 million, while retained earnings decreased by the same amount. As a result of this adjustment, reserves fell by EUR 4 million, with EUR 3 million of that amount relating to Group net income and EUR 1 million to "Other reserves" (contra items: "Taxes on income" and "Deferred tax liabilities").

b) With effect from 30 September 2011, the Group introduced uniform methods of recognising insurance-related intangible assets in respect of insurance companies acquired in previous years (PVFP) in the Retail Germany segment. As a result, the PVFP in favour of policyholders (balance sheet item: "Other intangible assets") was offset in the amount of the provision for deferred premium refunds (balance sheet item: "Provision for premium refunds") as measured and recognised upon initial consolidation. The amendment of this accounting policy, along with the associated adjustment of the amortisation patterns, was applied retrospectively. The amendment had no effect on either Group net income or shareholders' equity in any of the preceding reporting periods. As at 31 December 2010, the balance sheet items "Other intangible assets" and "Provision for premium refunds" were reduced by a total of EUR 268 million compared with the amounts previously recognised. In the opening balance sheet as at 1 January 2010, each of these balance sheet items was reduced by EUR 321 million.

c) In the fourth quarter of 2011, the Group harmonised the recognition of technical provisions in the balance sheet. In accordance with the applicable US GAAP standards (FASB ASC 944–40; formerly FAS 97), unearned revenue liabilities for life insurance contracts classified according to the "universal life" model are recognised in the benefit reserve (previously recognised in the unearned premium reserve). The change in the method of recognition had no implications for Group net income or shareholders' equity in any of the previous reporting periods. The unearned premium reserve was consequently reduced by EUR 1,144 million as at 31 December 2010, while the benefit reserve rose by the same amount. This modification resulted in a shift of EUR 78 million in the consolidated statement of income between net premium earned and claims and claim expenses (net). In the opening balance sheet as at 1 January 2010, this reclassification amounted to EUR 1,223 million in both cases.

d) At 31 December 2011, we retrospectively corrected the recognition of certain items of real estate held in a special fund as investment property. In accordance with IAS 40 "Investment Property," these assets are measured at amortised cost and thus correctly posted under the balance sheet item "Investment property" (previously: "Available-for-sale investments"; variable-yield securities, investment funds). At no time did this change in the recognition of investments have any effect on shareholders' equity or income/expenses. On the contrary, the increase of EUR 235 million in investment property as at the previous year's balance sheet date, was balanced out by an identical decline in available-for-sale financial instruments. As at 1 January 2010, the amount of investment property recognised in the balance sheet rose by EUR 229 million, while the amount recognised for financial instruments was EUR 229 million lower.

These adjustments also had the following implications for items in the opening balance sheet as at 1 January 2010 and for the comparable period as at 31 December 2010 respectively:

Consolidated balance sheet as at 1 January 2010	As reported at 1.1.2010	Changes due to adjustments in accordance with IAS 8				1.1.2010
Figures in EUR million		Re a)	Re b)	Re c)	Re d)	
A. b. Other intangible assets	2,154	—	–321	—	—	1,833
B. a. Investment property	726	—	—	—	229	955
B. e.ii. Financial assets available for sale	26,477	—	—	—	–229	26,248
A. b. Reserves	4,302	–7	—	—	—	4,295
C. a. Unearned premium reserve	5,026	—	—	–1,223	—	3,803
C. b. Benefit reserve	39,754	—	—	1,223	—	40,977
C. d. Provision for premium refunds	1,274	—	–321	—	—	953
G. Deferred tax liabilities	1,509	7	—	—	—	1,516

Consolidated balance sheet as at 31 December 2010	As reported at 31.12.2010	Changes due to adjustments in accordance with IAS 8				31.12.2010
Figures in EUR million		Re a)	Re b)	Re c)	Re d)	
A. b. Other intangible assets	1,851	—	–268	—	—	1,583
B. a. Investment property	860	—	—	—	235	1,095
B. e.ii. Financial assets available for sale	30,635	—	—	—	–235	30,400
A. b. Reserves	4,689	–4	—	—	—	4,685
C. a. Unearned premium reserve	5,411	—	—	–1,144	—	4,267
C. b. Benefit reserve	42,466	—	—	1,144	—	43,610
C. d. Provision for premium refunds	1,113	—	–268	—	—	845
G. Deferred tax liabilities	1,443	1	—	—	—	1,444

The effects on the consolidated statement of income for the 2010 financial year are as follows:

Consolidated statement of income	As reported at 31.12.2010	Changes due to adjustments in accordance with IAS 8		31.12.2010
Figures in EUR million		Re a)	Re c)	
4. Change in gross unearned premium	–185	—	–92	–277
5. Change in ceded unearned premium	25	—	–14	11
6. Claims and claim expenses (gross)	17,810	—	–92	17,718
Reinsurers' share	1,712	—	–14	1,698
13. Taxes on income	228	3	—	231
Year-end result				
of which Group net income	**219**	**–3**	**—**	**216**

Changes in estimates during the reporting period

In an effort to achieve valuations that are more in line with fair value, the Group adjusted the calculation logic used for model-based market valuations and for the impaired portion of fair value measurement changes in the event of prolonged decreases in the value of collateralised debt obligations, collateralised loan obligations and high-yield funds. This represents a change in an accounting estimate that – in accordance with IAS 8 – is to be performed prospectively in the year under review without adjustment of the comparative figures for previous years. If the parameters and methods used prior to 31 December 2010 had been applied in the period under review, impairments would have been EUR 300 thousand higher and write-ups EUR 5 million higher. The fair values of the instruments named would have been a total of EUR 1 million higher. The effect of this adjustment to the calculation logic on the figures of future reporting periods could be determined only with a disproportionately high degree of effort.

In the fourth quarter of 2011 we raised the policyholders' share in both investment income and the risk result – and simultaneously lowered the shareholders' share – in conventional and unit-linked life insurance policies at certain insurance companies (in the Retail Germany segment). As a consequence, the planned earnings before tax for the financial years 2011 through 2013 will decrease. Gradual increases in the following financial years should enable us to achieve our previous levels of allocation to surplus participation by 2022. The corresponding carrying amounts ("Insurance-related intangible assets (PVFP)" and "Provision for premium refunds") were determined by means of an accounting estimate without adjustment of the earlier years' figures. On the basis of these estimates, additional expenditure in the amount of EUR 21 million was posted owing to the amended breakdown of the amounts amortised for PVFPs (consolidated statement of income item: "Other technical expenses"). The balance sheet item increased by EUR 21 million at the expense of shareholders' equity and the tax portion. The increase in deferred premium refunds (item: "Provision for premium refunds") – which resulted from amendments to the allocation levels and changes in IFRS revaluation estimates – amounts to EUR 5 million. The effect of this adjustment on the presentation of future reporting periods was not calculated owing to the disproportionately high degree of effort involved.

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

The hybrid capital recognised under "Subordinated liabilities" is measured at amortised cost in accordance with the effective interest rate method. Income/expense components arising out of the amortisation of transaction costs incurred at issue and of premiums and discounts were previously recognised under other income/expenses, while the nominal interest rate was recognised under "Financing costs." In order to conform more closely with the spirit of the effective interest rate method, we will uniformly recognise all these expenses as financing costs in future. The changed presentation of the prior-period figures in accordance with IAS 1 "Presentation of Financial Statements" thus led to an improvement of EUR 4 million in other income/expenses at the expense of financing costs.

In 2011 we modified the presentation of illiquid reinstatement premiums in primary insurance business. As from the fourth quarter, the reinstatement premiums previously booked under the reinsurers' portions of the other technical provisions were recognised under illiquid reinsurance premiums written. All in all, this approach results in a more appropriate form of presentation since, in economic terms, reinstatement premiums are nothing more than reinsurance premiums even though their amount and the time of their payment are still uncertain. In 2011 this reclassification resulted in a reduction of EUR 107 million in premium earned and an improvement in the other technical result. After a cost-benefit analysis, it was decided not to adjust the figures of prior years.

The expenditure for administration of third-party investment portfolios is posted, like the associated income, in the Other income/expenses (item: Sundry expenses, previously Expenditures on investments). The previous year's figure was adapted accordingly (EUR 47 million).

Major discretionary decisions and estimates

Preparation of the consolidated financial statements to a certain extent entails taking discretionary decisions and making estimates and assumptions that have implications for the assets and liabilities recognised, the consolidated statement of income as well as contingent claims and liabilities.

As a rule, these decisions and assumptions are subject to ongoing review and are based in part on historical experience as well as on other factors, including expectations in respect of future events that currently appear reasonable. The processes in place both at Group level and at the level of the subsidiaries are geared toward calculating the values in question as reliably as possible, taking all relevant information into account. It is further ensured that the standards laid down by the Group are applied in a consistent and appropriate manner. Estimates and assumptions entailing a significant risk in the form of a material adjustment, within the next financial year, to the carrying amounts of individual balance sheet items are discussed below. In addition, further details can be found in the accounting policies or directly in the notes on individual items.

Technical provisions: As at 31 December 2011, the Group recognised loss and loss adjustment expense reserves in the amount of EUR 31,420 million and benefit reserves in the amount of EUR 45,739 million. The loss and loss adjustment expense reserves, the amount and maturity of which are uncertain, are recognised according to “best estimate” principles in the amount that will probably be utilised. The actual amounts payable may prove to be higher or lower; any resulting run-off profits or losses are recognised 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 metrics of the insurance plan (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, for instance, 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, for instance, in true-up adjustments in the balance sheet items “Other intangible assets,” “Insurance-related intangible assets (PVFP),” “Deferred acquisition costs,” “Provision for premium refunds” (provision for deferred premium refunds) and, where applicable, the “Benefit reserve” (funding of maturity bonuses).

Fair value or impairments of financial instruments: Financial instruments with a fair value of EUR 37,203 million were recognised at the balance sheet date. Fair values and impairments for financial instruments, especially for those 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.” The allocation of financial instruments to the various levels of the fair value hierarchy is described under item 11 of the Notes “Fair value hierarchy.” To the extent that significant measurement parameters are not based on observable market data (level 3), estimates and assumptions play a major role in determining the fair value of these instruments.

Impairment test of goodwill (carrying amount as at 31 December 2011: EUR 690 million): The Group tests for impairment of goodwill in the manner described in the subsection entitled “Goodwill.” Insofar as the recoverable amount is based on calculations of the value in use, appropriate assumptions – such as sustainably achievable results and growth rates – are used as a basis (cf. item 1 of the Notes “Goodwill,” pages 209 et seq.).

Deferred acquisition costs: At the balance sheet date, the Group recognised acquisition costs in the amount of EUR 4,013 million. The actuarial bases for amortisation of the deferred acquisition costs are continuously reviewed and adjusted where necessary. Impairment tests are carried out through regular checks on, for example, profit developments, lapse assumptions and default probabilities.

Present value of future profits (PVFP) on acquired insurance portfolios: The PVFP (EUR 1,333 million as at 31 December 2011) 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 with regard to the expected amount of these net cash flows.

Realisability of deferred tax assets: Estimates are made in particular with respect to the utilisation of tax loss carry-forwards, first and foremost in connection with deferred tax liabilities recognised in the balance sheet and expected future earnings. The Group's deferred tax assets amounted to EUR 320 million at the balance sheet date.

Provisions for pensions and similar obligations: At the balance sheet date, the Group posted pension obligations under defined-benefit plans – net of plan assets – of EUR 1,343 million. 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 discount rates, inflation rates and expected returns on plan assets. These parameters take into account the individual circumstances of the units concerned and are determined with the aid of actuaries. 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.

Provisions for restructuring (31 December 2011: EUR 87 million): The provisions for restructuring recognised in the consolidated financial statements, which are based on official restructuring measures of which the affected employees have been informed, include assumptions in respect of the amount of the severance payments due and the implications for onerous contracts.

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, and thus divided 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. It is still to be decided whether the proposed amendments to the exposure draft – which are due to appear in the third or fourth quarter of 2012 – will be published in the form of a "re-exposure" (i.e. republication of an amended draft) or merely as a "review draft" (i.e. a provisional draft of the final amendment).

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 recognising 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). In line with this, technical items are recognised in the consolidated financial statements in accordance with US GAAP (in essence with the FASB ASC standard 944 et seq.). Contracts void of technical risk are treated as investment contracts in accordance with IFRS 4. If investment contracts contain a clause with discretionary surplus distribution, they are also recognised in accordance with US GAAP – provided IFRS 4 contains no special provisions to the contrary. Investment contracts that do not have discretionary surplus distribution 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 recognised at amortised acquisition/production cost less scheduled straight-line depreciation and, as appropriate, impairment losses. The other intangible assets also consist of acquired and self-developed software as well as insurance-related intangible assets.

Goodwill is the positive difference between the cost of acquiring a company and the fair value of the Group's shares in that company's net assets. In accordance with IFRS 3 "Business Combinations," negative differences from initial consolidation are to be recognised immediately in income after renewed testing. Goodwill is tested for impairment at least once a year and recognised in the balance sheet at its initial acquisition cost less cumulative impairments. Neither scheduled amortisation nor reversals are permitted.

For the purposes of the impairment test in accordance with IAS 36.80 et seq. "Impairment of Assets," the goodwill must be allocated to the cash-generating units (CGUs) (cf. item 1 of the Notes "Goodwill," pages 209 et seq.). The goodwill is allocated to the CGU that is expected to derive benefit from the acquisition that gave rise to the goodwill. A CGU cannot be larger than a business segment. 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 amounts of this CGU in the Group including goodwill. If the carrying amounts exceed the recoverable amount, a goodwill impairment is recognised in the statement of income (item: "Goodwill impairments").

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, for which deferred taxes are established, and a policyholders' portion. The insurance portfolios are amortised in line with the realisation of the surpluses on which the calculation is based. Item 2 of the Notes "Other intangible assets," page 213 et seq., shows a breakdown by insurance term of the underlying insurance contracts acquired. Impairment and the measurement parameters used are tested at least once a year; where necessary, the amortisation patterns are adjusted or an impairment loss is recognised. Only the amortisation of the shareholders' portion results in a charge to future earnings. The PVFP in favour of policyholders is recognised 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 **other intangible assets** also comprise acquired and self-developed **software**. Intangible assets acquired for a consideration are recognised at amortised cost; self-developed software is carried at production cost less straight-line depreciation. Depreciation is carried out over the asset's estimated useful life, generally three to ten years. All 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 recognised under other expenses. Write-ups on these assets are recognised 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 classified as investment property only if less than 10% is used by Group companies.

Investment property is measured at acquisition or production 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 recognised 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 property at every fifth balance sheet date on the basis of the discounted cash flow method (calculation of the discounted cash flows from rents etc. generated by each property). Internal assessments, which are also based on the discounted cash flow method, are drawn up for each property at the intervening balance sheet dates in order to review their value. Expert opinions are obtained at shorter intervals if special facts or circumstances exist that may affect the value. An external fair value opinion is obtained for specialised real estate 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 taking into account the forecast vacancy rate.

Maintenance costs and repairs are expensed in investment income; value-enhancing expenditures – which are subsequent acquisition and/or production costs – are capitalised using the equity method and can extend the useful life in individual cases.

Investments in associated companies encompass solely those 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.

In accordance with IAS 39 "Financial Instruments: Recognition and Measurement," **financial assets/liabilities, including derivative financial instruments**, are recognised/derecognised in the directly held portfolio upon acquisition/sale as at the settlement date. When added to the portfolio, financial assets are allocated to one of 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 amortised cost." Depending on how the instruments are categorised, the transaction costs directly connected with their acquisition may be recognised. Subsequent measurement of financial instruments depends on the above categorisation and is carried out either at amortised cost or at fair value. The amortised costs are determined from the historical costs after allowance for amounts repayable, premiums or discounts amortised 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 recognised at their nominal value. Such instruments include cash in hand and funds held by ceding companies.

The item **"Investments in affiliated companies and participating interests"** includes not only investments in subsidiaries that are not consolidated because of their subordinate importance for the presentation of the assets, financial position and net income of the Group, but also other participating interests. Associated companies not measured at equity on account of their subordinate importance are also carried in this item of the balance sheet. Investments in listed companies are recognised at fair value on the balance sheet date; other investments are recognised 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 amortised cost using the effective interest rate method. The individual receivables are tested for impairment as at the balance sheet date. Unscheduled depreciation is recognised if the loan or receivable is no longer expected to be repaid in full or at all (see also our explanatory remarks in the "Impairment" section in this chapter). Reversals are recognised in earnings via the statement of income. The upper limit of the write-up is the amortised cost that would have arisen at the measurement date without impairment.

Financial assets held to maturity comprise 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 recognised here until maturity. The procedure for measuring and testing impairment is the same as for "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. Unrealised gains and losses arising out of changes in fair value are recognised under other income/expenses in equity (other reserves) after allowance for accrued interest, deferred taxes and amounts at life insurers due to policyholders upon realisation (provision for deferred premium refunds).

Financial assets recognised at fair value through profit or loss consist of the trading portfolio and those financial assets categorised 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 (as per IAS 39 "Hedge Accounting ") – are carried here. Derivatives with negative fair values are recognised 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, to optimise returns or to realise our intentions to buy/sell. Financial assets recognised at fair value through profit or loss consist principally of unsecured debt instruments issued by corporate issuers. This item also includes structured products recognised by applying the fair value option of IAS 39. Structured financial instruments whose fair value can be reliably established are recognised here. If these instruments were recognised under categories "Loans and receivables," "Financial assets held to maturity" or "Financial instruments available for sale," they would have to be broken down into their constituent parts (underlying plus one or more embedded derivatives) and recognised separately. The Group utilises 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 recognised measurement methods. Like realised gains and losses, all unrealised gains and losses from this valuation are recognised in net investment income.

Derivative financial instruments designated as **hedging instruments** pursuant to IAS 39 (Hedge Accounting) are carried at fair value upon initial measurement. The method used to recognise 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 recognised in the balance sheet or a transaction that is expected and highly likely to materialise in the future (cash flow hedges); further information is provided in item 12 of the Notes "Derivative financial instruments and hedge accounting," pages 231 et seq. 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 said financial instrument on the balance sheet date. The fair value of securities is thus determined on the basis of current, publicly 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:

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 NAV[1]	NAV method[1]
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, carrying amount where applicable	NAV method[1]
Other invested assets			
Private equity	Theoretical price	Acquisition cost, cash flows, EBIT multiples, market prices	NAV method[1]
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
FX options	Theoretical price	Spot rates, exchange rates, implicit volatilities	Garman/Kohlhagen
Interest rate futures (forward purchases)	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 cat. bonds, interest rate curve	Present-value method

[1] NAV: Net Asset Value

The above measurement models are also used to determine the time values – essentially the unrealised gains/losses – for the financial assets recognised at amortised costs in the categories “Loans and receivables” and “Financial assets held to maturity.”

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." This produced only a negligible loss at the balance sheet date.

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. 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 that value 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. We apply these rules in a similar manner for participating interests in funds that invest in private equity. In order to reflect the specific character of these funds (in this case initially negative yield and liquidity flows from the so-called "J curve" effect during the investment period of the funds), we take an impairment to net asset value as an approximation of the fair value for the first time after a two-year waiting period if there is a significant or prolonged decrease in value.

We take the same indicators as a basis for fixed-income securities as we do for equity instruments. Qualitative case-by-case analysis is also carried out. When forming an opinion, we refer first and foremost to the rating of the instrument, the rating of the issuer/borrower as well as the individual market assessment. What is more, when instruments measured at amortised cost are tested for impairment, we examine whether material items – considered in isolation – 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 publicly listed market price – and are recognised in the income statement. In this context, impairments on investments are recognised directly on the assets side – without using an adjustment account – separately from the relevant items. Reversals on debt instruments are recognised in income up to the level of the amortised costs. In the case of financial assets available for sale, any further amount is recognised directly in equity with no effect on income. Reversals on equity instruments are recognised in equity via 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 still remain within the Group.

Other invested assets are recognised 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 recognised at amortised cost.

Funds held in accounts receivable and payable, 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 recognised 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 test of risk transfer required by US GAAP are recognised 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 recognised at fair value. The unrealised gains or losses are offset 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 technical provisions 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.

Accounts receivable

Accounts receivable on reinsurance business and other receivables are measured at nominal value; where necessary, value adjustments are made on an individual basis. We use separate adjustment accounts to recognise the value adjustments on accounts receivable; in all other cases, the underlying assets are depreciated directly.

Deferred acquisition costs
Commissions and other costs that are closely connected with the renewal or conclusion of insurance contracts and variable in relation to the acquired new business are capitalised under deferred acquisition costs (in accordance with 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 amortised 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 amortisation generally depends on the gross margins of the contracts calculated for the corresponding year of the contract period. Depending on the type of contract, amortisation 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 amortised 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 recognised 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. 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 statements drawn up in accordance with uniform group standards. Deferred tax assets are also recognised 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 company's planned results and the tax strategies that can realistically be achieved. 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 recognised 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 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 amortised cost. Derivatives recognised as hedging instruments in the context of hedge accounting that have a positive fair value are carried at fair value. Property, plant and equipment are recognised at acquisition or production 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 two and ten years. Impairment expenses are spread across the technical functional areas or recognised under other income/expenses. The same statement made concerning the presentation of investment real estate applies when it comes to measuring and testing the impairment of own-use real estate.

Cash

Cash is recognised at its nominal value.

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 realised 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 are recognised separately in the balance sheet as assets or liabilities. Scheduled depreciation is recognised until the date of classification as held for sale. Impairment losses on fair value less costs to sell are recognised in profit or loss; any subsequent increase in fair value less costs to sell leads to the realisation 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 recognised in shareholders' equity. The common shares and additional paid-in capital comprise 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, consolidated special purpose entities 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 in accounting policies, the adjustment for previous periods not included in the financial statement is recognised in the opening balance sheet value of the retained earnings and comparable items of the earliest reported period. Unrealised 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 unrealised gains/losses from the valuation of associated companies at equity are also recognised under the other reserves. In addition, write-ups on available-for-sale variable-yield securities are recognised 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 the value of these derivatives are recognised in a separate reserve item in equity.

The shares of non-controlling interests are shown after net income in the consolidated statement of income. Non-controlling interests in shareholders' equity are consequently recognised as a separate component of shareholders' equity. They refer to the shares held in the shareholders' equity of subsidiaries by third parties outside the Group.

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 reinsurers' portions of the technical provisions are calculated and recognised on the basis of the individual reinsurance treaties. Measurement of the technical provisions is based on FASB Accounting Standards Codification (ASC 944 et seq.; formerly FAS 60, FAS 97 and FAS 120).

In the case of short-term insurance contracts, those portions of premiums already collected that are apportionable to future risk periods are deferred on a pro rata temporis basis and recognised as **unearned premiums**. These premiums are earned – and thus recognised as income – over the terms of the insurance contracts based on the amount of insurance cover provided or as they fall due. This premium income is normally deferred by specific dates for insurance contracts (predominantly in primary insurance); in reinsurance business assumptions are made if the data required for a calculation pro rata temporis is unavailable. Unearned premiums also include amounts charged on the conclusion of certain longterm contracts (e.g. payment protection insurance). The unearned premiums are equivalent to the insurance cover to be granted in future periods.

Benefit reserves, which cover commitments arising out of guaranteed claims of policyholders in life insurance and of ceding companies in life/health reinsurance, are calculated and recognised in life insurance business using actuarial methods. 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 and morbidity, but also to lapse rates and the future development of interest rates. 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 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 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 "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. In the life insurance field, we recognise the benefit reserve separately in item D of liabilities insofar as the investment risk is borne by policyholders.

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. To this extent, 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.

The loss and loss adjustment expense reserves are calculated on the basis of recognised actuarial methods used to estimate future claims expenditure including expenses associated with loss adjustment, provided no estimates for individual cases need to be taken into account (as regards estimates for individual cases, we refer to our explanatory remarks on major losses). The reserves are recognised according to best estimate principles in the amount that will probably be utilised. Receivables arising from recourse, salvages or knock-for-knock agreements are taken into account when calculating the "best estimate." 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"), which is calculated 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 provisions and their allocation to occurrence years are determined using established forecasting methods of non-life actuarial science. Provisions for insurance business assumed are calculated in accordance with the data provided by the prior insurers (in the case of Group business) or on the basis of actuarial analyses (in the case of non-Group business).

In addition, provisions are established for claims which have been incurred but not reported (IBNR reserves).

In some cases, 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 that relate to the surplus participation of policyholders and 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 surplus distribution. In particular for German life insurers, the applicable regulatory requirements of the Insurance Supervision Act (VAG) and the Decree on Minimum Premium Refunds in Life Insurance need to be observed.

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 unrealised, but recognised profits and losses (deriving predominantly from changes in the fair value of assets classified as "available for sale") that are 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 asset and liability items and their corresponding amortisation schemes are determined on the basis of the estimated gross margins (EGMs). The latter are modified accordingly following subsequent recognition of unrealised 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 bear 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 recognised separately. We refer the reader to the explanatory notes on the asset item "Investments for the account and risk of holders of life insurance policies," page 148.

Other provisions

This item includes 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 depend 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 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.

In addition, various German companies have, for quite some time now, 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 various insurance companies within the Group. Furthermore, Group employees have the opportunity to make additional provision for retirement through direct life insurance policies, variously structured pension funds, or the payment of deferred compensation to provident funds run by insurance companies. Additional similar obligations based upon length of service exist at some Group companies.

In the case of pension commitments based on defined contributions, the companies pay a fixed amount to an external pension fund. The commitment given by the company is fully discharged upon payment of the contribution. In the case of 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 recognised 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 recognise its actuarial gains and losses. Under the corridor method, a portion of the actuarial gains and losses is recognised in profit or loss to the extent that the hitherto unrecognised 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, including **tax provisions,** are established on the basis of best estimates in the amount that is likely to be used. This presupposes that the Group currently has a de jure or de facto obligation arising out of a past event which is likely to be called upon and the amount of which can be reliably determined. The provisions for restructuring mainly comprise payments for the premature termination of lease contracts as well as severance payments for employees. 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.

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 amortised costs. Subordinated liabilities are financial obligations that can be satisfied only 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 recognised 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 231 et seq.).

Share-based payment

In the Talanx Group, share-based payments are settled exclusively in cash. The liabilities for share-based compensation plans to be settled in cash are determined at fair value on every balance sheet date and on the settlement date. The fair value of each of these plans is recognised as an expense and distributed over the vesting period. Thereafter, any change in the fair value of plans that have not yet been exercised is recognised in the income statement.

Deferred tax liabilities

Deferred tax liabilities must be recognised in accordance with IAS 12 "Income Taxes" if assets are to be recognised 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 that of the primary economic environment in which the company operates (functional currency). The reporting currency in which the consolidated financial statements are prepared is the euro.

Transactions in foreign currencies are principally 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 rate 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 recognised 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 recognised with the latter in income as profit or loss from fair value measurement changes. Exchange rate gains or losses from non-monetary items – such as equity securities – classified as available for sale are initially recognised outside income in a separate item of shareholders' equity and booked to income only 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 statements. 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 capital consolidation – are recognised 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		31.12.2011	31.12.2010	2011	2010
1 EUR corresponds to					
ARS	Argentina	5.5731	—	5.7549	—
AUD	Australia	1.2723	1.3068	1.3419	1.4510
BHD	Bahrain	0.4881	0.4997	0.5253	0.5009
BRL	Brazil	2.4153	2.2085	2.3286	2.3384
CAD	Canada	1.3198	1.3259	1.3765	1.3758
CHF	Switzerland	1.2169	1.2437	1.2334	1.3783
CLP	Chile	672.4126	619.9699	672.0297	677.6252
CNY	China	8.1489	8.7511	9.0027	8.9895
GBP	United Kingdom	0.8362	0.8585	0.8704	0.8592
HKD	Hong Kong	10.0565	10.3146	10.8451	10.3232
HUF	Hungary	313.5951	280.1572	280.8034	276.2410
KRW	South Korea	1,500.6009	1,501.6346	1,541.9185	1,541.5994
MXN	Mexico	18.0413	16.4031	17.3507	16.8429
MYR	Malaysia	4.1038	4.0869	4.2592	4.2915
PLN	Poland	4.4652	3.9678	4.1282	4.0114
SEK	Sweden	8.9063	9.0119	9.0121	9.5582
UAH	Ukraine	10.3695	10.5603	11.1263	10.5571
UYU	Uruguay	25.8267	—	26.8319	—
USD	USA	1.2946	1.3254	1.3934	1.3287
ZAR	South Africa	10.4800	8.7907	10.0559	9.7204

Segment reporting

Identification of reportable segments

The reportable segments were determined in accordance with 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. The Group splits its business activities into the areas of insurance and corporate operations. The insurance activities are further subdivided 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.

Since they are managed according to customer groups and geographical regions (domestic versus international) – and therefore span various lines of business – insurance activities in the **primary sector** are organised into three reportable segments: "Industrial Lines," "Retail Germany" and "Retail International." This segmentation also corresponds to the responsibilities of the members of the Board of Management.

Reinsurance business is handled solely by the Hannover Re Group and is divided into the two segments Non-Life Reinsurance and Life/Health Reinsurance in accordance with that group's internal reporting system. In a departure from the segmentation used in the group financial statements of Hannover Re, however, we allocate that group's holding functions to its Non-Life Reinsurance segment. By contrast, cross-segment loans within the Hannover Re Group are allocated to the two reinsurance segments in the consolidated financial statements of the Talanx Group (in the consolidated financial statements of Hannover Re these loans are shown in the consolidation column). Deviations between the segment results for reinsurance business as presented in the consolidated financial statements of Talanx AG and those reported in the financial statements of Hannover Re are thus unavoidable.

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 major products and services with which these reportable segments generate income are set out below.

Industrial Lines: In the Industrial Lines segment we report worldwide industrial business as an independent 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 is provided in various classes of insurance.

Retail Germany: Insurance activities serving German retail and commercial customers that span the various lines of business, including bancassurance business transacted Germany-wide – i.e. insurance products sold over the counter at banks – are managed in this reportable segment. 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 pension insurance.

Retail International: The scope of operations in this 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 Reinsurance*: The segment comprises the international activities of the Hannover Re Group in the life, health, annuity and accident lines.

Corporate Operations: In contrast to the five operating segments, the Corporate Operations segment encompasses management and other functional activities that support the business conducted by the Group, primarily relating to asset management and, in the primary insurance sector, the run-off and placement of portions of reinsurance cessions, and Group financing. Asset management for private and institutional investors outside the Group by AmpegaGerling Investment GmbH, Cologne, is also shown in this segment. This segment also encompasses centralised service companies that provide selected billable services – such as IT, collection, personnel and accounting services – mainly to the Group's primary insurers based in Germany.

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. Cross-segment transactions within the Group are consolidated in the consolidation column, whereas income from dividend payments and profit/loss transfer agreements accruing to the Group holding company are eliminated in the respective segment. 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; however, the operating profit (EBIT) – determined from IFRS profit contributions – is 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).

Changes in segment reporting

In the year under review, the Group is reporting the private-customer property insurance business of its Austrian subsidiary (HDI Versicherung AG, Vienna) in the Retail International segment (previously reported under Industrial Lines). The same subsidiary's industrial insurance business is still reported under the Industrial Lines segment. After carrying out a cost-benefit analysis, we decided against making any changes to the corresponding figures of previous years.

