HDI GERLING

HDI-Gerling Industrie Versicherung AG

Annual Report 2011

HDI-Gerling Industrie Versicherung AG at a Glance

		2011	2010
Premium income (gross)	€ million	2,721	2,530
Increase/decrease in gross premium income	%	7.5	0.3
Income from earned premiums for own account	€ million	1,065	1,177
Claims and claims expenses for own account	€ million	1,035	885
Loss ratio for own account	%	97.2	75.1
Underwriting expenses for own account	€ million	271	281
Expense ratio for own account	%	25.5	23.9
Net underwriting result before equalization reserve for own account	€ million	-101	-7
Combined Ratio (loss/expense ratio) for own account	%	122.7	99.0
Investments	€ million	6,245	5,984
Investment income	€ million	277	299
Net profit/loss from non-insurance business	€ million	201	206
Net profit/loss from ordinary activities	€ million	154	160
Tax expense/ tax income (-)	€ million	28	12
Profit transferred under a profit/loss transfer agreement	€ million	133	131
Operating results (net profit/loss from ordinary activities plus changes in the equalization reserve)	€ million	-5	199
Capital, reserves and underwriting provisions			
Equity	€ million	407	407
Subordinated liabilities	€ million	250	250
Equalization reserve and similar provisions	€ million	526	685
Other underwriting provisions*	€ million	4,415	4,509
Grand total	€ million	5,598	5,851
of earned premiums for own account	%	525.6	497.0
Ratio of underwriting provisions for own account	%	375.0	339.5
Insurance contracts	in 1,000	678	629
Reported claims	in 1,000	208	218
Headcount	FTEs	1,919	1,813

** Excluding provision for premium refunds*
*** The main reason for the change of the net ratios in comparison to the prior year was the reclassification of the total amount of the provision for reinstatement premiums of EUR 179 million, which is recognized as reinsurance premiums starting in the 2011 financial year. In consequence, the net loss and expense ratios rose as a result of the sharp drop in net premiums. Conversely, this produced an improvement in other net underwriting results. After an adjustment for other net underwriting results the net combined ratio would be equal to 109.4%.*

Contents

Report of the Supervisory Board

The Supervisory Board monitored the conduct of the business by the Board of Management in the past financial year 2011 on a continuous basis in accordance with the law, the articles of incorporation and rules of procedure and arranged for comprehensive information about business developments and the financial condition of the Company to be presented by the Board of Management in regular written and verbal reports. The Chairman of the Supervisory Board was further informed by the Chairman of the Board of Management about important developments and upcoming decisions on a regular basis.

The Supervisory Board convened for two ordinary meetings on 29 March 2011 and 26 October 2011. At the meetings, the reports from the Board of Management were discussed in detail and suggestions and proposals for optimisation were presented. To the extent that business matters requiring approval arose in the periods between the meetings, the Board of Management submitted these for a resolution by written procedure.

In the 2011 financial year, the Board of Management presented regular reports on the current financial year and the business and financial performance of the Company. As part of the written and verbal reporting, the Supervisory Board was also informed about risk management at the Company, about its risk situation as well as any changes that had occurred together with their causes.

During the 2011 financial year, there was no occasion for the Supervisory Board to undertake examinations within the meaning of sec. 111 (2) of the German Stock Corporation Act.
The Supervisory Board generally participated in the decisions of the Board of Management within the scope of its legal and statutory responsibility and assured itself that the management of the Company was conducted in a manner that was lawful, proper, appropriate and profitable.

Points of focus for the deliberations in plenary sessions
Deliberations of the Supervisory Board focused on the reports of the Board of Management concerning three projects – globalisation, branch structures and future processes – as well as the planning for the 2012 financial year.

The earthquake and tsunami in Japan as well as the reactor disaster in Fukushima that followed, were key topics of the reports from the Board of Management.
To the extent that the transactions and measures taken by the Board of Management require the approval of the Supervisory Board in accordance with the law, the articles of incorporation and the rules of procedure, resolutions to that effect were adopted after a review and deliberations. In the 2011 financial year, the Supervisory Board gave its approval, inter alia, to the acquisition of a 25% share in the Vietnamese insurance company PVI, the capital increase at HDI-Gerling Welt Service AG, the investment in M 31 Beteiligungsgesellschaft mbH & Co. Energie KG and the formation of Nassau Assekuranzkontor GmbH as well as HG Sach Altinvest GmbH & Co. KG. The Supervisory Board further approved the signing of a control and profit and loss transfer agreement with Nassau Assekuranzkontor GmbH.
The Supervisory Board assured itself that the risk management systems were performing effectively and arranged to be informed on this point by the Board of Management on an ongoing basis.

Audit of the annual financial statements

The annual financial statements as of 31 December 2011 as well as the management report presented by the Board of Management, including the accounting, were audited by KPMG AG, Wirtschaftsprüfungsgesellschaft, Hannover. The independent auditors were appointed by the Supervisory Board, which also awarded the specific audit engagement.

The audit did not lead to any reservations. The unqualified audit opinion states that the accounting and the annual financial statements present fairly, in all material respects, the net assets, financial position and results of operations, and that the management report is consistent with the annual financial statements. The documentation for the annual financial statements and the KPMG AG audit reports were forwarded to all Supervisory Board members on a timely basis.

The independent auditor attended the meeting to discuss the annual financial statements and the management report in order to report on the conduct of the audit, and was available to the Supervisory Board to provide further information on the annual financial statements and the management report as well as the audit report. The Supervisory Board discussed the annual financial statements prepared by the Board of Management and also reviewed the audit report of the independent auditor, and addressed follow-up questions to the independent auditor on some specific points. The Supervisory Board arrived at the conclusion that the audit report was in compliance with sections 317 and 321 of the German commercial Code (HGB) and that it did not raise any concerns. The Supervisory Board further concluded that the management report satisfied the requirements in sec. 289 HGB and conformed to the statements in the reports to the Supervisory Board pursuant to sec 90 AktG. The management report was also consistent with the Supervisory Board's own assessment of the Company's position.

In accordance with the final result of the review of the annual financial statements and the management report undertaken by the Supervisory Board, we concurred with the auditor's opinion and approved the annual financial statements as prepared by the Management Board on 8 March 2012, which are thereby adopted. The management report, and in particular the statements made therein regarding the future development of the Company, were also approved.

Members of the Board of Management

Mr. Rolf Aßhoff retired on 31 March 2011 and his appointment to the Board of Management expired effective as of that day. The Supervisory Board expressed its thanks to Mr. Aßhoff and acknowledged his contributions on the Company's Board of Management.

The Supervisory Board wishes to thank the members of the Board of Management and all employees for their commitment and contribution during a particularly challenging reporting period.

Hannover, 8 March 2012

For the Supervisory Board

Herbert K. Haas
(Chairman)

Supervisory Board

Herbert Haas
Chairman

Chairman of the Board of Management of
Talanx AG,
Burgwedel

Dr. Erwin Möller
Deputy Chairman

Chairman of the Supervisory Board of
M. M. Warburg & Co. Gruppe KGaA,
Hannover

Wolfgang Brinkmann
Managing Director of
bugatti GmbH,
Herford

Ulrich Weber
Member of the Board of Management of
Deutsche Bahn AG,
Berlin

Hans-Joachim Birg*
Employee,
Wedemark

Jutta Mück*
Employee,
Oberhausen

* Employee Representative

Board of Management

Dr. Christian Hinsch
Chairman

Member of the
Board of Management of
HDI Haftpflichtverband der Deutschen
Industrie V.a.G.
Member of the
Board of Management of
Talanx AG,
Hannover

Member of the Board of Management of
HDI-Gerling Industrie Versicherung AG
responsible for

- Tasks assigned to the Chairman of the Board under the Rules of Procedure
- Internal Audit
- Coordination of passive reinsurance

Dr. Joachim ten Eicken
Member of the Board of Management of
HDI-Gerling Industrie Versicherung AG
responsible for

- the Industrial Property Insurance segment (operations/claims/safety engineering systems) excluding transport insurance
- Supervision of HDI-Gerling Sicherheitstechnik GmbH

Gerhard Heidbrink
Member of the Board of Management of
HDI-Gerling Industrie Versicherung AG
responsible for

- Domestic sales except for the Corporate business area
- the Industrial Motor Vehicle Insurance segment (operations/claims/safety engineering systems)

Karl-Gerhard Metzner
Member of the Board of Management of
HDI-Gerling Industrie Versicherung AG
responsible for

- Transport insurance segment
- Aviation insurance segment
- Group Accident insurance segment
- Credit insurance segment

Dr. Stefan Sigulla
Member of the Board of Management of
HDI-Gerling Industrie Versicherung AG
responsible for

- the Industrial Liability and Legal Protection Insurance segment (operations/claims/safety engineering systems)
- Corporate business area

Jens Wohlthat
Member of the Board of Management of
HDI-Gerling Industrie Versicherung AG
responsible for

- International Business Area

Ulrich Wollschläger
Member of the Board of Management of
HDI-Gerling Industrie Versicherung AG
responsible for

- Accounting
- Premium collections
- Investments
- Controlling
- Risk Management

Economic and business climate

Business operations

The Company

As an industrial insurance company, HDI-Gerling Industrie Versicherung AG meets the needs of industrial and commercial customers with insurance solutions that are specifically tailored to their requirements. Beyond its prominent presence in the German market, the Company conducts significant activities in more than 130 countries through foreign branch offices, subsidiaries and affiliated companies as well as a network of partners. The Company is thus able to offer its customers local policies for their global operations, which ensure that the established service and insurance protection is extended for all covered risks world-wide.

Economic environment

Macroeconomic development

The predominant theme for the reporting period was the ever more critical European sovereign debt crisis and its effects on the financial industry and especially on the banks. The resulting economic development of the global economy was characterized by a general cooling off, which was felt especially in the Euro zone. Countries on the Euro periphery, which were required in some cases to meet extreme savings challenges, saw growth drop sharply. In this critical maelstrom of conflicting demands some countries suffered significant ratings downgrades. The USA, for example, lost its top rating from Standard and Poor's and the credit ratings of several European countries were also downgraded—here the focus was on Italy and Spain, for which the interest rate premiums subsequently reached new highs.

The relatively robust economic data in the US had a stabilizing effect in the fourth quarter of the reporting period. According to Bloomberg data, the US economy grew in the fourth quarter at an annualized rate of 2.8% over the same quarter a year earlier, and the unemployment rate reached a three-year low of 8.5% in December of 2011. In the Euro zone, GDP in the fourth quarter shrank by 0.3% from the prior quarter resulting in a year-on-year gain of no more than 0.7%. Within the Euro zone, Germany last reported a growth rate of 1.5% over the same quarter of the prior year.

The monetary policy of the major central banks remained on an unchanged expansion course.

While the Euro still benefited from the somewhat more restrictive monetary policy of the ECB in the first half of the year – the Euro was intermittently quoted at above USD 1.45 / EUR 1.00 – the rate dropped significantly in the final quarter in the course of the continuing Euro debt crisis, and fell below the USD 1.30 / EUR 1.00 mark at the end of 2011. The movement against the British pound sterling followed a similar pattern. From an exchange rate of about GBP 0.86 / EUR 1.00 at the start of the year, the Euro rose to GBP 0.90 / EUR 1.00 by mid-year, then dropped back to GBP 0.83 / EUR 1.00 at the end of 2011. In connection with the weakness of the Euro, which was also reflected versus the Swiss Franc, the Swiss Reserve Bank announced in September 2011 that it would no longer tolerate an exchange rate below CHF 1.20 / EUR 1.00. In comparison to the Polish Zloty, the Euro gained about 13% over the course of the year.

Capital markets

The bond markets in 2011 were largely dominated by the unresolved debt and/or credit crisis of the PIIGS countries (Portugal, Ireland, Italy, Greece and Spain). Both, the affected government bonds and the lower ranked assets class of covered bonds and bank as well as corporate bonds suffered a great number of rating downgrades. There was no easing of the situation in the fourth quarter despite two large EU summits. As the sentiment toward the larger PIIGS countries, especially toward Italy, deteriorates, the market is once again strongly focused on the threat of a banking crisis.

The stock markets showed extreme volatility throughout the entire year of 2011. In the first quarter, the tsunami disaster in Japan and its devastating consequences sent the markets briefly into a global tailspin. Encouraged by a strong earnings season, however, the markets recovered in the first half. The escalation of the European sovereign debt and banking crisis once again produced sharp losses in the global stock markets in the third quarter. The German DAX stock index fell by almost 2,500 points within a few weeks, thus loosing close to one third of its value; the EURO STOXX 50 index suffered a similarly sharp decline. In the final quarter, some of these losses were recovered. But the bottom line for Europe was nevertheless deep in the red. The DAX lost almost 15% and the EURO STOXX 50 index lost just above 17%. The US indexes performed significantly better. The Dow Jones index produced a gain of close to 5% for the year, and the S&P 500 ended the year virtually unchanged.

Insurance business

2011 was not an easy year for the international insurance industry. Aside from the significant impact of the of the severe natural disasters in the most loss-producing year on record, the loss of momentum in the global economy from the second half onward, the sovereign debt crisis in Europe and in the USA, and also the low interest rate environment that has persisted for some time, confront insurance firms throughout the world with significant challenges. In this environment, the insurance industry nevertheless performed rather well.

The German property and casualty insurance business suffered no noticeable effects from the sovereign debt crisis. This is primarily owing to the effect of the delay with which changes in the general economic environment are reflected in the insurance industry. By contrast, the continued intense price competition remains a major factor in business performance, though it is characterized by the first signs of an easing. In a welcome development during the renewal season at the turn of the year 2010/2011, the motor vehicle insurance segment – by far the largest property and casualty insurance segment, where profitability had clearly eroded in the preceding years – was once again able to enforce premium increases for new as well as for existing buisness, which produced a significant upturn in the growth trend for this segment.