* With regard to the deviations between the segment results of Talanx Group and Hannover Re Group please see our explanatory remarks at the beginning of this chapter

Segment reporting. Balance sheet as at 31 December 2011

Assets	Industrial Lines		Retail Germany		Retail International	
	31.12.2011[1]	31.12.2010	31.12.2011	31.12.2010[2]	31.12.2011[1]	31.12.2010
Figures in EUR million						
A. Intangible assets						
a. Goodwill	153	60	403	397	118	124
b. Other intangible assets	24	8	1,275	1,361	28	29
	177	**68**	**1,678**	**1,758**	**146**	**153**
B. Investments						
a. Investment property	36	39	594	684	73	69
b. Investments in affiliated companies and participating interests	9	9	23	24	—	—
c. Investments in associated companies	78	—	38	9	22	24
d. Loans and receivables	2,606	3,084	26,877	26,993	7	3
e. Other financial instruments						
i. Held to maturity	118	121	293	295	269	71
ii. Available for sale	2,984	2,764	9,122	8,364	2,274	2,444
iii. At fair value through profit or loss	7	16	287	445	523	487
f. Other invested assets	774	559	848	849	316	224
Investments under own management	**6,612**	**6,592**	**38,082**	**37,663**	**3,484**	**3,322**
g. Funds held by ceding companies	29	43	2	3	—	—
Investments	**6,641**	**6,635**	**38,084**	**37,666**	**3,484**	**3,322**
C. Investments for the account and risk of holders of life insurance policies	—	—	5,283	5,419	784	995
D. Reinsurance recoverables on technical provisions	4,332	3,866	2,454	2,797	583	713
E. Accounts receivable on insurance business	1,004	1,675	423	368	424	354
F. Deferred acquisition costs	27	26	1,739	1,498	210	202
G. Cash	245	242	581	337	158	204
H. Deferred tax assets	25	25	18	22	64	59
I. Other assets	419	448	1,110	1,412	245	211
J. Non-current assets and assets of disposal groups classified as held for sale	5	—	111	—	572	—
Total assets	**12,875**	**12,985**	**51,481**	**51,277**	**6,670**	**6,213**

[1] In 2011, private-customer property insurance business in Austria was allocated to the Retail International segment (previously shown in the Industrial Lines segment); prior-year figures were not adjusted
[2] Adjusted on the basis of IAS 8

Non-Life Reinsurance		Life/Health Reinsurance		Corporate Operations		Consolidation		Total	
31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010[2]	31.12.2011	31.12.2010[2]	31.12.2011	31.12.2010[2]
16	8	—	—	—	—	—	—	690	589
26	29	105	108	62	48	—	—	1,520	1,583
42	**37**	**105**	**108**	**62**	**48**	**—**	**—**	**2,210**	**2,172**
395	301	2	2	—	—	—	—	1,100	1,095
18	11	—	—	28	30	—	—	78	74
122	85	6	12	14	14	–71	—	209	144
3,497	2,270	28	45	—	1	–54	–53	32,961	32,343
3,956	3,024	200	4	17	46	–559	–562	4,294	2,999
12,142	12,096	5,356	4,409	263	323	—	—	32,141	30,400
142	181	40	92	1	—	—	—	1,000	1,221
1,954	2,352	364	273	467	413	–756	–485	3,967	4,185
22,226	**20,320**	**5,996**	**4,837**	**790**	**827**	**–1,440**	**–1,100**	**75,750**	**72,461**
836	696	12,506	11,940	—	—	–1,656	–1,721	11,717	10,961
23,062	**21,016**	**18,502**	**16,777**	**790**	**827**	**–3,096**	**–2,821**	**87,467**	**83,422**
—	—	—	—	—	—	—	—	6,067	6,414
1,446	941	586	515	—	—	–2,939	–3,309	6,462	5,523
1,977	1,806	1,162	1,036	—	—	–261	–228	4,729	5,011
459	362	1,468	1,472	—	—	110	155	4,013	3,715
388	328	119	118	79	36	—	—	1,570	1,265
37	10	25	2	151	150	—	—	320	268
1,069	970	44	47	448	474	–1,470	–1,781	1,865	1,781
2	1,529	—	—	—	—	–125	—	565	1,529
28,482	**26,999**	**22,011**	**20,075**	**1,530**	**1,535**	**–7,781**	**–7,984**	**115,268**	**111,100**

Segment reporting. Balance sheet as at 31 December 2011

Liabilities	Industrial Lines		Retail Germany		Retail International	
	31.12.2011[1]	31.12.2010	31.12.2011	31.12.2010[2]	31.12.2011[1]	31.12.2010[2]
Figures in EUR million						
B. Subordinated liabilities	261	265	215	165	—	—
C. Technical provisions						
a. Unearned premiums reserve	777	713	786	808	968	891
b. Benefit reserve	1	—	34,114	33,359	1,811	1,869
c. Loss and loss adjustment expense reserve	7,960	7,777	2,580	2,696	1,285	1,129
d. Provision for premium refunds	9	13	985	793	14	39
e. Other technical provisions	29	31	8	9	12	15
	8,776	**8,534**	**38,473**	**37,665**	**4,090**	**3,943**
D. Technical provisions in the area of life insurance insofar as the investment risk is borne by policyholders	—	—	5,283	5,419	784	995
E. Other provisions						
a. Provisions for pensions	405	438	64	133	11	8
b. Provision for taxes	109	117	90	142	44	40
c. Sundry provisions	100	92	313	283	37	33
	614	**647**	**467**	**558**	**92**	**81**
F. Liabilities						
a. Notes payable and loans	—	—	—	—	—	17
b. Funds held under reinsurance treaties	14	4	2,022	2,224	155	345
c. Other liabilities	1,456	1,835	2,242	2,321	249	298
	1,470	**1,839**	**4,264**	**4,545**	**404**	**660**
G. Deferred tax liabilities	71	88	263	290	26	20
Total liabilities/provisions	**11,192**	**11,373**	**48,965**	**48,642**	**5,396**	**5,699**
H. Liabilities of disposal groups classified as held for sale	—	—	99	—	565	—

	Non-Life Reinsurance		Life/Health Reinsurance		Corporate Operations		Consolidation		Total	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010 [2]	31.12.2011	31.12.2010 [2]	31.12.2011	31.12.2010 [2]
	1,731	1,869	100	92	509	542	–201	–142	2,615	2,791
	2,110	1,813	106	98	—	—	–70	–56	4,677	4,267
	—	—	10,309	8,941	—	—	–496	–559	45,739	43,610
	18,030	15,634	2,739	2,431	—	—	–1,174	–1,129	31,420	28,538
	—	—	—	—	—	—	—	—	1,008	845
	146	131	61	51	—	—	—	13	256	250
	20,286	**17,578**	**13,215**	**11,521**	**—**	**—**	**–1,740**	**–1,731**	**83,100**	**77,510**
	—	—	—	—	—	—	—	—	6,067	6,414
	68	64	20	18	775	655	—	—	1,343	1,316
	172	263	13	24	129	157	—	—	557	743
	79	135	31	23	130	128	–1	–2	689	692
	319	**462**	**64**	**65**	**1,034**	**940**	**–1**	**–2**	**2,589**	**2,751**
	203	188	283	168	1,421	1,304	–1,145	–930	762	747
	411	320	5,242	5,572	—	—	–2,805	–3,241	5,039	5,224
	629	620	1,309	1,139	267	657	–1,741	–2,012	4,411	4,858
	1,243	**1,128**	**6,834**	**6,879**	**1,688**	**1,961**	**–5,691**	**–6,183**	**10,212**	**10,829**
	739	716	367	310	1	4	21	16	1,488	1,444
	24,318	**21,753**	**20,580**	**18,867**	**3,232**	**3,447**	**–7,612**	**–8,042**	**106,071**	**101,739**
	—	1,381	—	—	—	—	–173	—	491	1,381
Shareholders' equity [3]									**8,706**	**7,980**
Total liabilities									**115,268**	**111,100**

[1] 2011, private-customer property insurance business in Austria was allocated to the Retail International segment (previously shown in the Industrial Lines segment); prior-year figures were not adjusted
[2] Adjusted on the basis of IAS 8
[3] Group shareholders' equity incl. non-controlling interests

Segment reporting. Statement of income for the 2011 financial year

	Industrial Lines		Retail Germany		Retail International	
	2011[1]	2010	2011	2010[2]	2011[1]	2010[2]
Figures in EUR million						
1. Gross written premium including premium from unit-linked life and annuity insurance	3,138	3,076	6,710	6,823	2,482	2,233
of which: with other segments	29	28	61	21	—	—
with third parties	3,109	3,048	6,649	6,802	2,482	2,233
2. Savings elements of premium from unit-linked life and annuity insurance	—	—	871	932	241	207
3. Ceded written premium	1,755	1,658	383	437	281	203
4. Change in gross unearned premium	–28	37	5	48	–107	–76
5. Change in ceded unearned premium	–20	42	—	—	–9	9
Net premium earned	**1,375**	**1,413**	**5,461**	**5,502**	**1,862**	**1,738**
6. Claims and claims expenses (gross)	2,323	2,047	5,816	6,020	1,557	1,432
Reinsurers' share	1,316	878	140	199	174	22
Claims and claims expenses (net)	**1,007**	**1,169**	**5,676**	**5,821**	**1,383**	**1,410**
7. Acquisition costs and administrative expenses (gross)	579	568	1,128	1,282	536	657
Reinsurers' share	277	256	161	172	40	210
Acquisition costs and administrative expenses (net)	**302**	**312**	**967**	**1,110**	**496**	**447**
8. Other technical income	109	10	13	28	14	17
Other technical expenses	20	–1	89	230	40	34
of which: amortisation PVFP	—	—	55	147	1	1
Other technical result	**89**	**11**	**–76**	**–202**	**–26**	**–17**
Net technical result	**155**	**–57**	**–1,258**	**–1,631**	**–43**	**–136**
9. a. Income from investments	282	268	1,921	1,793	210	174
b. Expenses for investments[2]	79	37	359	181	50	22
Net income from investments under own management	**203**	**231**	**1,562**	**1,612**	**160**	**152**
Income/expense on funds withheld and contract deposits	1	—	–32	–35	–1	–1
Net investment income	**204**	**231**	**1,530**	**1,577**	**159**	**151**
of which: interest and similar income	213	223	1,527	1,485	152	119
impairments/depreciation on investments	29	7	102	68	18	8
write-ups on investments	9	—	26	10	2	—
profit/loss from investments in associated companies	—	—	1	1	–3	–1
10. a. Other non-technical income	129	197	194	397	38	142
b. Other non-technical expenses	167	186	356	387	100	113
Other income/expenses	**–38**	**11**	**–162**	**10**	**–62**	**29**
of which: interest and similar income	6	4	12	8	6	23
write-ups on accounts receivable and other assets	3	26	3	11	—	—
interest and similar expenses	28	31	21	23	2	16
write-downs on accounts receivable and other assets	31	7	7	24	10	14
Profit before goodwill impairments	**321**	**185**	**110**	**–44**	**54**	**44**
11. Goodwill impairments	—	—	—	—	—	17
Operating profit/loss (EBIT)	**321**	**185**	**110**	**–44**	**54**	**27**
12. Financing costs	13	14	10	11	—	—
13. Taxes on income	104	32	23	–12	17	47
Net income	**204**	**139**	**77**	**–43**	**37**	**–20**
of which non-controlling interest in profit or loss	—	—	8	—	–2	–1
of which Group net income	204	139	69	–43	39	–19

[1] In 2011, private-customer property insurance business in Austria was allocated to the Retail International segment (previously shown in the Industrial Lines segment); prior-year figures were not adjusted

[2] Adjusted on the basis of IAS 8

Non-Life Reinsurance		Life/Health Reinsurance		Corporate Operations		Consolidation		Total	
2011	2010	2011	2010	2011	2010[2]	2011	2010[2]	2011	2010[2]
6,826	6,340	5,270	5,090	—	—	–744	–693	23,682	22,869
408	367	246	277	—	—	–744	–693	—	—
6,418	5,973	5,024	4,813	—	—	—	—	23,682	22,869
—	—	—	—	—	—	—	—	1,112	1,139
596	705	473	423	—	—	–756	–659	2,732	2,767
–262	–274	–7	–13	—	—	14	1	–385	–277
7	–34	1	—	—	—	18	–6	–3	11
5,961	**5,395**	**4,789**	**4,654**	**—**	**—**	**8**	**–27**	**19,456**	**18,675**
5,525	4,330	4,306	4,106	—	—	–399	–217	19,128	17,718
823	456	358	317	—	—	–430	–174	2,381	1,698
4,702	**3,874**	**3,948**	**3,789**	**—**	**—**	**31**	**–43**	**16,747**	**16,020**
1,591	1,525	1,186	1,216	—	—	–304	–361	4,716	4,887
66	92	67	98	—	—	–211	–313	400	515
1,525	**1,433**	**1,119**	**1,118**	**—**	**—**	**–93**	**–48**	**4,316**	**4,372**
2	—	7	17	—	—	–17	–1	128	71
—	10	10	54	—	—	52	63	211	390
—	—	2	4	—	—	—	—	58	152
2	**–10**	**–3**	**–37**	**—**	**—**	**–69**	**–64**	**–83**	**–319**
–264	**78**	**–281**	**–290**	**—**	**—**	**1**	**—**	**–1,690**	**–2,036**
1,056	946	258	246	23	13	–59	–57	3,691	3,383
190	179	70	42	61	63	–74	–85	735	439
866	**767**	**188**	**204**	**–38**	**–50**	**15**	**28**	**2,956**	**2,944**
14	12	324	304	—	—	—	—	306	280
880	**779**	**512**	**508**	**–38**	**–50**	**15**	**28**	**3,262**	**3,224**
704	672	619	606	7	3	–66	–67	3,156	3,041
31	23	—	1	6	9	—	–1	186	115
37	27	—	—	—	—	—	—	74	37
6	2	–3	1	2	—	–3	–1	—	2
184	332	55	95	696	606	–592	–822	704	947
171	280	61	37	721	871	–545	–788	1,031	1,086
13	**52**	**–6**	**58**	**–25**	**–265**	**–47**	**–34**	**–327**	**–139**
74	6	2	1	19	14	–11	–12	108	44
15	61	—	—	—	—	—	—	21	98
14	32	36	10	81	65	–17	–19	165	158
30	48	12	11	4	6	—	—	94	110
629	**909**	**225**	**276**	**–63**	**–315**	**–31**	**–6**	**1,245**	**1,049**
—	—	—	—	—	—	—	—	—	17
629	**909**	**225**	**276**	**–63**	**–315**	**–31**	**–6**	**1,245**	**1,032**
99	90	5	4	81	65	–47	–50	161	134
33	196	35	61	–29	–107	4	14	187	231
497	**623**	**185**	**211**	**–115**	**–273**	**12**	**30**	**897**	**667**
281	345	90	107	—	—	—	—	377	451
216	278	95	104	–115	–273	12	30	520	216

Geographical breakdown of investments and written premium

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. Segmentation has been simplified to show only Primary Insurance, Reinsurance and Corporate Operations.

Above and beyond this, we show the gross written premium for each type or line of insurance at Group level.

Investments under own management by geographical origin[1]

Investments excluding funds held by ceding companies[1]	Primary Insurance	Reinsurance	Corporate Operations	31.12.2011 Total
Figures in EUR million				
Germany	27,374	5,850	347	33,571
United Kingdom	2,691	2,323	123	5,137
Central and Eastern Europe (CEE)	228	—	—	228
Rest of Europe	14,899	7,245	264	22,408
USA	853	6,628	3	7,484
Rest of North America	97	1,415	1	1,513
Latin America	771	634	—	1,405
Asia and Australia	448	3,100	1	3,549
Rest of the world	53	402	—	455
Total	**47,414**	**27,597**	**739**	**75,750**

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
Central and Eastern Europe (CEE)	241	—	—	241
Rest of Europe	12,601	6,993	316	19,910
USA	839	6,052	—	6,891
Rest of North America	103	987	—	1,090
Latin America	720	368	—	1,088
Asia and Australia	240	2,121	—	2,361
Rest of the world	36	398	—	434
Total	**46,946**	**24,688**	**827**	**72,461**

[1] After elimination of internal transactions within the Group across segments; this can lead to deviations from the figures quoted in the management report

Breakdown of gross written premium by segment[1]

	31.12.2011	31.12.2010
Figures in EUR million		
Industrial Lines	3,109	3,048
Retail Germany	6,649	6,802
Retail International	2,482	2,233
Non-Life Reinsurance	6,417	5,973
Life/Health Reinsurance	5,025	4,813
Total	**23,682**	**22,869**

[1] After elimination of internal transactions within the Group across segments; this can lead to deviations from the figures quoted in the management report

Gross written premium by geographical origin (by domicile of customer)[1]

Gross written premium[1]	Primary Insurance	Reinsurance	2011 Total
Figures in EUR million			
Germany	8,227	703	8,930
United Kingdom	118	2,416	2,534
Central and Eastern Europe (CEE)	754	105	859
Rest of Europe	1,911	1,846	3,757
USA	157	2,719	2,876
Rest of North America	—	444	444
Latin America	982	789	1,771
Asia and Australia	82	1,948	2,030
Rest of the world	9	472	481
Total	**12,240**	**11,442**	**23,682**

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
Central and Eastern Europe (CEE)	655	103	758
Rest of Europe	1,987	1,572	3,559
USA	145	2,957	3,102
Rest of North America	—	416	416
Latin America	778	695	1,473
Asia and Australia	47	1,452	1,499
Rest of the world	8	466	474
Total	**12,083**	**10,786**	**22,869**

[1] After elimination of internal transactions within the Group across segments; this can lead to deviations from the figures shown in the management report

Gross written premium by type and line of insurance at Group level[1]

	31.12.2011	31.12.2010
Figures in EUR million		
Property/casualty primary insurance	6,398	5,950
Life primary insurance	5,842	6,133
Non-life reinsurance	6,417	5,973
Life/health reinsurance	5,025	4,813
Total	**23,682**	**22,869**

[1] After elimination of internal transactions within the Group across segments; this can lead to deviations from the figures shown in the management report

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 effects of significant transactions between diverging financial years and the Group closing date were taken into account.

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 or, in the case of special purpose entities, the majority of economic risks and benefits remain within the Group. 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 recognised at fair value or, if this cannot be reliably established, at amortised 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 recognised 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 of the netting of the acquisition costs with the fair value of the assets and liabilities is recognised as goodwill under intangible assets. In accordance with IFRS 3 "Business Combinations" scheduled amortisation is not taken on goodwill; instead, it is written down as necessary on the basis of annual impairment tests. Immaterial and negative goodwill are recognised in the statement of income in the year of their occurrence.

Non-controlling interests in shareholders' equity or in the net income of majority-owned subsidiaries are shown separately in equity in the item "Non-controlling interests in equity" and in the statement of income in the item "Non-controlling interests 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 consolidation of debt, earnings and intercompany profits and losses.

Companies over which the Group is able to exercise a significant influence are normally consolidated "at equity" in accordance with IAS 28 "Investments in Associates" 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 recognised 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/special purpose entities 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 that are of minor importance – both individually and in their entirety – for the net assets, financial position and results of operations of the Group and that 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 39 (37) 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	Domestic	Foreign	Total
Number of consolidated subsidiaries			
31.12.2010	70	86	**156**
Additions	2	7	**9**
Retirements	6	7	**13**
31.12.2011	**66**	**86** [1]	**152**
Number of consolidated special purpose entities			
31.12.2010	14	10	**24**
thereof special funds	14	8	**22**
Additions	—	—	**—**
Retirements	2	—	**2**
thereof special funds	2	—	**2**
31.12.2011	**12**	**10**	**22**
Sum total of consolidated subsidiaries/special purpose entities	**78**	**96**	**174**
Number of associated companies included at equity			
31.12.2010	3	9	**12**
Additions	1	1	**2**
Retirements	—	1	**1**
31.12.2011	**4**	**9** [2]	**13**
Joint ventures consolidated proportionately			
31.12.2010	1	—	**1**
Additions	—	—	**—**
Retirements	—	—	**—**
31.12.2011	**1**	**—**	**1**

[1] Consists of: 50 individual companies and 36 companies which are consolidated in 3 subgroups
[2] Consists of: 4 associated companies and 5 companies which are included at equity in 1 subgroup

With regard to the major acquisitions and disposals in the year under review please see our explanatory remarks in the following sections of this chapter. All affiliated companies, joint ventures, associated companies as well as special purpose entities including special funds are specified individually in the list of shareholdings (see separate chapter of these Notes, pages 288 et seq.).

Additions and retirements of consolidated subsidiaries as well as further corporate changes

In the year under review nine subsidiaries were added to the Group. The 13 retirements of consolidated subsidiaries derive from the sale of individual companies, intra-group mergers and deconsolidation due to the insignificance of these units in relation to the assets, financial position and net income of the Group. Specifically, the scope of consolidation of the Group has changed as follows as at 31 December 2010:

Acquisitions and establishments

On 1 April 2011 Talanx International AG (TINT), Hannover, acquired all the shares of Saint Honoré Iberia SL, Madrid, Spain. As a holding company, the latter holds interests of 99.231% in the intermediate holding company Protecciones Esenciales S. A., Buenos Aires, Argentina, and 10% in the insurance company L'Union de Paris Cía. Uruguaya de Seguros S. A., Montevideo, Uruguay. The intermediate holding company itself holds a stake of 98.771% in the hitherto privately owned L'UNION de Paris Cía. Argentina de Seguros S. A., Buenos Aires, Argentina. For its part, L'UNION de Paris Cía. Argentina de Seguros S. A. holds a 90% stake in the hitherto privately owned L'Union de Paris Cía. Uruguaya de Seguros S. A.

On the same date our Chilean subsidiary Inversiones HDI Limitada, Santiago, Chile, acquired interests of 0.769% in the intermediate holding company Protecciones Esenciales S. A. and 1.229% in the Argentinian company L'UNION de Paris Cía. Argentina de Seguros S. A. All four companies were consolidated for the first time in the second quarter of 2011 (see also our remarks in the chapter, "Business combinations in the reporting period").

TINT raised its stake in HDI Seguros S. A., São Paulo, Brazil, from 99.9977% to 99.9979% through two capital increases implemented in the first quarter of 2011 in which the minority shareholders did not participate. By way of a capital increase implemented in March 2011 at HDI STRAKHUVANNYA, Kiev, Ukraine, TINT increased its participation in the company from 99.2240% to 99.2795%.

With effect from the closing on 27 April 2011 HDI-Gerling Industrie Versicherung AG (HG-I), Hannover, acquired all the shares of Nassau Verzekering Maatschappij N. V. (Nassau), Rotterdam. After the insurance portfolio of its German branch was spun off, the acquired company was merged in the fourth quarter of 2011 with retroactive effect as at 1 January 2011 into our Dutch insurance company HDI-Gerling Verzekeringen N. V., Rotterdam. Further information on the initial consolidation of Nassau is provided in the chapter of the Notes entitled "Business combinations in the reporting period." Nassau also holds a stake of 25% in VOV Verwaltungsorganisation für Vermögensschadenhaftpflicht-Versicherungen für Mitglieder von Organen juristischer Personen GmbH, Cologne. Since it is immaterial to the assets, financial position and net income of the Group, this company is not consolidated at equity in the consolidated financial statement.

International Hannover Holding AG was established in the second quarter with registered office in Hannover. The company, the subscribed capital of which amounts to EUR 50,000, is a wholly owned subsidiary of International Insurance Company of Hannover Ltd., Bracknell, United Kingdom, which in turn is wholly owned by Hannover Re. The business object of the company is to hold, acquire and sell participating interests in other companies.

In the course of the second quarter Funis GmbH & Co. KG, a wholly owned subsidiary of Hannover Re, acquired a participating interest in Glencar Underwriting Managers, Inc., based in Chicago, United States, with a capital contribution of USD 98,000 (corresponding to 49% of the share capital). The business object of the company will primarily be to underwrite specialty lines as well as property and casualty program business. Preference shares in an amount of roughly USD 2 million were purchased in the course of the third quarter of 2011.

Since they are immaterial to the assets, financial position and net income of the Group, International Hannover Holding AG and Glencar Underwriting Managers, Inc. are not included in the consolidated financial statement.

Hannover Re Real Estate Holdings, Inc., Orlando, USA, a wholly owned subsidiary of Hannover Re, holds all of the shares of 11 Stanwix LLC, Wilmington, USA, since its establishment on 16 May 2011. The business object of 11 Stanwix LLC is holding and managing properties.

Funis GmbH & Co. KG, a wholly owned subsidiary of Hannover Re, acquired roughly 75% of the shares in Integra Insurance Solutions Ltd., Bradford, effective 18 August 2011. As an agency, Integra mediates insurance business to International Insurance Company of Hannover Ltd., which is also a company belonging to the Hannover Re Group (see also further information on initial consolidation in the section "Business combinations in the reporting period").

On 25 August 2011 Talanx Deutschland Bancassurance GmbH was established with registered office in Hilden through the spinoff of participating interests in joint-stock companies of Talanx Deutschland AG; Talanx Deutschland AG holds 100% of the shares in Talanx Deutschland Bancassurance GmbH. The business object of the new company is principally – as a management holding company – to hold participating interests in German and foreign insurance companies and in particular – through the provision of coordinating advice – to ensure consistent management at the companies in which it holds a majority stake.

HG-I Alternative Investments Beteiligungs-GmbH & Co. KG was founded with its entry in the commercial register of the city of Cologne on 4 November 2011. Hannover Beteiligungsgesellschaft mbH as the general partner and Talanx Asset Management GmbH as managing limited partner hold stakes in the company, but without a capital contribution or share of company capital (company assets). HDI-Gerling Industrie Versicherung AG is the founding limited partner and has taken on a capital contribution of EUR 80 million. Part of the capital contribution of HG-I amounting to nominally EUR 21 million was made as a contribution in kind to the company by transferring HG-I's share in HG Sach Altinvest GmbH & Co. KG.

In the 2011 financial year Hannover Re and E+S Rück AG each acquired a 50% stake in HAPEP II Komplementär GmbH from Talanx Asset Management GmbH, which is wholly owned by Talanx AG. No goodwill was recognised for this transaction between companies under joint control.

Disposals

With the approval of anti-trust authorities, Talanx Deutschland AG (TD), Hannover, sold all its shares in Clarus AG, Wiesbaden, to Clarus Holding GmbH, Wiesbaden, with effect from the closing on 28 June 2011 (segment: Retail Germany). This transaction gave rise to a disposal loss of EUR 0.2 million. In the context of the sale a provision for contingent losses, among other things, for guaranteed rehabilitation subsidies, was also constituted in an amount of EUR 13 million. As part of this disposal transaction TD acquired 25.1% of the interests of EUR 25,000 in Clarus Holding GmbH from Aragon AG, Wiesbaden. Clarus Holding GmbH is an associated company of the Talanx Group, which is not consolidated at equity in the consolidated financial statement since it is immaterial to the assets, financial position and net income of the Group.

Once the customary regulatory approvals had been received on 8 July 2011 Hannover Re closed the sale of the four operational companies of its US subgroup Clarendon Insurance Group, Inc. (CIGI), Wilmington, and completed the associated deconsolidation on 12 July 2011. Hannover Re holds all shares of CIGI indirectly through the intermediate holding company Hannover Finance, Inc., Wilmington, which is also included in full in the Hannover Re consolidated financial statement. For further details of deconsolidation please see our remarks in the chapter "Non-current assets held for sale and disposal groups".

In accordance with a notarised agreement dated 5 May 2011 HDI-Gerling Firmen und Privat Versicherung AG, Hannover, and Talanx Deutschland AG, Hannover, sold all shares of HDI-Gerling Rechtsschutz Versicherung AG, Hannover, and HDI-Gerling Rechtsschutz Schadenregulierungs-GmbH, Hannover, to ROLAND Rechtsschutz-Versicherungs-AG, Cologne. The transaction was completed on 1 October 2011. The disposal gave rise to income of EUR 4 million, which is recognised in other income and expenses (see also our remarks in the chapter "Non-current assets held for sale and disposal groups").

Mergers/liquidations/deletions

Gerling Insurance Agency, Inc., Chicago, and HDI-Gerling Australia Insurance Company Pty. Ltd. (HDI-GAUS), Sydney, are no longer included in the consolidated financial statement with effect from the first quarter of 2011 – among other things on account of the transfer of the insurance portfolio of HDI-GAUS to HDI-Gerling Industrie Versicherungs AG (Australian branch) in the previous year – since based on their total assets and result they are immaterial to the assessment of the Group's assets, financial position and net income. The deconsolidation of HDI-GAUS gave rise to income of EUR 4 million.

In April 2011 Proactiv IT Servicegesellschaft mbH, Munich, was merged into Proactiv Servicegesellschaft mbh, Hilden, with legal effect from 1 January 2011.

HDI-Gerling Leben Vertriebsservice AG, Cologne, was merged into HDI-Gerling Vertrieb Firmen und Privat AG, Cologne, at the end of September 2011 with legal effect from 1 January 2011.

PBV Lebensversicherung AG, Hilden, was merged into PB Lebensversicherung AG, Hilden, in October 2011 with legal effect from 1 January 2011.

Consolidation of special purpose entities

With regard to the consolidation of special purpose entities, in the following the Group makes a distinction between special funds, investments, securitisation of reinsurance risks, retrocessions 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.

Special funds

Within the scope of SIC-12 are, among other things, special investment funds that are created to serve a narrowly defined purpose. As such the Group must assess whether economic control according to IAS 27.13 in conjunction with SIC-12 exists for its special investment funds. Economic control exists e.g. when the majority of the economic benefits or risks arising out of the activities of the special fund is attributable to a Group company.

In this connection on balance sheet date 19 special funds and one public fund were included in the consolidated financial statement due to the existence of a controlling relationship in the special fund. One special equity fund (PBVL-Aktien) was liquidated in the first quarter of 2011, while another (HG-LV Corporate) was liquidated in the third quarter.

Investments

Within the scope of its asset management activities our subsidiary Hannover Re, 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. and Hannover Insurance-Linked Securities GmbH & Co. KG – by investing in disaster bonds (or "CAT" bonds) in a number of special purpose entities for the securitisation of catastrophe risks. Since Hannover Re does not exercise a controlling influence in any of these transactions either, there is no consolidation requirement for the special purpose vehicles in question.

Securitisation of reinsurance risks

The securitisation of reinsurance risks is largely structured through the use of special purpose entities.

Effective 30 March 2011 a structured transaction was entered into by Hannover Re in order to finance the statutory reserves (so-called XXX reserves) of a US cedant. The structure necessitated the involvement of a special purpose entity, namely Delaware-based Maricopa LLC. The special purpose entity carries extreme mortality risks securitised by the cedant above a contractually defined retention and transfers these risks by way of a fixed/floating swap with a ten-year term to a Group company of the Hannover Re Group. The maximum capacity of the transaction is equivalent to EUR 386 million; an amount equivalent to EUR 193 million of this was taken up upon contract closing and as at the balance sheet date. The variable payments to the special purpose entity guaranteed by Hannover Re cover its payment obligations. By way of a compensation agreement Hannover Re is reimbursed by the cedant's parent company for all payments resulting from the swap in the event of a claim. Since Hannover Re does not bear the majority of the economic risks or benefits arising out of its business relations with the special purpose entity and does not exercise a controlling influence over it, there is no consolidation requirement for Hannover Re. Under IAS 39 this transaction is to be recognised at fair value as a financial guarantee. To this end Hannover Re uses the net method, according to which the present value of the agreed fixed swap premiums is netted with the present value of the guarantee commitment. The fair value on initial recognition therefore amounted to zero. The higher of the fair value and the amount carried as a provision on the liabilities side pursuant to IAS 37 is recognised at the point in time when utilisation is considered probable. This was not the case as at balance sheet date. In this case the reimbursement claims from the compensation agreement are to be capitalised separately from and up to the amount of the provision.

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 winterstorm 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 recognised as a financial instrument.

Within the scope of the "K" transaction, Hannover Re raised further underwriting capacity for catastrophe risks on the capital market. "K-cession" (formerly "K6"), 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 "K-cession" was increased in the year under review and was equivalent to EUR 259 (249) million as at the balance sheet date. The transaction henceforth has an indefinite term and can be cancelled annually by the investors. Kaith Re Ltd., a special purpose entity domiciled in Bermuda, is being used for the transaction.

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.

Retrocessions and insurance-linked securities (ILS)

Since 2010, as part of its extended insurance-linked securities (ILS) activities, Hannover Re has written so-called collateralised fronting arrangements under which risks assumed from ceding companies are 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.

A major transaction, "FacPool Re", under which Hannover Re transferred a portfolio of facultative reinsurance risks to the capital market from September 2009 until January 2011, is in run-off as at the balance sheet date. A number of special purpose entities participated in the reinsurance cessions within "FacPool Re"; Hannover Re did not hold any shares in these special purpose entities and did not bear the majority of the economic benefits or risks arising out of their activities through any of its business relations.

In connection with the sale of the operational companies of the subgroup Clarendon Insurance Group, Inc. (CIGI), Wilmington, to Enstar Group Ltd., Hamilton/Bermuda, a partial portfolio of CIGI was retroceded to a special purpose entity. The retrocession arrangement became effective along with the entire disposal transaction upon approval by the US regulatory authorities ("closing condition"). Approval was granted on 8 July 2011; the transaction commenced with the closing of the disposal and the simultaneous deconsolidation of the operational companies. Since Hannover Re is not the major beneficiary of the special purpose entity and does not exercise either indirect or direct control over it, there is no requirement to consolidate this special purpose entity.

Associated companies valued at equity

Associated companies are those over which the Group exercises a significant but not controlling influence. In the year under review 13 (12) were valued using the equity method in accordance with IAS 28 "Investments in Associates." A further nine (six) associated companies are not recognised at equity owing to their subordinate importance for the presentation of the net assets, financial position and net income (please see here our remarks in the chapter "Accounting policies" from page 136 onwards).

HDI-Direktversicherung AG, Hannover, acquired a participation of 21,1% in Aspect Online AG, Augsburg, as part of a consortium by subscribing to a capital increase on 1 July 2011 and concluding a share purchase and transfer agreement on 15 July 2011. Aspect Online AG is the operator of the online comparison portal "Transparo" for all types of insurance, energy and financial services. In the third quarter of 2011 we included this participating interest in the consolidated financial statement for the first time as an associated company due to its significant influence (see also our information on the relevant balance sheet item in the Notes).

Aviation Insurance Company Limited, Johannesburg, South Africa, which belonged to subgroup Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg, South Africa, was liquidated in October 2011.