Strong competition also characterized the industrial and commercial property business, where the potential for further growth is, in fact, generally limited by the existing high market penetration, but where some categories, such as transport and credit insurance, have recently benefited from the recovery of the corporate sector, and which has succeeded in increasing its premium volume.

Business performance

Business performance of HDI-Gerling Industrie Versicherung AG

Gross premiums for the financial year (total)

EUR millions, %		
Liability insurance	887	32.6
Fire insurance	341	12.5
Motor vehicle insurance	305	11.2
Transport and aviation insurance	229	8.4
Tecnical insurance	277	10.2
Accident insurance	80	2.9
Other insurance	602	22.2
Grand total	**2,721**	**100.0**

Gross premiums written by HDI-Gerling Industrie Versicherung AG rose in the reporting period by a significant EUR 191 million to EUR 2,721 (2,530) million. This generally positive performance was nevertheless differently pronounced in the individual categories; while liability, transport and aviation as well as fire insurance had to accept some premium erosion in an intensely competitive market environment, other categories such as motor vehicle insurance and the technical insurance lines were able to realize premium increases.

Net earned premiums declined by EUR 112 million to EUR 1,065 (1,177) million; a major reason for this change was the reclassification of the provision for reinstatement premiums in the amount of EUR 179 million from other underwriting expenses to the (non-cash) reinsurance premiums. This consequently lowered the net earned premiums.

Gross expenses for claims incurred rose year-on-year by EUR 544 million to EUR 2.186 (1.642) million. The primary driver of this increase was the rise in the expenses for claims incurred during the financial year, which were severely impacted by several major losses. In the business accepted for reinsurance, in particular, the gross claims expenses were marked by major losses resulting form the natural disasters in Japan and Thailand. The gross loss ratio rose accordingly to 82.2% (64.0%).

Insurance business (total)

	2011	2011	2010	2010
EUR millions	**Gross**	**Net**	**Gross**	**Net**
Premiums	2,721	1,099	2,530	1,192
Earned premiums	2,658	1,065	2,531	1,177
Claims expenses	2,186	1,035	1,642	885
Operating expenses	503	271	488	281
Net underwriting result for own account		58		-46
In %				
Loss ratio	82.2	97.2	64.9	75.1
Expense ratio	18.9	25.5	19.3	23.9
Combined (loss/expense) ratio	101.1	122.7	84.2	99.0

**The main reason for the change of the net ratios for the financial year in comparison to a year earlier was the reclassification of the total amount of the provision for reinstatement premiums of EUR 179 million, which are recognized as reinsurance premiums starting in the 2011 financial year. In consequence, the net loss and expense ratios rose as a result of the sharp drop in net premiums. Conversely, this produced an improvement in other net underwriting results. After an adjustment for net underwriting results the net combined ratio would be equal to 109.4%.*

Net expenses for claims incurred rose by EUR 150 million to EUR 1,035 million (prior year: EUR 885 million). The overall net loss ratio rose to 97.2% (75.1%).

Gross operating expenses for the insurance business rose by EUR 15 million to EUR 503 (488) million; the gross expense ratio declined slightly to 18.9% (19.3%) while the net expense ratio rose by 1.6 percentage points to 25.5% (23.9%). Due to the increase in the loss ratio, the combined (loss /expense) ratio was equal to 101.1 (84.2) % (gross) or 122.7 (99.0) % (net).

The net underwriting result improved by EUR 104 million to EUR 58 (loss of 46) million, which included a withdrawal from the equalization reserve in the amount of EUR 159 (addition of 39) million. The sizeable withdrawal was largely attributable to an effect of EUR 73 million resulting from the reclassification of the total amount for the non-cash reinstatement premiums from other underwriting expenses to the (likewise non-cash) reinsurance premiums; the impact on net earned premiums resulting from this reclassification also caused the disproportionate increase in the net ratios.

Liability insurance

Direct written insurance business

	2011	2011	2010	2010
EUR millions	**Gross**	**Net**	**Gross**	**Net**
Premiums	665	126	669	260
Earned premiums	646	108	680	252
Claims expenses	493	124	485	178
Operating expenses	104	50	104	61
Net underwriting result for own account		109		-22
In %				
Loss ratio	76.4	115.2	71.4	70.6
Expense ratio	16.1	46.8	15.3	24.0
Combined (loss/expense) ratio	92.5	162.0	86.7	94.6

In the industrial liability insurance segment, HDI-Gerling Industrie Versicherung AG had to record a slight decrease of EUR 4 million in gross premiums written to EUR 665 (669) million. The main drivers were the drop in premiums due to higher retentions in the amount of EUR 22 million by a significant business partner and EUR 13 million attributable to the expiration of an international fronting agreement. But these decreases could be offset in large part by the underwriting of new business and remedial premium increases

Net earned premiums dropped by a significant EUR 144 million to EUR 108 (252) million. This was largely attributable to the effect of the reclassification of the change of EUR 132 million in the provision for reinstatement premiums from other underwriting expenses to the (non-cash) reinsurance premiums. This consequently lowered the net earned premiums.

Gross expenses for claims incurred rose year-on-year by EUR 8 million to EUR 493 (485) million. Similar to the preceding year, gross claims expenses were strongly marked by the necessary increases in the provisions for individual major losses. The expenses that this created were more than offset by run-off profits in other areas as well as the reversal of provisions for unknown losses incurred but not yet reported, so that the run-off profit reported for the full financial year represents a year-on-year increase

This contrasts with higher claims expenses for the financial year, which were marked, in particular, by the increase in the provision for unknown losses incurred by not yet reported in a financial year that was severely impacted by major losses. The gross loss ratio rose by a total of 5 percentage points to 76.4% (71.4%).

The net expenses for claims incurred declined by EUR 54 million in the financial year to EUR 124 (178) million. But the main driver for the increase in the net loss ratio by about 45 percentage points to 115.2 (70.6) % was the effect of the presentation of the non-cash reinstatement premiums as part of the net earned premiums.

Gross operating expenses of EUR 104 (104) million remained at last year's level. Net expenses declined by EUR 11 million to EUR 50 (61) million. Due to the change in premiums, the expense ratio increased slightly to 16.1 (15.3)% on a gross basis but at a significant rate to 46.8 (24.0)% on a net basis.

The combined (loss/expense) ratios of 92.5 (86.7)% (gross) and 162.0 (94.6)% (net) saw an increase which, nevertheless, does not reflect the net underwriting result; this improved by EUR 131 million to EUR 109 (loss of 22) million, including a withdrawal from the equalization reserve in the amount of EUR 60 (addition of 10) million in consequence of the reclassification of non-cash reinstatement premiums to the (non-cash) reinsurance premiums. The changes in the ratios are likewise driven by the proportionate change in premiums as the reference parameter, which is attributable to the special effect described above.

Fire insurance

Direct written insurance business

	2011	2011	2010	2010
EUR millions	**Gross**	**Net**	**Gross**	**Net**
Premiums	211	28	255	70
Earned premiums	225	38	266	76
Claims expenses	152	8	121	52
Operating expenses	39	11	47	17
Net underwriting result for own account		27		18
In %				
Loss ratio	67.6	20.5	45.6	68.4
Expense ratio	17.3	29.9	17.6	22.0
Combined (loss/expense) ratio	84.9	50.4	63.2	90.4

Gross premium income from industrial fire and fire business interruption insurance declined in the financial year to EUR 211 (255) million. The conversion from pure industrial fire insurance coverage and extended coverage insurance to all-risk concepts produced a drop in the industrial fire insurance segment. A decrease in gross premiums from the domestic business was also recorded in consequence of an intensely competitive market environment.

Net earned premiums dropped by a significant EUR 38 million to EUR 38 (76) million This development is largely attributable to the change of the reinsurance coverage in the natural hazards segment and the resulting higher reinsurance premium. In addition, the reclassifications referred to above led to a year-on-year decrease in net earned premiums that parallels the change in gross premiums.

Gross expenses for claims incurred rose by EUR 31 million to EUR 152 (121) million. This was caused by a significant increase in claims expenses for the financial year: four unusually high fire losses as well as major losses arising from the natural disaster in Japan in the amount of approximately EUR 10 million were recorded in the financial year. The gross loss ratio was up rather sharply by 22.0 percentage points, but yet remained within the acceptable range.

Net expenses for claims incurred fell to EUR 8 (52) million. This was driven by the conversion of pure fire insurance coverage and extended coverage insurance to all-risk concepts. Despite the increase in the gross ratio, the net loss ratio declined by a noticeable 47.9 percentage points to 20.5 (68.4) %.

Gross operating expenses were further reduced in the financial year just ended to EUR 39 (47) million. The gross expense ratio dropped to 17.3% (17.6%). Expenses for own account declined to EUR 11 (17) million. Owing to the decrease in premium income, the net expense ratio nevertheless showed a significant increase to 29.9 (22.0) %. The combined (loss/expense) ratio reflected the aforementioned development, rising to 84.9 (63.2) % on a gross basis and declining to 50.4 (90.4) percent on a net basis.

In the fire insurance segment, the Company realized a total net underwriting result in the amount of EUR 27 (18) million.

Motor vehicle insurance

Direct written insurance business

	2011	2011	2010	2010
EUR millions	**Gross**	**Net**	**Gross**	**Net**
Premiums	303	276	272	247
Earned premiums	300	273	275	249
Claims expenses	261	250	248	234
Operating expenses	55	51	51	47
Net underwriting result for own account		-33		-28
In %				
Loss ratio	86.9	91.7	90.4	93.8
Expense ratio	18.5	18.5	18.6	18.9
Combined (loss/expense) ratio	105.4	110.2	109.0	112.7

Despite an ever tightening market, gross premiums written in the motor vehicle insurance segment were successfully increased – for both existing and new business – by EUR 31 million to EUR 303 (272) million. HDI-Gerling Industrie Versicherung AG was able to further expand its position in the segment of fleets. Net earned premiums followed the development on a gross basis, rising to EUR 273 (249) million as the reinsurance structure remained virtually unchanged.

Gross expenses for claims incurred rose by EUR 13 million to EUR 261 (248) million. A rise in claims frequency was observed in parallel with the economic recovery over the last two years. Due to the favorable change in premiums, the gross loss ratio improved by 3.5 percentage points to 86.9 (90.4)%.

Net claims expenses rose likewise to EUR 250 (234) million, thus paralleling the change on a gross basis; the net loss ratio was equal to 91.7 (93.8)%.

Gross operating expenses rose slightly to EUR 55 (51) million. Relative to the significantly higher gross premiums, the gross expense ratio dropped slightly to 18.5 (18.6)%. The net expense ratio followed this trend and also declined slightly to 18.5% (18.9%).

The combined (loss/expense) ratios reflected the developments described above and were recorded as 105.4% (109.0%) for the gross ratio and 110.2% (112.7%) for the net ratio.

The overall result is a net underwriting loss of EUR 33 (28) million, which includes an addition to the equalization reserve of EUR 5 (withdrawal of EUR 2) million.

Transport and aviation insurance

Direct written insurance business

	2011	2011	2010	2010
EUR millions	**Gross**	**Net**	**Gross**	**Net**
Premiums	194	143	203	154
Earned premiums	191	147	206	157
Claims expenses	178	148	167	133
Operating expenses	48	42	48	42
Net underwriting result for own account		-8		3
In %				
Loss ratio	93.2	100.9	81.1	84.9
Expense ratio	25.3	28.7	23.2	27.0
Combined (loss/expense) ratio	118.5	129.6	104.3	111.9

Gross premium income in the transport and aviation insurance segment decreased in the financial year by EUR 9 million to EUR 194 (203) million. The branches of the transport and aviation insurance segments generally succeeded in holding their own quite well in an environment that remained sharply competitive. In the domestic transport business, a stabilization of premiums could be observed. In the markets outside of Germany, cancellations driven by remedial needs as well as a change to longer contract periods resulted in lower premium income. In the aviation segment, the discontinuation of a loss-making business unit resulted in a decrease in premiums. By contrast, it was possible, however, to expand the core business with the acquisition of new relationships and higher quota shares. Net earned premiums moved in parallel with gross premiums, declining by a total of EUR 10 million to EUR 147 (157) million.

Gross expenses for claims incurred rose by EUR 11 million to EUR 178 (167) million, as the financial year was impacted by a major loss – the sinking of a housing platform – in the transport segment. The run-off result, which reflected a decrease from the prior year, was marked by more than insignificant retroactive appropriations to reserves in the German and in the international business. The impact of the natural disasters in Japan on the transport and aviation insurance segments was less than EUR 4 million. The increase in the gross loss ratio to 93.2 (81.1) %, moreover, was driven by the decrease in premiums.

Net expenses for claims incurred rose by EUR 15 million to EUR 148 (133) million even though a significant share of the aforementioned major loss during the financial year could be passed on to the reinsurers. Net expenses were also marked by the retroactive allocations to reserves. The net loss ratio rose by noticeable 16.0 percentage points to 100.9% (84.9%).

Gross operating expenses for the financial year of EUR 48 (48) million gross and EUR 42 (42) million net remained virtually unchanged. Due to the development of premiums, the expense ratios of gross 25.3 (23.2)% and net 28.7 (27.0)% rose only slightly.

The overall combined (loss/expense) ratio rose to 118.5% (104.3%) as the gross ratio and to 129.6% (111.9%) as the net ratio. Due to higher net expenses for claims incurred, the net underwriting result declined by EUR 11 million to a loss of EUR 8 (profit of 3) million.