HDI-Gerling Industrie Versicherung AG acquired 25% of the shares of Petro Vietnam Insurance Holdings, Hanoi, Vietnam (abbreviated to PVI) as part of a capital increase. The purchase price was equivalent to EUR 65 million. This transaction was closed on 20 October 2011. We include this company, due to its significant influence, for the first time in the fourth quarter of 2011 as an associated company valued at equity in the consolidated financial statement (for further information see our explanatory remarks on the consolidated balance sheet – assets: item 5 “Investments in associated companies”).

Four domestic and nine foreign associated companies were therefore consolidated at equity as at the balance sheet date.

Joint ventures consolidated proportionately

As in the 2010 annual financial statement, Credit Life International Services GmbH, Neuss, (Group share: 50%) continues to be included in the consolidated financial statement on a proportionate basis as the only joint venture within the meaning of IAS 31 “Interests in Joint Ventures.” Current and non-current assets and liabilities related to our share in this company amount to EUR 1 million each as at the balance sheet date. The income and expenses attributable to the Group amount to EUR 3 million each. There are no contingent liabilities or other capital commitments.

neue leben Holding AG acquired a share of 50% in nl-PS Betriebliche Vorsorge GmbH, Erlangen, from PS-Pensions Solutions GmbH (share capital EUR 50,000) as per the share purchase agreement of 24 November 2011. The business object of nl-PS is, on a mandate basis, to communicate company pension plans and to mediate their sale for the local sales partners in the business area of the subsidiaries of neue leben Holding Aktiengesellschaft. At the time of acquisition the joint venture is, from the standpoint of the Group, of minor importance for the net assets, financial position and net income and is therefore recognised in “Investments in affiliated companies and participating interests.” The company commenced its business operations in December 2011. There was no annual financial statement available when the Group consolidated financial statement was being prepared. For this reason disclosures of proportional assets and liabilities and the Group’s share of income and expenses could not be made.

Business combinations

Business combinations in the reporting period

Segment Retail International

On 1 April 2011 (closing date) Talanx International AG (TINT), Hannover, acquired all the shares of Saint Honoré Iberia SL, Madrid, Spain, for a purchase price of USD 34.6 million. With regard to the detailed shareholder structure please see our remarks in the chapter "Consolidation", subsection "Acquisitions and establishments".

With effect from the same date our Chilean subsidiary Inversiones HDI Limitada, Santiago, Chile, acquired stakes of 0.769% in the intermediate holding company Protecciones Esencial S. A. for a purchase price of USD 152,000 as well as 1.229% in the Argentinean company L'UNION de Paris Cía. Argentina de Seguros S. A. for a purchase price of USD 248,000. Altogether, the Talanx companies in question paid the equivalent of EUR 25 million for the four companies and as a result TINT holds all voting rights at all the companies.

The company in Argentina transacts primarily motor and life insurance business (along with marine, fire and accident), while in Uruguay the bulk of the insurance business is conducted in the marine and motor lines (together with fire and accident). Both companies work together with independent agents. The purpose of these acquisitions is to move forward with further internationalisation in the Retail International segment. Moreover, the Group has expanded its presence in Latin America and is thus able to make the most of the available opportunities in local markets.

This transaction gave rise to goodwill – stemming from, among other things, the regional expansion in Latin America – in an amount of EUR 5 million. The goodwill is not tax-deductible.

The amounts recognised under IFRS at the acquisition date for each main group of acquired assets and assumed liabilities are presented below; figures have been combined as permitted by IFRS 3 B 65. We acquired assets in the form of investments (EUR 31 million), accounts receivable on insurance business (EUR 15 million), reinsurance recoverables on technical provisions (EUR 13 million), cash (EUR 1 million), deferred tax assets (EUR 1 million) and other assets (EUR 7 million) as well as liabilities in the form of technical provisions (EUR 34 million), other provisions (EUR 3 million), liabilities (EUR 8 million) and provisions for deferred taxes (EUR 3 million). The assets include intangible and tangible assets of EUR 7 million. The IFRS equity amounted to EUR 20 million at the acquisition date.

The amount recognised for the accounts receivable corresponds to the fair value. No further payment defaults are anticipated. Moreover, contingent liabilities were identified in an insignificant amount (EUR 0.4 million); conditional payments, indemnification assets and separate transactions as defined by IFRS 3 were not brought to account. The gross written premium until 31 December 2011 totaled EUR 42 million. If the companies had been included as at 1 January 2011, the gross written premium would have amounted to EUR 55 million. The result generated by the companies before tax and interest on hybrid capital stood at EUR 4 million as at 31 December 2011. Had the acquisition taken place on 1 January 2011, it would have amounted to EUR 5 million.

Segments: Industrial Lines and Retail Germany

On 27 April 2011 (closing date) HDI-Gerling Industrie Versicherung AG (HG-I), Hannover, acquired all the shares of the Dutch property/casualty insurer Nassau Verzekering Maatschappij N. V. (Nassau), Rotterdam, for a purchase price of EUR 198 million (segment: Industrial Lines). The insurer acquired by our subsidiary is an established niche insurer that has specialised in the Netherlands and beyond in specialty lines such as professional indemnity, D&O and crisis management. The end customers are small to mid-sized enterprises. Nassau has branches in Germany, France and Denmark. The acquired company was merged in the fourth quarter with retroactive effect as at 1 January 2011 into the Dutch insurer HDI Verzekeringen N. V. (HDI/NL), a wholly owned subsidiary of HG-I. The German insurance portfolio – predominantly D&O business – was transferred to HDI-Gerling Firmen und Privat Versicherung AG (HG-FP), Hannover, in the third quarter.

Initial accounting in the second quarter of 2011 was based on a provisional purchase price allocation since – most notably – the measurement of intangible assets and tax items had not yet been completed. The total goodwill provisionally recognised in connection with this transaction amounted to EUR 121 million. Of this, based on the planned portfolio transfer to HG-FP and the requirements of the management approach, an amount of EUR 13 million was allocated to the Retail Germany segment in the context of initial consolidation. The acquisition of Nassau is intended first and foremost to advance the further internationalisation of the Industrial Lines segment. Goodwill additionally derives from the anticipated synergistic effects associated with the combining of business processes at our Dutch companies. The goodwill is not tax-deductible.

The amounts recognised at the acquisition date for each main group of acquired assets and assumed liabilities were as follows on a provisional basis: We acquired assets in the form of investments (EUR 75 million), accounts receivable on insurance business (EUR 38 million), reinsurance recoverables on technical provisions (EUR 42 million), cash (EUR 77 million) and other assets (EUR 9 million) as well as liabilities in the form of technical provisions (EUR 143 million), other provisions (EUR 6 million), other liabilities (EUR 13 million) and provisions for deferred taxes (EUR 2 million). The acquired assets include tangible assets of EUR 6 million. The IFRS equity amounted to EUR 77 million at the acquisition date.

The acquired accounts receivable consist largely of accounts receivable from direct written business, with an amount of EUR 34 million attributable to accounts receivable from insurance intermediaries and EUR 4 million attributable to accounts receivable from business ceded. The amount recognised for the accounts receivable corresponds to the fair value. No further payment defaults are anticipated.

Following completion of the purchase price allocation in the third quarter we adjusted the provisional figures on the date of acquisition against the goodwill outside the statement of income. The adjustments relate principally to the recognition of intangible assets in an amount of EUR 23 million, the increase of EUR 6 million in deferred tax liabilities and the increase of EUR 17 million in equity. The goodwill is consequently reduced by altogether EUR 17 million and is attributable in amounts of EUR 11 million to the Retail Germany segment and EUR 93 million to the Industrial Lines segment. The intangible assets are comprised of other intangible assets (EUR 16 million) and insurance-related intangible assets (PVFP) of EUR 7 million. The IFRS equity amounts to EUR 94 million after the adjustments.

Contingent liabilities, conditional payments, indemnification assets and separate transactions as defined by IFRS 3 were not brought to account. The gross written premium until 30 September 2011 (before the merger with HDI/NL) totaled EUR 27 million. If the company had been included as at 1 January 2011, the gross written premium would have amounted to EUR 98 million. The result before tax generated by the company stood at –EUR 0.4 million as at 30 September 2011. Had the acquisition taken place on 1 January 2011, it would have amounted to EUR 4 million.

Segment: Non-Life Reinsurance

Funis GmbH & Co. KG, a wholly owned subsidiary of Hannover Re, acquired roughly 75% of the shares in Integra Insurance Solutions Ltd., for a purchase price of GBP 7.5 million effective 18 August 2011. Incidental acquisition costs of EUR 0.1 million were recognised as other expenses in the statement of income. As an agency, Integra mediates insurance business to International Insurance Company of Hannover Ltd., which is also a company belonging to the Hannover Re Group. In addition, a contingent purchase price payment of at most GBP 11.3 million was agreed; this is conditional principally on the volume and profitability of the business acquired by Integra until 2014. Based on the probable business experience, the fair value of the contingent purchase price payments at the time of acquisition was around GBP 5.1 million, thereby increasing the difference arising in the context of initial consolidation.

The acquired equity at the date of acquisition of Integra amounted to GBP 0.1 million. The company's assets are comprised largely of accounts receivable and payable. In the context of allocation of the purchase price, no effects arose out of the measurement of the assumed assets, nor was it possible to identify any intangible assets or liabilities that had hitherto not been brought to account. For this reason, the difference of GBP 12.6 million arising in the context of initial consolidation was initially recognised in full as goodwill. In the period of its affiliation with the Group, Integra generated a positive result after tax of GBP 0.3 million. In the fourth quarter we finalised the consolidation in regard to indirect minority interests. Capital consolidation is performed from the standpoint of the parent company using the multiplicative method. The share of the minority interest in the acquisition costs of the participating interest and in the company capital are thus offset by the balancing item "Non-controlling interests" in shareholders' equity outside the statement of income; as such only the goodwill that is attributed to the Group is recognised. The corresponding adjusted goodwill thus amounted to GBP 6.3 million as at the balance sheet date.

Business combinations after the reporting period

Under a contract dated 24 June 2011 Talanx International AG and HDI Seguros Mexico (both in the Retail International segment) acquired all of the shares of the Mexican insurer Metropolitana Compania de Seguros, Mexico City, Mexico, for a purchase price of USD 100 million. The acquisition of the company was closed on 1 January 2012. The Mexican company transacts primarily motor business. In addition, business is conducted in the life and property lines. Premium volume amounted to EUR 75 million in 2011. The sales organisation concentrates on Mexico City and the center of the country.

The purpose of these acquisitions is to move forward with further internationalisation in the Retail International segment. The Group has enhanced its presence in Latin America through the acquisition and is thus able to make the most of the available opportunities in local markets.

The disclosures required by IFRS 3 B 64(f)-(n), (q) in conjunction with IFRS 3 B 66 cannot be provided due to the proximity of the acquisition date to the closing date and also because the opening balance sheet is not yet available.

Takeover offers in the reporting period

In its press statement of 14 December 2011 Talanx International AG (segment: Retail International) announced that it was launching a longterm strategic insurance partnership in Poland jointly with its Japanese strategic partner Meiji Yasuda Life Insurance Company and Polish Getin Holding Group. To this end Talanx International AG and Meiji Yasuda Life Insurance Company together with Getin Holding Group are taking over the insurance companies TU Europa Life (Towarzystwo Ubezpieczeń na Życie Europa S. A.) and TU Europa Non-Life (Towarzystwo Ubezpieczeń Europa S. A.) (Euro Group). Talanx International AG is assuming a majority interest of 50% plus one share at a price equivalent to EUR 200 million. In addition, a public tender offer will be made to all shareholders of the Europa Group, which is publicly traded on the Warsaw stock exchange. After closing this transaction Getin Holding Group and Meiji Yasuda will each hold a significant minority interest. As closing will take place in the second quarter of 2012 – and thus after the approval of the release for publication of the consolidated financial statement – disclosures required by IFRS 3 were omitted.

Non-current assets held for sale and disposal groups

Development of the figures recognised in the previous consolidated financial statement

On 21 December 2010 Hannover Re reached agreement on the sale of the operational companies of its US subgroup Clarendon Insurance Group, Inc. (CIGI), Wilmington, to Enstar Group Ltd., Hamilton/Bermuda, a company specialising in the run-off of insurance business. The transaction received the customary regulatory approvals on 8 July 2011; closing of the transaction and deconsolidation of CIGI subsequently took place on 12 July 2011. 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 agreed purchase price was USD 219 million.

Pursuant to IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" the subsidiaries of CIGI constituted a disposal group, which was to be measured at the lower of the carrying amount and fair value less costs to sell. The measurement of the disposal group gave rise to income of EUR 8 million in the year under review. The income was recognised in other income and expenses.

The cumulative other comprehensive income of –EUR 23 (31 December 2010: –EUR 29) million arising out of the currency translation of the assets and liabilities belonging to the disposal group was only realised in the context of deconsolidation. Profits from the measurement of financial assets of the category "Available-for-sale financial assets" were realised in an amount of EUR 5 (31 December 2010: EUR 3) million upon deconsolidation. This was recognised in other income and expenses.

In the following table the assets and liabilities of the disposal group that were recognised in compliance with IFRS 5 distinct from continuing operations are presented and broken down into their major components:

Figures in EUR million	12.07.2011	31.12.2010
Assets		
Investments	578	643
Cash	15	27
Reinsurance recoverables on unpaid claims	783	831
Accounts receivable	4	17
Other assets	16	11
Assets held for sale	1,396	1,529
Liabilities		
Loss and loss adjustment expense reserve	1,206	1,310
Funds withheld	18	27
Reinsurance payable	11	17
Other liabilities	21	27
Liabilities related to assets held for sale	1,256	1,381

Non-current assets and disposal groups reclassified in the year under review that have already been sold

Within the first three quarters of the year under review HDI-Gerling Lebensversicherung AG (segment: Retail Germany) and HDI-Gerling Industrie Versicherung AG (segment: Industrial Lines) classified items of real estate with a total book value of EUR 61 million and EUR 2 million respectively for a purchase price of EUR 73 million and EUR 2 million respectively as "held for sale." The Retail Germany segment realised a capital gain of EUR 12 million.

Clarus AG, Wiesbaden, which was sold by Talanx Deutschland AG, Hannover, under a contract dated 29 March 2011 and which we measured and recognised as a disposal group in the first quarter of 2011, was deconsolidated in the second quarter of 2011. Further information is provided in the chapter "Consolidation."

In accordance with a notarised agreement dated 5 May 2011 HDI-Gerling Firmen und Privat Versicherung AG (HG-FP), Hannover, and Talanx Deutschland AG (TD), Hannover, sold all shares of HDI-Gerling Rechtsschutz Versicherung AG (HG-RS), Hannover, and HDI-Gerling Rechtsschutz Schadenregulierungs-GmbH (HG-RSG), Hannover, to ROLAND Rechtsschutz-Versicherungs-AG, Cologne, for purchase prices of EUR 37 million and EUR 100,000 respectively. The shares in HG-RS are held by HG-FP, while those of HG-RSG are held by TD. The companies sold are both allocated to the Retail Germany segment. Closing of the transaction was on 1 October 2011 and deconsolidation took place in the fourth quarter of 2011. Pursuant to IFRS 5 each of the two companies constituted as at 30 September 2011 a disposal group, which was to be measured at the lower of the carrying amount and fair value less costs to sell. The valuation of HG-RSG results in a measurement expense of EUR 0.3 million in the year under review owing to the establishment of a provision. The corresponding expenditures were recognised in other income and expenses. Assets and liabilities amounted to EUR 1 million each. The assets of HG-RS amounted to EUR 138 million as at 30. September 2011. Of this, EUR 121 million was attributable to investments, EUR 2 million to accounts receivable on insurance business, EUR 3 million to deferred acquisition costs and EUR 12 million to cash. These assets were offset by liabilities of EUR 119 million, of which EUR 112 was attributable to technical provisions, EUR 5 million to other provisions and EUR 2 million to other liabilities. The profits of the disposal group (HG-RS) accruing as at 30 September 2011, which are recognised directly in equity, amounted to EUR 1 million. No amounts were recognised with respect to HG-RSG.

Non-current assets held for sale and disposal groups to be recognised as at balance sheet date

Under a contract dated 29 December 2011 HDI-Gerling Vertrieb Firmen und Privat AG, Hannover, sold all shares in its subsidiary PARTNER OFFICE AG, Cologne, (PO) (both Retail Germany segment) to Kapitalwerk Beteiligungsgesellschaft mbH, Bonn, for a purchase price of EUR 1. The transaction is, among other things, subject to approval by the regulatory authority. We anticipate closing in the first quarter of 2012.

In addition, we intend to sell our wholly owned subsidiary ASPECTA Assurance International AG, Vaduz (Liechtenstein) (A-Lie; segment: Retail International), which ceased new business at the beginning of 2011. All shares are held by Talanx International AG, Hannover. This transaction is part of the corporate focusing strategy of Talanx International AG. We aim to close this transaction in the first half of 2012.

Pursuant to IFRS 5, PO and A-Lie each constitute a disposal group, which is to be measured at the lower of the carrying amount and fair value less costs to sell. The measurement of PO consequently gave rise to an expense amounting to EUR 4 million, which was recognised in other income and expenses.

In compliance with IFRS 5 the assets and liabilities of the disposal groups are recognised in a balance sheet item 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.

The assets of PO amounted to EUR 8 million as at balance sheet date; EUR 7 million was attributable to cash and EUR 1 million to other assets. These assets are offset by liabilities totaling EUR 8 million, which are all attributable to other provisions.

The assets and liabilities of the disposal group A-Lie with regard to their major components are as follows:

Figures in EUR million	31.12.2011
Assets	
Investments	1
Investments for the account and risk of holders of life insurance policies	261
Reinsurance recoverables on technical provisions	24
Accounts receivable on insurance business	3
Deferred acquisition costs	99
Cash	46
Deferred tax assets	1
Other assets	5
Assets held for sale	440
Liabilities	
Technical provisions	81
Technical provisions in the area of life insurance insofar as the investment risk is borne by policyholders	261
Sundry provisions	4
Funds withheld	16
Other liabilities	24
Liabilities related to assets held for sale	386

The cumulative comprehensive income as at balance sheet date amounted to –EUR 1 million.

In addition, PB Pensionskasse AG, Cologne, (segment: Retail Germany) and HDI Seguros S. A. de C. V., León (Mexico), (segment: Retail International) intend to dispose of life insurance portfolios. These transactions involve not only selling insurance-related assets and liabilities but also investments for covering obligations to the purchaser. The technical provisions of PB Pensionskasse AG amount to EUR 86 million plus EUR 3 million in technical provisions in the area of life insurance insofar as the investment risk is borne by policyholders, and EUR 2 million in provisions for deferred taxes that are offset by assets of EUR 96 million. These relate to EUR 6 million in intangible assets, EUR 85 million in investments, EUR 3 million in investments for the account and risk of holders of life insurance policies and EUR 2 million in other assets.

HDI Seguros S. A. de C. V. reports technical provisions in the amount of EUR 6 million, investments in the amount of EUR 5 million and intangible assets of EUR 1 million. As at balance sheet date the cumulative income and expenses recognised directly in shareholders' equity amount to EUR 1 million.

Both transactions are part of the corporate focusing strategy and will lead – particularly for our Mexican company – to cost optimisation in the area of IT and personnel expenses. We anticipate the completion of both portfolio transfers in the first quarter of 2012.

Moreover, HDI-Gerling Industrie Versicherung AG (segment: Industrial Lines), HDI-Gerling Lebensversicherung AG, neue leben Lebensversicherung AG (both Retail Germany segment) and E+S Rückversicherung AG (segment: Non-Life Reinsurance) intend to sell real estate portfolios with book values amounting to a total of EUR 15 million and have classified these as "held for sale." The sale prices of the various properties have not yet been set. The reasons for the intention to sell are, next to the poor rental situation, high administrative costs. We anticipate that the transfers will take place in the first quarter of 2012.

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 § 315 Para. 2 No. 2 HGB (German Commercial Code), German Accounting Standard DRS 5 in conjunction with DRS 5-20, IFRS 4 and IFRS 7. For fundamental qualitative statements, e.g. regarding the organisation 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 amortised cost. The classes need not necessarily be identical to the categorisation of financial instruments pursuant to IAS 39.6 or IAS 39.45–46 for the purpose 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 to the extent permitted according to the required disclosure.

Essentially, the following classes of financial instruments have been established:

	Classes of financial instruments	Measurement basis
Financial instruments from insurance contracts	Accounts receivable from insurance business	Nominal value
	Reinsurance recoverables on technical provisions	Underlying technical provisions
	Funds held by ceding companies	Nominal value
	Funds held under reinsurance treaties	Nominal value
Financial instruments from investments	Investments in affiliated companies and participating interests	Time value, amortised cost [1]
	Loans and receivables	Amortised cost
	Financial assets held to maturity	Amortised cost
	Financial assets available for sale: ■ Fixed-income securities ■ Variable-yield securities	Time value
	Financial assets at fair value through profit or loss: ■ Financial assets classified at fair value through profit or loss ■ Financial assets held for trading	Time value
	Other invested assets	Time value, in some cases amortised cost [1]
Other financial instruments	Other assets – derivative financial instruments that satisfy the criteria for hedge accounting (hedging instruments)	Time value
	Subordinated liabilities	Amortised cost
	Notes payable and loans	Amortised cost
	Other liabilities – derivative financial instruments (trading portfolios with a negative fair value) and derivatives that satisfy the criteria for hedge accounting (hedging instruments with a negative fair value)	Time value
	Other liabilities – sundry liabilities; investment contracts treated as financial instruments pursuant to IAS 39.	Time value

[1] For an itemised breakdown of the financial assets measured at amortised cost versus time value see the section on Default risks on page 203

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 taking on individual risks from policyholders (in primary insurance) or cedants (in reinsurance) and spreading these risks over 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 that are calculated in advance and cannot be changed. The reserving risk refers to the possibility of the reserves set up on the balance sheet proving insufficient and having to be boosted to the detriment of the technical result.

We counter the premium/loss risk by taking out appropriate reinsurance. The volume of reinsurance cover relative to the gross written premium is measured by the retained premium ratio; shown below broken down by segments; this indicates the proportion of written risks retained for our own account.

Retention by segments	2011	2010	2009
In %			
Industrial Lines	44.1	46.1	43.7
Retail Germany	92.9	91.6	85.6
Retail International	88.7	92.4	86.9
Non-Life Reinsurance	91.3	88.9	94.1
Total non-life insurance	**79.8**	**78.9**	**78.7**

The retention ratios in non-life insurance at Group level remained roughly on a par with the previous year, at 79.8% compared to 78.9%. The retention ratio in the Industrial Lines segment dropped, mainly because of the change to disclosure of the reinstatement premium among the reinsurance premiums.

The net loss ratio in the segments developed as follows in a year-on-year comparison:

Loss ratio by segments	2011	2010	2009
In %			
Industrial Lines	66.8	82.0	68.6
Retail Germany	67.5	69.4	62.5
Retail International	70.5	75.6	71.6
Non-Life Reinsurance	78.8	72.0	72.8
Total non-life insurance	**74.5**	**73.6**	**70.5**

The pronounced increase in the loss ratio in non-life reinsurance (+6.8 percentage points as a result of the high large-claims burden) contrasts with a notable decline in the ratios in some lines of primary insurance. Overall, the loss ratio at Group level rose slightly by 0.9 percentage points. The moderate loss ratios in recent years reflect our cautious underwriting policy and our success in active claims management.

In the Industrial Lines segment, high recoveries on major loss events had a favourable effect on the loss ratio in the year under review. In addition, re-assessment of a number of claims estimates led to sharply higher run-off profits. As a result, the loss ratio dropped significantly to 66.8 (82.0)% despite various natural catastrophes – which affected mainly the fire and engineering lines – and additions to reserves in liability. The notable improvement in the Retail International segment is due e.g. to a better-than-expected claims development in motor insurance at HDI Asekuracja. Besides, the previous year had been impacted by flooding and winter storm damage at our property insurance company in Poland. The loss ratio in the Non-Life Reinsurance segment in 2011 reflects the extraordinarily high burdens due to natural catastrophes in the first quarter of the year – essentially the earthquake and tsunami in Japan and the earthquake in New Zealand – and flood damage in Thailand in the second half. As a result, the loss ratio in Non-Life Reinsurance rose by 6.8 percentage points to 78.8%.

To ensure that we will be able to meet our benefit commitments at all times, we establish provisions and continuously analyse their adequacy using actuarial methods. These also provide insights into the quality of the written risks, their spread across individual lines with differing risk exposures, and anticipated future claims payments. In addition, our portfolios are subject to active claims management. Analyses of the size and frequency distribution of claims facilitate systematic management of our risks.

The loss reserves calculated using actuarial methods are supplemented where necessary by additional reserves based on our own actuarial claims estimates and an IBNR (incurred but not reported) reserve for losses that have already occurred but have not yet been notified to us as claims. In view of the long run-off of such claims, especially in liability business, various risk classes and regions are distinguished for the purpose of calculating the IBNR reserves.

Adequately assessing reserves for asbestos-related claims and pollution damage is a highly complex matter, since in many cases several years or even decades may elapse between the harm being caused and a claim being reported. The Group's exposure to asbestos-related claims and pollution damage is, however, relatively slight. The adequacy of these reserves is normally measured on the basis of the "survival ratio." This ratio expresses how many years the reserves would last if the average level of claims paid over the past three years were to continue. At the end of the year under review, our survival ratio in the Non-life reinsurance sector stood at EUR 25.9 (22.8) million; the reserves for asbestos-related claims and pollution damage amounted to EUR 222 (212) million.

Licensed scientific simulation models, supplemented by the expertise of the relevant specialist departments, are used to assess the major catastrophe risks due to natural hazards (earthquake, windstorm) for the Non-Life Reinsurance segment. Furthermore, we quantify the risk to our portfolio from various scenarios in the form of probability distributions. Monitoring of the natural hazards exposure of the portfolio (accumulation control) is rounded out by the progressive inclusion of realistic extreme loss scenarios.

We analyse extreme scenarios and accumulations that could lead to large losses. Based on the current and most recently calculated figures, the estimates for the net loss burdens for the Group are as follows:

Accumulation scenarios[1]	2011	2010
Figures in EUR million		
250-year loss US windstorm	595	709
250-year loss California earthquake	473	531
250-year loss European windstorm	355	530
250-year loss Tokyo earthquake	441	460
250-year loss Japanese windstorm	312	386
250-year loss Sydney earthquake	177	183

[1] Actual natural catastrophe experience may diverge from the model assumptions

We cover ourselves against peak exposures from accumulation risks by using carefully and individually selected reinsurance programs. This enables us to effectively limit large individual losses and the impact of accumulation events to a plannable level.

Run-off triangles are another tool used to verify our assumptions within the Group. These triangles show how the reserves change over time as claims are paid and the reserves to be established at each balance sheet date are recalculated. Adequacy is monitored using actuarial methods (see also our explanatory remarks on balance sheet item 20 “Loss and loss adjustment expense reserve,” pages 244 et seqq.). In addition, the quality of our own actuarial calculations on the adequacy of our reserve is verified in annually reviews by external actuaries and auditors.

To hedge against inflation risks at least in part, our subsidiary Hannover Rückversicherung AG has concluded inflation swaps deals (USD and EUR zero-coupon swaps). These derivatives serve to hedge parts of the claims reserves against inflation risks. The inflation risk is the possibility of our obligations (e.g. claims reserves) developing differently, due to inflation, than assumed at the time they were set up. We purchased inflation cover for the first time in the 2nd quarter of 2010 with terms of four and five years. This cover was increased in the 1st quarter of 2011 (eight-year term).

In property/casualty insurance we monitor and manage the reserving risk essentially by analysing 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 property/casualty insurance and non-life reinsurance would reduce the net profit after tax by EUR 350 (321) million.

Management of market risks in life and health insurance

Typical risks in life/health insurance (and reinsurance) stem from policies containing longterm benefit guarantees. Along with interest rate risks, the biometric and lapse risks are particularly relevant here. Biometric actuarial parameters such as mortality, longevity and morbidity, determined at the time of inception of a contract, are used to calculate the premiums and reserves and to assess the deferred acquisition costs. Over time, however, these assumptions may prove to be no longer accurate, in which case additional expenditures may be required. The adequacy of the biometric actuarial bases is therefore reviewed regularly.

Due to these risks, the calculation bases and our expectations may prove inadequate. Our life insurers use a variety of tools to counter this possibility:

- In calculating premiums and technical provisions, the Group companies use prudently quantified actuarial bases, the adequacy of which is regularly assured through 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 applying commensurate safety loadings.
- Life insurance policies are typically longterm 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 can thus be limited by adjusting the policyholders' future surplus participation.
- We regularly review the lapse patterns 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.

The same biometric risks are of special importance in life and health reinsurance, too. Here our reserves are based mainly on the information provided by our ceding companies. The plausibility of these figures is checked against reliable biometric actuarial bases. Furthermore, local insurance regulators ensure that the reserves calculated by ceding companies satisfy all requirements in terms of the actuarial methods and assumptions adopted (e.g. use of mortality and morbidity tables, assumptions regarding lapse rates, etc.). The lapse and credit risks are also of importance in the context of prefinancing 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 cover relative to the gross written premium is measured by the retained premium ratio; shown below broken down by segments, this indicates the proportion of written risks retained for our own account:

Retention by segments	2011	2010	2009
In %			
Retail Germany	93.6	92.9	90.4
Retail International	82.8	84.1	83.3
Life/Health Reinsurance	91.0	91.7	90.7
Total	**91.8**	**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 modelling 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 and for 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 emphasised 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.

Sensitivity to mortalities

The exposure of the Group's life insurers varies according to the type of insurance product they offer. 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.

Sensitivity to lapse rates

Under contracts with a right of surrender, the recognised benefit reserve is at least as high as the corresponding surrender value, and hence the economic impact of the lapse pattern tends to be influenced more by the level of the cancellation charges and other product characteristics. A higher-then-expected lapse rate would to some extent negatively affect the MCEV.

Sensitivity to administrative expenses

Higher-than-expected administrative expenses would result in a reduction of the MCEV.

Sensitivity to interest rates and equity price level

In life primary insurance, the obligation to generate at least enough return to cover the contractually guaranteed benefits gives rise to a considerable interest guarantee risk. Fixed-income investments normally have a shorter term than the obligations under the insurance contracts (maturity mismatch). This leads to a risk in the context of re-investing accumulated credit balances and a first-time investment risk for premiums received in the future. If the investment income generated over the remaining term of the obligations falls short of the interest payable 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 and not recognised separately
Insurance products may include the following major options on the part of the policyholder, if agreed upon when the contract was taken out:

- Surrender of policy and premium waiver.
- Increase in insured benefit without another medical examination – usually with the actuarial bases with respect to biometric risks and guaranteed interest rate applicable at that time (index-linked adjustment, supplementary insurance guarantees in the event of certain changes in living conditions)
- Possibility under deferred annuities to take a one-time payment of the insured benefit (lump-sum option) instead of drawing a pension. 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 may opt to take ownership of the accumulated units upon maturity of the contract instead of payment of their value at that time (benefit in kind).

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, measured in terms of standard market rating categories. Our choice 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 generally unsecured. The default risk on these receivables is subject to constant monitoring within the scope of our risk management. Here we are concerned with a large number of receivables in relatively modest amounts due from a diverse array of debtors. Most of these receivables are due from policyholders who do not have a rating at all. Only commercial clients in excess of a certain magnitude can provide independent assessments of their creditworthiness.

Insurance intermediaries are either individual brokers or broker organisations, which likewise do not normally have a rating. Default risks in reinsurance business are controlled largely with the aid of computer-assisted cession management: cession limits are specified for individual retrocessionaires, and their remaining capacities for short-, medium- and longterm business are calculated separately.

Each of the Group companies operates its own effective collections procedure to minimise outstandings due to delays in or defaults on premium payments directly from policyholders or via intermediaries. Intermediaries are also subject to credit checks.

Credit risks also 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 outward reinsurance we pay close attention to a high level of financial soundness on the part of our reinsurers, especially in the case of long-tail accounts. Our reinsurance partners are carefully selected by Security Committees on the basis of external ratings, their credit status is constantly monitored and – where necessary – appropriate measures are taken to secure receivables.

Serving 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 minimise the default risk – was as follows (excluding funds held by ceding companies):

Statement of book values of financial assets deriving from insurance contracts

	31.12.2011[1]				
	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance
Figures in EUR million					
Receivables					
Policy loans	—	189	2	—	—
Accounts receivable from policyholders	313	157	344	87	17
Accounts receivable from insurance intermediaries	254	213	41	361	—
Accounts receivable from reinsurance business	363	32	38	1,395	1,114
Other assets					
Reinsurance recoverables on technical provisions	3,420	770	310	1,376	586
Total	**4,350**	**1,361**	**735**	**3,219**	**1,717**

[1] After elimination of intra-Group relations between segments

Statement of book values of financial assets deriving from insurance contracts

	31.12.2010[1]				
	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] After elimination of intra-Group relations between segments

The funds held by ceding companies represent the cash and securities deposits furnished by Group companies to cedants; these funds do not trigger any cash flows and cannot be realised 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 would be reduced by the same amount. The credit risk is therefore limited; accordingly, it is not shown in the above table.