Technical insurance

Direct written insurance business

	2011	2011	2010	2010
EUR millions	**Gross**	**Net**	**Gross**	**Net**
Premiums	192	75	166	78
Earned premiums	186	74	170	88
Claims expenses	127	48	106	58
Operating expenses	42	10	39	16
Net underwriting result for own account		15		15
In %				
Loss ratio	68.5	65.7	62.4	66.2
Expense ratio	22.4	13.6	22.9	18.3
Combined (loss/expense) ratio	90.9	79.3	85.3	84.5

The technical insurance lines encompass insurance for machinery, installation, construction services, existing structures, electronics and machinery warranties, as well as the respective associated business interruption insurance.

As a result of the growth in new business, gross premiums written for the financial year could be increased in almost all lines of the technical insurance segment to EUR 192 (166) million. Net premiums earned, however, dropped to EUR 74 (88) million. The higher amounts ceded for reinsurance in connection with additional quotas ceded were a major factor for this result.

Gross claims expenses grew by EUR 21 million to EUR 127 (106) million, as the financial year was marked by a major loss on an installation/construction project outside of Germany. Allocations to the provision for unknown losses incurred but not yet reported were increased during the financial year to account for the overall increase in business volume. The gross loss ratio of 68.5 (62.4) % was higher than in the prior year. Net expenses declined by EUR 10 million to EUR 48 (58) million. The net loss ratio dipped slightly to 65.7 (66.2) %.

Gross operating expenses for the financial year rose to EUR 42 (39) million; the gross loss ratio fell to 22.4 (22.9)% while the net loss ratio dropped to 13.6 (18.3)%. The combined (loss/expense) ratios reflected the developments described above and were recorded as 90.9% (85.3%) for the gross ratio and 79.3% (84.5%) for the net ratio.

The net underwriting result nevertheless remained virtually unchanged at EUR 15 (15) million.

Accident insurance

Direct written insurance business

	2011	2011	2010	2010
EUR millions	**Gross**	**Net**	**Gross**	**Net**
Premiums	70	60	72	58
Earned premiums	72	61	75	61
Claims expenses	45	43	51	49
Operating expenses	18	16	18	16
Net underwriting result for own account		1		1
In %				
Loss ratio	62.5	69.6	68.3	80.8
Expense ratio	24.7	26.8	23.5	26.0
Combined (loss/expense) ratio	87.2	96.4	91.8	106.8

The accident segment includes the general accident, motor vehicle accident, clinical trials and aviation accident insurance lines. By far the largest share of gross premium income is attributable to the general accident insurance line, which is, in turn, driven by group accident insurance.

The accident insurance segment reported a slight decrease in gross premiums written to EUR 70 (72) million. This performance is largely driven by the expiration of a fronting agreement for clinical trials insurance outside of Germany. Group accident insurance, on the other hand, realized an increase in gross premiums written, mainly due to currency translation effects related to Swiss Francs, though this did not fully compensate for the first effect. Premiums in the other lines were stable.

Net earned premiums largely paralled the development of gross premiums but remained virtually unchanged at EUR 61 (61) million.

Gross expenses for claims incurred decreased by EUR 6 million to EUR 45 (51) million. The main driver was the decline in claims expenses for clinical trials insurance during the financial year, which was largely attributable to a favorable claims experience, as well as the appreciable year-on-year improvement in the run-off result; in the comparison period there had been selected retroactive appropriations to reserves.

An improved run-off result was also reported for group accident insurance, which was attributable in part to the expiration of an unprofitable relationship outside of Germany. The gross loss ratio improved by a total of 5.8 percentage points to 62.5% (68.3%). Net expenses for claims incurred declined by EUR 6 million to EUR 43 (49) million. The net loss ratio was equal to 69.6 (80.8)%.

As operating expenses for the insurance business remained virtually unchanged at EUR 18 (18) million while premium income declined slightly at the same time, the gross expense ratio dropped to 24.7% (23.5%). The net expense ratio followed this trend and also rose slightly to 26.8% (26.0%).

Owing to the lower loss ratios, which more than made up for the offsetting effect of the expense ratios, the combined (loss/expense) ratio for the reporting period dropped to 87.2 (91.8)% on a gross basis and to 96.4 (106.8)% on a net basis. The net underwriting result remained virtually unchanged at EUR 1 (1) million.

Other insurance

Other insurance
including all-risk and extended coverage

Direct written insurance business

	2011	2011	2010	2010
EUR millions	**Gross**	**Net**	**Gross**	**Net**
Premiums	350	133	258	105
Earned premiums	318	117	265	104
Claims expenses	202	93	199	129
Operating expenses	64	35	60	31
Net underwriting result for own account		-9		-57
In %				
Loss ratio	63.6	79.6	74.9	124.3
Expense ratio	20.3	29.7	22.4	29.7
Combined (loss/expense) ratio	83.9	109.3	97.3	154.0

Insurance categories that, given the volume of business, are not required to be reported separately, are combined under other insurance. The most important aspects of this segment relate to industrial risks in the all-risk and extended coverage (EC) insurance categories. These also include the multi-line and multi-risk products that span across insurance lines.

Gross premiums written for other insurance lines reflected a significant gain to a total of EUR 350 (258) million in the financial year. The individual insurance lines were characterized by different factors. The all-risk property and all-risk business interruption insurance segments were able to record an increase in gross premiums written by EUR 90 million to EUR 237 (147) million, which was partly the result of the conversion from pure industrial fire and extended coverage insurance to all-risk concepts that had begun in the prior year. The underwriting of new business outside of Germany also produced higher premium income. In the extended coverage area, the effects of the insurance agreement conversions could be cushioned by higher premium income from new business, so that gross premiums written rose slightly to EUR 52 (49) million.

The increase in net earned premiums of EUR 13 million to EUR 117 (104) million was clearly lower in comparison to rise in gross premiums earned. This was largely attributable to the effect of the reclassification of the change of EUR 17 million in the provision for reinstatement premiums from other underwriting expenses to the (non-cash) reinsurance premiums.

The changes in the reinsurance coverage in the natural hazard insurance area and the resulting increase in the reinsurance premium also had a significant effect.

Gross expenses for claims incurred rose moderately by EUR 3 million to EUR 202 (199) million in the financial year. While the all-risk property and all-risk business interruption insurance segments had to absorb considerable major losses as the result of the natural disasters in Japan and in Thailand, the expenses incurred as a result were more than offset by run-off profits in other areas as well as the reversal of provisions for unknown losses incurred but not yet reported in the extended coverage segment, so that it was possible to report an overall year-on-year increase in the run-off profit. The gross loss ratio declined by a total of 11.3 percentage points to 63.6% (74.9%).

Net expenses for claims incurred declined by EUR 36 million to EUR 93 (129) million. The deciding factors in the extended coverage segment were the reversal of provisions for unknown losses incurred but not yet reported, as well as the run-off profits realized in connection with individual claims. The net loss ratio fell steeply by 44.7 percentage points to 79.6 (124.3) %.

The gross operating expenses were equal to EUR 64 (60) million, thus rising only slightly. Owing to the favorable trend for premiums, the gross expense ratio decreased by 2.1 percentage points to 20.3 (22.4) %.

Net operating expenses of EUR 35 (31) million reflected a proportional change. The net expense ratio remained unchanged at 29.7 (29.7) %. The combined (loss/expense) ratios reflected the trends described above and were recorded as 83.9% (97.3%) for the gross ratio and 109.3% (154.0%) for the net ratio.

The Other insurance lines reported an overall improvement of EUR 48 million in the net underwriting result to a loss of EUR 9 (loss of 57) million.

Other insurance — All-risk only

Direct written insurance business

	2011	2011	2010	2010
EUR millions	**Gross**	**Net**	**Gross**	**Net**
Premiums	237	71	147	43
Earned premiums	206	57	146	38
Claims expenses	172	73	132	46
Operating expenses	35	14	30	9
Net underwriting result for own account		-28		-16
In %				
Loss ratio	83.2	128.9	90.2	122.4
Expense ratio	17.0	24.2	20.3	24.8
Combined (loss/expense) ratio	100.2	153.1	110.5	147.2

Other insurance - Extended coverage only

Direct written insurance business

	2011	2011	2010	2010
EUR millions	**Gross**	**Net**	**Gross**	**Net**
Premiums	52	11	49	12
Earned premiums	51	9	58	17
Claims expenses	1	-8	51	33
Operating expenses	12	4	13	5
Net underwriting result for own account		13		-21
In %				
Loss ratio	1.9	-83.6	88.1	192.7
Expense ratio	23.6	47.8	22.1	30.0
Combined (loss/expense) ratio	25.5	-35.8	110.2	222.7

Business accepted for reinsurance

	2011	2011	2010	2010
EUR millions	**Gross**	**Net**	**Gross**	**Net**
Premiums	736	259	635	219
Earned premiums	721	248	595	191
Claims expenses	727	321	265	52
Operating expenses	132	56	122	52
Net underwriting result for own account		-45		23
In %				
Loss ratio	100.9	129.3	44.6	27.0
Expense ratio	18.4	22.5	20.4	27.2
Combined (loss/expense) ratio	119.3	151.8	65.0	54.2

The business accepted for reinsurance predominantly represents the share of foreign premiums from international insurance programs for which HDI-Gerling Industrie Versicherung AG acts as the lead or sole underwriter for its clients in Germany and abroad. The ceding companies in these cases are foreign units of HDI-Gerling Industrie Versicherung AG and subsidiaries of the Talanx Group, that have written fronting policies in the respective countries in accordance with the specifications of HDI-Gerling Industrie Versicherung AG, our subsidiary HDI-Gerling Welt Service AG, or member companies of the Royal Sun Alliance network.

Other sources of our indirect insurance business is the reinsurance of captives of German and selected international customers as well as the central underwriting, in Hannover, of international risks of large foreign companies.

The gross premium income of the business accepted for reinsurance in the financial year was equal to EUR 736 (635) million. The major part of this total, or EUR 250 (67) million, was attributable to the all-risk insurance segment (incl. business interruption), followed by liability at EUR 222 (220) million and fire (incl. business interruption) at EUR 130 (242) million. The noticeable increase in gross premiums in the all-risk insurance lines was largely due to the conversion of pure industrial fire and extended coverage insurance agreements to all-risk concepts. The segment also recorded an increase in new business outside of Germany.

The increase in net earned premiums of EUR 57 million to EUR 248 (191) million was noticeably smaller in comparison to gross earned premiums. This was largely attributable to the effect of the reclassification of the change of EUR 42 million in the provision for reinstatement premiums from other underwriting expenses to the (non-cash) reinsurance premiums. Of this total effect, EUR 17 million were attributable to the all-risk insurance segment, EUR 13 million to fire insurance and EUR 12 million to liability insurance. The change in the reinsurance coverage in the natural hazard insurance area and the resulting increase in the reinsurance premium also had a significant effect.

Gross expenses for claims incurred rose significantly by EUR 462 million to EUR 727 (265) million. The critical drivers of this sharp increase were the major losses incurred during the financial year as a result of the natural disasters in Japan and Thailand. The earthquake in Japan was accountable for approximately EUR 150 million in claims expenses, while about EUR 63 million were attributable to the flood disaster in Thailand. The gross loss ratio climbed accordingly by a significant 56.3 percentage points to 100.9 (44.6) %. Due to the considerable reinsurance recoveries in relation to the major loss events, net claims expenses increased somewhat less sharply by EUR 269 million to EUR 321 (52) million. The net loss ratio also climbed quite steeply to 129.3 (27.0) %.

Operating expenses for the insurance business rose by EUR 10 million to EUR 132 (122) million on a gross basis. Due to the change in premiums, the gross expense ratio fell to 18.4 (20.4) %. The increase in net expenses of EUR 4 million to EUR 56 (52) million was slightly more moderate; consequently the drop of the net expense ratio of 4.7 percentage points to 22.5 (27.2) % was slightly broader than for the gross ratio.

In total, the business accepted for reinsurance showed a net underwriting result equal to a loss of EUR 45 (profit of 23) million. This includes a withdrawal from the equalization reserve of EUR 66 (addition of 64) million, which is largely due to the reclassifications referred to above.

Business accepted for reinsurance - All-risk insurance

	2011	2011	2010	2010
EUR millions	**Gross**	**Net**	**Gross**	**Net**
Premiums	250	69	67	19
Earned premiums	218	51	63	15
Claims expenses	248	71	89	14
Operating expenses	40	13	11	2
Net underwriting result for own account		-32		-1
In %				
Loss ratio	113.8	140.1	141.5	93.1
Expense ratio	18.5	25.9	17.1	14.3
Combined (loss/expense) ratio	132.3	166.0	158.6	107.4

Business accepted for reinsurance - Liability insurance

	2011	2011	2010	2010
EUR millions	**Gross**	**Net**	**Gross**	**Net**
Premiums	222	114	220	59
Earned premiums	219	108	212	54
Claims expenses	260	135	37	8
Operating expenses	33	19	37	18
Net underwriting result for own account		8		16
In %				
Loss ratio	118.9	125.0	17.4	15.2
Expense ratio	15.2	17.8	17.7	34.0
Combined (loss/expense) ratio	134.1	142.8	35.1	49.2

Business accepted for reinsurance - Fire insurance

	2011	2011	2010	2010
EUR millions	**Gross**	**Net**	**Gross**	**Net**
Premiums	130	11	242	88
Earned premiums	162	33	230	75
Claims expenses	131	70	109	20
Operating expenses	27	9	43	13
Net underwriting result for own account		21		25
In %				
Loss ratio	80.9	213.5	47.7	26.1
Expense ratio	16.6	26.2	18.7	17.3
Combined (loss/expense) ratio	97.5	239.7	66.4	43.4

Non-insurance business

Investment results

Investment income for the financial year fell to EUR 232 (282) million. The main reason for this declining trend was the expiration of a securities lending transaction accounting for an amount of EUR 50 million, which had augmented the income statement in prior years, and therefore also explains the major portion of the drop in current expenses to EUR 28 (72) million. Current income decreased slightly to EUR 203 (210) million, which corresponds to a current return of 3.3 (3.6)%.