With respect to business ceded, we reduce the default risk on accounts receivable from reinsurers by carefully selecting our reinsurers through our Group's in-house reinsurance broker Talanx Reinsurance Broker 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 outward reinsurance, i.e. the cession of our assumed risks – the reinsurance recoverables – were EUR 4.5 (4.1) billion. The resulting reinsurers' shares in the provisions for unpaid claims totalled EUR 3.4 (3.1) billion.

The ratings of our counterparties for reinsurance recoverables on unpaid claims at the Group level were as follows:

In %	AAA	AA	A	BBB	< BBB	without
Reinsurance recoverables on technical provisions	— (2)	53 (40)	31 (44)	1 (—)	— (—)	15 (14)

84 (86)% 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 accounting balance, defined as the reinsurers' share in earned premiums minus the reinsurers' share in the gross claims and the gross operating expenses, in the year under review was EUR 52 (–EUR 565) million.

The accounts receivable from outward reinsurance business in the three primary insurance segments (after deduction of value adjustments) amounted to EUR 407 (740) million. The change versus the previous year (EUR 333 million) results essentially from improved accuracy in calculating the balance of accounts receivable and liabilities (new offsetting method). As at the balance sheet date, more than 51 (60)% of these accounts receivable were rated A or better.

In the two reinsurance segments, the claims due from retrocessionaires amounted to EUR 2.0 (1.4) billion as at the balance sheet date. Altogether 91 (92)% of retrocessionaires have an investment grade rating. Of these, almost 90 (92)% 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:

	31.12.2011		31.12.2010	
	>3 months < 1 year	> 1 year	>3 months < 1 year	> 1 year
Figures in EUR million				
Accounts receivable from policyholders	64	24	59	14
Accounts receivable from insurance intermediaries	34	7	44	22
Accounts receivable from reinsurance business	103	278	445	305
Total	**201**	**309**	**548**	**341**

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. In view of the different processes used throughout the Group, the presentation dispenses with the short duration range of "1 day to 3 months." Responsibility for receivables management within the Group rests with the local subsidiaries. The receivables management process – following the underlying business risks – varies accordingly (e.g. different treatment of receivables at risk of default (derecognition or value adjustment); different points in time when receivables management is activated, and different tools used for receivables management). Only once a receivable is overdue by more than 90 days do the associated procedures converge, making Group-wide observations possible.

At the balance sheet date, the primary insurers had accounts receivable that were overdue by more than 90 days from policyholders and insurance intermediaries in primary insurance business totalling EUR 61 (73) and 42 (66) million, respectively. This is equivalent to a ratio of 6 (9)% and 5 (9)%, respectively. The combined average default rate over the past three years was 1.5 (2.3)%. The annual default rate is 1.6 (1.0)%. The accounts receivable from outward reinsurance business with arrears of more than 90 days amounted to altogether EUR 178 (325) million, corresponding to a level of 41 (41)%.

As regards the major companies in the Non-Life Reinsurance and Life/Health Reinsurance segments (the Hannover Re Group), EUR 277 (247) million of our accounts receivable from reinsurance business totalling EUR 3.1 (2.8) billion were older than 90 days and in some cases impaired at the balance-sheet date. This represents a proportion of 8.8 (8.7)%. The average default rate over the past three years is 0.1 (0.1)%.

38.8% of non-life reinsurance recoverables were secured by deposits or letters of credit – virtually unchanged from the previous year. We also act as reinsurer to most of our retrocessionaires, so we would normally be able to offset any defaults against our own liabilities.

No value adjustments have been taken on accounts receivable from insurance business where 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	31.12.2011			31.12.2010		
	Risk provision	Thereof 2011	Book value after risk provision	Risk provision	Thereof 2010	Book value after risk provision
Figures in EUR million						
Accounts receivable from policyholders	26	1	918	25	–8	796
Accounts receivable from insurance intermediaries	19	–2	869	21	–36	755
Accounts receivable from reinsurance business	48	–9	2,942	57	–52	3,460
Total	**93**	**–10**	**4,729**	**103**	**–96**	**5,011**

The value adjustments on accounts receivable from insurance business that we recognise in separate adjustment accounts developed as follows in the year under review:

Development of value adjustments on accounts receivable from insurance business	2011	2010
Figures in EUR million		
Cumulative value adjustments at 31.12. of the previous year	103	200
Changes in consolidated group	—	—
Value adjustments in the financial year	11	7
Write-ups	9	91
Exchange rate fluctuations	–1	3
Other changes	–11	–16
Cumulative value adjustments at 31.12. of the year under review	93	103

The default risks on financial instruments 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 (2)%.

Specifically, the annual impairment rates were as follows:

Impairment rates	31.12.2011	31.12.2010
In %		
Accounts receivable from policyholders	2.8	3.1
Accounts receivable from insurance intermediaries	2.2	2.6
Accounts receivable from reinsurance business	1.6	1.6

The annual default rates were as follows:

Default rates	31.12.2011	31.12.2010
In %		
Accounts receivable from policyholders	1.0	1.6
Accounts receivable from insurance intermediaries	1.6	1.1
Accounts receivable from reinsurance business	0.4	0.2

The net gains/losses on financial instruments from insurance contracts were:

2011	Interest income	Interest expense	Value adjustment	Write-ups	Total
Figures in EUR million					
Funds held by ceding companies	422	—	—	—	422
Funds held under reinsurance treaties	—	116	—	—	–116
Reinsurance recoverables on technical provisions	—	—	2	2	—
Total	**422**	**116**	**2**	**2**	**306**

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**

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 our 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 2011 was as follows:

Weighting of major asset classes	Parameter as per investment guidelines	Position as at 31.12.2011	Position as at 31.12.2010
In %			
Bonds (direct holdings and investment funds)	at least 50	88	86
Listed equities (direct holdings and investment funds)	at most 25	1	2
Real estate (Direct holdings and investment funds)	at most 5	2	2

The bonds, equities and real estate are clearly within the defined Group limits. Within the terms of our company's risk-carrying capacity and regulatory requirements, our holistic asset/liability management systems endeavour to balance the investment goals of security, profitability, liquidity, mix and spread. The main challenges to achieving these goals 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 and the exchange rate risk associated with fluctuations in exchange rates where there is no matching cover. This may necessitate value adjustments or lead to losses being realised when financial assets are sold. A decline in the interest rate level can also reduce investment income.

One important means of monitoring and steering market price risks is constant analysis of the value at risk (VaR), which is increasingly evolving from an assets-side measurement approach to an asset/liability concept. The VaR defines the estimated maximum loss that will not be exceeded within a given holding period (e.g. 10 days) and with a given probability (e.g. 95%).

The VaR is determined on the basis of historical data. As part of these calculations, the loss potentials of both the total portfolio and individual sub-portfolios are monitored and limited. The maximum loss potential is calculated based on a confidence level of 95% and a holding period of ten days. This means that there is a 5% probability of this estimated loss potential being exceeded within 10 days.

The input data for the calculation are the business in force, updated daily. The market data history used for this risk analysis extends over 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 from the recent past are weighted more heavily by applying 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 used as the basis for calculating the risk parameters are updated weekly, the market parameters of the oldest week being removed and replaced by those of the current week. The risk model is then recalibrated on the basis of the updated market data.

The risk model used is a multi-factor model based on a multitude of representative time series, e.g. interest rates, exchange rates and stock indices, from which all risk-relevant factors can be determined by principal component analysis. The correlations between the time series are taken into account in the weighting of the risk factors. In this way the risk assessment makes allowance for cumulative and diversification effects. The individual elements of the portfolio are analysed through regression towards these factors. The factor weightings thereby determined establish 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 by simulating trends in the factors. The risk associated with options is arrived at through a comprehensive simulation, taking the non-linear correlations between option prices and the price movements of the underlying instruments into account.

The value at risk is calculated using normal market scenarios. In addition, stress tests are conducted in order to map extreme scenarios. The stress tests simulate the loss potentials on the basis of extreme events that have already occurred or may be purely notional. The actual market developments may diverge from the model assumptions.

The VaR (confidence level of 95%, holding period of 10 days) as at 31 December 2011 amounted to EUR 1.3 billion, equivalent to 1.8% of the assets under consideration.

These stress tests and scenario analyses complement the range of our management tools. 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. In the scenarios we simulate changes in equity prices, exchange rates and yields on the basis of historical data. Interest rate risks refer to an unfavourable 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. Equity price risks derive from unfavourable changes in the value of equities and equity- or index-linked 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, no allowance is made for taxes and the provision for premium refunds. Effects in connection with policyholder participation in the surplus in life primary insurance are thus not part of the analysis. If allowance were made for these effects, the impact on the results and shareholders’ equity would be much milder.

Scenarios for changes in the fair value of assets held by the Group as at the balance sheet date:

Portfolio	Scenario		Recognised in the income statement[1]	Recognised directly in equity[1]	31.12.2011 Portfolio change based on fair value[2]	31.12.2010 Portfolio change based on fair value[2]
Figures in EUR million						
Equity securities[3]	Share prices	+20%	+1	+151	+152	+361
	Share prices	+10%	+0.4	+75	+76	+181
	Share prices	–10%	–1	–87	–88	–191
	Share prices	–20%	–2	–174	–175	–382
Fixed-income securities	Yield increase	+200 bps	–277	–2,695	–7,781	–6,297
	Yield increase	+100 bps	–153	–1,421	–4,142	–3,346
	Yield decrease	–100 bps	+181	+1,551	+4,382	+3,456
	Yield decrease	–200 bps	+390	+3,247	+9,212	+7,245
Exchange-rate-sensitive investments	Change in exchange rate[4]	+10%	–1,942	–106	–2,048	–1,750
	thereof USD		–1,083	–80	–1,163	–989
	thereof GBP		–235	–1	–236	–194
	thereof AUD		–192	–1	–193	–150
	thereof other		–433	–24	–457	–418
	Change in exchange rate[4]	–10%	+1,942	+106	+2,048	+1,750
	thereof USD		+1,083	+80	+1,163	+989
	thereof GBP		+235	+1	+236	+194
	thereof AUD		+192	+1	+193	+150
	thereof other		+433	+24	+457	+418

[1] Gross (before taxes and surplus participation)
[2] Including financial assets of the categories “Loans and receivables” and “Financial assets held to maturity“
[3] Including derivatives
[4] Exchange rate variations of +/–10% versus the euro, on the basis of the balance-sheet values

The breakdown of our investments (including cash and cash equivalents) by currency was as follows:

Currency	31.12.2011	31.12.2010
In %		
EUR	74	76
USD	15	13
GBP	3	3
AUD	2	2
Other	6	6
Total	**100**	**100**

We use short-call and long-put options and 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 optimise our portfolio in the 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 the 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 approved 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 (of our financial investments under own management) on the balance sheet date, exclusive of collateral or other agreements that serve to minimise the default risk, was as follows[1]:

31.12.2011	Measured at amortised cost	Measured at fair value	Total
Figures in EUR million			
Investments in affiliated companies and participating interests	78	—	**78**
Loans and receivables	32,961	—	**32,961**
Financial assets held to maturity	4,294	—	**4,294**
Financial assets available for sale	—	32,141	**32,141**
Financial assets at fair value through profit or loss			
Financial assets classified at fair value through profit or loss	—	128	**128**
Financial assets held for trading	—	872	**872**
Other investments	118	3,849	**3,967**

31.12.2010	Measured at amortised 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 [2]	—	30,400	**30,400**
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 investments	114	4,071	**4,185**

[2] Adjusted on the basis of IAS 8

The investments are serviced regularly by the debtors. Collateral is provided especially in the context of covered bonds, asset-backed securities and mortgage loans secured by a charge over property.

[1] The financial assets are also broken down by measurement basis (measured at amortised cost versus measured at fair value)

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 totalling EUR 17 (24) million; this figure includes receivables of EUR 3 (5) million overdue by more than 12 months. Since these receivables are adequately secured by charges over property, no value adjustment was taken. Under the contractual provisions, realisation is possible only in the event of a failure to perform properly. The reader is referred to item 29 of the Notes, on page 259, 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 with the corresponding ratings:

31.12.2011	Measured at amortised cost	Measured at fair value	Total
Figures in EUR million			
EU member states	1,240	4,217	**5,457**
Foreign governments	1,010	2,772	**3,782**
Semi-governmental entities[1]	10,252	5,383	**15,635**
Corporations	7,248	12,651	**19,899**
Covered bonds/asset-backed securities	15,888	5,807	**21,695**
Mortgage loans	1,100	—	**1,100**
Investment fund units	—	767	**767**
Other	519	271	**790**

[1] In the year under review this includes securities in amounts of EUR 2,619 million (measured at amortised cost) and EUR 2,488 million (measured at fair value) which are guaranteed by the Federal Republic of Germany, other EU countries or German federal states

31.12.2010	Measured at amortised 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] This includes securities in amounts of EUR 2,305 million (measured at amortised cost) and EUR 3,039 million (measured at fair value) which are guaranteed by the Federal Republic of Germany, other EU countries or German federal states

More than 96 (96)% of the covered bonds/asset-backed securities at the balance sheet date were German covered bonds (Pfandbriefe).

The rating structure of the fixed-income investments (excluding other invested assets, policy loans and mortgage loans) is as follows:

Rating	Government bonds		Securities issued by semi-governmental entities [1]		Corporate bonds		Covered bonds/asset-backed securities		Other	
	In %	*In EUR million*	*In %*	*In EUR million*	*In %*	*In EUR million*	*In %*	*In EUR million*	*In %*	*In EUR million*
AAA	41	3,818	36	5,596	1	192	74	16,041	1	10
AA	29	2,695	57	8,949	12	2,392	22	4,734	2	33
A	17	1,613	5	756	55	11,035	1	281	10	137
BBB	5	416	1	241	27	5,437	2	386	31	422
<BBB	4	369	1	92	4	711	1	219	23	319
None	4	328	—	1	1	132	—	34	33	445
Total	**100**	**9,239**	**100**	**15,635**	**100**	**19,899**	**100**	**21,695**	**100**	**1,366**

[1] The securities issued by semi-governmental entities include securities in an amount of EUR 5,107 (5,344) million which are guaranteed by the Federal Republic of Germany, other EU countries or German federal states

At the end of the reporting period, 96 (98)% of our investments in fixed-income securities were issued by obligors with an investment-grade rating (AAA to BBB), while 86 (91)% 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.

Policy loans, other assets-side financial instruments and equity papers do not have a rating.

Around 73% of the short-term investments, mainly overnight money, time deposits and money market securities with a maturity of up to one year (balance-sheet item: Other investments) are rated A or better.

The other assets-side financial instruments include primarily accounts receivable not related to investments or the insurance business, most of them short-term. The receivables consist of claims on a relatively large number of debtors, so that we consider the default risk associated with these financial instruments to be low.

At the balance-sheet date, the Group was not involved in any securities lending deals. However there were some transactions with features similar to repurchase agreements that did not require derecognition of the financial assets pursuant to IAS 39. We have kept assets to the tune of EUR 2 million from overnight-repurchase agreements on the balance sheet, as these involve only a minimum default risk. The liabilities in connection with this transaction amount to 0 EUR.

Management of concentration risks

A broad mix and spread of asset classes is maintained in order to minimise the portfolio risk. The concentration risk is limited by our investment guidelines and is constantly monitored; it is comparatively slight overall, although e.g. large bank mergers may significantly enlarge concentrations. The scale on 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 GIIPS states totals no more than EUR 1.3 billion on a fair value basis; this corresponds to a proportion of 1.7%. The amortised costs and fair values of the bonds issued by the affected states as at the balance sheet date were as follows:

31.12.2011 Issuer			Thereof issuer country = investor country	
	Amortised cost	Market value	Amortised cost	Market value
Figures in EUR million				
Portugal	49	34	—	—
Ireland	266	220	3	3
Italy	701	634	473	438
Greece	3	3	—	—
Spain	407	406	—	—
Total	**1,426**	**1,297**	**476**	**441**

31.12.2010 Issuer			Thereof issuer country = investor country	
	Amortised cost	Market value	Amortised cost	Market 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**

Unscheduled impairments amounting to EUR 12 million were taken on Greek government bonds (see our explanatory remarks in item 29 of the Notes). Thanks to bailout mechanisms at the European level (Eurozone safety net), there is currently no risk of default on other government bonds of the GIIPS states.

Our exposure in Italy will be reduced by EUR 86 million (nominal) by the end of the first quarter of 2012 as part of our ongoing risk control measures.

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 fall due. Due to illiquidity of the markets, it may not be possible to sell holdings (or to do so only with some delay) or to close open positions (except with price markdowns). We counter the liquidity risk through regular liquidity planning and by matching the maturities of investments to our financial obligations. A liquid asset structure ensures that the Group is in a position to make the necessary payments at all times. With regard to payment obligations in connection with underwriting business, our planning is based on the expected maturities, which reflect the run-off patterns of the reserves.

In order to monitor liquidity risks, each category of securities 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 are then included in standardised 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 gross provisions and of the reinsurers' shares therein (broken down by their expected or contractual maturities), please see the notes on the corresponding balance sheet items in the Group Notes.

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 by the expected maturities, the liabilities by the contractual maturities or earliest possible termination dates.

2011	Carrying amount	3 months to 1 year	1 to 5 years	5 to 10 years	10 to 20 years	More than 20 years	No maturity
Figures in EUR million							
Technical provisions[1]	76,798	9,972	18,251	12,654	13,015	10,266	7,098
Financial liabilities							
Subordinated liabilities	2,615	—	—	—	1,218	498	899
Notes payable and loans	762	642	120	—	—	—	—
Other liabilities[2]	4,411	652	112	14	3	17	75
thereof: liabilities from derivatives, excluding hedging instruments[3]	94	9	51	14	3	17	—
thereof: negative fair values from hedging instruments[3]	69	17	52	—	—	—	—
Total	**84,586**	**11,266**	**18,483**	**12,668**	**14,236**	**10,781**	**8,072**

2010[4]	Carrying amount	3 months to 1 year	1 to 5 years	5 to 10 years	10 to 20 years	More than 20 years	No maturity
Figures in EUR million							
Technical provisions[1, 4]	72,137	10,682	17,669	12,388	11,860	8,120	6,321
Financial liabilities							
Subordinated liabilities	2,791	138	—	—	1,254	500	899
Notes payable and loans	747	—	747	—	—	—	—
Other liabilities[2]	4,858	494	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	**80,533**	**11,314**	**18,627**	**12,401**	**13,117**	**8,632**	**7,222**

[1] Under the technical provisions, only the benefit reserves and loss reserves are split according to maturities. The provision for premium refunds comprises the policyholders' legal entitlements to the extent that they have not already been finally allocated and paid to individual policyholders. It is therefore not possible to allocate them to individual insurance contracts and maturities. The difference is EUR 5,542 (5,097) million. The unearned premium reserve consists of that portion of gross written premium allocable as income to later financial year(s) for a particular period after the balance sheet date. The unearned premium reserve does not involve any future liquidity-affecting cash flows

[2] Under the other liabilities, the liabilities to policyholders and intermediaries and the reinsurance payable are not broken down by maturities, since these liabilities are directly linked to insurance contracts and cannot be considered in isolation from them

[3] The undiscounted cash flows with respect to such derivatives are not presented, because they are insignificant. 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 the funds held under reinsurance treaties normally follow the changes in the corresponding ceded technical provisions. For that reason, these funds have no contractually fixed maturity; they are liquidated in step with the run-off of the corresponding provisions.

In addition to the assets available for covering provisions and liabilities, the Group has at its disposal the following lines of credit that can be drawn upon as required:

Talanx AG has concluded a firm agreement with a broad consortium of banks providing for a floating-rate line of credit that may be drawn upon as necessary. 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 2011, Talanx AG concluded agreements on two syndicated floating-rate lines of credit of EUR 500 million and EUR 650 million respectively, each for a term of five years. This is a follow-on arrangement which, under the terms of the agreements, comes into effect when the present credit line has run out or been canceled or runs out at the time of pay-out of the new credit line.

In 2011, Hannover Re obtained a credit line in the amount of EUR 773 million in the form of an unsecured, syndicated guarantee facility to replace the syndicated facilities for letters of credit (LoC) concluded in 2005 and 2006. The LoC facility runs initially until early 2017 with extension options. Several other bilateral credit agreements have also been concluded. At the balance-sheet date, the 2005 syndicated facility showed a remaining balance of EUR 27 million after various partial terminations and runs out completely at the beginning of January 2012. The syndicated LoC line dating from 2006 has been fully repaid in the course of the refinancing process.

Letter of credit facilities on a bilateral basis are also in place with a number of financial institutions; these have various terms to at the latest 2021 and a total volume equivalent to EUR 2.4 (1.2) billion. For further information on the letters of credit, please see our remarks in the section of the Notes entitled “Other information,” subsection “Contingent liabilities and other financial commitments,” page 283. A longterm unsecured line of credit with a total volume equivalent to at most EUR 386 (566) million was concluded in December 2009; this is intended specifically for US life reinsurance business.

A number of the 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 that trigger a requirement to furnish collateral upon materialisation of certain major events, for example if its rating is significantly downgraded.

Notes on the consolidated balance sheet – assets

(1) Goodwill

Figures in EUR million	2011	2010
Gross book value at 31.12. of the previous year	**754**	**741**
Currency translation at 1.1. of the year under review	–11	13
Gross book value after currency translation at 1.1. of the year under review	743	754
Change in consolidated group	116	—
Disposals	5	—
Currency exchange rate differences	1	—
Gross book value at 31.12. of the year under review	**855**	**754**
Accumulated depreciation and accumulated impairment losses at 31.12. of the previous year	165	148
Currency translation at 1.1. of the year under review	—	—
Accumulated depreciation and accumulated impairment losses after currency translation at 1.1. of the year under review	165	148
Impairments	—	17
Accumulated depreciation and accumulated impairment losses at 31.12. of the year under review	**165**	**165**
Balance at 31.12. of the previous year	589	593
Balance at 31.12. of the year under review	**690**	**589**

The change in consolidated group (EUR 116 million) relates to goodwill derived from shares purchased in the year under review in the Saint Honoré Iberia SL holding, Madrid, and its subsidiaries in Argentina and Uruguay (100% in each case), in Nassau Verzekering Maatschappij N. V., Rotterdam, (100%), and from the acquisition of shares in Integra Insurance Solutions Ltd., Bradford, (75%). Please see the section entitled "Acquisitions in the reporting period" in the Notes for detailed information on acquisitions.

In 2010, the goodwill of the CGU "Mexico" (EUR 17 million) in the Retail International segment was written off entirely on the basis of the impairment test.

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.

The Group has allocated all the goodwill to a specific CGU. With regard to the Industrial Lines and Retail Germany segments, the CGUs in primary insurance satisfy the definition of an operating segment pursuant to IFRS 8. In the Retail International segment, each foreign market constitutes a separate CGU. Cross-company synergistic potentials (in relation to cash flows) can be realised only in those countries in which the Group is represented by several companies. In this case, we have allocated the goodwill to individual companies or groups of 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
- Chile
- Argentina/Uruguay

EUR 93 million of the goodwill resulting from the acquisition of Nassau Verzekering Maatschappij N. V., Rotterdam, was allocated to the "Industrial Lines" CGU, while EUR 11 million of this goodwill was allocated to the "Retail Germany" CGU. In the Retail International segment, the goodwill resulting from the acquisition of the Saint Honoré Iberia SL holding, Madrid, and its subsidiaries (EUR 5 million) was allocated to the "Argentina/Uruguay" CGU. The goodwill resulting from the purchase of shares in Integra Insurance Solutions Ltd., Bradford, was allocated in full to the "Non-Life Reinsurance" CGU.

The disposal of EUR 5 million resulted from the sale of HDI-Gerling Rechtsschutz Versicherung AG, Hannover, which is part of the "Retail Germany" CGU (please see our remarks in the section "Consolidation", subsection "Acquisitions and disposals of fully consolidated subsidiaries as well as further corporate changes").

The goodwill is allocated as follows to the segments subject to mandatory reporting:

Figures in EUR million	Industrial Lines	Retail Germany	Retail International	Non-life Reinsurance	Total
Balance at 31.12.2009	**60**	**397**	**128**	**8**	**593**
Currency translation at 1.1.2010	—	—	13	—	**13**
Balance after currency translation at 1.1.2010	60	397	141	8	**606**
Impairments	—	—	17	—	**17**
Balance at 31.12.2010	**60**	**397**	**124**	**8**	**589**
Currency translation at 1.1.2011	—	—	–11	—	**–11**
Balance after currency translation at 1.1.2011	60	397	113	8	**578**
Change in consolidated group	93	11	5	7	**116**
Disposals	—	–5	—	—	**–5**
Impairments	—	—	—	—	**—**
Currency exchange rate differences	—	—	—	1	**1**
Balance at 31.12.2011	**153**	**403**	**118**	**16**	**690**

The Group runs the impairment test on goodwill in the fourth quarter of each year based on data gathered up to and including 30 September of that year.

In order to establish whether an impairment expense needs to be recognised, 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 recognised 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 approved by the management of the companies concerned. 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 discount factor (capitalisation 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 longterm 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 capitalisation rate and the longterm growth rate are listed below for the property/casualty insurers of the CGUs:

CGU	Capitalisation rate	Longterm growth rate
	In %	*In %*
Industrial Lines		
German-speaking countries	8.5 – 9.0	0.0 – 0.5
Other countries (EU only)	8.5 – 10.0	0.0 – 0.5
Retail Germany	8.5 – 11.5 [1]	0.0 – 0.5
Retail International		
Brazil	15.0	1.0
Poland	10.3	1.0
Chile	11.25	0.5
Argentina/Uruguay	19.0 (ARS); 10.0 (UYU)	1.0

[1] Capitalisation rate 11.5% for the period after the end of the current bancassurance cooperation

The latest forecast for the Market Consistent Embedded Values for 2011 (MCEVs) plus the present value of anticipated new business (new business value, NBV) form the basis for valuation of German life insurers. The MCEV is a sector-specific valuation method used to determine the present value of portfolios of in-force insurance business. Like the NBV, the MCEV is calculated from the perspective of the shareholder, i.e. it includes a limited liability put option (LLPO).

In simple terms, the valuation method assumes a constant relationship between the APE (annual premium equivalent) and the NBV. The APE values for the period 2011–2016 are based on the forecast and on medium-term planning; extrapolation beyond 2016 assumes growth of 0% p.a.

A modified variant of the method normally applicable to life insurers exists for companies with longterm exclusive cooperation agreements and the associated stability in their new business. The limited term of these cooperation agreements is reflected in a risk premium of 3 percentage points on the discount rate to cover the period beyond the end of the current agreement.

The capitalisation rates in the Retail Germany segment are 8.5%.

Small insurers and non-insurance companies are recognised 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 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.

No impairment expenses needed to be recognised up to the balance-sheet date.

(2) Other intangible assets

	Insurance-related intangible assets	Software				
		Purchased	Created	Other	2011	2010[1]
Figures in EUR million						
Gross book value at 31.12. of the previous year	**2,389**	**305**	**122**	**56**	**2,872**	**2,891**
Adjustment of values carried forward from previous years[2]	—	—	—	—	—	–87
Gross book value at 1.1. of the year under review	2,389	305	122	56	2,872	2,804
Change in consolidated group	7	—	1	15	23	—
Additions	—	40	3	5	48	76
Disposals	11	1	4	7	23	24
Reclassification	—	12	—	–9	3	11
Disposal groups in accordance with IFRS 5	–10	–2	—	–3	–15	—
Other changes	—	—	—	—	—	—
Currency exchange rate differences	—	–2	—	–1	–3	5
Gross book value at 31.12. of the year under review	**2,375**	**352**	**122**	**56**	**2,905**	**2,872**
Accumulated depreciation and accumulated impairment losses at 31.12. of the previous year	989	213	71	16	1,289	1,058
Adjustment of values carried forward from previous years[2]	—	—	—	—	—	–87
Accumulated depreciation and accumulated impairment losses at 1.1. of the year under review	989	213	71	16	1,289	971
Change in consolidated group	—	—	—	—	—	—
Additions	—	—	—	—	—	—
Disposals	11	—	3	—	14	5
Depreciation/amortisation						
Scheduled	67	38	11	2	118	313
Unscheduled	—	—	—	—	—	—
Reclassification	—	3	—	—	3	8
Disposal groups in accordance with IFRS 5	–3	–2	—	–3	–8	—
Other changes	—	—	—	—	—	—
Currency exchange rate differences	—	–2	—	–1	–3	2
Accumulated depreciation and accumulated impairment losses at 1.1. of the year under review	**1,042**	**250**	**79**	**14**	**1,385**	**1,289**
Balance at 31.12. of the previous year	1,400	92	51	40	1,583	1,833
Balance at 31.12. of the year under review	**1,333**	**102**	**43**	**42**	**1,520**	**1,583**

[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" of life insurance companies derived principally from the insurance portfolios of the former Gerling Group acquired in 2006 (carrying value 2011: EUR 811 million) and the portfolios of the former BHW Lebensversicherung AG (merged with PB Lebensversicherung on 1 January 2011) and PB Lebensversicherung AG (carrying value 2011: EUR 319 million) purchased in 2007, as well as from neue leben Lebensversicherung AG (carrying value 2011: EUR 97 million).

In addition, on the balance-sheet date, EUR 95 million was attributable to the takeover by Hannover Life Reassurance (Ireland) Ltd. of ING's life reinsurance portfolio (Life/Health Reinsurance business segment). On the balance-sheet date, a PVFP to the tune of EUR 5 million derived from the acquisition of Nassau Verzekering Maatschappij N. V. (Nassau), Rotterdam, and the retroactive merger thereof with the Dutch insurance entity HDI-Gerling Verzekeringen N. V., Rotterdam (Industrial Lines business segment).

Particularly due to scheduled depreciation and amortisation, the insurance-related intangible assets decreased by EUR 67 million in the reporting period to EUR 1,333 million. Insofar as PVFPs are involved in the case of life insurance enterprises, these are capitalised and amortised across the term of the contracts (see also our remarks in the section "Accounting policies", subsection "Summary of major accounting policies", on page 141).

The gross PVFP recognised is composed of a shareholders' portion – on which deferred taxes are established – and a policyholders' portion. It is capitalised 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 amortisation. Only the amortisation of the shareholders' portion results in a charge to future earnings. The PVFP in favour of policyholders is recognised 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	31.12.2011	31.12.2010[1]
Figures in EUR million		
Shareholders' portion	659	720
Policyholders' portion	574	583
Balance	**1,233**	**1,303**

[1] Adjusted on the basis of IAS 8

The table below shows a breakdown of the shareholders' portion and the policyholders' portion of the PVFPs over the different policy terms:

	Up to 10 years	Up to 20 years	Up to 30 years	More than 30 years	Total
Figures in EUR million					
Shareholders' portion	363	187	187	22	**759**
Policyholders' portion	305	166	82	21	**574**
Balance at 31.12.2011	**668**	**353**	**269**	**43**	**1,333**

Of the depreciation/amortisation on insurance-related intangible assets totalling EUR 67 (265) million, an amount of EUR 58 (152) million was attributable to the shareholders' portion and EUR 9 (113) million to the policyholders' portion. The amortisation on the shareholders' portion is recognised in the statement of income in the item "Other technical expenses".

With regard to the reclassification due to IFRS 5, we refer to our remarks in the subsection of the Notes entitled "Non-current assets held for sale on the balance-sheet date and disposal groups".

(3) Investment property

Figures in EUR million	2011	2010[1]
Gross book value at 31.12. of the previous year	**1,296**	**1,069**
Adjustment of values carried forward from previous years[2]	—	–185
Gross book value at 1.1. of the year under review	1,296	884
Change in consolidated group	6	—
Adjustment on the basis of IAS 8	—	254
Additions	103	150
Disposals	90	33
Disposal groups in accordance with IFRS 5	–26	—
Reclassification	–5	29
Currency exchange rate differences	9	12
Gross book value at 31.12. of the year under review	**1,293**	**1,296**
Accumulated depreciation and accumulated impairment losses at 31.12. of the previous year	201	343
Adjustment of values carried forward from previous years[2]	—	–185
Accumulated depreciation and accumulated impairment losses at 1.1. of the year under review	201	158
Adjustment on the basis of IAS 8	—	19
Disposals	18	4
Revaluation after impairment	19	—
Write-downs		
Scheduled	20	15
Unscheduled	19	7
Disposal groups in accordance with IFRS 5	–11	1
Reclassification	—	5
Currency exchange rate differences	1	—
Accumulated depreciation and accumulated impairment losses at 31.12. of the year under review	**193**	**201**
Balance at 31.12. of the previous year	1,095	726
Balance at 31.12. of the year under review	**1,100**	**1,095**

[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 additions of EUR 103 million relate principally to the Non-Life Reinsurance segment (EUR 98 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.

The fair value of investment property amounted to EUR 1,173 (1,152) 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) totalled EUR 36 (24) million with respect to properties rented out; operating expenses of EUR 3 (2) million were incurred on properties with which no rental income was generated.

Of the total investment property, EUR 309 (387) million was allocated to special cover funds.