In the reporting period, extraordinary gains and losses realized on the disposal of investments were equal to EUR 7 (3) million. The gains on the sale of investments in the amount of EUR 32 (11) million were primarily attributable to the sale of stocks and stock funds in the amount of EUR 15 (5) million, as well as of fixed-interest securities in the amount of EUR 13 (5) million. Due to the sharp fall in share prices during the reporting period, the quota allocated to stocks was reduced to about 1% on a short-term basis, so that the losses on sales could be limited to EUR 20 (losses of 8) million. On balance, the sharpest swings were attributable to the after effects of the crisis in the capital markets.

The net balance of extraordinary write -ups and write-downs was a loss of EUR 8 (loss of 6) million; the total for the financial year is explained by impairment losses on Greek borrower's note loans and on the remaining stock portfolio. The total to be reported as the extraordinary result was a net loss in the amount of EUR 2 (net loss of 3) million.

The investment result before the deduction of interest income on premium funds and provisions was equal to EUR 202 (207) million. The total net return for the reporting period reached 3.3 (3.6)%.

Other net income/expenses

Other net profit/loss for the Company in the current financial year was equal to a net loss of EUR 105 (net loss of 1) million.

In the prior year, the result had been marked by income from the reversal of other provisions, including provisions for impending losses in the amount of EUR 48 million as well as the reversal of an impairment loss close to EUR 26 million; this was offset primarily by a negative net balance of close to EUR 32 million for exchange rate gains and losses.

In the current financial year, other net profit/loss was mainly influenced by additions to other provisions in connection with the planned placement of an amount equal to EUR 19 million in pension obligations for the London branch office through the local London insurance market, as well as write-downs of reinsurance receivables by an amount of EUR 15 million. The net balance of exchange rate gains and losses for the financial year was a net loss of EUR 17 (net loss of 32) million.

Net profit/loss of HDI-Gerling Industrie Versicherung AG

	2011	2010
EUR millions		
Underwriting result for own account	58	-46
Total investment income (incl. underwriting interest income)	201	207
Other net income/expenses	-105	-1
Net income/loss from ordinary activities	**154**	**160**
Net profit/loss from extraordinary items*	7	-17
Taxes	-28	-12
Net profit/loss transferred to Talanx AG	**133**	**131**

In the financial year, HDI-Gerling Industrie Versicherung AG was able to transfer a net profit in the amount of EUR 133 (131) million to the parent company Talanx AG under the existing profit and loss transfer agreement.

Net assets and financial position

Investments

The volume of investments of HDI Gerling Industrie Versicherung AG grew by EUR 279 million in 2011 to a total of EUR 6,155 (5,877) million by the end of the year. The increase was driven by the performance of the business, and additionally by a payment of close to EUR 48 million from Nassau Verzekering Maatschappij N.V., which was acquired during the financial year. The payment was made in connection with a distribution from its capital reserve, which is recognized under other liabilities in the current financial year, and which will reduce the carrying amount of the investment in HDI-Gerling Verzekeringen N.V in the upcoming financial year by a corresponding amount.

Capital was invested preferably in equity investments as well as in fixed-interest securities that are held as part of the direct portfolio. The share of fixed-interest securities in total investments at the end of the reporting period was 63.8 (69.4) %. Investments were made primarily in bearer bonds and borrower's note loans with a high credit rating. The quality of the fixed-interest securities declined slightly year-on-year to an average rating of A+ (AA-).

Shares in affiliated companies and equity investments rose by EUR 304 million over the financial year to EUR 633 million. This increase was substantially driven by activities related to the globalization strategy. On the one hand, our subsidiary in the Netherlands took the lead role in the acquisition of Nassau Verzekering Maatschappij N.V., and in the fourth quarter, this entity was merged with HDI-Gerling Verzekeringen N.V. (+ EUR 198.5 million), and secondly, HDI-Gerling Industrie Versicherung AG strategically invested in a 25% share of PVI Holdings in Vietnam (+EUR 66.6 million).

The holdings of investment shares and other non-fixed interest securities declined by EUR 122 million to EUR 753 million, which was primarily attributable to the reduction of the stock funds (minus EUR 115 million) as well as the money market funds (minus EUR 40 million). In aggregate, the quota allocated to stocks was reduced by 2.2 percentage points year-on-year to 1.0%.

The market value of the investments as of the balance sheet date was equal to EUR 6,658 (6,364) million. The valuation reserves totaled EUR 500 (488) million. While the valuation reserves in the fixed-interest portion of the direct portfolio increased by just short of another EUR 50 million as a result of the continuing drop in interest rates, they decreased by EUR 14 million in relation to the stocks and investment fund shares, mainly as a result of the sales transactions.

Underwriting provisions

The underwriting provisions declined by EUR 256 million to EUR 4,949 (5,205) million. In addition to the general course of business, this was the result of increased withdrawals from the equalization reserve totaling 159 million, which followed, in turn, from the reclassification of the non-cash reinstatement premiums from other underwriting expenses to the (also non-cash) reinsurance premiums.

Our Company operates on an international level, and thus recognizes underwriting liabilities in foreign currencies. The impact of exchange rate movements on the level of loss reserves recognized as of 1 January of the financial year - which was reflected in the translation of the reserves denominated in foreign currencies at the rates in effect as of the balance sheet date - was equal to approximately EUR 131 million which was shown as an increase in the carrying amount of these provisions. Matched coverage on the asset side is ensured for underwriting liabilities denominated in foreign currencies on an ongoing basis as they change.

Other liabilities

Other liabilities grew in the financial year by EUR 162 million to EUR 544 million. This increase in mainly attributable to an early distribution from Nassau Verzekering Maatschappij N.V., which was recognized as a liability.

Other underwriting provisions

Other underwriting provisions decreased in the reporting period by EUR 130 million to EUR 27 (157) million. The most significant item is the total amount of EUR 179 million from the reclassification of the reinstatement premium, which is recognized as a non-cash liability to the reinsurers starting in this financial year. This line item rose accordingly.

Financial position

The Company receives incoming cash flows from ongoing premium income, investment income and return flows from investments of capital. According to the rolling liquidity planning, which considers anticipated cash flows over a the period of the next twelve months, the liquidity that is required to meet ongoing payment obligations is ensured.

Please refer also to the disclosures in the risk report and in the notes for comments on the financial position of the Company. In addition, a profit and loss transfer agreement is in effect with Talanx AG.

Other balance sheet items

The break-down of these and other line items on the balance sheet are explained in the Notes.

Personnel and social report

Changes in the economic, technological, cultural and social environment are occurring at an ever more rapid pace. Since 2011, the major part of the human resources work for the entire Talanx Group in Germany has been undertaken by Talanx Services AG so as to achieve the necessary adaptability. The centralization of human resources work eliminates duplication and the services are provided in an efficient, optimized and harmonized fashion.

Alongside the organizational structures, qualified and motivated high-performing employees who are ready to take on responsibility and be creative, are a critical success factor for HDI-Gerling Industrie Versicherung AG. Successful human resources work will ensure that the business challenges of today and tomorrow can always be met by the right persons in the right place. A management style that strives for a risk aware high-performance culture is of great significance for this HR policy.

Continuously developing talents and strategic career and skill development for the employees are also of great importance. In the reporting period, as in prior years, employees, candidates with high-potential, and management staff were systematically assisted in obtaining the qualifications for their current and future demanding assignments through various continuing education and career development programs. Such skill-building measures include project management training, for example, and other personal development measures. Presuming equal qualifications, management positions are preferably filled by in-house candidates.

Enhancing the qualifications of our employees for current and future assignments is essential to ensure that they remain employable in times of rapid change. All of the training and educational programs on offer are constantly adapted to current and future needs. A broad range of insurance and specialized seminars are offered as are training in methods, conduct and management, together with IT and language courses.

Development of junior staff was another point of focus. Various training programs, for example for account managers, underwriters, sales assistants and broker support staff, were continued in 2011 in order to prepare employees for their work assignments.

The trainee programs for underwriters and account managers provide a solid overview of the theory and practice of industrial insurance in comprehensive one-year programs. The trainee programs were continued in 2012 in order to develop a sufficient number of employees with the relevant qualifications in order to ensure the continued success of our business in the future as other staff members reach retirement age.

The apprenticeship programs are also important to ensure the next generation of employees. The high quality of the initial training at the Talanx Group is generally recognized (since 2005, the Talanx Group program has been awarded an educational prize from the German insurance industry on a total of four occasions). The apprenticeship places great emphasis on action-oriented and independent work within a team. Apprentices are trained at all companies across the Talanx Group and thus qualify for flexible assignments later. For years, now, this has kept the training as well as the permanent employment quotas at a high level. All apprentices who want permanent employment are offered a place in the Group. Training as a certified insurance and financial specialist (“Kaufmann für Versicherungen und Finanzen”) is a particular focus as is the dual course of studies for a bachelor of arts (business management, insurance) and a bachelor of science (business information technology).

A high-quality continuing education program for Board of Management members and senior management in all business areas and corporate functions in Germany and abroad is offered by the Corporate Academy in cooperation with leading European business schools.

An important objective of these programs – aside from the subject matter –is to promote the corporate identity and thereby enhance communications and networking between the business units and the corporate functions and also directly between the business units. University professors, Board of Management members and senior executives supplement each other as presenters and discussion partners.

Women are helped to develop their management potential to an optimal level through targeted advancement of women through worktime models that are properly aligned with the specific phases of life, such as part-time assignments or telecommuting during the parental leave period, as well as assistance in the search for adequate child care placement. These measures have a sustained positive effect on increasing the share of women in management positions at all levels.

In the wake of demographic change, the “competition for the right talent” grows ever more important. This means strengthening the ties of strong employees to our Company while also gaining new employees. The campaign “Talanx Your Career,” which was started in 2010, was continued; our presence on the internet and in the print media was expanded, and we participated in selected personnel marketing and recruitment fairs. The internship training program was also continued. The scholarship programs of the Talanx Foundation at selected universities remains in place. In 2011, we also initiated a cooperation with SIFE (Students in Free Enterprises). This aims to assist students who undertake projects in the field of sustainable development in addition to their formal course of studies. At the same time, the program will appeal to these students as responsible potential employees.

In the reporting year, the annual average headcount for HDI-Gerling Industrie Versicherung AG was 1,919 (1,812) employees. The average age of the employees was 44.5 (44.5) years. The part-time employment ratio was 11.8% (11.7%). The average length of service at the Company was 16.1 (16.5) years.

The Board of Management wishes to thank all employees for their highly motivated performance and their great personal commitment. The success of HDI-Gerling Industrie Versicherung AG in the financial year just ended is based to a high degree on the professionalism, loyalty, flexibility and motivation of our employees. We also owe thanks to all Co-determination bodies for their constructive cooperation in finding solutions for personnel, organizational and social challenges.

Non-financial performance indicators

As a traditional industrial insurance company, HDI-Gerling Industrie Versicherung AG has deep-rooted ties to Germany's industry. Middle-market companies and Groups rely on its more than 100 years of experience, its specific functional know-how and comprehensive expertise in realizing industrial and commercial insurance solutions.

It is becoming ever more important to accompany firms as they move beyond Germany, and to offer global support. Here, HDI-Gerling Industrie Versicherung AG is assisted by its extensive international network of owned entities and partners in helping to develop and implement insurance solutions that meet the needs of our customers. The customers can rely on specific contacts abroad as well as in the German home market who provide advice and support for all their concerns. In the domestic business, in particular, the associations are based on long-standing contacts that are characterized by reliable cooperation and mutual trust - be it in the area of claims adjustment or the implementation of risk management activities.

In the day-to-day practice of HDI-Gerling Industrie Versicherung AG, HDI-Gerling Sicherheitstechnik GmbH plays an ever more important role in the field of loss prevention. Working with engineers and scientists from various disciplines, this subsidiary is developing risk assessment tools and risk mitigation and risk management strategies for customers, in particular.

In contrast to industry trends, HDI-Gerling Industrie Versicherung AG continues to emphasize closeness to its insurance customers. More than 80 permanently employed regional insurance and sales staff members guarantee high quality and continuity by providing direct advisory services to companies. Decentralized customer support at 11 full-service locations throughout the Federal Republic guarantee straight-forward decision-making and a regional presence at the customer's place of business.

HDI-Gerling Industrie Versicherung AG also continues consistently and successfully to work with brokers as a distribution channel through cooperation with high-performing partners. More than 80 representatives of brokerage firms with an important market presence participated this year in the series of "In Motion" events. Among other presentations, this forum for the exchange of knowledge and communications, which was started in 2009, offered a demonstration of assisted driving systems for today and tomorrow. Jutta Kleinschmidt, the winner of the Dakar Rally, told the impressive story of her road to success.

The Marienburger Maklerforum (Marienburger brokers' forum) at the Villa Marienburg in Cologne this year was again attended by the owners, managing directors and/or board members of our large broker partners. After a series of presentations on current insurance market topics by Board of Management Members responsible for the various industries, followed by a round of discussions, the evening offered ample time for specialized discussions. The Marienburger brokers' forum has been held annually since 2005.

HDI Gerling Industrie Versicherung AG has repeatedly set market standards with KLIMArisk, its new weather risk insurance. This allows companies to protect themselves against financial impacts of weather conditions on their operating activities. Insured events include losses caused by heat or cold, precipitation or strong winds, etc. The purpose of the coverage is to offset incremental costs caused by climate and weather conditions, contract penalties or lost sales.

The implementation of the Centers of Competence (CoC) enables the qualified monitoring of technological change in an inter-disciplinary fashion across segments, and the development of individual insurance solutions. Risk engineering, Claims and Insurance Segments work together to develop solution approaches for our customers.

The "Renewable Energies" CoC, for example, is presently focused on the challenges of constructing and operating offshore wind farms, without losing sight of the risks arising from deep heat mining, or protection for institutionally operated solar farms as well as hydropower projects. The aim of the CoCs is to ensure the exchange of expertise between various segments and to develop shared solutions for problems while identifying industry trends.

Among the broader public, HDI-Gerling Industrie Versicherung AG is recognized as part of the HDI-Gerling brand. The successful image campaign, which was also continued this year, reinforced closer contacts with our target customer groups. A new image booklet also presented the range of services offered under our brand to a broader public. Many additional activities in the areas of communication and sponsoring also increased the level of public awareness of our Company and of the HDI-Gerling brand.

References to HDI-Gerling Industrie Versicherung AG appeared in the media in relation to various industrial insurance business topics.

For the third time, the industrial insurer won first place in the "2011 Fleet Award" of the "Autoflotte" trade journal. This is simply one more confirmation of the Company's outstanding market position as fleet insurance provider in Germany. At the same time, the award is evidence that the insurance solutions offered by HDI-Gerling Industrie Versicherung AG are consistently persuasive to industrial customers.

Risk Report

Risk controlling in a time of change
HDI-Gerling Industrie Versicherung AG offers its policyholders comprehensive insurance protection so that the assumption of risks represents the core of its business. Pronounced risk awareness is an indispensable prerequisite for managing these risks. In this context, the Company developed a variety of processes and instruments some time ago, that are used not only to recognize, assess and manage risk but also to identify opportunities.

The Solvency II project was completed during this financial year. One of the objectives was the implementation of the Minimum Requirements for Risk Management in Insurance Undertakings (MaRisk VA). HDI-Gerling Industrie Versicherung AG is incorporated into the pre-application process for the internal model of the parent company Talanx AG.

The monitoring systems and decision-making processes of HDI-Gerling Industrie Versicherung AG are embedded in the standards of the Talanx Group

Structural organization of risk management
The structural and organizational framework for the Company's risk management has been set out using a role concept that defines and delimits the rights and responsibilities for HDI-Gerling Industrie Versicherung AG. In addition, risk management and risk monitoring functions are separated under the segregation of functions.

The Company's Board of Management is responsible for the introduction and continued development of the risk management systems as well as the risk strategy. It is assisted by the Risk Committee. The major tasks of the Risk Committee include, for example, the coordination of risk control measures, the analysis of risk positions, with particular regard to the risk strategy adopted by the Board of Management as well as the regular reporting of risks positions.

The roles of the Head of Risk Management include, inter alia, the coordination of activities of the independent Risk Controlling function.

The activities of the independent Risk Controlling function are mainly focused on the identification and assessment of risks at the aggregate level, including the validation of the risk assessments made by the Risk Management Officers. The preparations for risk reporting, including statements about the utilization of existing limits and thresholds as well as the regular quantitative analysis of risk bearing capacities also fall within the scope of its responsibilities.

Risk controlling process
Based on the Company's risk strategy targets, which are consistent with those of Talanx AG, as well as the objectives of its own business strategy, the Company's risk-bearing capacity is regularly reviewed and reported to the Board of Management throughout the year. These quantitative views at the Company level are applied in operational terms as a consistent system of limits and thresholds, with the limits broken down to the level of the controlling organizational units, combined with the regular monitoring of limit utilization. Appropriate limits and thresholds are amongst the tools used to manage concentration risk.

Within the framework of the qualitative risk management process, HDI - Gerling Industrie Versicherung AG focuses on significant risks. As a general rule, the single risks named by the Risk Management Officers are aggregated into a report on risks and opportunities attached to future developments. The risk meetings that are regularly held by the business units and the corporate functions, rely on system-supported risk identification.

The findings from the qualitative and quantitative analyses of the risk position provide the foundation for an internal risk report that is regularly prepared by HDI-Gerling Industrie Versicherung AG. This ensures that an overview of the Company's risk situation can be provided at all times. The risk categories required under MaRisk VA are fully covered by HDI-Gerling Industrie Versicherung AG. This enables them to be mapped to the Risk Categories in the German Accounting Standard DRS 5-20, which are discussed in the following.

Underwriting risk
Underwriting risk derives primarily from the premium/loss risk and the reserving risk.

In the property/casualty insurance category the premium/loss risk refers to the risk of having to pay future indemnification from insurance premiums that have been fixed in advance, but that, due to their limited predictability, are not known with certainty when premiums are set (risk of random loss and change.) To limit this risk, HDI - Gerling Industrie Versicherung AG uses actuarial models, in particular for the setting of rates, monitors the claims experience on a regular basis and obtains reinsurance coverage.

The reserving risk refers to the risk that underwriting provisions will not be sufficient to settle all unsettled and unreported claims in full. In order to lower this risk, the level of reserves is regularly reviewed on a period-by-period basis and the run-off results are monitored. In addition, a provision referred to as Spätschadenrückstellung (retroactive loss provision) is recognized for losses presumed to have occurred but not yet reported. The following table shows the development of the loss ratio for own account:

Loss ratio for own account

Claims expenses as percentage of earned premium	
2011*	9.7
2010	7.5
2009	8.0

**The increase in the loss ratio for own account is discussed under Results of Operations.*

HDI-Gerling Industrie Versicherung AG seeks, in particular, to mitigate the potential effect of a simultaneous occurrence of natural disasters within the context of underwriting risk by obtaining adequate reinsurance cover on behalf of the Company for peak claims. In addition, it uses loss analyses, natural disaster models, selective underwriting and regular monitoring of the claims experience to control and reduce risk.

The following table shows the development of the run-off ratio for own account:

Run-off result

Run-off of the initial loss provision in percent	
2011	7.7
2010	7.7
2009	4.5

Default risk under the insurance business

In this connection HDI-Gerling Industrie Versicherung AG reduces the risk of a loss of receivables from reinsurers by carefully choosing the reinsurers via a Group-owned reinsurance broker, by paying particular attention to their credit worthiness, and if necessary by taking suitable measures to obtain surety for the receivables. Depending on the nature and the expected run-off period of the reinsured business, the selection of the reinsurers is based, in part, on minimum ratings from the rating agencies Standard & Poor's and A.M. Best. This approach has proven itself in past years, which is shown by the low default rates for receivables.

The default risk from claims due from policy holders and insurance agents is accounted for in the form of general allowances for doubtful debt. Agents are also evaluated in terms of their credit worthiness. To manage potential delays or defaults on premium payments, in particular, the Company maintains very effective procedures for both direct and agent collections and for the reduction of outstanding receivables.

In the direct written insurance business outstanding receivables due from policy holders and insurance agents that were more than 90 days in arrears as of the balance sheet date totaled EUR 90.4 million. This represents 20.6% of gross receivables. Over the past three years, HDI-Gerling Industrie Versicherung AG was required to write-off an average of 5.3 % (5.7%) of receivables on reinsurance business as of the balance sheet date.

Investment risk
Investment risk encompasses primarily market risk, credit risk and liquidity risk.

Market risk arises from potential losses due to unfavorable changes in market prices and may be attributable to changes in interest rates, share prices and exchange rates. Credit risk refers to the risk that a debtor will be unable to meet its payment obligations. Liquidity risk involves the inability to meet payment obligations under insurance agreements, in particular, at any and all times.

The measurement, control and management of risks with respect to market price risk rely on stress tests, modified duration and convexity and on the asset-liability management model that has been implemented. The actual developments in the capital markets are then taken into account as part of the ongoing process.

Credit risk is managed by means of a system of ratings classes under the special investment guidelines. Credit risks related to mortgages and land charges as well as real properties are limited under the special investment guidelines. Liquidity and concentration risk is taken into account through adequate fungibility and diversification of investments.

Risk management objectives
The aim of risk management is to ensure that the investment targets give appropriate consideration to safety, profitability and liquidity while maintaining an appropriate asset allocation and diversification. The intent is to consider the overall-risk situation of the Company. This is characterized, in particular, by the underwriting obligations assumed, the existing structure of investments, own funds and other financial reserves of the Company.

The results of liquidity planning and controlling performed throughout the year are incorporated into the risk management and are taken into account in terms of the time horizon.

Management of the investment portfolio
Investments are subject to detailed guidelines and adherence is continuously monitored, as is compliance with the statutory requirements such as the German Regulation on the Investment of Restricted Assets of Insurance Undertakings (Anlagenverordnung) and official circulars. These investment guidelines are designed to serve as framework for the investment strategy, taking into account the operating insurance business and the time horizon, and as evidence vis-à-vis outside parties (German Federal Financial Supervisory Authority [BaFin], independent auditors, etc.). The monitoring of the ratios and limits specified in these guidelines is incumbent on Risk Controlling and on the Chief Financial Officer. All material changes to the investment guidelines including appendixes and/or investment policies must be approved by the full Executive Board of the Group and reported to the Supervisory Board.

Risk measurement and control
The risk associated with the bond portfolio is monitored by determining the interest rate risk on the basis of scenario analyses. Compliance with the limits established by the Chief Financial Officer with respect to the duration of the bond portfolio is also controlled. To monitor changes in the market values of interest-rate sensitive products, the convexity limits of bond products are further tracked on a daily basis. In connection with listed shares, Risk Controlling determines the risk associated with equity instruments on the basis of scenario analyses and stress tests, which are performed at least monthly in compliance with the supervisory regulations.

Scenarios for changes in the market value of securities

Portfolio changes based on market value in € million	
Portfolio	
Equities and other non-fixed interest securities	
Share prices - 20%	-13.2
Fixed-interest securities and other loans	
Rise in yield + 100 basis points	-176.8
Decline in yield - 100 basis points	178.2

In connection with the exchange rate risk, cover in matching currencies is monitored. In addition exposures are controlled with respect to the additional limits by currency set by the Chief Financial Officer.

The default risks to be monitored comprise counterparty and issuer risk. Counterparty and issuer risk is controlled on the basis of counterparty lists issued by the Chief Financial Officer as well as by monitoring the limits that are defined for each rating class.

in EUR millions, %		
Bearer Bonds:		
Rating AAA	870	60.6
Rating AA	263	18.3
Rating A	216	15.1
Rating BBB	51	3.6
Rating < BBB	35	2.4
Total	1,435	100.0
Registered bonds		
Promissory note loans:		
Rating AAA	945	38.3
Rating AA	1,039	42.1
Rating A	369	15.0
Rating BBB	100	4.1
Rating < BBB	12	0.5
Total	2,465	100.0
Fixed income funds:		
Rating A	692	100.0
Total	692	100.0
Loans:		
Rating BBB	21	100.0
Total	21	100.0
Grand total:		
Rating AAA	1,815	39.4
Rating AA	1,302	28.2
Rating A	1,277	27.7
Rating BBB	172	3.7
Rating < BBB	47	1.0
Total	4,614	100.0

Key liquidity indicators are reviewed and reported quarterly to monitor liquidity risk. Compliance with the minimum and maximum limits set by the Chief Financial Officer is tested in connection with the liquidity reserve.

Any risk limit excesses are immediately reported to the Chief Financial Officer and to Portfolio Management.

Operational risks

Operational risks include operating and legal risks. Within the internal risk categories, operating risk can be classified under the following sub-groups of operational risk: IT, process and other operational risks

A failure of EDP system is considered a typical IT risk. This risk is limited for example by a back-up data center which is operated by Talanx Systeme AG under a service agreement, as well as by contingency plans.

Process risk is mitigated by internal management and control systems. Based on structured process documentation, material risks and controls are identified, and assessed in a risk/control assessment and action items are formulated where necessary. In a specific case, this might mean that existing controls are adapted and/or that new/additional improvements and measures are initiated by the risk management officers.

Against the background of a business that grows ever more complex and in which customer orientation plays an important role, among other factors, HDI-Gerling Industrie Versicherung AG attaches a high priority to the qualitative aspects of human resources management as well as the continuing education and training programs for functional and management staff. This is intended to mitigate other operational risks which might be posed, for example, by a limited availability of personnel.

Within the internal risk categories, legal risks are classified as other operational risks. They may arise from contractual agreements or the general legal framework. In organizational terms, the handling of these issues is supported by appropriate organizational and operational arrangements, such as the division of competences between the functional departments at HDI-Gerling Industrie Versicherung AG and the corporate legal department at Talanx AG.

Other risks

Other risks may include strategic risks, risks to reputation and so-called emerging risks. The principal strategic risk of a rating downgrade is mitigated by the continuous monitoring of capital adequacy and/or the risk bearing capacity as well as regular analyses of plans and forecasts.

Overview of the risk position

On balance, there are presently no known risks that could jeopardize the continued existence of HDI-Gerling Industrie Versicherung AG.

Outlook

Economic climate

We anticipate a possible further slow-down of growth momentum in the developed countries during the current year as signs of this already began to emerge in the final quarter of 2011. We take a critical view of the economic climate, especially in the Eurozone. Since the instruments of fiscal as well as of monetary policy appear increasingly exhausted, any economic stimulation through stimulus packages or interest rate reductions will now be more difficult in the future. The labor markets in the Euro periphery counties will remain under particular pressure, not least because of the significant efforts to achieve savings. Given the slowing growth rates in the threshold countries, it remains to be seen whether the USA will succeed in escaping this development

In the course of this global cooling off, we anticipate no inflationary pressures even in spite of further monetary policy measures. On balance, the intensification of the European public sector debt and banking crisis (including the outstanding recapitalization requirements) as well as the discussion about a break-up of the Euro zone are likely to remain the key risk factors for 2012. To what extent the threshold countries will be able to serve as a stabilizing element in the same measure as before remains an open question.