(4) Investments in affiliated companies and participating interests

Figures in EUR million	2011	2010
Affiliated companies	29	13
Participating interests	49	61
Balance at 31.12. of the year under review	**78**	**74**

Associated companies that are not recognised at equity owing to their subordinate importance for the presentation of the net assets, financial position and results of operations are recognised under participating interests (see also our remarks in the section "Accounting policies", subsection "Summary of major accounting policies", pages 141 et seq.). For these associated companies not valued at equity, we have recognised assets of EUR 48 (52) million, debts of EUR 7 (21) million, profits for the year of EUR 3 (0.2) million and revenues of EUR 14 (9) million.

(5) Investments in associated companies

Figures in EUR million	2011	2010
Balance at 31.12. of the previous year	**144**	**134**
Change in consolidated group	71	14
Additions	2	—
Disposals	—	2
Adjustment recognised in income	–4	—
Adjustment recognised outside income	–3	–2
Currency exchange rate differences	–1	—
Balance at 31.12. of the year under review	**209**	**144**

The change in the consolidated group (EUR 71 million) was largely attributable to the acquisition of a stake in the listed company Petro Vietnam Insurance Holdings (PVI), Hanoi, Vietnam (recognised in the Industrial Lines segment) and in Aspect Online AG, Augsburg, Germany (recognised in the Retail Germany segment).

The goodwill of all associated companies valued at equity amounted to EUR 60 (24) million as at year-end, EUR 35 million of which was attributable to PVI. 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 70 (32) as at the balance sheet date, EUR 36 million of which was attributable to PVI and EUR 26 (27) million to C-QUADRAT.

For all associated companies combined, we recognised assets of EUR 2.7 (2.3) billion, debts of EUR 2.1 (1.8) billion, profits for the year of EUR 9 (26) million and revenues of EUR 610 (360) million.

For further information on our associated companies, please see the section "Consolidation" on pages 168 et seq. as well as the subsection "List of shareholdings" on pages 288 et seqq.

(6) Loans and receivables

	Amortised cost		Unrealised gains/losses		Fair value	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Figures in EUR million						
Mortgage loans	1,100	1,239	132	106	1,232	1,345
Loans and prepayments on insurance policies	191	200	—	—	191	200
Loans and receivables due from governmental or quasi-governmental entities [1]	10,216	9,728	876	304	11,092	10,032
Corporate securities	6,674	7,342	162	97	6,836	7,439
Covered bonds, asset-backed securities	14,453	13,491	1,112	341	15,565	13,832
Participation rights	327	343	–19	–6	308	337
Total	**32,961**	**32,343**	**2,263**	**842**	**35,224**	**33,185**

[1] The loans and receivables due from governmental or quasi-governmental entities include securities of EUR 2,389 (2,114) 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 14,428 (13,464) million (99 [99]%).

	Amortised cost		Fair value	
Contractual maturity	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Figures in EUR million				
Due in one year	2,810	1,290	3,033	1,306
Due after one through two years	1,486	1,380	1,505	1,422
Due after two through three years	2,905	1,601	3,034	1,612
Due after three through four years	2,927	3,046	3,085	3,081
Due after four through five years	2,316	2,986	2,449	3,107
Due after five through ten years	8,035	9,252	8,520	9,553
Due after ten years	12,482	12,788	13,598	13,104
Total	**32,961**	**32,343**	**35,224**	**33,185**

Rating structure of loans and receivables	Amortised cost 31.12.2011	Amortised cost 31.12.2010
Figures in EUR million		
AAA	12,928	13,553
AA	11,028	11,780
A	4,880	4,521
BBB or lower	2,543	925
Unrated	1,582	1,564
Total	**32,961**	**32,343**

The rating categories are based on the classifications of leading international rating agencies.

The unrated loans and receivables consist principally of mortgage loans and policy loans.

(7) Financial assets held to maturity

	Amortised cost		Unrealised gains/losses		Fair value	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Figures in EUR million						
Government debt securities of EU member states	426	438	24	13	450	451
US Treasury Notes	927	386	44	45	971	431
Other foreign government debt securities	81	11	1	1	82	12
Debt securities issued by quasi-governmental entities [1)]	851	726	36	34	887	760
Corporate securities	574	429	6	18	580	447
Mortgage bonds, asset-backed securities	1,435	1,009	36	44	1,471	1,053
Total	**4,294**	**2,999**	**147**	**155**	**4,441**	**3,154**

[1)] The debt securities issued by quasi-governmental entities include securities of EUR 230 (191) 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 German covered bonds (Pfandbriefe) with a carrying amount of EUR 1,424 (998) million (99 [99]%).

The Group reclassified fixed-income securities with a total market value of EUR 1.3 billion from “Financial assets available for sale” to the category “Financial assets held to maturity”. The securities gave rise to accumulated hidden reserves totalling EUR 47 million which, on account of the reclassification, were amortised over the remaining maturities of the securities and recognised in income. These securities are available at any time to the relevant Group companies, taking cash flow projections into account. The option and intention of holding these assets to maturity enables the companies to reduce the volatility of their balance sheets.

Contractual maturity	Amortised cost		Fair value	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Figures in EUR million				
Due in one year	553	344	557	347
Due after one through two years	864	483	874	499
Due after two through three years	635	377	664	396
Due after three through four years	1,125	404	1,189	437
Due after four through five years	573	857	610	911
Due after five through ten years	498	480	501	512
Due after ten years	46	54	46	52
Total	**4,294**	**2,999**	**4,441**	**3,154**

Rating structure of financial assets held to maturity	Amortised cost	
	31.12.2011	31.12.2010
Figures in EUR million		
AAA	1,786	1,731
AA	1,787	728
A	405	407
BBB or lower	303	125
Unrated	13	8
Total	**4,294**	**2,999**

The rating categories are based on the classifications of leading international rating agencies.

(8) Financial assets available for sale

	Amortised cost		Unrealised gains/losses		Fair value	
	31.12.2011	31.12.2010[1]	31.12.2011	31.12.2010[1]	31.12.2011	31.12.2010[1]
Figures in EUR million						
Fixed-income securities						
Government debt securities of EU member states	4,205	4,719	3	–65	4,208	4,654
US Treasury Notes	1,224	2,059	56	66	1,280	2,125
Other foreign government debt securities	1,320	950	35	14	1,355	964
Debt securities issued by quasi-governmental entities[2]	5,126	5,165	208	98	5,334	5,263
Corporate securities	12,153	9,538	86	115	12,239	9,653
Investment funds	675	640	2	–3	677	637
Mortgage bonds, asset-backed securities	5,657	4,742	72	80	5,729	4,822
Participation rights	188	210	–1	2	187	212
Total fixed-income securities	**30,548**	**28,023**	**461**	**307**	**31,009**	**28,330**
Variable-yield securities						
Equities	422	926	97	250	519	1,176
Investment funds	541	800	32	58	573	858
Participation rights	40	36	—	—	40	36
Total variable-yield securities	**1,003**	**1,762**	**129**	**308**	**1,132**	**2,070**
Total securities	**31,551**	**29,785**	**590**	**615**	**32,141**	**30,400**

[1] Adjusted on the basis of IAS 8
[2] The debt securities issued by quasi-governmental entities include securities of EUR 2,484 (3,039) 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 German covered bonds (Pfandbriefe) with a carrying amount of EUR 5,052 (4,220) million (88 [88]%).

Contractual maturity of fixed-income securities	Fair value		Amortised cost	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Figures in EUR million				
Due in one year	2,760	3,516	2,755	3,498
Due after one through two years	3,107	3,512	3,078	3,468
Due after two through three years	3,569	3,489	3,525	3,396
Due after three through four years	3,712	3,725	3,685	3,644
Due after four through five years	3,187	3,726	3,145	3,708
Due after five through ten years	9,497	6,987	9,437	7,000
Due after ten years	5,177	3,375	4,923	3,309
Total	**31,009**	**28,330**	**30,548**	**28,023**

Rating structure of fixed-income securities	Fair value	
	31.12.2011	31.12.2010
Figures in EUR million		
AAA	10,932	13,186
AA	5,944	4,514
A	8,379	6,924
BBB or lower	5,353	3,451
Unrated	401	255
Total	**31,009**	**28,330**

The rating categories are based on the classifications of leading international rating agencies.

(9) Financial assets at fair value through profit or loss

	Fair value	
	31.12.2011	31.12.2010
Figures in EUR million		
Fixed-income securities		
Government debt securities of EU member states	5	14
Other foreign government debt securities	137	34
Debt securities issued by quasi-governmental entities [1]	50	97
Corporate securities	412	467
Investment funds	90	30
Covered bonds, asset-backed securities	78	230
Participation rights	84	102
Total fixed-income securities	**856**	**974**
Investment funds (variable-yield securities)	16	15
Other variable-yield securities	—	—
Total financial assets classified at fair value through profit or loss	**872**	**989**
Fixed-income securities		
Government debt securities of EU member states	4	3
Other foreign government debt securities	—	49
Debt securities issued by quasi-governmental entities	—	9
Corporate securities	—	7
Other securities	1	1
Total fixed-income securities	**5**	**69**
Investment funds (variable-yield securities)	70	83
Derivatives	53	80
Total financial assets held for trading	**128**	**232**
Total	**1,000**	**1,221**

[1] The debt securities issued by quasi-governmental entities include securities of EUR 4 (0) 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 11 (121) million (14 [53]).

Contractual maturity of fixed-income securities	Fair value 31.12.2011	Fair value 31.12.2010
Figures in EUR million		
Due in one year	303	481
Due after one through two years	207	73
Due after two through three years	64	116
Due after three through four years	34	45
Due after four through five years	55	3
Due after five through ten years	21	41
Due after ten years	177	284
Total	**861**	**1,043**

Rating structure of fixed-income securities	Fair value 31.12.2011	Fair value 31.12.2010
Figures in EUR million		
AAA	11	154
AA	46	72
A	157	115
BBB or lower	491	508
Unrated	156	194
Total	**861**	**1,043**

The rating categories are based on the classifications of leading international rating agencies.

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 30 (–12) million in the reporting period and –EUR 20 (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 4.0 (4.2) 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 1,057 (1,017) million as at the balance sheet date. The amortised cost of the participations amounted to EUR 798 (722) million; in addition, unrealised gains of EUR 263 (298) million and unrealised losses of EUR 4 (3) million from these investments were recognised directly in equity via the other income/expenses (item: "Other reserves"). This item also includes alternative investments with a total market value of EUR 102 (18) million (amortised cost: EUR 102 (18) million), changes in the value of which are recognised directly in equity.

Loans to affiliated (not-consolidated) companies are measured at amortised cost (categorised as "loans and receivables"). The carrying amount as at the balance sheet date was EUR 118 (114) million.

The short-term investments recognised consist predominantly of overnight money, time deposits and money market securities with a maturity of up to one year in an amount of EUR 2,690 (3,037) million, which were generally measured outside income at fair value. The amortised cost of these financial assets was EUR 2,686 (3,034) million; unrealised gains of EUR 4 (3) million were recognised outside income. The short-term investments are categorised within the Group as "financial assets available for sale".

	Fair value	
Rating structure of short-term investments	**31.12.2011**	**31.12.2010**
Figures in EUR million		
AAA	71	90
AA	607	375
A	1,284	694
BBB or lower	659	1,781
Unrated	69	97
Total	**2,690**	**3,037**

The rating categories are based on the classifications of leading international rating agencies.

(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 recognised at fair value in the balance sheet must 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 instrument are affected: financial assets available for sale, financial assets at fair value through profit or loss, other financial assets – insofar as they are recognised 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 recognised 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 36 (45)%.

- 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, 61 (52)% of the financial instruments recognised 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 (3)% of the financial assets recognised at fair value to this category.

The following table shows the carrying amounts of the financial assets recognised at fair value, broken down according to the three levels of the fair value hierarchy:

Carrying amounts of financial instruments recognised at fair value	Level 1	Level 2	Level 3[1]	Balance at 31.12.2011
Figures in EUR million				
Assets measured at fair value				
Financial assets available for sale				
Fixed-income securities	9,616	21,382	11	31,009
Variable-yield securities	761	79	292	1,132
Financial assets at fair value through profit or loss				
Financial assets classified at fair value through profit or loss	162	683	27	872
Financial assets held for trading	79	46	3	128
Other invested assets	2,647	197	1,005	3,849
Other assets, derivative financial instruments	—	21	—	21
Total amount of financial assets measured at fair value	**13,265**	**22,408**	**1,338**	**37,011**
Financial liabilities measured at fair value				
Other liabilities (negative fair values from derivative financial instruments)				
Negative fair values from derivatives (trading portfolio)	2	92	—	94
Negative fair value from hedging instruments	—	69	—	69
Other liabilities[2]	—	29	—	29
Total amount of financial liabilities measured at fair value	**2**	**190**	**—**	**192**

[1] Categorisation in level 3 has no quality implications; no conclusions may be drawn as to the credit rating of the issuers
[2] Other liabilities include investment contracts which, like financial instruments, are classified at fair value in accordance with IAS 39

Carrying amounts of financial instruments recognised 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 [2]	1,706	79	285	2,070
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, where financial instruments	3,016	158	897	4,071
Total amount of financial assets measured at fair value	**16,059**	**18,368**	**1,265**	**35,692**
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] Categorisation in level 3 has no quality implications; no conclusions may be drawn as to the credit rating of the issuers
[2] Adjusted on the basis of IAS 8

In the financial year just-ended, securities with a fair value of EUR 1,063 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 217 million, which in the previous year were recognised as level 2 financial assets, to level 1 in 2011. The reclassifications to level 1 affect exclusively 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, other invested assets amounting to EUR 36 million and fixed-income securities allocated to the category "financial assets available for sale" with a volume of EUR 6 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. In addition, variable-yield securities allocated to the category "financial assets available for sale" with a fair value of EUR 20 million were reclassified from level 3 to level 1. Listed market prices were available for these instruments in the reporting period. EUR 5 million of the variable-yield securities allocated to the category "financial assets available for sale" were reclassified from level 1 to level 3 as these securities were no longer listed on the stock market.

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.

Carrying amounts of financial instruments recognised 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	Financial assets held for trading	Other invested assets (measured at fair value)	Total amount of financial assets
Figures in EUR million						
Balance at 1.1.2010	**134**	**552**	**32**	**—**	**713**	**1,431**
Income and expenses						
recognised in the statement of income	1	–8	2	—	–18	–23
recognised 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 1.1.2011	**60**	**285**	**23**	**—**	**897**	**1,265**
Income and expenses						
recognised in the statement of income	—	1	–2	—	11	10
recognised directly in equity	–3	–1	—	—	–35	–39
Transfers to level 3	—	5	—	—	—	5
Transfers from level 3	–6	–20	—	—	–36	–62
Additions	1	52	13	3	221	290
Disposals	38	33	7	—	70	148
Currency exchange rate differences	–3	3	—	—	17	17
Balance at 31.12.2011	**11**	**292**	**27**	**3**	**1,005**	**1,338**

The income and expenses for the period recognised 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 recognised 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 2010 financial year					
Income from investments	2	—	5	3	10
Expenses for investments	–1	–8	–3	–21	–33
of which 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
Gains and losses in the 2011 financial year					
Income from investments	—	4	—	32	36
Expenses for investments	—	–3	–2	–21	–26
of which attributable to financial assets included in the portfolio at 31.12.2011					
Income from investments	—	3	—	29	32
Expenses for investments	—	–2	–1	–18	–21

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 (1.3) billion as at the balance sheet date, the Group generally measures financial assets with a volume of EUR 1.2 (1.2) 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 55 (28) 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 optimise returns or realise 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 recognised separately at fair value.

In the context of initial measurement derivative financial instruments are recognised at the fair value attributable to them on the date of contract materialisation. 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 146 et seq.

The method of recognising 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 recognised 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	31.12.2011	31.12.2010
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	53	80
Other assets, derivative financial instruments	Yes	21	—
Balance sheet items (negative fair values)			
Liabilities, other liabilities (derivatives)	No	–94	–85
	Yes	–69	–149
Total (net)		**–89**	**–154**

In the financial year just ended, derivative financial instruments – excluding derivatives used as hedging instruments – produced an unrealised loss of –EUR 13 (–20) million; the result realised on positions closed in 2011 amounted to EUR 3 (–21) million.

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 the amount of –EUR 89 (–154) million at the balance sheet date, corresponding to 0.08 (0.1)% 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	31.12.2011	31.12.2010
Figures in EUR million							
Interest rate hedges							
Fair value	–16	–27	1	–10	—	–52	–129
Notional values	595	2,307	58	33	—	2,993	2,288
Currency hedges							
Fair value	3	–12	–5	—	–2	–16	–34
Notional values	207	151	22	—	28	408	111
Equity and index hedges							
Fair value	–2	6	—	—	—	4	–6
Notional values	—	62	—	—	—	62	1
Inflation hedges							
Fair value	—	–15	–6	—	—	–21	–31
Notional values	—	2,868	309	—	—	3,177	2,535
Derivatives in connection with insurance contracts [1]							
Fair value	—	—	—	—	–5	–5	46
Other risks							
Fair value	—	—	1	—	—	1	—
Notional values	—	–4	1	—	—	–3	—
Total hedges							
Fair value	**–15**	**–48**	**–9**	**–10**	**–7**	**–89**	**–154**
Notional values	**802**	**5,384**	**390**	**33**	**28**	**6,637**	**4,935**

[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 recognised separately. In view of the characteristics of these derivatives, a maturity disclosure/presentation of nominal values is not reasonably possible and has therefore been omitted. These derivatives are recognised 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 21 (31) million (balance sheet item 26 “Other liabilities”).

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 transaction 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. Under these fair value hedges, the changes in the fair value of the derivative are recognised 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 6 million from the underlying transactions and gains of EUR 5 million from the hedging derivatives were recognised 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 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, 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, namely that it may be possible in future to generate only 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 provides for the hedging of planned transactions to be captured as cash flow hedges.

The effective part of the hedging instruments measured at fair value is recognised 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 amortised cost in accordance with allocation to the category pursuant to IAS 39.9. If the hedged transactions result in the recognition of financial assets, the amounts carried in shareholders' equity are amortised over the maturity period of the acquired asset.

The following table presents a reconciliation of the cash flow hedge reserve (before taxes and policyholder participation):

Changes in the cash flow hedge reserve	2011	2010
Figures in EUR million		
Balance at 31.12. of the previous year	–136	–33
Allocations (hedging of cash flows from floating interest rates)	17	7
Allocations/reductions (hedging of planned transactions)	56	–110
Balance at 31.12. of the year under review (before taxes)	**–63**	**–136**

The negative balance of the cash flow hedge reserve fell in the year under review by EUR 73 (–103) million (before taxes), and by EUR 63 (–100) million (after taxes).

The sum of EUR –6 (1.2) million was recognised 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	31.12.2011 [1]	31.12.2010 [1]
Figures in EUR million					
Cash flow of the underlyings	–9	–935	–944	–9	–5
Cash flow of the hedging instruments	–18	—	–18	–18	–21
Profit/loss	–27	—	–27	–27	–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	2011	2010
Figures in EUR million		
Fair value hedges		
Equity swaps	6	–6
Cashflow hedges		
Interest rate swaps	–17	–33
Forward securities transactions (net) [1]	–37	–110
Total	**–48**	**–149**

[1] 2011: Positive fair values (EUR 15 million); negative fair values (EUR 50 million)

The net gains or losses on derivatives used for hedging carried in the statement of income amounted to –EUR 23 (–22) million in the year under review and relate chiefly to current interest payments (–EUR 18 [–21] million), changes in value recognised in income on grounds of ineffectiveness (–EUR 6 [1.2] million), EUR 5 (1) million from hedging derivatives in connection with fair value hedges, and –EUR 4 (–3) million from other payments.

(13) Accounts receivable on insurance business

	2011	2010
Figures in EUR million		
Accounts receivable on direct written insurance business	1,787	1,551
of which:		
From policyholders	918	796
From insurance intermediaries	869	755
Accounts receivable on reinsurance business	2,942	3,460
Balance at 31.12. of the year under review	**4,729**	**5,011**

(14) Deferred acquisition costs

	2011			2010		
	Gross business	Reinsurance recoverables	Net business	Gross business	Reinsurance recoverables	Net business
Figures in EUR million						
Balance at 31.12. of the previous year	4,013	298	3,715	3,899	355	3,544
Change in consolidated group	—	—	—	—	—	—
Portfolio entries/withdrawals	11	1	10	10	1	9
Newly capitalised acquisition costs	918	92	826	624	–4	628
Amortised acquisition costs	575	125	450	658	65	593
Currency adjustments	17	6	11	138	6	132
Reclassification due to IFRS 5	–110	–10	–100	—	5	–5
Other changes	1	—	1	—	—	—
Balance at 31.12. of the year under review	**4,275**	**262**	**4,013**	**4,013**	**298**	**3,715**

With regard to the reclassification due to IFRS 5, we refer to our remarks in the subsection of the Notes entitled "Non-current assets held for sale on the balance-sheet date and disposal groups". The value shown under "Reclassification due to IFRS 5" in the reporting period is attributable, in the main, to A-Lie (EUR 106 million).

(15) Other assets

Figures in EUR million	2011	2010
Own-use real estate	698	646
Tax refund claims	210	266
Plant and equipment	146	140
Interest and rent due	11	15
Derivative financial instruments – hedging instruments, hedge accounting	21	—
Sundry assets	779	714
Balance at 31.12. of the year under review	**1,865**	**1,781**

Development of own-use real estate

Figures in EUR million	2011	2010
Gross book value at 31.12. of the previous year	**689**	**822**
Adjustment of values carried forward from previous years[1]	—	–23
Gross book value at 1.1. of the year under review	689	799
Change in consolidated group	5	—
Additions	65	56
Disposals	5	136
Reclassification	3	–32
Reclassification due to IFRS 5	–3	—
Currency exchange rate differences	–2	2
Gross book value at 31.12. of the year under review	**752**	**689**
Accumulated depreciation and accumulated impairment losses at 31.12. of the previous year	**43**	**210**
Adjustment of values carried forward from previous years[1]	—	–23
Accumulated depreciation and accumulated impairment losses at 1.1. of the year under review	43	187
Change in consolidated group	1	—
Additions	—	—
Disposals	—	134
Depreciation/impairment		
Scheduled	12	12
Unscheduled	—	1
Revaluation after impairment	3	—
Reclassification	1	–23
Accumulated depreciation and accumulated impairment losses at 31.12. of the year under review	**54**	**43**
Balance at 31.12. of the previous year	646	612
Balance at 31.12. of the year under review	**698**	**646**

[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 756 (697) 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 141.

Of the own-use real estate, EUR 235 (245) million was allocated to special cover funds. The expenditures capitalised for buildings under construction amounted to EUR 17 (96) million as at the balance sheet date. Contractual commitments for the acquisition of property, plant and equipment totalled EUR 0 (2) million as at the balance sheet date.

Development of plant and equipment	2011	2010
Figures in EUR million		
Gross book value at 31.12. of the previous year	**397**	**411**
Adjustment of values carried forward from previous years[1]	—	–27
Gross book value at 1.1. of the year under review	397	384
Change in consolidated group	5	—
Additions	64	42
Disposals	17	38
Reclassification	4	1
Disposal group in accordance with IFRS 5	–5	—
Other changes	1	—
Currency exchange rate differences	–2	8
Gross book value at 31.12. of the year under review	**447**	**397**
Accumulated depreciation and accumulated impairment losses at 31.12. of the previous year	**257**	**263**
Adjustment of values carried forward from previous years[1]	—	–27
Accumulated depreciation and accumulated impairment losses after currency translation at 1.1. of the year under review	257	236
Change in consolidated group	1	—
Additions	—	—
Disposals	11	30
Depreciation/impairment		
Scheduled	54	45
Unscheduled	1	1
Reclassification	1	1
Other changes	—	—
Currency exchange rate differences	–2	4
Accumulated depreciation and accumulated impairment losses at 31.12. of the year under review	**301**	**257**
Balance at 31.12. of the previous year	140	148
Balance at 31.12. of the year under review	**146**	**140**

[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	31.12.2011	31.12.2010
Figures in EUR million		
Trade accounts receivable	84	77
Receivables relating to investments	69	75
Receivables from non-group lead business	80	68
Other tangible assets	9	8
Claims under insurance for pension commitments	60	55
Prepaid insurance benefits	131	175
Surrender values	41	33
Prepaid expenses	33	37
Sundry assets	272	186
Total	**779**	**714**

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 recognised 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 Group shareholders' equity, please see the "Consolidated statement of changes in equity" on page 128.

Composition of the shareholders' equity	31.12.2011	31.12.2010[1]
Figures in EUR million		
Common shares	260	260
Additional paid-in capital	630	630
Retained earnings	3,668	3,452
Other reserves	343	387
Group result	520	216
Non-controlling interests in shareholders' equity	3,285	3,035
Total	**8,706**	**7,980**

[1] Adjusted on the basis of IAS 8

The retained earnings include EUR 1,419 (1,383) million of equalisation reserves.

Cumulative other comprehensive income (Other reserves) includes gains and losses from currency translation amounting to EUR 46 (3) million. Other reserves also include unrealised gains and losses as shown in the following table:

Unrealised gains and losses[1]	31.12.2011	31.12.2010[2]
Figures in EUR million		
Associated companies measured according to the equity method	–2	–1
From invested assets, available for sale	502	610
From cash flow hedges	–63	–136
Other changes in shareholders' equity	–42	–28
less/plus		
Policyholder participation/shadow accounting[1]	–12	13
Deferred taxes recognised directly in equity	–86	–74
Non-controlling interests in shareholders' equity (OCI)	240	177
	537	**561**

[1] Includes provision for premium refunds recognised directly in equity
[2] Adjusted on the basis of IAS 8

Non-controlling 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.

Non-controlling interests	2011	2010
Figures in EUR million		
Unrealised gains and losses from investments	270	224
Non-controlling interest in net profit	377	451
Other shareholder's equity	2,638	2,360
Total	**3,285**	**3,035**

The equity-affecting changes in financial instruments – allocated to the category of "financial assets available for sale" within the Group – before allowance for policyholders, non-controlling interests and deferred taxes were as follows:

	2011	2010
Figures in EUR million		
Allocation of gains/losses from the fair value measurement of the "financial assets available for sale" (unrealised gains and losses)	102	97
Transfers of gains/losses from the fair value measurement of the "financial assets available for sale" to the result for the reporting period	–146	–216

Changes in shareholders' equity and non-controlling interests

IAS 1 "Presentation of Financial Statements" requires detailed disclosures in the Notes that enable the readers of 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.

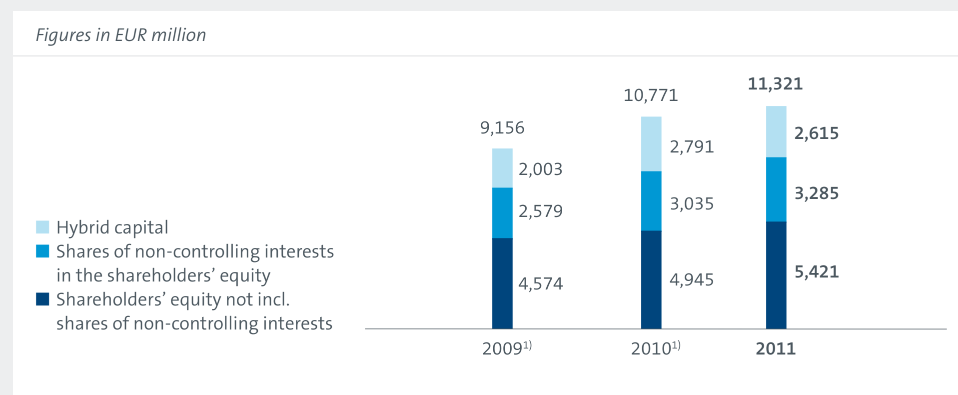
The policyholders' surplus is defined as the sum total of

- shareholders' equity excluding non-controlling interests, composed of the common shares, additional paid-in capital, other comprehensive income and retained earnings,
- non-controlling interests, and
- hybrid capital used as an equity substitute, which encompasses our subordinated liabilities.

The policyholders' surplus totalled EUR 11.3 (10.8) billion as at the balance sheet date.

The chart below illustrates the growth of the policyholders' surplus over the last three reporting years.

Growth of the policyholders' surplus over the last three 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. Some Group companies are subject to additional 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 optimise the Group's capital structure and to safeguard the liquidity (solvency) required (by regulators), various Group companies have, in the past, taken out longterm liabilities that predominantly take the form of subordinated debt and are in some cases exchange-listed.

Specifically, the longterm subordinated debt comprises the following financial instruments:

	Nominal value	Coupon	Maturity	Rating[3]	Issue	2011	2010
	Figures in EUR million					*Figures in EUR million*	*Figures in EUR million*
Hannover Finance (Luxembourg) S. A.	500	Fixed (5%), then floating rate	2005/no final maturity	(a; A)	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.	486	484
Hannover Finance (Luxembourg) S. A.	500	Fixed (5.75%), then floating rate	2010/2040	(a; A)	The guaranteed subordinated bond was issued in 2010 on the European capital market. It may be called by the issuer after ten years at the earliest.	498	500
Hannover Finance (Luxembourg) S. A.	750	Fixed (5.75%), then floating rate	2004/2024	(a; A)	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.	748	747
Hannover Finance (Luxembourg) S. A.[1]	—	Fixed (6.25%), then floating rate	2001/2031	(a; A)	The guaranteed subordinated bond was originally issued in an amount of EUR 350 million. The holders of this debt were offered the opportunity to exchange into the new bond issued in 2005. Nominal participation in the exchange was EUR 212 million.	—	138
HDI-Gerling Industrie Versicherung AG	250	Fixed (7%), then floating rate	2004/2024	(bbb+; A–)	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.	261	265
HDI-Gerling Lebensversicherung AG	110	Fixed (6.75%)	2005/no final maturity	(—; A–)	The subordinated bond is listed on the Euro MTF Market of the Luxembourg Stock Exchange and may be called by the issuer in 2015 at the earliest.	113	115
Talanx AG	300	Fixed, then floating rate	2010/no final maturity	(—; BBB)	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.	300	300
Talanx Finanz[2]	209	Fixed (4.5%)	2005/2025	(bbb; BBB)	The bond was originally issued in an amount of EUR 350 million. The guaranteed subordinated debt is listed on the Luxembourg Stock Exchange.	209	242
Total						**2,615**	**2,791**

[1] In the first quarter of 2011, the issuer exercised its call option and repaid the remaining volume of the bond in full
[2] In the first quarter of 2011, Group companies purchased portions of the debt in a nominal amount of EUR 24 million; in the fourth quarter, Group companies purchased further portions of the debt in a nominal amount of EUR 9 million; the remaining volume was reduced accordingly
[3] (Debt rating A.M. Best; debt rating S&P)

The reduction in subordinated liabilities is due largely to the exercising of a call option and the associated repayment in full of a bond in the first quarter of 2011 by the issuer Hannover Finance (Luxembourg) S. A. (EUR 138 million), as well as the purchase of bonds in the value of EUR 33 million by Group companies.

2011	Amortised cost	Unrealised gains or losses	Accrued interest	Fair value
Figures in EUR million				
Debts measured at amortised cost	**2,615**	**–208**	**59**	**2,466**

2010	Amortised cost	Unrealised gains or losses	Accrued interest	Fair value
Figures in EUR million				
Debts measured at amortised cost	2,791	–86	66	2,771

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 recognised effective interest rate method or e.g. 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 152 (126) million from subordinated liabilities in the year under review consisted of interest expenses in an amount of EUR 156 (126) million and income from amortisation (EUR 4 [0] million).

Subordinated liabilities: maturities	2011	2010
Figures in EUR million		
Due in one year	—	138
Up to 5 years	—	—
5–10 years	—	—
10–20 years	1,218	1,254
More than 20 years	498	500
No fixed maturity	899	899

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 206 et seqq.).

(18) Unearned premiums reserve

	2011			2010[1]		
	Gross	Retro	Net	Gross	Retro	Net
Figures in EUR million						
Balance at 31.12. of the previous year	**4,267**	**348**	**3,919**	**3,803**	**342**	**3,461**
Change in consolidated group	60	15	45	—	—	—
Portfolio entries/withdrawals	8	7	1	–3	–1	–2
Allocations	1,346	87	1,259	997	104	893
Releases	958	84	874	722	116	606
Reclassification due to IFRS 5	–30	—	–30	—	—	—
Other changes	2	3	–1	—	1	–1
Currency exchange rate differences	–18	13	–31	192	18	174
Balance at 31.12. of the year under review	**4,677**	**389**	**4,288**	**4,267**	**348**	**3,919**

[1] Adjusted on the basis of IAS 8

(19) Benefit reserve

	2011			2010[1]		
	Gross	Retro	Net	Gross	Retro	Net
Figures in EUR million						
Balance at 31.12. of the previous year	**43,610**	**1,035**	**42,575**	**40,977**	**869**	**40,108**
Change in consolidated group	—	—	—	—	—	—
Portfolio entries/withdrawals	542	17	525	–61	217	–278
Allocations	3,172	–59	3,231	4,076	–25	4,101
Releases	1,617	3	1,614	1,740	—	1,740
Reclassification due to IFRS 5	–152	–8	–144	—	—	—
Other changes	–2	—	–2	–1	—	–1
Currency exchange rate differences	186	6	180	359	–26	385
Balance at 31.12. of the year under review	**45,739**	**988**	**44,751**	**43,610**	**1,035**	**42,575**

[1] Adjusted on the basis of IAS 8

	2011			2010[1]		
	Gross	Retro	Net	Gross	Retro	Net
Figures in EUR million						
Less than one year	2,224	86	2,138	2,889	94	2,795
Between one and five years	8,179	171	8,008	8,491	196	8,295
Between five and ten years	8,700	131	8,569	8,859	155	8,704
Between ten and twenty years	10,679	190	10,489	9,890	187	9,703
After more than twenty years	9,105	149	8,956	7,190	80	7,110
Deposits	6,852	261	6,591	6,291	323	5,968
Total	**45,739**	**988**	**44,751**	**43,610**	**1,035**	**42,575**

[1] Adjusted on the basis of IAS 8

(20) Loss and loss adjustment expense reserve (loss reserve)

	2011			2010		
	Gross	Retro	Net	Gross	Retro	Net
Figures in EUR million						
Balance at 31.12. of the previous year	**28,538**	**4,073**	**24,465**	**27,256**	**4,734**	**22,522**
Change in consolidated group	195	41	154	–2	—	–2
Portfolio entries/withdrawals	17	–8	25	124	–11	135
Plus incurred claims and claims expenses (net)						
Year under review	12,067	2,153	9,914	13,746	1,391	12,355
Previous years	2,103	211	1,892	579	134	445
Total	14,170	2,364	11,806	14,325	1,525	12,800
Less claims and claims expenses paid (net)						
Year under review	4,545	563	3,982	6,814	518	6,296
Previous years	7,208	1,095	6,113	6,340	1,077	5,263
Total	11,753	1,658	10,095	13,154	1,595	11,559
Other changes	–100	–2	–98	–1,210	–741	–469
Currency exchange rate differences	353	105	248	1,199	161	1,038
Balance at 31.12. of the year under review	**31,420**	**4,915**	**26,505**	**28,538**	**4,073**	**24,465**

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 100 million (gross). In this regard please see our remarks on the disposal group on pages 182 et seq.

Run-off of the net loss reserve

As loss reserves are inevitably based to some degree on estimates, they will always feature some residual uncertainty. The difference between last year's estimate and the current appraisal of the reserve is expressed in terms of a net run-off result. In addition, reinsurance treaties whose terms do not correspond to a calendar year or which were concluded on an underwriting-year basis often make it impossible for claims expenses to be allocated precisely to the current or prior financial year.

The foreign currency run-off triangles returned by the various reporting units are translated into euros at the current rates of exchange on the balance sheet date, so as to allow run-off results to be presented at constant exchange rates. In cases where the original loss estimate corresponds to the actual final loss in the original currency, efforts are taken to avoid a purely indexed run-off result being returned even after the figure has been translated into the Group reporting currency (euros).

The following tables set out the net loss reserves for the years 2001 to 2011 split into our main property/casualty companies in the primary insurance segments and the Group segment of Non-Life Reinsurance (so-called run-off triangle). The charts show the run-off of the net loss reserves established as at each balance sheet date, this 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, rather the run-off of the reserve constituted annually in the balance sheet as at the balance sheet date.

The Group's total net loss and loss adjustment expense reserves in run-off amount to EUR 26.5 billion, EUR 6.6 billion and EUR 16.7 billion of which are attributable to our property/casualty companies in the primary insurance sector and the Non-Life Reinsurance segment respectively. A further EUR 3.2 billion is attributable to the Life/Health Reinsurance business segment (EUR 2.5 billion) and primary life insurance business (EUR 0.7 billion).

Within the primary insurance segments as well as in the Non-Life Reinsurance segment, the values shown are after elimination of intra-Group relations. The values returned for the 2001 financial year include the prior-year values no longer shown separately in the run-off triangle. The published run-off results reflect the changes in the final losses that materialised in 2011 for the individual run-off years.

They may include loss reserves established in connection with portfolio entries/withdrawals or changes in the consolidated group. For this reason, the run-off results in the Non-Life Reinsurance segment for the current financial year were adjusted for the net loss reserves of the operating companies of Clarendon Insurance Group, Inc. that were sold off in July 2011. In addition, changes in the consolidated group were required on account of the acquisition and sale of companies in the primary insurance segments during the reporting period (e.g. acquisitions in the Netherlands, Argentina and Uruguay, and the deconsolidation of HDI-Gerling Rechtsschutz Versicherung AG). In this regard, please see our remarks in the sections "Business combinations" and "Non-current assets held for sale and disposal groups", in particular.

Net loss reserve and its run-off in the primary insurance segments

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Figures in EUR million											
Loss and loss adjustment expense reserve	**3,912**	**3,904**	**4,222**	**4,884**	**5,818**	**5,908**	**6,257**	**6,122**	**6,153**	**6,471**	**6,596**
Cumulative payments for the year in question and previous years											
One year later	802	881	642	737	1,128	992	1,468	1,004	1,312	1,391	
Two years later	1,206	1,246	1,041	1,257	1,682	1,795	1,872	1,751	2,023		
Three years later	1,449	1,538	1,414	1,662	2,243	2,010	2,428	2,286			
Four years later	1,678	1,811	1,743	2,111	2,376	2,448	2,891				
Five years later	1,879	2,076	2,110	2,215	2,761	2,847					
Six years later	2,106	2,368	2,148	2,535	3,077						
Seven years later	2,354	2,348	2,415	2,822							
Eight years later	2,332	2,529	2,657								
Nine years later	2,503	2,726									
Ten years later	2,663										
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	3,912	3,904	4,222	4,884	5,818	5,908	6,257	6,122	6,153	6,471	6,596
One year later	3,423	3,823	3,858	4,508	4,884	5,231	5,719	5,371	5,697	5,933	
Two years later	3,275	3,624	3,813	4,262	5,017	5,337	5,064	4,884	5,727		
Three years later	3,332	3,682	3,778	4,423	5,215	4,840	5,246	5,389			
Four years later	3,327	3,676	3,981	4,664	4,820	4,946	5,560				
Five years later	3,445	3,882	4,201	4,408	4,903	5,228					
Six years later	3,542	4,021	4,014	4,486	5,187						
Seven years later	3,701	3,883	4,084	4,769							
Eight years later	3,603	3,925	4,329								
Nine years later	3,634	4,079									
Ten years later	3,780										
Change over the previous year											
of the final loss reserve[1]	**–146**	**–8**	**–91**	**–38**	**–1**	**2**	**–32**	**–191**	**475**	**568**	
of the consolidated group	**1**	**—**	**—**	**—**	**1**	**–2**	**–1**	**–3**	**5**	**2**	
Run-off result	**–147**	**–8**	**–91**	**–38**	**–2**	**4**	**–31**	**–188**	**470**	**566**	
In %	**–4**	**—**	**–2**	**–1**	**—**	**—**	**–1**	**–4**	**8**	**10**	

[1] Example: The difference in 2001 is to be calculated (EUR 3,634 million minus EUR 3,780 million = –EUR 146 million). This figure is recorded and then updated in each subsequent period, e.g. in 2002 with the change from 2001 to 2002. Thus, in 2002, the first step involves calculating the difference between the two amounts for 2002 and then subtracting the result from the value for 2001. The process is then repeated for each subsequent year

In the current financial year, the Group posted a positive run-off result in its primary insurance segments of EUR 535 million thanks mainly to HDI-Gerling Industrie Versicherung AG, HDI Seguros S. A. (Brazil) and HDI Asekuracja Towarzystwo Ubezpieczen S. A. (Poland).

Net loss reserve and its run-off in the Non-Life Reinsurance segment

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Figures in EUR million											
Loss and loss adjustment expense reserve	**11,693**	**12,737**	**12,997**	**12,657**	**12,977**	**16,232**	**12,818**	**13,675**	**14,013**	**15,281**	**16,679**
Cumulative payments for the year in question and previous years											
One year later	2,026	2,351	3,379	4,164	1,466	2,567	2,512	2,986	2,815	2,499	
Two years later	3,466	5,185	6,892	5,290	3,481	4,316	4,320	4,640	4,062		
Three years later	5,708	7,834	7,598	6,270	4,632	5,649	5,447	5,409			
Four years later	8,234	8,456	8,338	7,053	5,756	6,458	6,006				
Five years later	8,716	9,019	8,934	7,849	6,388	6,861					
Six years later	9,107	9,458	9,579	8,311	6,710						
Seven years later	9,450	10,029	9,929	8,585							
Eight years later	9,869	10,298	10,151								
Nine years later	10,071	10,455									
Ten years later	10,193										
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	11,693	12,737	12,997	12,657	12,977	16,232	12,818	13,675	14,013	15,281	16,679
One year later	10,295	10,639	12,810	13,138	13,966	12,365	12,481	13,486	13,909	14,472	
Two years later	9,173	10,627	13,123	14,197	10,900	11,953	12,105	12,697	13,177		
Three years later	9,247	10,961	14,044	11,829	10,473	11,711	11,924	11,896			
Four years later	9,912	11,616	12,190	11,451	10,364	11,526	11,137				
Five years later	10,486	10,201	11,991	11,426	10,194	10,816					
Six years later	9,513	10,290	12,052	11,274	9,552						
Seven years later	9,640	10,380	11,908	10,750							
Eight years later	9,741	10,267	11,443								
Nine years later	9,607	9,871									
Ten years later	9,252										
Change over the previous year											
of the final loss reserve[1)]	**355**	**41**	**69**	**59**	**118**	**68**	**77**	**14**	**–69**	**77**	
of the consolidated group	**289**	**54**	**40**	**42**	**46**	**13**	**5**	**1**	**1**	**—**	
Run-off result	**66**	**–13**	**29**	**17**	**72**	**55**	**72**	**13**	**–70**	**77**	
In %	**1**	**—**	**—**	**—**	**1**	**—**	**1**	**—**	**–1**	**1**	

[1)] Example: The difference in 2001 is to be calculated (EUR 9,607 million minus EUR 9,252 million = EUR 355 million). This figure is recorded and then updated in each subsequent period, e.g. in 2002 with the change from 2001 to 2002. Thus, in 2002, the first step involves calculating the difference between the two amounts for 2002 and then subtracting the result from the value for 2001. The process is then repeated for each subsequent year

The positive run-off result of EUR 318 million in the current business year was largely attributable to positive run-off of reserves in the credit/surety and marine/aviation segments, and in short-tail property business.

The carrying amount of the reinsurance recoverables on unpaid claims of EUR 4.9 (4.1) billion includes cumulative specific value adjustments of EUR 4 (4) million. The total amount of the net reserves was EUR 26.5 (24.4) billion. The following breakdown of the durations refers to this amount.

	2011			2010		
Duration of the reserve	**Gross**	**Retro**	**Net**	**Gross**	**Retro**	**Net**
Figures in EUR million						
Less than one year	9,289	1,455	7,834	9,403	1,516	7,887
Between one and five years	12,064	1,821	10,243	10,944	1,570	9,374
Between five and ten years	4,899	814	4,085	4,243	559	3,684
Between ten and twenty years	3,072	546	2,526	2,401	244	2,157
After more than twenty years	1,506	196	1,310	1,094	84	1,010
Deposits	590	83	507	453	100	353
Total	**31,420**	**4,915**	**26,505**	**28,538**	**4,073**	**24,465**

(21) Provision for premium refunds

	2011			2010[1]		
	Gross	**Retro**	**Net**	**Gross**	**Retro**	**Net**
Figures in EUR million						
Balance at 31.12. of the previous year	**845**	**1**	**844**	**953**	**1**	**952**
Change in consolidated group	—	—	—	—	—	—
Portfolio entries/withdrawals	—	—	—	—	—	—
Allocations/releases (—)	373	—	373	–111	—	–111
Disposals						
Life insurance policies	182	—	182	–1	—	–1
Liability/accident policies with a premium refund	18	—	18	11	—	11
Other changes	–10	—	–10	12	—	12
Currency exchange rate differences	—	—	—	1	—	1
Balance at 31.12. of the year under review	**1,008**	**1**	**1,007**	**845**	**1**	**844**

[1] Adjusted on the basis of IAS 8

In the year under review, “Other changes” include EUR 3 million for reclassifications due to IFRS 5.

(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. In terms of amounts paid, the majority of 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 directly by the company as well as those established via HDI Unterstützungskasse e. V. Due pension benefits make up more than half of the projected benefit obligations.

In addition, employees have an opportunity to accumulate further old-age provision by way of deferred compensation through membership of, inter alia, HDI-Gerling Lebensversicherung AG, neue leben Lebensversicherung AG, HDI-Gerling Pensionskasse AG, PB Pensionsfonds AG, and also via a reinsured provident fund. Employees of the former Gerling Group also have the option of obtaining pension commitments through deferred compensation with Gerling Versorgungskasse VVaG. These are usually defined contribution benefit plans for which pension provisions are not recognised.

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. Benefit entitlements are discounted using interest rates defined according to the part portfolios of current or former employees and of the beneficiaries, differentiated by respective duration. The blended rate shown below is a weighted average of the respective present values.

A new feature of the amended IAS 19 is the discontinuation of the so-called corridor method (please see our remarks in the section "General accounting principles and application of IFRS"). Taking the discontinuation of the corridor method into account (2011 and the preceding year), and with actuarial gains and losses thus being recognised directly in equity, the change would have resulted in a reduction in equity of EUR 53 (116) million after deduction of deferred taxes and deferred premium refunds.

The pension commitments are measured on the basis of the following assumptions:

	2011	2010
Measurement parameters/assumptions weighted in %		
Discount rate	4.84	4.52
Projected longterm yield on plan assets	5.62	5.78

	2011				2010			
Measurement parameters/assumptions	Germany	USA	UK	Other	Germany	USA	UK	Other
In %								
Rate of compensation increase	2.75	—	—	2.5–5.0	2.75	—	—	2.5–5.0
Indexation	2.0	3.0	3.0	2.0–3.0	2.0	2.0	3.4	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	2011	2010
Figures in EUR million		
Projected benefit obligation at 1.1. of the year under review	1,579	1,424
Current service cost	18	12
Interest cost	72	74
Deferred compensation	—	1
Actuarial gain/loss	–92	131
Currency translation	—	5
Benefits paid during the year	–69	–68
Past service cost	22	1
Business combinations, divestitures and other activities	23	–1
Plan curtailments	–2	—
Projected benefit obligation at 31.12. of the year under review	**1,551**	**1,579**

The funded status of the defined benefit obligation is shown in the following table:

Change in the projected benefit obligation	2011	2010
Figures in EUR million		
Projected benefit obligation from unfunded plans	1,449	1,506
Projected benefit obligation from wholly or partially funded plans	102	73
Projected benefit obligation at 31.12. of the year under review	**1,551**	**1,579**
Fair value of plan assets	–129	–82
Funded status	**1,422**	**1,497**

The fair value of the plan assets developed as follows:

Change in plan assets	2011	2010
Figures in EUR million		
Fair value at 1.1. of the year under review	82	70
Expected return on plan assets	5	3
Actuarial gain/loss	–6	7
Currency translation	1	4
Employer contributions	34	4
Benefits paid during the year	–2	–3
Effect of plan settlements	—	–3
Business combinations, divestitures and other activities	15	—
Fair value at 1.1. of the year under review	**129**	**82**

The rise in plan assets is due to the increase in employer contributions resulting from the recognition on the balance sheet of indirect pension commitments from provident funds, as well as to business combinations. The figure alongside business combinations relates to acquisition of the Dutch property insurer, Nassau, which was merged with the Dutch insurance company HDI-Gerling Verzekeringen N. V. (HDI/NL) with a retroactive date of 1 January 2011.

The structure of the asset portfolio underlying the plan assets was as follows:

Portfolio structure of plan assets	2011	2010
In %		
Fixed-income securities	46	54
Equities	17	18
Other	37	28
Total	**100**	**100**

The expected longterm 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 totalling EUR 35 (33) million for own financial instruments.

The actual return on the plan assets amounted to EUR 0 (3) million in the year under review.

The following table presents a reconciliation of the defined benefit obligations with the provisions for pensions recognised as at the balance sheet date:

Funded status of the defined benefit obligation	**2011**	**2010**
Figures in EUR million		
Projected benefit obligation at 31.12. of the year under review	1,551	1,579
Fair value of plan assets at 31.12. of the year under review	–129	–82
Funded status at 31.12. of the year under review	**1,422**	**1,497**
Unrealised actuarial gain/loss	–84	–180
Unrecognised past service cost	–2	–1
Unrecognised assets due to the restriction contained in IAS 19.58 (b)	7	—
Net provisions for pensions at 31.12. of the year under review	**1,343**	**1,316**

The recognised provision for pensions developed as follows in the year under review:

Change in the provisions for pensions	**2011**	**2010**
Figures in EUR million		
Balance at 1.1. of the year under review	1,316	1,298
Currency translation	—	1
Change in consolidated group	–1	–6
Net periodic pension cost	95	92
Deferred compensation	—	—
Amounts paid during the year	–9	–2
Benefits paid during the year	–69	–68
Reclassification and other movements	11	1
Disposal groups in accordance with IFRS 5	—	—
Balance at 31.12. of the year under review	**1,343**	**1,316**

The components of the net periodic pension cost for defined benefit plans recognised in the statement of income were as follows:

Net periodic pension cost	**2011**	**2010**
Figures in EUR million		
Current service cost	17	12
Interest cost	72	74
Expected return on plan assets	–5	–3
Actuarial gain/loss	9	9
Effect of plan curtailments	2	—
Net periodic pension cost for the year under review	**95**	**92**

The key figures relating to defined benefit plans recognised in the balance sheet were as follows:

	2011	2010	2009	2008	2007
Figures in EUR million					
Projected benefit obligation	1,551	1,579	1,424	1,246	1,359
Fair value of plan assets	129	82	70	56	73
Plus (+) or minus (–) of the plan	1,422	1,497	1,354	1,190	1,286
Actuarial gains (–) or losses (+) based on experience adjustments for:					
Scale of obligation	–15	–11	–3	–2	–15
Plan assets	1	–1	—	6	1

For the 2011 financial year the Group anticipates employer contributions of EUR 3 (2) million, which will be paid into the defined benefit plans shown here.

The net periodic pension cost was recognised in the consolidated statement of income in amounts of EUR 19 (12) million under acquisition costs and administrative expenses, EUR 74 (79) million under other expenses and EUR 2 (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 recognised for these obligations in the year under review amounted to EUR 2 (4) million, of which EUR 1 million was attributable to commitments to employees in key positions.

(23) Provision for taxes

The provisions for taxes can be broken down as follows:

	2011	2010
Figures in EUR million		
Provision for income tax	423	569
Other tax provisions	134	174
Total	**557**	**743**

(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 1.1.2010	**18**	**75**	**60**	**28**	**58**	**43**	**95**	**198**	**575**
Change in consolidated group	—	—	—	—	—	—	—	—	—
Additions	16	—	52	1	15	53	196	247	580
Utilisation	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	—	–3	—	–3	4	–7	75	60
Currency exchange rate differences	—	—	—	—	—	1	1	1	3
Balance at 31.12.2010	**19**	**75**	**59**	**26**	**56**	**68**	**116**	**273**	**692**
Change in consolidated group	—	—	2	—	—	1	—	–6	–3
Additions	80	—	48	4	12	29	131	86	390
Utilisation	9	—	40	4	17	29	120	93	312
Release	—	—	2	—	1	1	11	93	108
Change in fair value of plan assets	—	—	—	—	–1	—	—	—	–1
Other changes	–3	—	—	—	—	–1	–1	40	35
Currency exchange rate differences	—	—	—	—	—	—	–1	–3	–4
Balance at 31.12.2011	**87**	**75**	**67**	**26**	**49**	**67**	**114**	**204**	**689**

The provision for restructuring/integration takes into account implementation of our strategic focus. The amount recognised in the year under review includes, first and foremost, the sum of EUR 80 million for the implementation of our WIR project to promote growth, innovation and results, and covers personnel expenditure for severance pay and costs incurred through the termination of employment contracts. The WIR project brings together the conceptual work carried out by the Retail Germany CGU, which incorporates German private and corporate customer business.

Sundry provisions encompass a wide variety of items that cannot readily be assigned to the other aforementioned categories, e.g. outstanding contributions to the employers' liability insurance association, surcharges for non-employment of disabled persons, impending losses and interest shares.

Generally, the provisions can be distinguished in terms of maturity. Notably, the provision for anniversary bonuses and the provision for early/partial retirement are generally of a longterm nature, whereas the provision for restructuring/integration is a medium-term instrument (typical maturity of up to two years). By contrast, the provisions for bonuses and incentives and for outstanding invoices are chiefly short-term instruments.

Reclassifications in accordance with IFRS 5 amounting to EUR 11 million were carried under the "Other changes" in 2011. In addition, a provision of EUR 4 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 182 et seq.

(25) Notes payable and loans

In this item the Group reports loan liabilities of EUR 762 (747) million, chiefly in connection with the financing of acquired interests or other investment activities.

The rise of EUR 15 million in the liabilities to EUR 762 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., Orlando.

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 PBV Lebensversicherung AG, formerly BHW Lebensversicherung AG, and of PB Pensionskasse, formerly 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 "Derivative financial instruments and hedge accounting", page 231 et seq.). A further EUR 9 million is attributable to a bearer debenture issued in 2003 with a term until July 2013. The interest expenditures of EUR 9 (8) million resulting from these liabilities are recognised under the item "Financing costs".

The net result from notes payable and loans is EUR 22 (15) million and consists solely of interest expenditures including amortisation of EUR 2 (1) million.

The carrying amount of this item corresponds to the amortised cost. Cash outflows occur annually until final maturity in the amount of the interest payments. The total amount includes liabilities of EUR 642 million 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 206 et seqq.).

(26) Other liabilities

Figures in EUR million	2011	2010
Liabilities under direct written insurance business	2,192	2,155
of which to policyholders	1,529	1,548
of which to insurance intermediaries	663	607
Reinsurance payable	1,346	1,968
Trade accounts payable	92	68
Liabilities relating to investments	195	145
Liabilities under non-group lead business	86	71
Liabilities from derivatives	163	234
of which negative fair values from derivative hedging instruments	69	149
Deferred income	15	26
Interest	15	15
Liabilities due to social insurance institutions	14	11
Other liabilities	293	165
Balance at 31.12. of the year under review	**4,411**	**4,858**

"Liabilities relating to investments" include interim payments of EUR 65 (36) million from units in private equity funds that could not be recognised in income as at the balance sheet date.

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 231 et seq.

(27) Deferred taxes

The following table presents a breakdown of the deferred tax assets and liabilities into the balance sheet items from which they derived.

Figures in EUR million	31.12.2011	31.12.2010[1]
Deferred tax assets		
Loss and loss adjustment expense reserves	427	338
Other technical provisions	266	290
Loss carry-forwards	356	306
Benefit reserves	35	50
Other provisions	127	208
Accounts receivable on insurance business	11	12
Investments	93	68
Contract deposits	240	309
Premium refunds	1	13
Other invested assets	2	3
Value adjustment	–194	–180
Present value of future profits (PVFP)	3	—
Deferred acquisition costs	88	—
Other	230	400
Total	**1,685**	**1,817**
Deferred tax liabilities		
Equalisation reserve	1,180	1,088
Deferred acquisition costs[2]	614	488
Contract deposits	41	51
Accounts receivable on insurance business	81	381
Present value of future profits (PVFP)	228	302
Benefit reserves	125	167
Technical provisions	68	47
Investments	206	197
Loss and loss adjustment expense reserves	52	30
Other invested assets	36	63
Debt consolidation	34	18
Provisions	2	55
Premium refunds	3	—
Other	183	106
Total	**2,853**	**2,993**
Deferred tax liabilities (net)	**1,168**	**1,176**

[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 recognised as follows:

Figures in EUR million	31.12.2011	31.12.2010[1]
Deferred tax assets	320	268
Deferred tax liabilities	1,488	1,444
Deferred tax liabilities (net)	**1,168**	**1,176**

[1] Adjusted on the basis of IAS 8

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.

2011[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	3,109	6,649	2,482	6,417	5,025	23,682
Savings elements of premium from unit-linked life and annuity insurance	—	871	241	—	—	1,112
Ceded written premium	1,419	158	158	572	425	2,732
Change in gross unearned premium	–27	6	–107	–250	–7	–385
Change in ceded unearned premium	–13	—	4	5	1	–3
Net premium earned	1,676	5,626	1,972	5,590	4,592	19,456

2010[1]	Industrial Lines	Retail Germany[2]	Retail International[2]	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	47	–76	–276	–13	–277
Change in ceded unearned premium	42	–11	19	–39	—	11
Net premium earned	1,684	5,718	1,843	5,044	4,386	18,675

[1] Presentation after elimination of intra-Group relations
[2] Adjusted on the basis of IAS 8

(29) Net investment income

2011 [1]	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
Figures in EUR million							
Income from real estate	5	52	2	38	—	—	97
Dividends [2]	6	19	1	12	–2	15	51
Current interest income	200	1,507	152	659	209	7	2,734
Other income	4	13	—	38	1	—	56
Ordinary investment income	**215**	**1,591**	**155**	**747**	**208**	**22**	**2,938**
Appreciation	8	26	3	37	—	—	74
Realised gains on investments	45	231	29	223	40	—	568
Unrealised gains on investments	1	51	24	25	10	—	111
Investment income	**269**	**1,899**	**211**	**1,032**	**258**	**22**	**3,691**
Realised losses on investments	24	144	8	79	4	—	259
Unrealised losses on investments	3	44	18	17	58	1	141
Total	**27**	**188**	**26**	**96**	**62**	**1**	**400**
Impairments/depreciation on investment property							
Scheduled	1	10	—	9	—	—	20
Unscheduled	1	18	—	—	—	—	19
Impairments on equity securities	16	52	16	1	—	6	91
Impairments on fixed-income securities	9	13	2	6	—	—	30
Impairments on other investments	2	9	—	15	—	—	26
Expenses for the administration of investments [3]	4	6	1	9	1	50	71
Other expenses	13	26	3	30	2	4	78
Other investment expenses/impairments	**46**	**134**	**22**	**70**	**3**	**60**	**335**
Investment expenses	**73**	**322**	**48**	**166**	**65**	**61**	**735**
Net income from investments under own management	**196**	**1,577**	**163**	**866**	**193**	**–39**	**2,956**
Interest income on funds withheld and contract deposits	1	—	—	22	399	—	422
Interest expense on funds withheld and contract deposits	—	22	—	8	86	—	116
Net interest income on funds withheld and contract deposits	**1**	**–22**	**—**	**14**	**313**	**—**	**306**
Net investment income	**197**	**1,555**	**163**	**880**	**506**	**–39**	**3,262**

[1] Presentation after elimination of intra-Group relations between segments
[2] The profit or loss on investments in associated companies amounts to EUR 0 (2) million
[3] Expenses for the administration of non-Group investments are recognised under other expenses with effect from the current reporting period. The previous year was adjusted accordingly (EUR 47 million)

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	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
Realised gains on investments	24	191	26	207	39	3	490
Unrealised gains on investments	3	21	24	12	14	—	74
Investment income	**254**	**1,770**	**173**	**927**	**245**	**14**	**3,383**
Realised losses on investments	10	28	3	55	9	—	105
Unrealised 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	—	11	—	—	—	—	11
Impairments on equity securities	2	28	8	1	—	6	45
Impairments on fixed-income securities	—	9	—	8	—	—	17
Impairments on other investments	3	13	—	8	—	3	27
Expenses for the administration of investments[3]	4	11	1	9	2	51	78
Other expenses	8	17	1	25	2	2	55
Other investment expenses/impairments	**18**	**96**	**10**	**58**	**4**	**62**	**248**
Investment expenses	**29**	**136**	**19**	**157**	**36**	**62**	**439**
Net income from investments under own management	**225**	**1,634**	**154**	**770**	**209**	**–48**	**2,944**
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**	**–48**	**3,224**

[1] Presentation after elimination of intra-Group relations between segments
[2] The profit or loss on investments in associated companies amounts to EUR 0 (2) million
[3] Expenses for the administration of non-Group investments are recognised under other expenses with effect from the current reporting period. The figures were adjusted accordingly (EUR 47 million)

Of the unscheduled impairments totalling EUR 166 (100) million, an amount of EUR 26 (27) million was attributable to other investments, including EUR 14 (7) million on alternative investments from the Non-Life Reinsurance segment. The impairments on fixed-income securities of EUR 30 (17) million were taken predominantly on structured assets. A further EUR 91 (45) million in impairment losses were recognised on equity holdings, the fair value of which fell significantly (i.e. by more than 20%) or prolonged (i.e. for more than nine months) below acquisition cost. This contrasted with appreciation totalling EUR 74 (37) million on investments that had been written down in previous periods. This was attributable principally to EUR 30 (3) million on alternative investments and EUR 20 (24) million on fixed-income securities. In addition there was appreciation amounting to EUR 19 million on investment property.

The Group had only insignificant investments in Greek government bonds as at the closing date. Nominal amounts totalling EUR 15 million (0.02% of the portfolio of assets under own management) contrast with a fair value of EUR 3 million. As a result of the discussion surrounding the European rescue package and the resolutions of the European summit in July 2011 we have taken impairments to fair value totalling EUR 12 million on the securities. We recognised a value of on average 22% for the securities as at balance sheet date.

The reclassification of fixed-income securities from the category "Financial assets available for sale" to the category "Financial assets held to maturity" at fair value in an amount of EUR 1.3 billion including EUR 47 million in hidden reserves results in a future amortisation expense to be distributed over the remaining term to maturity. Other reclassifications among the various categories of our financial instruments did not take place in the year under review.

Moreover, the portfolio did not contain any overdue, unadjusted securities as at the balance sheet date since overdue securities are written down immediately.

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 186 et seq.).

Making allowance for expenses for the administration of investments (EUR 71 (78) million) and other expenses (EUR 78 (55) million), the total net investment income as at the balance sheet date amounted to EUR 3,262 (3,224) million.