Capital markets

The ultimately still unsolved debt problems, the negative sentiment in the banking sector and the significantly dimmed economic expectations suggest that a persistent low-interest climate must be feared for, at least, the first half of 2012. After the interest rate reductions in November and December of 2011, we expect further rate reductions in the Euro zone during the first half. The USA have made a quasi-commitment to leave the lead interest rate at its low level for the next two years if there is no clear economic recovery. A stabilization of the general risk situation will likely only be achievable, if political leaders succeed once again in creating sustained confidence among market participants through appropriately accepted measures and framework conditions.

We expect the stock markets in 2012 to be characterized by high volatility and lateral movements. The global reduction of debt that is urgently needed will create additional strains. This will likely affect financial stocks—also in view of new recapitalization requirements. A macro-economic slow-down would also result in lower corporate profits. Based on the significant debt reductions and comparatively smaller balance sheets, however, companies seem to be well prepared for a cooling-off. Even the historically favorable fundamental valuations will likely mitigate the risk of a decline in share prices.

Property and casualty and insurance
As in past years, the business performance of the property and casualty insurance lines was predominantly characterized by the continuing intense price competition in many segments against a backdrop of high market penetration and of conspicuously cyclical business trends. Demand from the corporate sector, which suffered less than expected under the financial crisis, proved to remain very robust. Conversely, however, this means that a significant jump in premiums can also not be expected in a more positive economic climate, especially since the markets in the industrial segments have also not yet strengthened to the degree that was expected. The outlook for the upcoming financial year no longer anticipates further premium reductions in any segment; in the wake of the burdens placed on insurers by the major loss events mentioned above, it may be possible to raise premiums in the affected segments.

HDI-Gerling Industrie Versicherung AG
HDI-Gerling Industrie Versicherung AG is among the market leaders in industrial insurance in Germany and throughout Europe. Rising premium income and the growth of its foreign business are reinforcing its strong position as an international competitor.

The Company has expanded its global network in successive stages in response to the needs of its customers. HDI-Gerling Industrie Versicherung AG is able to place industrial insurance policies with primary insurance providers in the Talanx Group in 32 countries and with network partners in more than 130 countries. In the 2012 financial year, plans provide for the further expansion of the industrial insurance business in Europe as well as in Latin America, (South) East Asia and the Arabian Peninsula. The establishment of branches in Singapore and on the Arabian Peninsula is also planned for 2012.

We are planning for an increase in gross premiums for 2012, which will likely be generated primarily outside of Germany. We expect the intense competition in the industrial insurance market to continue, so that it will likely not be possible to enforce other than very limited premium adjustments in 2012. The expected costs follow the trend for premiums. After a claims experience marked by natural disasters in 2011, we expect a return to normal in the upcoming year.

While reinforcing existing strength in direct sales on the basis of close customer contacts and technical and personal competencies, work continues on the ongoing improvement of internal procedures, systems and processes.

Despite the conservative assumptions for the expected investment income, the Company aspires, in 2012, to exceed the investment results for 2012 that were marked by the debt and financial market crisis.

Events after the balance sheet date

There were no known significant events after the closing of the financial statements that might have a material effect on the net assets, financial position and results of operations of the Company.

Scope of business operations

The Company operates its business through the following branch offices:

In Germany:
Berlin, Dortmund, Düsseldorf, Essen, Hamburg, Hannover, Leipzig, Mainz, Munich, Nuremberg, Stuttgart.

International:
Athens, Dublin, Hong Kong, London, Milan, Oslo, Paris, Sydney, Tokyo, Toronto, Zurich.

Accident insurance
Aviation accident insurance,
Clinical trials insurance,
Individual comprehensive casualty insurance,
Individual partial casualty insurance,
Group accident insurance,
Motor vehicle accident insurance,
Medical insurance in connection with foreign travel insurance;
Other casualty insurance

Liability insurance
Occupational and industrial injury liability insurance
Water pollution liability insurance,
Business and property damage liability insurance
Property damage liability insurance
Directors and Officers (individual),
Fire liability insurance,
Aviation liability insurance,
Environmental liability insurance,
Space flight liability insurance,
Pharmaceutical, radiation and nuclear facility liability insurance,
Sports liability insurance,
Other general liability coverage

Motor vehicle liability insurance

Other motor vehicle insurance
Comprehensive motor vehicle insurance
Partial motor vehicle insurance

Legal protection insurance

Fire and property insurance
Industrial fire insurance,
Agricultural fire insurance,
Fire business interruption insurance,
Other fire insurance
Machinery insurance,
Electronics insurance,
Installation insurance,
Construction services insurance,
Existing buildings´ insurance,
TV - business interruption insurance
Other technical insurance coverage,
Extended coverage (EC) insurance,
EC - business interruption insurance,
Burglary and theft insurance,
Tap water insurance,
Glass insurance,
Storm insurance,
Umbrella insurance,
Other property loss insurance (motor vehicles),
Other property loss insurance (transport),
Motor vehicles warranty insurance

Transport and aviation insurance
Comprehensive aircraft insurance,
Comprehensive aviation war risk insurance;
Comprehensive spaceflight insurance,
Merchandise insurance,
Comprehensive maritime insurance/ ocean-going travel
Traffic liability insurance,
Comprehensive maritime insurance/ river travel
Terrorist risk - transport
Goods in transport insurance,
Valuables insurance,
Comprehensive insurance,
Other transport insurance,
Other aviation and spaceflight insurance

Credit and collateral insurance
Collateral insurance,
Export credit insurance

Other insurance
Machinery warranty insurance,
Other property loss insurance
(Motor vehicles warranty insurance),
Other property damage insurance (aviation),
Other property damage insurance (transport),
Other property damage insurance (ransom payments),
Other property loss insurance
(Remediation consultation insurance),
Other business interruption insurance,
Other miscellaneous insurance,
Other property damage insurance,
(exhibitions, hunting and sporting weapons, motor vehicle luggage, musical instruments, cameras, reefer cargo, nuclear facilities, automated devices)
Other business interruption insurance
(Film production insurance, operations shut-down),
Other financial losses (loss of license, loss of rent)
Other miscellaneous insurance (tank and barrel leakage)
Loss of reputation (computer misuse),
Burglary, theft and robbery insurance,
Tap water insurance,
Glass insurance,
Storm insurance,
Umbrella insurance,
Other casualty insurance

All-risk insurance
All-risk property insurance,
All-risk business interruption insurance,
Multi line insurance,
Multi peril insurance

HDI-Gerling Industrie Versicherung AG also provides reinsurance in the following insurance categories:
Accident insurance,
Liability insurance,
Motor vehicle insurance,
Aviation insurance,
Legal protection insurance,
Industrial fire insurance (including terrorism risk, TV),
Fire business interruption insurance,
Credit insurance,
Other miscellaneous insurance,
Loss of reputation insurance,
Technical insurance

In addition, HDI-Gerling Industrie Versicherung AG also covers liability risks in relation to nuclear installations, pharmaceuticals and terrorism risks as part of the business accepted for reinsurance.

Balance sheet as of 31 December 2011

Assets	**31/12/2011**	**31/12/2011**	**31/12/2011**	**31/12/2010**
in EUR 000				
A. Intangible fixed assets			6,233	3,440
B. Investments				
I. Land, land rights and buildings, including buildings on third-party land		64,064		59,582
II. Investments in affiliated companies and other equity investments		926,884		583,345
III. Other investments		5,164,364		5,233,770
IV. Deposits retained on business accepted for reinsurance		89,251		107,502
			6,244,563	**5,984,199**
C. Receivables				
I. Receivables arising from direct written insurance business, due from:				
1. Policy holders	268,022			254,502
2. Intermediaries	163,600			
		431,622		**254,502**
II. Receivables on reinsurance business of which due to affiliated companies: EUR 142,706,000 (prior year: EUR 199,514,000)		371,999		601,127
III. Other receivables of which due to affiliated companies: EUR 69,451,000 (prior year: EUR 147,950,000)		238,456		298,056
			1,042,077	**1,370,199**
D. Other assets				
I. Tangible fixed assets and inventories		5,937		7,515
II. Current account balances with financial institutions, checks and cash		130,249		135,860
III. Other assets		102		102
			136,288	**143,477**
E. Deferred and accrued items				
I. Deferred rent and interest income		82,479		87,022
II. Other prepaid expenses		918		1,570
			83,397	**88,592**
F. Excess of plan assets over post-employment benefit liability			4,304	1,081
Total assets			**7,516,862**	**7,590,988**

Total equity and liabilities	**31/12/2011**	**31/12/2011**	**31/12/2011**	**31/12/2010**
in EUR 000				
Equity				
I. Subscribed capital		125,000		125,000
II. Capital reserves		281,536		281,536
			406,536	**406,536**
B. Subordinated liabilities			250,000	250,000
C. Underwriting provisions				
I. Unearned premium reserve				
1. Gross amount	588,347			518,145
2. less: share for business ceded for reinsurance	193,074			161,546
		395,273		**356,599**
II. Provision for outstanding claims				
1. Gross amount	8,068,223			7,666,054
2. less: share for business ceded for reinsurance	4,075,251			3,670,223
		3,992,972		**3,995,831**
III. Provision for profit-related and non-profit related premium refunds				
1. Gross amount	8,093			11,700
2. less: share for business ceded for reinsurance	-25			0
		8,118		**11,700**
IV. Equalization reserve and similar provisions		525,962		684,675
V. Other underwriting provisions				
1. Gross amount	29,036			29,682
2. less: share for business ceded for reinsurance	2,269			-126,727
		26,767		**156,409**
			4,949,092	**5,205,214**
D. Other provisions				
I. Provisions for pensions and similar obligations		283,973		299,589
II. Provisions for taxes		45,801		65,179
III. Other provisions		102,226		84,278
			432,000	**449,046**
E. Deposits retained on insurance ceded			54,562	32,115
F. Other liabilities				
I. Liabilities from direct written insurance business due to:				
1. Policy holders	89,293			78,963
2. Intermediaries	139,152			122,741
		228,445		**201,704**
II. Payables on reinsurance business - of which to affiliated companies: EUR 165,089,000 (prior year: EUR 165,089,000)		651,210		663,777
III. Liabilities to banks		4		0
IV. Other liabilities: of which taxes: EUR 32,352,000 (prior year: EUR 28,737,000) of which social security: EUR 1,511,000 (prior year: EUR 2,188,000) of which due to affiliated companies: EUR 345,182,000 (prior year: EUR 240,437,000)		544,213		382,354
			1,423,872	**1,247,835**
G. Deferred and accrued items			800	242
Total equity and liabilities			**7,516,862**	**7,590,988**

The annuity provision recognized on the balance sheet as of the close of the 2011 financial year under Equity and Liabilities C.II. is equal to EUR 20,724,859. This is to confirm that the annuity provision recognized on the balance sheet under Item C.II. was calculated in compliance with § 341f and § 341g (HGB).

Hannover, 27 February 2012 The Responsible Actuary Carls

Statement of Income for the period from 1 January through 31 December 2011

I. Underwriting income and expenses	**2011**	**2011**	**2011**	**2010**
in EUR 000				
1. Earned premiums for own account				
a) Gross premiums written	2,720,547			2,529,877
b) Premiums ceded to reinsurance	1,621,175			1,338,225
		1,099,372		1,191,652
c) Change to the gross unearned premium reserve	-62,517			1,263
d) Adjustment of reinsurers' share in unearned gross premiums	-28,074			15,759
		-34,443		**-14,496**
			1,064,929	**1,177,156**
2. Interest income on premium funds and provisions for own account			406	447
3. Other underwriting income for own account			6,238	4,800
4. Claims expenses incurred for own account				
a) Claims payments				
aa) Gross amount	1,914,852			1,775,657
bb) Reinsurer's share	844,083			859,672
		1,070,769		**915,985**
b) Changes to loss and loss adjustment expense provision				
aa) Gross amount	270,972			-133,284
bb) Reinsurer's share	307,153			-101,895
		-36,181		**-31,389**
			1,034,588	**884,596**
5. Change to other net underwriting provisions			-130,076	16,687
6. Expenses for profit-related and non-profit related premium refunds for own account			1,582	1,933
7. Operating expenses for own account				
a) Gross operating expenses		502,607		487,484
b) less: commissions and profit commissions received for business ceded to reinsurance		231,375		206,109
			271,232	**281,375**
8. Other underwriting expenses for own account			-4,595	4,381
9. Subtotal			**-101,158**	**-6,569**
10. Changes to equalization reserve and similar provisions			158,713	-39,203
11. Underwriting results for own account			**57,555**	**-45,772**

II. Non-underwriting income and expenses	**2011**	**2011**	**2011**	**2010**
in EUR 000				
1. Investment income				
a) Income from long-term equity investments - of which from affiliated companies: EUR 24,219,000 (prior year: EUR 19,261,000)	24,418			19,459
b) Income from other investment - of which from affiliated companies: EUR 19,896,000 (prior year: EUR 16,445,000)				
ba) Income from land, land rights and buildings, including buildings on third-party land	13,296			12,018
bb) Income from other investments	190,132			245,004
c) Income from write-ups	13,784			5,545
d) Gains on disposal of investments	31,889			11,453
e) Income from profits received under profit pooling, profit or loss transfer, or partial profit transfer agreements	3,826			5,231
		277,345		**298,710**
2. Investment-related expenses				
a) Investment management expenses, interest expenses and other expenses related to capital investments	25,158			66,052
b) Write-downs of investments	25,482			17,371
c) Losses on disposal of investments	25,069			8,635
		75,709		**92,058**
			201,636	**206,652**
3. Interest income on premium funds and provisions		397		460
			201,239	**206,192**
4. Other income		65,119		558,944
5. Other expenses		170,094		559,536
			-104,975	**-592**
6. Net income/loss from ordinary activities			**153,819**	**159,828**
7. Extraordinary income		20,000		59
8. Extraordinary expenses		12,533		16,868
9. Extraordinary result			**7,467**	**-16,809**
10. Taxes on income		37,743		-6,469
11. Other taxes		-9,559		18,675
			28,184	**12,206**
12. Profit transferred on the basis of profit pooling, profit and loss transfer, or partial profit transfer agreements		133,102		130,813
			-133,102	**-130,813**
13. Net profit/loss for the year			**0**	**0**

Notes to the financial statements

General information

Starting in the 2011 financial year, non-cash reinstatement premiums (WPA) are recognized as reinsurance premiums at the time that the expense is incurred. On the balance sheet, the WAP are reported as non-cash settlement obligations due to reinsurers. In the reporting period, the total amount was reclassified (see Segment Results) Previously, this line item was accounted for as underwriting provisions and reported under other underwriting results.

Assets

Intangible fixed assets
Intangible fixed assets were recognized at cost less amortization applied in accordance with their customary useful lives.

Land, land rights and buildings, including buildings on third-party land
were recognized at the cost of acquisition and/or construction. Depreciation is applied using their customary useful lives.

To determine the fair value of our real properties, we have mainly applied the ross rental value method in accordance with the regulations concerning the principles governing the assessment of the fair market values of properties (Valuation Ordinance – Wertermittlungverordnung; WertV) and the supplementary 1976/1996 Valuation Guidelines. This approach determined the discounted present value of the cash flows from rents, etc. that may be generated by the property. In addition to the gross rental value method, alternative methods are used for non-rental properties, in particular, that rely on various factors such as location, fittings and fixtures, the degree to which a building has been modernized as well as prices obtained from the sale of comparable properties in close to the same period. These are considered “generally accepted methods” within the meaning of § 55 of the Regulation on Insurance Accounting (Verordnung über die Rechnungslegung von Versicherungsunternehmen; RechVersV). In accordance with § 55 (3) RechVersV, current fair market values are determined no later than every five years. These amounts are reviewed annually and adjusted when and if required.

Investments in affiliated companies and other equity investments
Shares in affiliated companies and equity investments are recognized at cost less write-downs (if any) to their fair value in accordance with § 341b (1) sentence 2 of the German Commercial Code (Handelsgesetzbuch; HGB) in conjunction with § 253 (3) sentence 3 HGB (modified lower of cost or market principle).

The market value of the shares in affiliated companies and equity investments has been determined in accordance with § 56 RechVersV (Verordnung über die Rechnungslegung von Versicherungsunternehmen /Insurance Company Accounting Decree). Investees with operating business units were valued at their going concern value. As a general rule, non-operating investees were recognized at their carrying amount. Net asset values were determined and recognized for entities whose principal assets are composed of real estate. For companies in the start-up phase, the carrying amount was deemed to represent their fair value. For companies that underwrite equity instruments not traded on the capital markets, the value was determined by analogy to similar instruments held directly. For entities acquired close to the balance sheet date the carrying amount was also deemed to represent their fair market value provided there were no indications of any impairment. If the determination of the fair value indicated an impairment that was expected to be permanent, a write-down was applied.

Amounts lent to affiliated companies were recognized at cost and/or the notional loan amount in the case of amounts provided as loans and at cost for all other forms of lending, less any write-downs to their fair value as of the balance sheet date, if applicable.

Other investments

Shares, investments shares and other non-fixed interest securities as well as bearer bonds and other fixed interest securities were recognized at the lower of cost or market. Securities designated for use in continuing operations were recognized in accordance with the modified lower of cost or market principle. The permanent nature of the applicable write-down was assessed on a case-by-case basis.

The fair value of our other investments was generally determined on the basis of their open market value (§ 56 RechVersV). For exchange-traded investments, this means on the basis of the price quoted on the exchange on the balance sheet date or by the methods described in greater detail below:

A discounted dividend method based on profit projections from independent analysts was used to determine the fair value of shares and share-based funds.

Bonds and bond funds are valued on the basis of a nominal value approach that relies on the nominal value of the bonds expected at their final maturity, provided that no adjustment must be applied due to credit concerns. For mixed funds, the individual components are valued as appropriate in accordance with either method.

Registered bonds, borrower’s note loans including refinancing loans, mortgages and other loans are recognized at amortized cost. For this purpose, investments are recognized at cost upon acquisition and the amount of the difference from the repayment amount is amortized over the remaining term using the effective interest method. The option provided for in § 341c (1) HGB to recognize registered bonds at their nominal value so that no positive or negative differences would be reportable as accrued or deferred items was not exercised. Zero-coupon registered bonds and zero-coupon borrower’s note loans were measured at cost plus interest receivable calculated by the effective interest method using a capital markets-based rate.

Equity instruments not traded on the capital markets are recognized at cost. In the first two years, they are generally not written down except in a case of significant defaults. In the third to the fifth year after the subscription, they are written down if the market value is less than 80% of the carrying amount. In the sixth year after the subscription, they are written down as soon as the market value falls below the carrying amount.

Deposits with banks and deposits retained were recognized at their nominal amounts.

Receivables

Receivables from direct written insurance business were recognized at their notional amounts. A global valuation allowance based on the aging of the receivables was recognized for receivables due from policy holders. Under this process, all receivables outstanding for more than three years were written off in full.

Reinsurance receivables and other receivables are recognized on the balance sheet at their nominal amounts. The general default risk was accounted for by recognizing an appropriate allowance for impairment losses.

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

The corporate tax credit was calculated in accordance with the Act on Fiscal Measures Accompanying the Introduction of the European Corporation and the Amendments of Other Tax Regulations (Gesetz über steuerliche Begleitmaßnahmen zur Einführung der Europäischen Gesellschaft und zur Änderung weiterer steuerlicher Vorschriften; SEStRG) using a notional interest rate of 1.37%.

Other assets

Tangible fixed assets and inventories are recognized at cost. Operating and office equipment was recognized at cost and is depreciated over the customary useful life. The depreciation was applied according to the straight-line method; the periods of useful life range from 3 to 20 years. Low-value assets of up to EUR 150 are immediately deductible as operating expenses. Low-value assets of up to EUR 410 are fully depreciated/ amortized in the year in which they are acquired. In previous years (2008 and 2009) assets with acquisition and/or production costs between EUR 150 and EUR 1,000 were recognized in a collective account that is being depreciated over five years. Some inventory items are carried at a fixed value.

Current balances with financial institutions, checks and cash have been recognized at their notional amount.

Total equity and liabilities

Subordinated liabilities

The subordinated liability was recognized at its nominal amount.

Approximation and simplification methods

In order to be able to complete the financial statements by the deadline date under Fast Close conditions, the last posting date for underwriting data was advanced by one month. The following approximation methods were used for the appropriate presentation of the reporting period.

When calculating the gross underwriting numbers, cash and non-cash changes were estimated for the month of December. The estimates of cash items (claims payments, premiums) were handled via settlement accounts provided specifically for this purpose. A history from previous financial statements was used as the basis for the calculation of the estimated amounts. These figures were tested for plausibility from a technical perspective. In a further step, the posted estimates were compared with the actual figures and adjusted in accordance with an aggregate posting algorithm if excess amounts or shortfalls exceeded a pre-determined materiality threshold.

One of the affected line items is the provision for unearned premiums. Changes in the servicing of premiums (which included new business, policy changes and terminations between the closing date for the accounting entries and the balance sheet date) were estimated for the last month. The gross premiums written were prospectively posted as debits for the correct period. For the foreign operating locations, total premiums were estimated for the last month. The effects on premium-driven secondary line items (unearned premiums, commissions, fire protection tax) were calculated and recorded. Provisions for outstanding claims were influenced by the estimates for claims payments and non-cash changes.

The calculation of the contractual shares in gross amounts due to the reinsurers (this relates to all relevant underwriting line items) relied on the following approach: The shares due to the reinsurers from active and passive reinsurance were derived from proportionate reinsurance coverage using factors that were based on the gross reinsurance ratio for the preceding quarter and in reliance on the gross numbers, including the estimates made for the month of December, and tested for plausibility. To the extent that adjustments are made to the gross unearned premium reserve and the provision for outstanding claims as a result of the estimate-to-actuals comparison described above, the shares of the reinsurers are taken into account in such adjustments via the aggregate posting algorithm. The shares for reinsurance attributable to non-proportional coverage include estimates for the last quarter. Material events that occurred in the period between the estimate and the preparation of the financial statements are accounted for by individual postings. For individual sub-portfolios in the process of being settled, the reinsurance shares were recorded with a shift in timing of one month and/or one quarter. The volume from the third quarter of 2011 that was recognized with a shift in timing by one quarter was equal to EUR 553,675,000.

The methods used are subject to strict technical controls; in aggregate, they do not have a material effect on the net assets, financial position and results of operations of the Company.

Underwriting provisions

The underwriting provisions were calculated as follows, using the methods and approaches described above:

For both the direct written business and the business accepted for reinsurance – provided no information in this respect was provided by the ceding companies – unearned premiums were determined according to the 1/360 method or for the exact number of days (pro rata temporis) in compliance with the regulations of the supervisory authority and the circular from the German Federal Minister of Finance dated 30 April 1974. The shares ceded for reinsurance are accrued in accordance with the contractual agreements.

For the direct written insurance business, the provision for outstanding claims was determined separately for each individual claim. In the co-insurance business, the information provided by the lead insurers was adopted. If the information from the lead insurers was not available as of the balance sheet date, the provisions were estimated for each business relationship on the basis of past experience. In motor vehicle liability, motor vehicle comprehensive and motor vehicle partial own damage insurance, the group-valuation option was used for unsettled minor claims. A provision for losses incurred but not reported was calculated on the basis of empirical data for losses unknown as of the balance sheet date. If current information was available in individual instances, the relevant appropriate amounts were recognized as provisions on a case-by-case basis. The annuity provision calculated in accordance with § 65 VAG (Versicherungsaufsichtsgesetz; German Insurance Supervisory Act) and the provision for anticipated claims settlement expenses were recognized in addition. The provision for claims adjustment expenses was calculated in compliance with the Decree of the German Federal Minister of Finance dated 2 February 1973.

The annuity provision included in the provision for outstanding claims was calculated in accordance with § 341f HGB using the prospective method on the basis of individual contracts in combination with a flat-rate surcharge for the longevity risk and taking future costs into account. Due to current interest rate movements on the capital markets, the notional interest rate for the calculation of the annuity provision for HUK claims (liability, accident and motor vehicle insurance claims) was lowered from 2.25% to 1.75% p.a. With a view to the assessment of investment risks over the short and intermediate term, this reduction was already applied in the 2011 annual financial statements as deemed reasonable by the Board of Management according to the principle of prudence. Receivables from recoveries, salvages and loss sharing agreements for settled claims have been taken into account as deductions to the net loss provision.

A provision for premium refunds was recognized in accordance with contractual terms and conditions.

The equalization reserve was calculated in compliance with the regulations according to § 29 RechVersV and the Appendix to § 29 RechVersV as well as the Regulations on Reporting for Insurance Undertakings (Versicherungsberichterstattungsverordnung; BerVersV).

The other underwriting provisions were determined as follows:
The provision for premium lapse risks, which is included in other underwriting provisions, was calculated as follows: Annual premiums were multiplied by the average ratio of premiums to the provision for premium lapse risks for the last three years in order to arrive at the provision for premium lapse risks for the reporting period.

The provision for obligations arising from membership in the Verkehrsopferhilfe e.V. association was recognized according to the notice from the association.

The provision for repayment amounts on suspended motor vehicle insurance policies was determined on a contract-by-contract basis. The provision for the insurance for nuclear facilities and terrorism risk was calculated in accordance with § 30 (2) and (2a) RechVersV. The provision for major risks relating to pharmaceutical risk was determined in accordance with § 30 (1) RechVersV.

In the case of the insurance business accepted for reinsurance, the provisions ceded by the lead underwriters were generally recognized as liabilities, except and unless better information was directly available to the Company. To the extent that the amounts ceded were not yet available at the time that the financial statements were prepared, the provision for losses was estimated using the amounts ceded last year. The resulting effects on the net assets, financial position and results of operation of the Company were immaterial.

Other provisions
Pursuant to § 253 (1) HGB, the provision for pensions was recognized at its settlement amount determined in accordance with the principles of commercial prudence. This measurement required estimates for salary and pension trends as well as probable turnover rates.

The provisions for pensions for employer-funded commitments and for employee-funded commitments not contingent on securities were calculated in accordance with the entry age normal method. The calculations were based on the actuarial decrement tables for active employees and retirees. They relied on the 2005 G actuarial tables of Dr. Klaus Heubeck. The total amount was discounted to the balance sheet date assuming a remaining term of 15 years. The applicable interest rate for the calculation was determined and published by the German Bundesbank in accordance with the Regulation on the Discounting of Provisions (Rückstellungsabzinsungsverordnung; RückAbzinsVO).

For employee funded commitments contingent on securities, the settlement amount is equal to the fair value of the plan assets.