2011[1]	Ordinary investment income	Amortisation	Gains on disposal	Losses on disposal	Impairments	Appreciation	Unrealised gains	Unrealised losses	Total[2]
Figures in EUR million									
Investments in affiliated companies and participating interests	6	—	—	2	—	—	—	—	4
Loans and receivables	1,263	66	58	3	21	3	—	—	1,366
Financial assets held to maturity	125	21	1	—	—	—	—	—	147
Financial assets available for sale									
Fixed-income securities	1,164	–28	290	113	12	18	—	—	1,319
Variable-yield securities	48	—	78	58	92	4	1	2	–21
Financial assets at fair value through profit or loss									
Financial assets classified at fair value through profit or loss									
Fixed-income securities	44	—	17	6	—	—	28	34	49
Variable-yield securities	1	—	1	1	—	—	1	1	1
Financial instruments held for trading									
Fixed-income securities	1	—	1	—	—	—	—	—	2
Variable-yield securities	—	—	3	2	—	—	—	2	–1
Derivatives	1	—	42	41	—	—	34	59	–23
Other invested assets, insofar as they are financial assets	61	—	24	1	21	30	1	2	92
Other[1]	160	5	53	32	40	19	46	41	170
Investments under own management	**2,874**	**64**	**568**	**259**	**186**	**74**	**111**	**141**	**3,105**
Funds held by ceding companies/funds held under reinsurance treaties	306	—	—	—	—	—	—	—	306
Total	**3,180**	**64**	**568**	**259**	**186**	**74**	**111**	**141**	**3,411**

[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) are not included in the list if they do not relate to hedges in the area of investments

[2] No allowance made for expenses for the administration of investments and other expenses

2010[1]	Ordinary investment income	Amortisation	Gains on disposal	Losses on disposal	Impairments	Appreciation	Unrealised gains	Unrealised losses	Total
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 instruments held for trading									
Fixed-income securities	4	—	—	—	—	—	1	—	5
Variable-yield securities	—	—	3	1	—	—	—	—	2
Derivatives	4	—	23	23	—	—	18	2	20
Other invested assets, insofar as they are financial assets	29	—	7	—	22	4	4	—	22
Other[1]	109	6	9	—	21	—	4	60	47
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) are not included in the list if they do not relate to hedges in the area of investments

[2] No allowance made for expenses for the administration of investments and other expenses

The interest income on investments was as follows in the year under review:

Interest income from investments	2011	2010
Figures in EUR million		
Loans and receivables	1,329	1,344
Financial assets held to maturity	146	120
Financial assets available for sale	1,136	1,056
Financial assets at fair value through profit or loss		
Financial assets classified at fair value through profit or loss	44	42
Financial instruments held for trading	1	4
Other	78	50
Total	**2,734**	**2,616**

(30) Claims and claims expenses

2011[1]	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Total
Figures in EUR million						
Gross						
Claims and claims expenses paid	2,180	4,304	1,392	3,285	3,381	14,542
Change in loss and loss adjustment expense reserve	78	–37	98	1,999	221	2,359
Change in benefit reserve	1	855	54	—	651	1,561
Expenses for premium refunds	3	651	12	—	—	666
Total	**2,262**	**5,773**	**1,556**	**5,284**	**4,253**	**19,128**
Reinsurers' share						
Claims and claims expenses paid	832	239	58	375	298	1,802
Change in loss and loss adjustment expense reserve	300	–94	4	396	28	634
Change in benefit reserve	—	–65	4	—	–2	–63
Expenses for premium refunds	1	—	7	—	—	8
Total	**1,133**	**80**	**73**	**771**	**324**	**2,381**
Net						
Claims and claims expenses paid	1,348	4,065	1,334	2,910	3,083	12,740
Change in loss and loss adjustment expense reserve	–222	57	94	1,603	193	1,725
Change in benefit reserve	1	920	50	—	653	1,624
Expenses for premium refunds	2	651	5	—	—	658
Total	**1,129**	**5,693**	**1,483**	**4,513**	**3,929**	**16,747**

[1] Presentation after elimination of intra-Group relations

2010[1]	Industrial Lines	Retail Germany[2]	Retail International[2]	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	—	1,464	134	—	744	2,342
Expenses for premium refunds	4	824	12	—	—	840
Total	**2,051**	**6,007**	**1,433**	**4,152**	**4,075**	**17,718**
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	—	–58	–9	—	41	–26
Expenses for premium refunds	1	—	3	—	—	4
Total	**743**	**129**	**54**	**461**	**311**	**1,698**
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	—	1,522	143	—	703	2,368
Expenses for premium refunds	3	824	9	—	—	836
Total	**1,308**	**5,878**	**1,379**	**3,691**	**3,764**	**16,020**

[1] Presentation after elimination of intra-Group relations
[2] Adjusted on the basis of IAS 8

(31) Acquisition costs and administrative expenses

2011[1]	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Total
Figures in EUR million						
Gross						
Acquisition costs and reinsurance commissions	366	1,044	413	1,405	915	4,143
Change in deferred acquisition costs and change in reserves for commissions	–8	–204	–19	–86	–34	–351
Total acquisition costs	**358**	**840**	**394**	**1,319**	**881**	**3,792**
Administrative expenses	212	281	142	161	128	924
Total acquisition costs and administrative expenses	**570**	**1,121**	**536**	**1,480**	**1,009**	**4,716**
Reinsurers' share						
Acquisition costs and reinsurance commissions	214	29	29	60	34	366
Change in deferred acquisition costs and change in reserves for commissions	–6	7	3	1	29	34
Total acquisition costs	**208**	**36**	**32**	**61**	**63**	**400**
Net						
Acquisition costs and reinsurance commissions	152	1,015	384	1,345	881	3,777
Change in deferred acquisition costs and change in reserves for commissions	–2	–211	–22	–87	–63	–385
Total acquisition costs	**150**	**804**	**362**	**1,258**	**818**	**3,392**
Administrative expenses	212	281	142	161	128	924
Total acquisition costs and administrative expenses	**362**	**1,085**	**504**	**1,419**	**946**	**4,316**

[1] Presentation after elimination of intra-Group relations

2010[1]	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Total
Figures in EUR million						
Gross						
Acquisition costs and reinsurance commissions	363	980	374	1,287	821	3,825
Change in deferred acquisition costs and change in reserves for commissions	–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						
Acquisition costs and reinsurance commissions	213	56	30	91	53	443
Change in deferred acquisition costs and change in reserves for commissions	–17	23	26	–4	44	72
Total acquisition costs	**196**	**79**	**56**	**87**	**97**	**515**
Net						
Acquisition costs and reinsurance commissions	150	924	344	1,196	768	3,382
Change in deferred acquisition costs and change in reserves for commissions	–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

(32) Other income/expenses

	2011	2010[1]
Figures in EUR million		
Other income		
Foreign exchange gains	121	262
Income from services and rents	138	194
Reversals of impairments on receivables	21	98
Income from contracts recognised in accordance with the deposit accounting method	49	50
Profits from the disposal of property, plant and equipment	1	9
Income from the release of other non-technical provisions	88	143
Interest income	108	44
Commission income	59	57
Income from the repurchase of own securities	3	4
Sundry income	116	86
Total	**704**	**947**
Other expenses		
Foreign exchange losses	105	120
Other interest expenditures	165	158
Depreciation and impairments	94	110
Expenses for the company as a whole[2]	216	226
Expenses for personnel	41	19
Expenses for services[2]	89	164
Other taxes	22	51
Expenses from the recognition of disposal groups	4	55
Allocation for restructuring provisions (“WIR” project)	80	—
Sundry expenses	215	183
Total	**1,031**	**1,086**
Other income/expenses	**–327**	**–139**

[1] Adjusted on the basis of IAS 8
[2] In the previous year a portion of the expenses for the company as a whole was erroneously recognised under expenses for services. We have adjusted the comparable figures accordingly (reclassification of EUR 63 million)

Other income/expenses does not in general include personnel expenses of our insurance companies in as far as these expenses are attributed according to function units by means of cost object accounting and allocated to expenses for investments, claims and claims expenses as well as acquisition costs and administrative expenses. In the same way this also applies to depreciation and impairments of intangible and other assets of our insurance companies.

The increase in other interest income stems primarily from the interest portion of the tax refund as a result of the fiscal court (BFH) ruling of the previous year. Please see our explanatory remarks in the Notes, item 35 “Taxes on income”.

The allocation for restructuring provisions relates to the implementation of our strategic orientation. The amount recognised in the year under review is comprised of expenses within the scope of our “WIR” project.

(33) Goodwill impairments

The goodwill impairments in the previous year (EUR 17 million) are attributable entirely to the Retail International segment. For further information please see our remarks in item 1 "Goodwill", pages 209 et seq.

(34) Financing costs

The financing costs of EUR 161 (134) million consist exclusively of interest expenses from the raising of borrowed capital not directly connected with the operational insurance business. These interest expenses are attributable in an amount of EUR 152 (126) million to our issued subordinated liabilities and in an amount of EUR 9 (8) million to notes payable and loans.

(35) Taxes on income

On the basis of a decision of the German Federal Fiscal Court (BFH) in October 2010 regarding the taxation of investment income generated by the Group's reinsurance subsidiaries domiciled in Ireland as foreign-sourced income pursuant to the German Foreign Transactions Tax Act (AStG), taxes already paid for earlier years were in large measure refunded in the first quarter. Assessments regarding the taxation of foreign-sourced income for the companies Hannover Reinsurance (Ireland) Ltd. and Hannover Life Reassurance (Ireland) Ltd. were rendered immaterial by cancellation notices dated 8 February 2011 and 31 March 2011, respectively. Subsequent assessment notices regarding corporation tax were issued for Hannover Re and E+S Rück in the period under review. The trade tax effects were also offset in the third quarter of 2011 by the controlling company HDI Haftpflichtverband der Deutschen Industrie V. a. G. In total, after allowance for non-controlling interests in equity, the refund of taxes and interest resulted in an improvement of EUR 64 million in Group net income in the period under review.

This item includes both domestic income tax and comparable taxes on income incurred by foreign subsidiaries. The determination of the income tax includes the calculation of deferred taxes. The principles used to recognise deferred taxes are set out in the section 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	2011	2010[1]
Figures in EUR million		
Actual tax for the year under review	316	416
Actual tax for other periods	–81	–79
Deferred taxes due to temporary differences	–10	–24
Deferred taxes from loss carry-forwards	–42	–82
Change in deferred taxes due to changes in tax rates	4	—
Recognised tax expenditure	**187**	**231**

[1] Adjusted on the basis of IAS 8

Domestic/foreign breakdown of recognised tax expenditure/income	2011	2010[1]
Figures in EUR million		
Current taxes	235	337
Germany	140	249
Outside Germany	95	88
Deferred taxes	–48	–106
Germany	–5	–123
Outside Germany	–43	17
Total	**187**	**231**

[1] Adjusted on the basis of IAS 8

The actual and deferred taxes recognised directly in equity in the financial year – resulting from items charged or credited directly to equity – amounted to EUR –33 (–20) 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.

Reconciliation of expected and recognised income tax expenses	2011	2010[1]
Figures in EUR million		
Profit before income taxes	1,084	898
Expected tax rate	31.6%	31.6%
Expected expense for income taxes	343	284
Change in deferred rates of taxation	4	—
Taxation differences affecting foreign subsidiaries	–35	–42
Non-deductible expenses	128	115
Tax-exempt income	–159	–83
Value adjustment	6	25
Tax expense not attributable to the reporting period	–136	–84
Other	36	16
Recognised expense for income taxes	**187**	**231**

[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 (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 recognised tax expense to pre-tax profit, stood at 17.3 (25.8)% in the year under review. The tax rate corresponds to the average income tax load borne by all Group companies.

No deferred taxes were established on taxable temporary differences in connection with shares in Group companies amounting to EUR 136 (111) million as the Group is able to direct their reversal and they will not reverse in the foreseeable future.

Deferred taxes from loss carry-forwards are capitalised as long as it is highly likely that sufficient future taxable income will be available for realisation. Companies that have incurred tax losses in the current fiscal year or in the previous year have carried an excess of deferred tax assets or liabilities of EUR 100 million.

The unadjusted deferred taxes that are not capitalised on loss carry-forwards in an amount totalling EUR 167 million are likely to be realised in the amount of EUR 44 million within a year and in the amount of EUR 123 million after one year.

Availability of capitalised loss carry-forwards

No deferred taxes were established on loss carry-forwards of EUR 644 (610) million, as in the previous year primarily in Germany and Luxembourg, and deductible temporary differences of EUR 23 (23) million in Turkey because their realisation is not sufficiently certain. In addition, in South Africa tax credits of EUR 4 (6) million that had not been capitalised were available. The deferred taxes that were not capitalised for these items total EUR 194 (180) million.

Availability of loss carry-forwards and tax credits that have not been capitalised:

Figures in EUR million	1–5 years	6–10 years	> 10 years	Unlimited	Total
Loss carry-forwards	67	—	27	550	644
Temporary differences	—	—	—	23	23
Tax credits	4	—	—	—	4
Total	**71**	**—**	**27**	**573**	**671**

Loss carry-forwards not recognised in previous years reduced the deferred expense for taxes by EUR 17 (12) million in the year under review. The devaluation of deferred tax claims recognised in previous years led to a deferred tax expense of EUR 13 (12) million in the 2011 financial year.

Other information

Staff and related expenditure

Staff

The average number of staff employed throughout the year can be broken down as follows:

	2011	2010
Industrial Lines	2,610	2,441
Retail Germany	5,810	6,792
Retail International	5,013	4,746
Reinsurance companies	2,210	2,130
Corporate Operations	2,176	1,671
Total excluding apprentices and student trainees	**17,819**	**17,780**
Apprentices and student trainees	475	442
Total	**18,294**	**18,222**

At the balance-sheet date, the Group had 18,314 (18,006) employees in all.

The increase in the Corporate Operations segment is due to transfer of the German IT staff to Talanx Systeme AG, founded in 2011.

Expenditures on personnel

The expenditures on personnel comprise mainly expenditure on insurance operations, claims management expenditure and expenditure on management of investments.

Breakdown of expenditures on personnel	2011	2010
Figures in EUR million		
Wages and salaries	**956**	**925**
Social security contributions and expenditure on provisions and assistance		
Social security contributions	119	137
Expenditures for pensions provision	71	19
Expenditures for assistance	17	19
	207	**175**
Total	**1,163**	**1,100**

Related-party disclosures

IAS 24 "Related Party Disclosures" defines related parties as e.g. 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 comprise HDI Haftpflichtverband der Deutschen Industrie Versicherungsverein auf Gegenseitigkeit (HDI V. a. G.), which directly holds all shares of Talanx, and all unconsolidated subsidiaries – which essentially comprises subsidiaries not included in the consolidated financial statement due to their insubstantial contributions – and the associated companies recognised at equity. In addition, there are the provident funds that pay benefits in favour of employees of Talanx AG or one of its related parties after termination of their employment.

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 and among subsidiaries are eliminated through consolidation and hence not discussed in the Notes. In the year under review there were outstanding loans to HDI V. a. G. in the amount of EUR 112 million, due for repayment in October 2013. Business relations with unconsolidated companies or with associated companies are of minor importance overall.

For details on the remuneration received by the members of the Board of Management and Supervisory Board of Talanx AG, please see the remarks in the Remuneration report on pages 88 et seqq.

Share-based remuneration

The following share-based remuneration schemes were operating within the Group in the 2011 financial year:

- stock appreciation rights scheme (ABR) of Hannover Rückversicherung AG (operating since 2000)
- share award scheme (share-based remuneration in the form of virtual shares, operating since 2011)

These schemes and their impact on the profit for the year and the Group's net assets, financial position and net income are described below.

Stock appreciation rights scheme of Hannover Rückversicherung AG

With the approval of the Supervisory Board, the Executive Board of Hannover Rückversicherung AG introduced a virtual stock option scheme with effect from 1 January 2000 that grants stock appreciation rights to certain managerial staff. The content of the stock option scheme is based solely on the Conditions for the Granting of Stock Appreciation Rights. All members of the Hannover Re Group's senior management are eligible for the award of stock appreciation rights. Exercising the stock appreciation rights does not entitle the holder to demand actual Hannover Re shares but only to payment of a cash amount linked to the performance of Hannover Re's shares. Recognition of transactions involving stock appreciation rights with cash settlement is governed by the requirements of IFRS 2 "Share-based Payment."

For the year under review, a resolution passed by the Supervisory Board on 8 November 2010 revoked the Conditions for the Granting of Stock Appreciation Rights in respect of any stock appreciation rights that could have been granted to the Executive Board members on the basis of those Conditions (partial termination). Stock appreciation rights that have already been assigned may be exercised up at the time of their expiry. The Conditions continue in force with regard to all other entitled managerial staff in the year under review.

Stock appreciation rights were first granted for the 2000 financial year and are awarded separately for each subsequent financial year (allocation year), provided that 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 maps the performance of listed reinsurers worldwide. Depending upon the extent to which this index is out- or underperformed, the EPS basic number is increased – subject to a cap at 400% of the EPS basic number – or reduced – but by no more than 50% of the EPS basic number.

The maximum term 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 further 20% (tranches two to four of each allocation year) of the stock appreciation rights the waiting period is extended by one further year. Each exercise period lasts for ten trading days, commencing on the sixth trading day after the date of publication of each quarterly report of Hannover Rückversicherung AG.

On 4 November 2009, the Supervisory Board of Hannover Re resolved 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 any allocation year may be exercised. The waiting period for each further 20% of the stock appreciation rights awarded to a member of managerial staff for that allocation year is one year.

The amount paid out to the party exercising a stock appreciation right is the difference between the baseline price and the current market price of the Hannover Re share at the time of exercise. In this context, the baseline price corresponds to the arithmetic mean of the closing prices of Hannover Re shares 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 the arithmetic mean of the closing prices of the Hannover Re share on the last 20 trading days prior to the first day of the exercise period.

The amount paid out is limited to a maximum calculated as the quotient of the total volume of remuneration to be granted in the allocation year and the total number of stock appreciation rights awarded in that year.

If the holder's contract with the company is terminated by either party or by mutual agreement or ends upon expiry of a fixed term, a holder of stock appreciation rights is entitled to exercise all such rights in the first exercise period thereafter. Any stock appreciation rights not exercised within this period and any in respect of which the waiting period has not yet expired will lapse. Retirement, incapacity or death of the member of management does not constitute termination for the purpose of the exercise of stock appreciation rights.

The allocations for the years 2002 to 2004, 2006, 2007, 2009 and 2010 gave rise to the following commitments in the 2011 financial year. No allocations were made for the years 2001, 2005 and 2008.

Hannover Rückversicherung AG stock appreciation rights	Allocation year						
	2010	2009	2007	2006	2004	2003	2002
Award date	8.3.2011	15.3.2010	28.3.2008	13.3.2007	24.3.2005	25.3.2004	11.4.2003
Term	10 years	10 years	10 years	10 years	10 years	10 years	10 years
Waiting period	4 years	2 years	2 years	2 years	2 years	2 years	2 years
Baseline price (in EUR)	33.05	22.70	34.97	30.89	27.49	24.00	23.74
Participants in the year of issue	129	137	110	106	109	110	113
Number of rights granted	1,681,205	1,569,855	926,565	817,788	211,171	904,234	710,429
Fair value at 31.12.2011 (in EUR)	5.09	7.65	6.93	7.57	12.49	8.99	8.79
Maximum value (in EUR)	8.92	8.76	10.79	10.32	24.62	8.99	8.79
Weighted exercise price	—	—	5.85	9.93	12.4	8.99	n/a
Number of rights at 31.12.2011	1,665,950	1,495,890	844,231	252,443	119,439	2,714	—
Provisions at 31.12.2011 (in EUR million)	1.72	8.35	5.59	1.91	1.49	0.02	—
Amounts paid out in the 2011 financial year (in EUR million)	—	—	0.24	4.34	0.09	0.01	0.02
Expense in the 2011 financial year (in EUR million)	1.72	4.45	–0.27	–0.23	–0.47	—	—

The accumulated 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 Hannover Re shares of EUR 35.985 as at 14 December 2011, an expected volatility of 41.33% (historical volatility on a five-year basis), a dividend yield of 5.56% and a risk-free interest rate of 0.27% for the 2003 allocation year, 0.51% for the 2004 allocation year, 1.05% for the 2006 allocation year, 1.31% for the 2007 allocation year, 1.79% for the 2009 allocation year and 1.99% for the 2010 allocation year.

In the 2011 financial year, the waiting period expired for 100% of the stock appreciation rights granted for the years 2002 to 2004, 80% of those for 2006 and 60% of those for 2007. 2,365 stock appreciation rights from the 2002 allocation year, 602 stock appreciation rights from the 2003 allocation year, 7,183 stock appreciation rights from the 2004 allocation year, 437,491 stock appreciation rights from the 2006 allocation year and 41,583 stock appreciation rights from the 2007 allocation year were exercised. The total amount paid out was EUR 4.7 million.

The history of the stock appreciation rights granted by Hannover Rückversicherung AG to date is as follows:

History of the Hannover Rückversicherung AG stock option scheme/number of rights	Allocation year						
	2010	2009	2007	2006	2004	2003	2002
Issued 2003	—	—	—	—	—	—	710,429
Exercised 2003	—	—	—	—	—	—	—
Lapsed 2003	—	—	—	—	—	—	23,765
Outstanding at 31.12.2003	**—**	**—**	**—**	**—**	**—**	**—**	**686,664**
Issued 2004	—	—	—	—	—	904,234	—
Exercised 2004	—	—	—	—	—	—	—
Lapsed 2004	—	—	—	—	—	59,961	59,836
Outstanding at 31.12.2004	**—**	**—**	**—**	**—**	**—**	**844,273**	**626,828**
Issued 2005	—	—	—	—	211,171	—	—
Exercised 2005	—	—	—	—	—	—	193,572
Lapsed 2005	—	—	—	—	6,397	59,834	23,421
Outstanding at 31.12.2005	**—**	**—**	**—**	**—**	**204,774**	**784,439**	**409,835**
Issued 2006	—	—	—	—	—	—	—
Exercised 2006	—	—	—	—	—	278,257	160,824
Lapsed 2006	—	—	—	—	14,511	53,578	22,896
Outstanding at 31.12.2006	**—**	**—**	**—**	**—**	**190,263**	**452,604**	**226,115**
Issued 2007	—	—	—	817,788	—	—	—
Exercised 2007	—	—	—	—	12,956	155,840	110,426
Lapsed 2007	—	—	—	8,754	13,019	38,326	10,391
Outstanding at 31.12.2007	**—**	**—**	**—**	**809,034**	**164,288**	**258,438**	**105,298**
Issued 2008	—	—	926,565	—	—	—	—
Exercised 2008	—	—	—	—	1,699	121,117	93,747
Lapsed 2008	—	—	—	3,103	1,443	2,162	944
Outstanding at 31.12.2008	**—**	**—**	**926,565**	**805,931**	**161,146**	**135,159**	**10,607**
Issued 2009	—	—	—	—	—	—	—
Exercised 2009	—	—	—	—	1,500	79,262	560
Lapsed 2009	—	—	17,928	16,158	3,192	—	—
Outstanding at 31.12.2009	**—**	**—**	**908,637**	**789,773**	**156,454**	**55,897**	**10,047**
Issued 2010	—	1,569,855	—	—	—	—	—
Exercised 2010	—	—	10,399	95,380	29,832	52,581	7,682
Lapsed 2010	—	34,255	8,380	2,642	—	—	—
Outstanding at 31.12.2010	**—**	**1,535,600**	**889,858**	**691,751**	**126,622**	**3,316**	**2,365**
Issued 2011	1,681,205	—	—	—	—	—	—
Exercised 2011	—	—	41,583	437,491	7,183	602	2,365
Lapsed 2011	15,245	39,710	4,044	1,817	—	—	—
Outstanding at 31.12.2011	**1,665,960**	**1,495,890**	**844,231**	**252,443**	**119,439**	**2,714**	**—**

The total amount paid out was EUR 4.7 million. On this basis the aggregate provisions, which are recognised in the sundry non-technical provisions, amounted to EUR 19.1 (18.6) million for the 2011 financial year. Total expenditure amounted to EUR 5.2 (9.4) million.

Share award scheme

The Supervisory Boards of Talanx and the major Group companies including Hannover Rückversicherung AG have resolved to introduce a share award scheme for the members of their Boards of Management with effect from the 2011 financial year that grants stock appreciation rights in the form of virtual shares, known as "share awards," and makes up 20% of each member's variable remuneration. This share award scheme comes in two versions:

- Talanx share awards (for members of Talanx Board of Management and the major Group companies other than Hannover Rückversicherung AG)
- Hannover Re share awards (for members of the Executive Board of Hannover Rückversicherung AG); this replaces the stock appreciation rights scheme withdrawn with effect from the year under review and will be available also to certain managerial staff of Hannover Rückversicherung AG as of the 2012 financial year

The share awards do not entitle participants to demand actual shares but only to payment of a cash amount, subject to the following conditions.

The share award scheme is open to all persons whose employment contract entitles them to share awards and is still in force at the time of allocation of the share awards and will not end due to termination by either party or by mutual agreement before expiry of the waiting period.

Share awards will first be issued for the 2011 financial year and thereafter separately for each subsequent financial year (allocation year).

The total number of share awards granted depends on the value per share. The value per share is calculated as the unweighted arithmetic mean of the XETRA closing prices over a period of five trading days before to five trading days after the meeting of the Supervisory Board that approves the consolidated financial statements for the previous financial year. For time being, the value per share for the purpose of the **Talanx share awards** will be calculated on the basis of 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 soon as Talanx AG has gone public, the value per Talanx share calculated according to principles described above will be used as the basis. The **Hannover Re share awards** will be based upon the value per share in Hannover Rückversicherung AG (calculated as above).

The total number of share awards to be allocated is arrived at by dividing the amount available for allocation of share awards to each entitled participant (20% of the individual's defined variable remuneration) by the value per share, rounded up to the next full share. In the case of the Hannover Re share awards, this procedure applies immediately, in the case of the Talanx share awards as of when Talanx AG goes public.

The share awards are allocated automatically, without the need for a declaration by either party. For each share award, the value of one share determined according to the above definition on the disbursement date is paid out after a waiting period of four years. The value per share is calculated using the procedure described in the previous paragraph.

The amount payable to each entitled participant is the total value, calculated at the time of disbursement, of the share awards for which the four-year waiting period has expired. This amount is paid by bank transfer in the month following the end of the period designated for calculation of the value per share as described in the previous paragraphs. Any withholding taxes and social security contributions will be deducted.

Together with payment of the value of the share awards, an amount equal to the dividend – if dividends are distributed to shareholders – is paid. The amount of the dividend is the sum of all dividends paid per share during the term of the share awards multiplied by the number of share awards paid out to each entitled participant at the time of disbursement. If the share awards are paid out ahead of time, only the value of the dividends for the period up to occurrence of the event triggering the early pay-out will be paid. No proportionate share in any dividends not yet distributed will be taken into account.

If the entitled participant's period of office as member of the Board or employment contract ends, the participant remains entitled to payment of the value of any share awards already granted at the time of expiry of the respective waiting period, unless membership of the Board or the employment contract is terminated (i) by resignation of the participant with the exception of resignation of the Board member for good cause, (ii) by the participant's declining to except an offer of extension on the same or better terms (except if the Board member is at least 60 years old and has served two terms of office on the Board of the company concerned), (iii) by extraordinary termination of the participant's contract without notice for good cause, or (iv) by dismissal for good cause within the meaning of Art. § 84 Para. 3 AktG (German Stock Corporation Act) (exception: withdrawal of confidence). In the event of death of the participant, entitlement to share awards already allocated or still to be allocated passes to the heirs.

Allocation of share awards after the participant has left the company is ruled out, except if the participant has left the company due to non-reappointment, retirement or death, and then only in respect of entitlements to variable remuneration earned by the participant in the last year – or part thereof – of activity on behalf of the company.

If during the validity of the share award scheme the share capital changes or any corporate restructuring directly affects the share capital or (e.g. via a stock split or consolidation) the total number of shares issued ("structural measures") such as to bring about a (positive or negative) change in the value of the share awards by 10% or more on aggregate, the method for calculating the value of the individual share awards or the number of share awards will be adapted accordingly to balance out any change in the value of the share awards due to the structural measure.

This adjustment will be done by the Supervisory Board of Talanx AG for the Talanx share awards and by the Supervisory Board of Hannover Rückversicherung AG for the Hannover Re share awards such that the overall value of the allocated share awards immediately after the structural measure corresponds as closely as possible to the overall value of the share awards immediately prior to the structural measure.

The share award scheme is accounted for within the Group as share based remuneration with cash settlement governed by the requirements of IFRS 2. Due to the different calculation bases used for the Talanx share awards and the Hannover Re share awards, the further characteristics of the two versions are described separately in the following:

Talanx share awards

The provisional fair value is EUR 33.486 per share award at an anticipated allocation totalling 54.26 share awards plus the total cash value of the dividend rights acquired up to the end of the term. Expected dividend payments are not taken into account. No entitlements due to dividends arose in the year under review. The fair value is calculated according to the proportionate equity (after going public: the share price) at the balance-sheet date of the financial year just ended by multiplying the value of the share by the anticipated number of shares.

The personnel expenditure in respect of the share award scheme is deferred over the term of the employment contracts. In the context of the pro-rata write-up of the time values, personnel expenditure amounting to EUR 0.5 million was added to the provision for share awards for the first time in 2011. The amount is posted among the sundry provisions.

Hannover Re share awards

The provisional fair value is EUR 38,325 per share award at an anticipated allocation totalling 24,390 share awards plus the total cash value of the dividend rights acquired up to the end of the term. Expected dividend payments are not taken into account. No entitlements due to dividends arose in the year under review. The fair value is calculated according to the current market price of the share on the valuation date (30 December 2011) by multiplying the share price by the anticipated number of shares. The scheduled determination of the value per share according to the unweighted arithmetic mean of the XETRA closing prices of Hannover Re shares over a period of five trading days before to five trading days after the meeting of the Supervisory Board that approves the consolidated financial statements for the previous financial year entails an adjustment of the fair value posted in the consolidated financial statements and of the number of share awards to be allocated that must be taken into account in the year following the closing date.

The personnel expenditure in respect of the share award scheme is deferred over the term of the contracts of the Board members. In the context of the pro-rata write-up of the time values, personnel expenditure amounting to EUR 0.2 million was added to the provision for share awards for the first time in 2011. The amount is posted among the sundry provisions.

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 anti-trust charges on the grounds that it could not be held liable as the legal successor to Gerling Konzern Allgemeine Versicherungs-AG. In November 2011, the Federal Court of Justice as the highest instance confirmed the ruling in favour of HDI-Gerling Industrie Versicherung AG by rejecting the appeal lodged by the Dusseldorf chief public prosecutor's office, having fully concurred with our legal and economic reasoning. The proceedings are therefore finally and irrevocably closed.

In September 2011, the Italian anti-trust authority imposed a fine of EUR 6 million on HDI-Gerling Industrie Versicherung AG on the grounds of alleged cartel agreements in the Campania region. The company has appealed against this ruling.

In the context of the acquisition of Lion Insurance Company, Trenton/USA, by our subsidiary Hannover Finance, Inc., Wilmington/USA, a legal dispute arose with the previous 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 dispute was settled by partial composition and court ruling in August 2011, the trust account being split among the parties involved.

Apart from the aforesaid proceedings, there were no significant court cases pending during the year under review or at the balance sheet date, except for some proceedings in connection with ordinary insurance and reinsurance business.

Contingent liabilities and other financial commitments

As at the balance sheet date the following contingent liabilities and other financial commitments derived from contracts and memberships that had been entered into:

Figures in EUR million	31.12.2011	31.12.2010
Sureties in the form of letters of credit furnished by various financial institutions as security for technical liabilities	3,164	2,842
Trust accounts in the United States (master trust funds, supplemental trust funds and single trust funds) as security for technical liabilities to US clients; the securities held in the trust accounts are largely recognised in the investment portfolio as “financial instruments available for sale” [1]	3,136	2,884
Blocked custody accounts and other trust accounts as collateral in favour of reinsurers and ceding companies; generally outside the US	2,071	1,902
Guarantees for the subordinated debts issued: the guarantees cover the relevant bond volumes as well as interest due.	1,959	2,131
Outstanding capital commitments with respect to existing investment exposures. The commitments involve primarily private equity funds and venture capital firms in the form of private limited companies	648	333
Commitments arising out of rental/lease agreements [2]	477	492
Funding commitments and contribution payments pursuant to §§124 et seq. Insurance Supervision Act (VAG) as a member of the Security Fund for Life Insurers	410	372
Collateral for liabilities to various banks in connection with participating interests in real estate companies and real estate transactions	309	258
Other financial commitments in connection with envisaged acquisitions	277	—
Commitments based on service agreements – primarily in connection with IT outsourcing contracts	165	186
Assets in blocked holdings as collateral for existing derivative transactions: we have received collateral with a fair value of EUR 5 (0) million for existing derivative transactions [1]	37	108
Obligations in connection with structured securities through issuers' rights to take delivery: the potential amounts that could be drawn upon totalled EUR 10 million for 2012 (31 December 2010: EUR 159 million for 2011 and EUR 11 million for 2012)	10	170
Other commitments	63	36
Total	**12,726**	**11,714**

[1] The amount stated refers primarily to the current value/book value
[2] For details please see the following information on rents and leases on page 284

Financial assets of EUR 8 million (included in the above list) were pledged in connection with our primary insurance segments and the Corporate Operations division. They serve as collateral for currency options (EUR 2 million) and as security for future rental commitments (EUR 6 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.

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 meet its liabilities, an obligation exists to take over such other member’s share within the framework of the quota participation.

The amounts stated are nominal amounts.

Rents and leasing

Leases under which Group companies are the lessee

Outstanding commitments from non-cancellable contractual relationships existed in an amount of EUR 477 (492) million as at the balance sheet date.

Future rental and leasing commitments	2012	2013	2014	2015	2016	Subsequent years
Figures in EUR million						
Payments	49	44	39	36	33	276

Operating leasing contracts produced expenditures of EUR 39 (51) 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.

Expenditures from financing leases existed in a minimal amount (EUR 0.1 million) as at the balance sheet date.

Leases under which Group companies are the lessor

The total amount of rental income due under non-cancellable contracts in subsequent years is EUR 492 (340) million.

Future rental income	2012	2013	2014	2015	2016	Subsequent years
Figures in EUR million						
Payments to be received	83	80	75	73	70	111

Rental income in the year under review totalled EUR 74 (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

The Board of Management was comprised of 7 (7) active members as at the balance sheet date.

The total remuneration of the Board of Management amounted to EUR 9,939 (7,035) thousand. In the context of the share-based remuneration system newly implemented in 2011 the Board of Management has entitlements to virtual shares with a fair value of EUR 907 thousand (27.08 shares)* under the Talanx Share Award Plan and a fair value of EUR 233 thousand (6,072 shares)* under the Hannover Re Share Award Plan. In addition, one member of the Board of Management was granted stock appreciation rights of Hannover Re worth EUR 296.9 thousand (57,500 stock appreciation rights) in the year under review for the 2010 financial year.

Former members of the Board of Management and their surviving dependants received total remuneration of EUR 1,493 (790) thousand. An amount of EUR 10,736 (11,747) thousand was set aside to cover projected benefit obligations due to former members of the Board of Management and their surviving dependants.

The total remuneration paid to the Supervisory Board amounted to EUR 2,135 (1,857) thousand. There are no pension commitments to former members of the Supervisory Board or their surviving dependants.

No advances were extended to members of the management boards in the year under review. As at the balance sheet date one mortgage loan to a member of the Supervisory Board existed in an amount of EUR 64 (80) thousand with a remaining term of four years and three months. An amount of EUR 15 thousand was repaid in the year under review, and the agreed interest rate is nominally 4.2% (effective rate of 4.2%).

All other information on the remuneration of the Board of Management and Supervisory Board as well as the structure of the remuneration system is contained in the remuneration report from page 88 onwards. The information provided there also includes the individualised disclosure of the remuneration of the Board of Management and Supervisory Board and forms an integral part of the consolidated financial statement.

* The amounts for the share-based remuneration and the numbers allocated are only finalised after the meeting of the Supervisory Board that approves the consolidated financial statement. The figures stated are based on best estimates

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 2011 financial year within the meaning of § 318 German Commercial Code (HGB) amounted to EUR 10.8 (12.7) million. The amount includes a fee of EUR 7.9 (9.2) million for the auditing of the financial statement, EUR 0.4 (0.1) million for other appraisals and valuations, EUR 0.3 (0.9) million for tax consultancy services and EUR 2.2 (2.5) million for consultancy and other services.

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

On 13 December 2011 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

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

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

* As at 31 December 2011 KPMG AG and its affiliated companies encompassed the KPMG companies in Germany, the United Kingdom, Spain, Switzerland, Belgium, the Netherlands, Luxembourg and Turkey as well as in the CIS countries the companies in Russia, Ukraine, Kazakhstan, Kyrgyzstan, Georgia and Armenia

Other events

In a press release dated 20 January 2012 our subsidiary Talanx International AG, Hannover, announced the acquisition of all shares of TUiR Warta S. A. (Towarzystwo Ubezpieczeń i Reasekuracji Warta S. A.) from the Belgian KBC Group for a price of EUR 770 million. The acquisition is still subject, inter alia, to the customary regulatory approvals. In the context of the acquisition it is envisaged that our Japanese strategic partner Meiji Yasuda Life Insurance Company will take over 30% of these shares. The Warta Group also includes the life insurer Warta Towarzystwo Ubezpieczeń na Zycie S. A. Since we expect the transaction to close in the second half of 2012, information pursuant to IFRS 3 has been omitted.

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

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	Share of capital[1] in %
Industrial Lines	
HDI Gerling Insurance of South Africa Ltd., Johannesburg, South Africa	100.00
HDI HANNOVER International España, Cía de Seguros y Reaseguros S.A., Madrid, Spain	100.00
HDI Versicherung AG, Vienna, Austria	100.00
HDI-Gerling America Insurance Company, Chicago, USA	100.00
HDI-Gerling Assurances S.A., Brussels, Belgium	100.00
HDI-Gerling de Mexico Seguros S.A., Mexico City, Mexico	100.00
HDI-Gerling Industrie Versicherung AG, Hannover, Germany	100.00
HDI-Gerling Verzekeringen N.V., Rotterdam, Netherlands	100.00
HDI-Gerling Welt Service AG, Hannover, Germany	100.00
HG Sach AltInvest GmbH & Co. KG, Cologne, Germany[6), 8)]	100.00
HG-I Alternative Investments Beteiligungs-GmbH & Co. KG, Cologne, Germany	100.00
IVEC Institutional Venture and Equity Capital AG, Cologne, Germany[8)]	100.00
Riethorst Grundstückgesellschaft AG & Co. KG, Hannover, Germany[6), 8)]	100.00
Retail Germany	
Alstertor Zweite Beteiligungs- und Investitionssteuerungs-GmbH & Co. KG, Hamburg	100.00
CiV Grundstücksgesellschaft mbH & Co. KG, Hilden	100.00
Credit Life International Lebensversicherung AG (formerly: Erste Credit Life International AG, Hilden	100.00
Credit Life International Versicherung AG (formerly: Zweite Credit Life International AG), Hilden	100.00
GERLING Pensionsenthaftungs- und Rentenmanagement GmbH, Cologne	100.00
HDI Direkt Versicherung AG, Hannover	100.00
HDI-GERLING Financial Service GmbH, Vienna, Austria	100.00
HDI-Gerling Firmen und Privat Versicherung AG, Hannover	100.00
HDI-Gerling Friedrich Wilhelm Reinsurance AG, Cologne	100.00
HDI-Gerling Leben Betriebsservice GmbH, Cologne[5)]	100.00
HDI-Gerling Lebensversicherung AG, Cologne	100.00
HDI-Gerling Pensionsfonds AG, Cologne	100.00
HDI-Gerling Pensionskasse AG, Cologne	100.00
HDI-Gerling Pensionsmanagement AG, Cologne[5)]	100.00
HDI-Gerling Vertrieb Firmen und Privat AG, Hannover[5)]	100.00
HNG Hannover National Grundstücksverwaltung GmbH & Co. KG, Hannover[6)]	100.00
neue leben Holding AG, Hamburg	67.50
neue leben Lebensversicherung AG, Hamburg	100.00
neue leben Unfallversicherung AG, Hamburg	100.00
PARTNER OFFICE AG, Cologne[5)]	100.00
PB Lebensversicherung AG, Hilden	100.00
PB Pensionsfonds AG, Hilden	100.00
PB Pensionskasse AG, Hilden	100.00
PB Versicherung AG, Hilden	100.00
Talanx Deutschland AG, Hannover[5)]	100.00
Talanx Deutschland Bancassurance Communication Center GmbH (formerly: Proactiv Communication Center GmbH), Hilden[5)]	100.00
Talanx Deutschland Bancassurance GmbH, Hilden[5)]	100.00
Talanx Deutschland Bancassurance Kundenservice GmbH (formerly: Proactiv Servicegesellschaft mbH), Hilden[5)]	100.00
TARGO Lebensversicherung AG, Hilden	100.00
TARGO Versicherung AG, Hilden	100.00
Retail International	
ASPECTA Assurance International AG, Vaduz, Liechtenstein	100.00
ASPECTA Assurance International Luxembourg S.A., Luxembourg, Luxembourg	100.00
CiV Hayat Sigorta A.Ş., Istanbul, Turkey	100.00
HDI Asekuracja Towarzystwo Ubezpieczen S.A., Warsaw, Poland	100.00
HDI Assicurazioni S.p.A., Rome, Italy	100.00
HDI Immobiliare S.r.L., Rome, Italy	100.00
HDI Seguros S.A. de C.V., León, Mexico	99.47
HDI Seguros S.A., Montevideo, Uruguay	100.00
HDI Seguros S.A., Santiago, Chile	99.93
HDI Seguros S.A., São Paulo, Brazil	100.00
HDI Sigorta A.Ş., Istanbul, Turkey	100.00
HDI STRAKHUVANNYA (Ukraine), Kiev, Ukraine	99.28
HDI Zahstrahovane AD, Sofia, Bulgaria	94.00
HDI-Gerling Zycie Towarzystwo Ubezpieczen S.A., Warsaw, Poland	100.00
InChiaro Assicurazioni S.p.A., Rome, Italy	51.00
InLinea S.p.A., Rome, Italy	70.00
Inversiones HDI Limitada, Santiago, Chile	100.00
L'UNION de Paris Compañía Argentina de Seguros S.A., Buenos Aires, Argentina	100.00
Magyar Posta Biztosító Részvénytársaság, Budapest, Hungary	66.93
Magyar Posta Életbiztosító Részvénytársaság, Budapest, Hungary	66.93
OOO Strakhovaya Kompaniya „HDI Strakhovanie", Moscow, Russia	100.00
OOO Strakhovaya Kompaniya CiV Life, Moscow, Russia	100.00
Protecciones Esenciales S.A., Buenos Aires, Argentina	100.00
Saint Honoré Iberia S.L. Madrid, Spain	100.00
Talanx International AG, Hannover, Germany[5)]	100.00
Non-Life Reinsurance	
11 Stanwix LLC, Wilmington, USA[15)]	100.00
300 South Orange Avenue LLC, Wilmington, USA[15)]	100.00
402 Santa Monica Blvd. LLC, Wilmington, USA[15)]	100.00
465 Broadway LLC, Wilmington, USA[15)]	100.00
5115 Sedge Boulevard LP, Chicago, USA[15)]	84.00
5115 Sedge Corporation, Chicago, USA[15)]	100.00
Atlantic Capital Corporation, Wilmington, USA[11), 14)]	100.00
Cargo Transit Insurance (Pty) Ltd., Helderkruin, South Africa[16)]	80.00
Clarendon Insurance Group Inc., Wilmington, USA[14)]	100.00
Compass Insurance Company Ltd., Johannesburg, South Africa[16)]	100.00
Construction Guarantee (Pty.) Ltd., Parktown, South Africa[16)]	60.00

1. Subsidiaries

Companies included in the IFRS consolidated financial statement	Share of capital [1] in %
E+S Rückversicherung AG, Hannover, Germany	63.69
Envirosure Underwriting Managers (Pty.) Ltd., Durban, South Africa [16]	60.00
Film & Entertainment Underwriters SA (Pty). Ltd., Northcliff, South Africa [16]	51.00
Funis GmbH & Co. KG, Hannover, Germany	100.00
Garagesure Consultants and Acceptances (Pty) Ltd., Johannesburg, South Africa [16]	80.00
Gem & Jewel Acceptances (Pty) Ltd., Johannesburg, South Africa [16]	70.00
GLL HRE CORE PROPERTIES LP, Wilmington, USA [15]	99.90
GLL Terry Francois Blvd. LLC, Wilmington, USA [15]	50.95
Hannover America Private Equity Partners II GmbH & Co. KG, Cologne, Germany	100.00
Hannover Euro Private Equity Partners II GmbH & Co. KG, Cologne, Germany [8]	100.00
Hannover Euro Private Equity Partners III GmbH & Co. KG, Cologne, Germany [8, 9]	100.00
Hannover Euro Private Equity Partners IV GmbH & Co. KG, Cologne, Germany [7, 8]	100.00
Hannover Finance (Luxembourg) S.A., Luxembourg, Luxembourg	100.00
Hannover Finance (UK) Limited, Virginia Water, United Kingdom	100.00
Hannover Finance Inc., Wilmington, USA [13]	100.00
Hannover Insurance-Linked Securities GmbH & Co. KG, Hannover, Germany	100.00
Hannover Life Reassurance Africa Ltd., Johannesburg, South Africa [16]	100.00
Hannover Re (Bermuda) Ltd., Hamilton, Bermuda	100.00
Hannover Re Advanced Solutions Ltd., Dublin, Ireland [12]	100.00
Hannover Re Euro PE Holdings GmbH & Co. KG, Cologne, Germany	100.00
Hannover Re Euro RE Holdings GmbH, Cologne, Germany	100.00
Hannover Re Real Estate Holdings Inc., Orlando, USA [13]	100.00
Hannover Reinsurance (Ireland) Ltd., Dublin, Ireland	100.00
Hannover Reinsurance Africa Ltd., Johannesburg, South Africa [16]	100.00
Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg, South Africa [13]	100.00
Hannover Reinsurance Mauritius Ltd., Port Louis, Mauritius [16]	100.00
Hannover ReTakaful B.S.C (c), Manama, Bahrain	100.00
Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover, Germany	100.00
Hannover Reinsurance AG, Hannover, Germany	50.22
Hannover Services (UK) Ltd., Virginia Water, United Kingdom	100.00
HAPEP II Holding GmbH, Cologne, Germany	100.00
HAPEP II Komplementär GmbH, Cologne, Germany	100.00
HEPEP II Holding GmbH, Cologne, Germany [8]	100.00
HEPEP III Holding GmbH, Cologne, Germany [8]	100.00
HILSP Komplementär GmbH, Hannover, Germany	100.00
Hospitality Industries Underwriting Consultants (Pty) Ltd., Johannesburg, South Africa [16]	90.00
Indoc Holdings S.A., Luxembourg, Luxembourg [11, 16]	100.00
Integra Insurance Solutions Limited, Bradford, United Kingdom	74.99

1. Subsidiaries

Companies included in the IFRS consolidated financial statement	Share of capital [1] in %
Inter Hannover (No. 1) Ltd., London, United Kingdom	100.00
International Insurance Company of Hannover Ltd., Bracknell, United Kingdom	100.00
Landmark Underwriting Agency (Pty) Ltd., Bloemfontein, South Africa [16]	75.50
Lireas Holdings (Pty) Ltd., Johannesburg, South Africa [16]	51.00
Micawber 185 (Pty) Ltd., Johannesburg, South Africa [16]	100.00
MUA Insurance Acceptances (Pty) Ltd., Cape Town, South Africa [16]	80.00
MUA Insurance Company Ltd., Cape Town, South Africa [16]	100.00
One Winthrop Square LLC, Wilmington, USA [15]	100.00
Oval Office Grundstücks GmbH, Hannover, Germany [8]	100.00
Peachtree (Pty) Ltd., Johannesburg, South Africa [11, 16]	100.00
Secquaero ILS Fund Ltd., Georgetown, Grand Cayman, Cayman Islands	100.00
SUM Holdings (Pty) Ltd., Johannesburg, South Africa [16]	72.20
Thatch Risk Acceptances (Pty) Ltd., Cape Town, South Africa [16]	90.00
Transit Underwriting Managers (Pty) Ltd., Cape Town, South Africa [16]	100.00
Woodworking Risk Acceptances (Pty) Ltd., Pietermaritzburg, South Africa [16]	60.00
Life/Health Reinsurance	
Hannover Life Re AG, Hannover, Germany	100.00
Hannover Life Re of Australasia Ltd., Sydney, Australia	100.00
Hannover Life Reassurance (Ireland) Ltd., Dublin, Ireland	100.00
Hannover Life Reassurance (UK) Ltd., Virginia Water, United Kingdom	100.00
Hannover Life Reassurance Bermuda Ltd., Hamilton, Bermuda	100.00
Hannover Life Reassurance Company of America, Orlando, USA	100.00
Corporate Operations	
Alstertor Erste Beteiligungs- und Investitionssteuerungs-GmbH & Co. KG, Hamburg, Germany	100.00
AmpegaGerling Investment GmbH, Cologne, Germany	100.00
Hannover Beteiligungsgesellschaft mbH (formerly: GERLING Beteiligungs-GmbH), Hannover, Germany	100.00
HDI Reinsurance (Ireland) Ltd., Dublin, Ireland [7, 8, 9]	100.00
HEPEP II Komplementär GmbH, Cologne, Germany	100.00
HEPEP III Komplementär GmbH, Cologne, Germany	100.00
HEPEP IV Komplementär GmbH, Cologne, Germany	100.00
Talanx Asset Management GmbH (formerly: Ampega-Gerling Asset Management GmbH), Cologne, Germany [5]	100.00
Talanx Beteiligungs-GmbH & Co. KG, Hannover, Germany [6]	100.00
Talanx Finanz (Luxemburg) S.A., Luxembourg, Luxembourg	100.00
Talanx Immobilien Management GmbH (formerly: AmpegaGerling Immobilien Management GmbH), Cologne, Germany [5]	100.00
Talanx Reinsurance Broker AG (formerly: Protection Reinsurance Intermediaries AG, Hannover, Germany [5, 7, 8, 9]	100.00
Talanx Service AG, Hannover, Germany [5]	100.00
Talanx Systeme AG, Hannover , Germany [5]	100.00

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 %
Industrial Lines	
Ampega-Vienna-Bonds-Fonds, Vienna, Austria	100.00
GERLING EURO-RENT 3, Cologne, Germany	100.00
Retail Germany	
Ampega-nl-Balanced-Fonds, Cologne	100.00
Ampega-nl-Euro-DIM-Fonds, Cologne	100.00
Ampega-nl-Global-Fonds, Cologne	100.00
Ampega-nl-Rent-Fonds, Cologne	100.00
Ampega-TAL-A-Fonds, Cologne	100.00
Gerling Immo Spezial 1, Cologne	100.00
GKL SPEZIAL RENTEN, Cologne	100.00
HDI Gerling-Sach Industrials, Cologne	100.00
HGLV-Financial, Cologne	100.00
PBVL-Corporate, Cologne	100.00
terrAssisi Aktien I AMI, Cologne	64.26
Retail International	
BNP-HDI Credit FI Renda Fixa Credito Privado, São Paulo, Brazil	100.00
Credit Suisse HDI RF Crédito, São Paulo, Brazil	100.00
CSHG Hannover FI Multimercado Credito Privado, São Paulo, Brazil	100.00
HSBC FI Renda Fixa Hannover, São Paulo, Brazil	100.00
HSBC Performance HDI RF Crédito, São Paulo, Brazil	100.00
UBS Pactual HDI RF Crédito, São Paulo, Brazil	100.00
Non-Life Reinsurance	
FRACOM FCP, Paris, France	100.00

2. Special purpose entities and special funds b) Special purpose entities included in the consolidated financial statement pursuant to IAS 27/SIC 12	Share of capital [1] in %
Non-Life Reinsurance	
Hannover Re (Guernsey) PCC Ltd., St. Peter Port, United Kingdom	100.00
Kaith Re Ltd., Hamilton, Bermuda	88.00

3. Associated companies recognised at equity in the consolidated financial statement	Share of capital [1] in %
Apulia Prontoprestito S. p. A., Rome, Italy [10]	10.60
aspect online AG, Augsburg, Germany	21.09
C-QUADRAT Investment AG, Vienna, Austria	25.56
Camargue Underwriting Managers (Pty) Ltd., Parktown, South Africa [16]	26.00
Clarendon Transport Underwriting Managers (Pty) Ltd., Johannesburg, South Africa [16]	37.33
Commercial & Industrial Acceptances (Pty) Ltd., Johannesburg, South Africa [16]	40.00
Flexible Accident & Sickness Acceptances (Pty) Ltd., Johannesburg, South Africa [16]	40.00
HANNOVER Finanz GmbH, Hannover, Germany	25.00
ITAS Vita S. p. A., Trento, Italy	34.88
neue leben Pensionsverwaltung AG, Hamburg, Deutschland	49.00
Petro Vietnam Insurance Holdings, Hanoi, Vietnam	25.00
Takafol South Africa (Pty) Ltd., Johannesburg, South Africa [16]	49.00
WeHaCo Unternehmensbeteiligungs-GmbH, Hannover, Germany	40.00

4. Associated companies not recognised at equity in the consolidated financial statement owing to subordinate importance	
Capital System GmbH, Hannover, Germany	49.00
Clarus Holding GmbH, Wiesbaden, Germany	25.10
Energi, Inc. (formerly: Energi Holding Inc.), Peabody, USA	28.50
Hannover Care AB, Stockholm, Sweden	30.00
Hannoversch-Kölnische Handels-Beteiligungsgesellschaft mbH & Co. KG, Hannover, Germany	50.00
PlaNet Guarantee (SAS), Saint-Ouen, France	23.58
Sciemus Power MGA Limited, London, United Kingdom	25.00
VOV Verwaltungsorganisation für Vermögensschaden-haftpflicht-Versicherungen für Mitglieder von Organen juristischer Personen GmbH, Cologne, Germany	25.00
XS Direct Holding Ltd., Dublin, Ireland	25.00

5. Joint ventures included in the consolidated financial statement pursuant to IFRS	
Credit Life International Services GmbH, Neuss, Germany	50.00

6. Joint ventures not included in the consolidated financial statement owing to subordinate importance	
nl-PS Betriebliche Vorsorge GmbH, Erlangen, Germany	50.00

7. Affiliated companies not included in the consolidated financial statement pursuant to IFRS	Share of capital[1] in %
Bureau für Versicherungswesen Robert Gerling & Co. GmbH, Cologne, Germany	100.00
CiV Immobilien GmbH, Hilden, Germany	100.00
Clarenfin (Pty) Ldt., Johannesburg, South Africa[12]	100.00
Desarollo de Consultores Profesionales en Seguros S. A. de CV, León, Mexico	100.00
Gente Compania de Soluciones Profesionales de Mexico, S. A. de C. V., León, Mexico	100.00
Gerling Insurance Agency, Inc., Chicago, USA	100.00
Gerling Norge A/S, Oslo, Norway	100.00
GERLING Sustainable Development Project-GmbH, Cologne, Germany	100.00
Gerling-Konzern Panamericana Ltda., São Paulo, Brazil	100.00
Glencar Underwriting Managers, Inc., Itasca, USA	95.90
H. J. Roelofs Assuradeuren B. V., Rotterdam, Netherlands	100.00
Hannover Life Re Consultants, Inc., Orlando, USA	100.00
Hannover Re Consulting Services India Private Limited, Mumbai, India	100.00
Hannover Re Services Italy S. r. L., Milan, Italy	100.00
Hannover Re Services Japan, Tokyo, Japan	100.00
Hannover Re Services USA, Inc., Itasca, USA	100.00
Hannover Risk Consultants B. V., Rotterdam, Netherlands	100.00
Hannover Reinsurance AG Escritorio de Representação no Brasil Ltda., Rio de Janeiro, Brazil	100.00
Hannover Services (Mexico) S. A. de C. V., Mexico City, Mexico	100.00
Hannoversch-Kölnische Beteiligungsgesellschaft mbH, Hannover, Germany	50.00
HDI Direkt Service GmbH, Hannover, Germany	100.00
HDI-Gerling Australia Insurance Company Pty., Ltd., Sydney, Australia	100.00
HDI-Gerling Schadenregulierung GmbH (formerly: HDI-Gerling Beschäftigungs- und Qualifizierungs-gesellschaft mbH), Hannover, Germany	100.00
HDI-Gerling Services S. A., Brussels, Belgium	100.00
HDI-Gerling Sicherheitstechnik GmbH, Hannover, Germany	100.00
HR Hannover Re Correduria de Reaseguros S. A., Madrid, Spain	100.00
International Hannover Holding AG, Hannover, Germany	100.00
International Mining Industry Underwriters Ltd., London, United Kingdom	100.00
LRA Superannuation Plan Pty Ltd., Sydney, Australia[12]	100.00
Mediterranean Reinsurance Services Ltd., Hongkong, China[11]	100.00
Nassau Assekuranzkontor GmbH, Cologne, Germany	100.00
Paetau Sports Versicherungsmakler GmbH, Berlin, Germany	100.00
Scandinavian Marine Agency A/S, Oslo, Norway	52.00
Shamrock Marine-Insurance Agency GmbH, Hamburg, Germany	100.00
SSV Schadenschutzverband GmbH, Hannover, Germany	100.00
Svedea AB, Stockholm, Sweden	71.20
THS Services Versicherungsvermittlungs GmbH, Berlin, Germany	100.00
THV Versicherungsmakler GmbH, Berlin, Germany	99.00
VES Gesellschaft f. Mathematik, Verwaltung und EDV mbH, Gevelsberg, Germany[3]	100.00

8. Participating interests

DFA Capital Management, Inc., Wilmington, USA[2), 3)] (Capital and reserves in USD thousand: 1,177; Result before profit/loss transfer in USD thousand: –1,928)	25.37
IGEPA Gewerbepark GmbH & Co. Vermietungs KG, Munich, Germany[2), 3)] (Capital and reserves in EUR thousand: –11,272; Result before profit/loss transfer in EUR thousand: 8,764)	37.50

9. Participating interests of Hannover Re in large public limited companies in respect of which the participation exceeds 5% of the voting rights (large public limited company as defined by § 341 a Commercial Code (HGB)

Acte Vie S.A. Compagnie d'Assurances sur la Vie et de Capitalisation, Strasbourg, France[2), 4)] Capital and reserves in EUR thousand: 8,203; Result before profit/loss transfer in EUR thousand: 226	9.38

1) The share of capital is determined by adding up all directly and indirectly held interests pursuant to § 16 Para. 2 and 4 Stock Corporation Act (AktG)
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) Figures at financial year-end 2009
4) Figures at financial year-end 2010
5) The facilities afforded by § 264 Para. 3 Commercial Code (HGB) were utilised
6) The exemption afforded by § 264 b Commercial Code (HGB) was utilised
7) Also allocated to the Industrial Lines segment
8) Also allocated to the Retail Germany segment
9) Also allocated to the Retail International segment
10) Significant influence evidenced by board representation pursuant to IAS 28.7 (a)
11) Company is in liquidation
12) Company is inactive and does not compile an annual report
13) The company prepares its own subgroup accounts
14) Included in the subgroup accounts of Hannover Finance Inc.
15) Included in the subgroup accounts of Hannover Re Real Estate Holdings Inc.
16) Included in the subgroup accounts of Hannover Reinsurance Group Africa (Pty) Ltd.

Drawn up and released for publication in Hannover, 6 March 2012

Hannover, 6 March 2012

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 2011. 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 any 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, 6 March 2012

KPMG AG
Wirtschaftsprüfungsgesellschaft

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

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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).

Acquisition costs (life) as a percentage of premium income from new business
(Net) cost of acquiring new business in proportion to the premium income obtained from that business.

Acquisition cost ratio
gross: cost (gross) of acquiring new business in proportion to the premiums earned, including savings elements under unit-linked life/annuity insurance.
a) net: cost (net) of acquiring new business in proportion to the premiums earned, not including savings elements under unit-linked life/annuity insurance.

Administrative expenses
Costs of current administration connected with the production of insurance coverage.

Administrative expense ratio
a) gross: cost (gross) of running in-force business in proportion to the premiums earned, including savings elements under unit-linked life/annuity insurance.
b) net: cost (net) of running in-force business in proportion to the premiums earned, not including savings elements under unit-linked life/annuity insurance.

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 longterm 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.

Cash flow statement
Statement on the origin and utilisation 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 equalisation reserve
> equalisation 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.

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

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–I

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 recognised 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 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.

Equalisation 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.

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.

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 securitise 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.

L–P

Lapse rate for life insurance products
Sum of cancelled policies and other premature withdrawals in relation to the average business in force (GDV index).

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 amortisation of the shareholders' portion of the PVFP – to net premium earned. > Present value of future profits

Loss ratio for property/casualty insurance products
a) gross: sum of the (gross) losses and loss adjustment expenses and the (gross) other technical result as a proportion of gross premiums earned.
b) net: sum of the (net) losses and loss adjustment expenses and the (net) other technical result as a proportion of net premiums earned.

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.

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.

Net return on investments
Investment earnings, not including interest income on funds withheld and contract deposits, in relation to the average investments under own management.

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) equalisation reserve.

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

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

Personal lines
> Life/health insurance

Policyholders' surplus
Total amount of shareholders' equity excluding non-controlling interests, which is comprised of the common shares, additional paid-in capital, retained earnings and cumulative other comprehensive income, as well as the non-controlling 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 categorised 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 capitalised and amortised according to schedule. Impairments are taken on the basis of annual impairment tests.

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

Private equity
Investment capital raised by private investors 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, amortised
Cost of acquiring an asset item including all ancillary and incidental purchasing costs; in the case of wasting assets less scheduled and/or special amortisation.

PVFP
> Present value of future profits

Q–V

Quota share reinsurance
Form of reinsurance under which the percentage share of the written risk and the premium is contractually agreed.

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.

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.

Shareholders' equity
Funds provided by the owners of an enterprise for its internal financing or left within the company as earned profit (realised/unrealised). 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 recognised in the balance sheet: the loss reserve discount and the present value of future profits in life business that has not been capitalised, 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.

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 harmonise European insurance regulations.

Specialty lines
Specialty insurance for niche business such as non-standard motor covers, fine arts insurance etc.

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

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

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

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 amortisation of the shareholders' portion of the PVFP but excluding consolidation differences from debt consolidation (technical). > 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.

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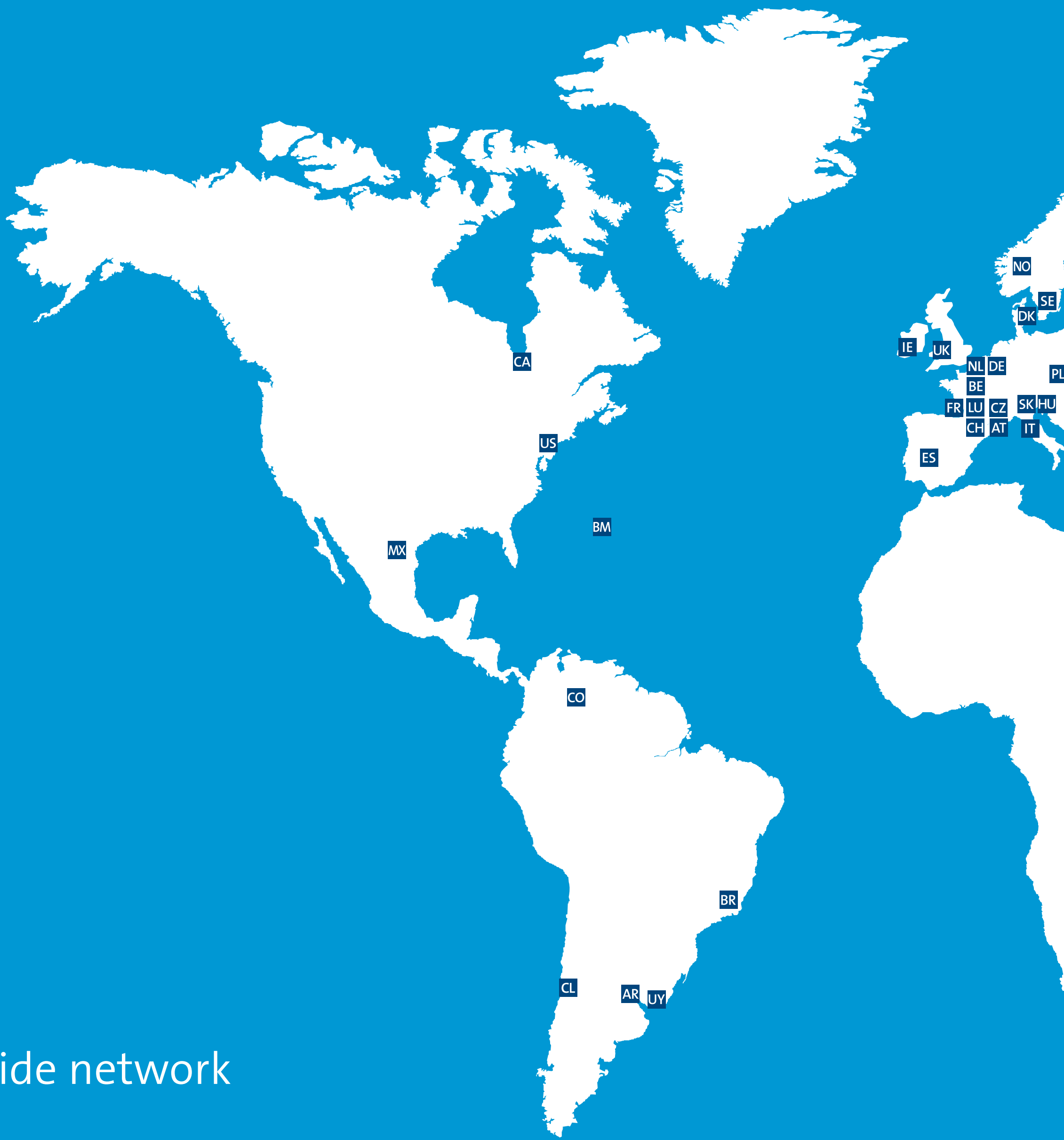

Our worldwide network

America

AR Argentina.
L'UNION de Paris Cía. Argentina, Buenos Aires

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
Metropolitana, Mexico City

US USA.
Hannover Life Re America, Orlando
Hannover Re Services USA, Itasca/Chicago
HDI-Gerling America Insurance Company, Chicago

UY Uruguay.
HDI Seguros, Montevideo

Europe

AT Austria.
HDI-Gerling Lebensversicherung, Vienna
HDI Versicherung, Vienna

BE Belgium.
HDI-Gerling Assurances/Verzekeringen, Brussels

BG Bulgaria.
HDI Zastrahovane, Sofia

CH Switzerland.
HDI-Gerling Industrie (Branch), Zurich

CZ Czech Republic.
HDI Versicherung (Branch), Prague

DE Germany.
AmpegaGerling Investment, Cologne
E+S Rück, Hannover
Hannover Re, Hannover
HDI Direkt, Hannover
HDI-Gerling, Hannover/Cologne
neue leben, Hamburg
PB Versicherungen, Hilden
Talanx, Hannover/Cologne
TARGO Versicherungen, Hilden

DK Denmark.
HDI-Gerling Industrie, Copenhagen

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

* Subject to regulatory approval

IE Ireland.
Hannover Life Re (Ireland), Dublin
Hannover Re (Ireland), Dublin
HDI Reinsurance, Dublin
HDI-Gerling Industrial Insurance Company, Dublin

IT Italy.
Hannover Re Services Italy, Milan
HDI Assicurazioni, Rom
HDI-Gerling Industrie (Branch), Milan

LU Luxembourg.
Hannover Finance, Luxembourg
Talanx Finanz, Luxembourg

NL Netherlands.
HDI-Gerling Verzekeringen, Rotterdam/Amsterdam

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 Republik.
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 Re (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 (Branch), Tokyo

KR Korea.
Hannover Re (Branch), Seoul

MY Malaysia.
Hannover Re (Branch), Kuala Lumpur

RU Russia.
CiV Life, Moskow
HDI Strakhovanie, Moscow

TW Taiwan.
Hannover Re (Representative Office), Taipei

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