For current and vested pension claims, which were created prior to 1 January 1987, and/or vested claims that grew after 31 December 1986, the option not to recognize any provision in accordance with Article 28 (2) of the Introductory Act to the German Commercial Code (EGHGB) was exercised.

The calculation of the provisions for partial requirement included all employees of the Company who have already taken advantage of partial retirement and/or who are expected to take advantage of the partial retirement regulations (eligible candidates). The calculations are based on the actuarial charts 2005 G of Dr. Klaus Heubeck.

In accordance with § 246 (2) sentence 2 HGB the amounts thus calculated were offset against all assets intended for the settlement of this obligation and protected against attachment by all creditors. The net amount is the amount recognized on the balance sheet.

Provisions for anniversary bonuses were recognized depending on tenure with the Company and existing eligibility requirements, taking the increase in eligibility into account. The option to maintain the provision in accordance with Article 67 (1) sentence 1 EGHGB was exercised.

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

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

Deposits retained
Deposits retained on direct written insurance were recognized as a liability at the settlement amount.

Other liabilities
Payables on reinsurance business as well as payables on direct written business were recognized at their settlement amounts.

Other liabilities are recognized at their settlement amounts.

Currency translations
If there are items denominated in foreign currency, they are converted as of the balance sheet date at the closing rate for balance sheet items and at the average rate for items in the income statement. The conversion rate for items in inventory is the average rate, or the respective month-end closing rate for monthly measurements. The translation rate for the monthly measurement of income statement line items is the respective final rate on the last day of the preceding month. These positions are translated using a rolling method. The addition of the translated individual items effectively results in a translation at average rates.

Thus the currency translation is not based on cumulative data as of the closing date but represents a composite of the respective individual exchange rate translations for each month.

Income statement

The income statement items were calculated in accordance with the German Regulation on the Accounting of Insurance Undertakings (RechVersV).

Assets

Changes to assets A., B.I. through B.III for the 2011 financial year

Aktiva in TEUR	Balance sheet amounts for	Additions	Deletions
A. A. Intangible fixed assets			
1. Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	3,440	6,229	3,212
B. I. Land, land rights and buildings, including buildings on third-party land	59,582	12	1,772
B. II. Investments in affiliated companies and other equity investments			
1. Shares in affiliated companies	321,710	462,640	225,623
2. Loans to affiliated companies	253,622	49,656	9,100
3. Other long-term equity investments	8,013	66,612	0
4. Total B.II.	**583,345**	**578,908**	**234,723**
B. III. Other investments*			
1. Shares, investment shares and other non-fixed interest securities	939,156	189,328	317,734
2. Bearer bonds and other fixed-interest securities	1,116,430	550,175	248,540
3. Mortgages, land charges and annuity land charges	3,936	0	731
4. Other loans			
a) Registered bonds	1,577,305	181,977	453,223
b) Promissory notes and loans	1,360,626	54,422	257,452
c) Other loans	21,000	0	0
5. Deposits with financial institutions	211,027	29,046,599	28,859,839
6. Other investments	4,291	32,395	375
7. Total B.III.	**5,233,771**	**30,054,896**	**30,137,894**
Grand total	**5,880,138**	**30,640,045**	**30,377,601**

**Disclosure pursuant to sec. 277 (3) HGB*

Write-downs in the amount of € 10,565,000 were applied to assets recognized as fixed assets Sec. 285 no. 18 HGB.

The Company has exercised the option to classify investments as fixed assets pursuant to sec. 341b HGB

The write-down not taken was equal to EUR 17,302,000, the associated carrying amounts totaled EUR 1,017,660,000.
The write-downs not taken were largely related to bearer bonds, registered bonds and borrower's note loans. These hidden encumbrances are related to interest rates and thus not permanent in nature. Among the public sector bonds of the so-called GIIPS countries, the Greek government bonds were written down to their market value in line with the latent default risk No write-downs were applied in the case of the other GIIPS countries, since there is no impending default risk in lights of protective measures at the European level.

Shares in investment asset pools

Disclosures pursuant to sec. 285 no. 26 HGB concerning shares in investment asset pools in EUR 000	Balance sheet amount 31/12/2011	Market value 31/12/2011	Distribution in 2011
Fixed income funds			
Gerling Euro-Rent 3	692,098	688,474	25,746

The Euro-Rent 3 pool was valued at fair value and was written down to that amount. The nominal value approach used for IHS and bond funds is based on using the expected nominal value at final maturity, unless credit-related adjustments must be made. Other assets (such as cash) held as part of the fund were also valued at their nominal value in advance. The remaining hidden encumbrance is therefore not considered to be permanent.

Write-ups	Currency exchange fluctuations	Amortization, Depreciation and write-downs	Balance sheet value for the financial year	Market value of investments
0	3	227	**6,233**	**0**
11,060	0	4,818	**64,064**	**112,191**
0	0	0	**558,727**	**853,336**
0	206	852	**293,532**	**306,902**
0	0	0	**74,625**	**74,625**
0	**206**	**852**	**926,884**	**1,234,863**
230	-683	9,650	**800,647**	**799,874**
2,320	17,604	2,513	**1,435,476**	**1,481,507**
0	0	0	**3,205**	**3,596**
0	3,331	0	**1,309,390**	**1,365,203**
0	6,116	7,602	**1,156,110**	**1,203,110**
0	0	0	**21,000**	**18,993**
0	4,313	0	**402,100**	**402,100**
173	-2	46	**36,436**	**36,847**
2,723	**30,679**	**19,811**	**5,164,364**	**5,311,230**
13,783	**30,888**	**25,708**	**6,161,545**	**6,658,284**

B II Investments in affiliated companies and other equity investments

Name, registered office	Share in %	Currency	Equity in 000	Result in in 000
Gerling Norge A/S, Oslo**	100.00	NOK	228	21
HDI Versicherung AG, Wien*	100.00	EUR	41,930	7,512
HDI-Gerling Verzekeringen N. V., Rotterdam*	100.00	EUR	70,885	15,932
HDI Hannover International Espana Cia. de Seguros y Reaseguros. S.A., Madrid*	100.00	EUR	44,898	4,911
Institutional Venture and Equity Capital AG, Köln**	23.80	EUR	178,003	21,171
HDI-Gerling Sicherheitstechnik GmbH, Hannover**	100.00	EUR	1,875	1,233
HDI-Gerling Welt Service AG, Hannover**	100.00	EUR	90,986	5,231
Riethorst Grundstücksgesellschaft AG & Co. KG, Hannover*	50.00	EUR	43,246	-137
HDI-Gerling Schadenregulierung GmbH, Hannover**	100.00	EUR	25	-22
HDI-Gerling Alternative Investments Beteiligungs GmbH & Co. KG, Köln***	100.00	EUR	0	0
Nassau Assekuranzkontor GmbH, Köln***	100.00	EUR	0	0

** Information as of the end of the 2009 financial year*

***Information as of 31 December 2010*

**** The company was newly formed during the financial year and has not yet prepared any annual financial statements*

C. III. Other receivables

	31/12/2011	31/12/2010
in EUR 000		
Receivables from affiliated companies*	69,451	147,950
Claims payments / Co-insurance	19,309	31,613
Receivables not yet attributed (foreign branches)	49,078	43,505
Receivables due to timing differences in accounting entries	54,921	34,044
Receivables from tax authorities	19,224	17,942
Interest and rents receivable	1,885	4,781
Miscellaneous**	19,827	18,221
Grand total	**233,695**	**298,056**

** The receivables are largely related to services rendered. The total further includes a receivable due from HDI-Gerling Welt Service AG in the amount of EUR 3,826,000 for profit transfers.*

*** Costs posted after the closing of the cost accounts (08 Dec. 2011) were recognized as other receivables. In the following period, the accruals were reversed through profit and loss. These were equal to EUR 3,003,000 (2,994,000).*

D. Other assets

E I Property, plant and equipment and inventories

	31/12/2011	31/12/2010
Balance as of the start of the financial year	7,515	7,653
Additions	1,184	4,631
Deletions	1,502	134
Amortization, depreciation and write-downs	1,301	4,824
Exchange rate fluctuations	41	189
Balance as of the end of the financial year	**5,937**	**7,515**

E. Deferred and accrued items

I. Deferred rent and interest income

	31/12/2011	31/12/2010
in EUR 000		
Interest	82,479	87,022

II. Other prepaid expenses

	31/12/2011	31/12/2010
in EUR 000		
Administrative expenses	622	506
Premiums on		
Registered bonds	–	264
Promissory notes and loans	–	364
subordinated loans	296	436
Total	**918**	**1,570**
Prepaid expenses - total	**83,397**	**88,592**

Total equity and liabilities

A. Equity

	31/12/2011	31/12/2010
in EUR 000		
I. Subscribed capital*		
Balance as of the start of the financial year	125,000	125,000
Balance as of the end of the financial year	**125,000**	**125,000**
II. Capital reserves		
Balance as of the start of the financial year	281,536	162,493
Existing business transferred to HDI-Gerling Verzekeringen N. V., Rotterdam	0	48,571
Existing business transferred to HDI Versicherung AG, Vienna*	0	35,912
Existing business transferred to HDI Hannover International Espana Cia. de Seguros y Reaseguros, S. A., Madrid	0	34,560
Balance as of the end of the financial year	**281,536**	**281,536**

** The subscribed capital is fully paid in and is divided into 125,000 registered shares of € 1,000 each. Talanx AG is the sole shareholder.*
The creation of a statutory reserve is not required since § 150 (2) of the German Stock Corporation Act (AktG) ("statutory reserve fund") has already been satisfied by the creation of a capital reserve in accordance with § 272 (2) no. 1 HGB.

B. Subordinated liabilities

The subordinated liabilities in the amount of EUR 250,000,000 are fixed/variable interest-bearing subordinated bearer bonds issued by Gerling-Konzern Allgemeine Versicherungs-AG with a notional amount of EUR 1,000 each. Following a re-listing, the securities are traded on the Euro MTF market of the Luxembourg exchange. The interest rate is 7.00% p.a. until 11 August 2014; starting 12 August 2014, they accrue quarterly interest at a rate equal to the 3-months Euribor plus a premium of 3.75%, subject to a waiver of early call by our Company. The bonds will be redeemed at their par value on 12 August 2024.

C. Total gross underwriting provisions

	31/12/2011	**31/12/2010**
in EUR 000		
Direct written insurance business		
Accident insurance	143,369	135,393
Liability insurance	4,214,439	4,213,459
Motor vehicle liability insurance	604,226	617,473
Other motor vehicle insurance	58,051	52,884
Fire and property insurance	859,348	861,693
of which:		
a) Fire insurance	368,354	372,189
b) Technical insurance	431,586	398,939
c) Other property insurance	59,408	90,565
Transport and aviation insurance	501,185	510,936
All-Risk-insurance	274,087	205,666
Legal protection insurance	21,102	64,219
Other insurance	139,465	107,552
Total	**6,815,272**	**6,769,275**
Reinsurance business accepted	2,404,389	2,140,982
Total insurance business	**9,219,661**	**8,910,257**

Of which:

a) Gross loss and loss adjustment expense provision: EUR 8,068,223,000 (7,666,054,000)

b) Equalization reserve and similar provisions: EUR 525,962,000 (684,675,000)

C. II. 1. Gross loss and loss adjustment expense provision

	31/12/2011	31/12/2010
in EUR 000		
Direct written insurance business		
Accident insurance	105,962	99,851
Liability insurance	4,035,740	3,994,503
Motor vehicle liability insurance	498,084	518,917
Other motor vehicle insurance	52,352	48,041
Fire and property insurance	649,314	636,917
of which:		
a) Fire insurance	276,807	25,836
b) Technical insurance	323,580	297,316
c) Other property insurance	48,927	81,241
Transport and aviation insurance	412,352	390,296
All-Risk-insurance	218,883	181,536
Legal protection insurance	67,830	70,418
Other insurance	81,279	91,916
Total	**6,121,796**	**6,032,395**
Reinsurance business accepted	1,946,427	1,633,659
Total insurance business	**8,068,223**	**7,666,054**

C. III. 1. Gross provisions for profit-related and non-profit related premium refunds

	As of 31/12/2010	Distribution	Reversal	Addition	Currency exchange fluctuations	As of 31/12/2011
in EUR 000						
Profit-related premium refunds						
Accident insurance	2,130	1,285	86	1,366	31	2,156
Liability insurance	2,386	695	2,130	373	1	-65
Motor vehicle liability insurance	2	0	2	0	0	0
Fire and property insurance	2,024	0	0	0	0	903
of which:						
a) Fire insurance	582	8	586	8	4	0
b) Technical insurance	1,442	58	551	67	3	903
Transport and aviation insurance	5,154	268	217	418	8	5,095
Legal protection insurance	4	0	0	0	0	4
Total provision (gross)	11,700	**2,248**	**2,435**	**2,157**	**40**	**8,093**

C. VI. Equalization and similar provisions

in EUR 000	31/12/2011	31/12/2010
Direct written insurance business		
Accident insurance	15,391	14,695
Liability insurance	35,416	95,059
Motor vehicle liability insurance	95,467	90,712
Fire and property insurance	56,958	63,472
of which:		
a) Fire insurance	56,958	63,472
Transport and aviation insurance	51,436	85,983
Legal protection insurance	5,645	3,210
Total	**260,313**	**353,131**
Reinsurance business accepted	265,649	331,544
Total insurance business	**525,962**	**684,675**

D. I. Provision for pensions and similar liabilities

As required by the Accounting Law Modernization Act (Bilanzrechtsmodernisierungsgesetz; BilMoG), the provision for pensions was measured at the settlement amount, taking into account salary and pension trends as well as employee turnover rates, and discounted to the balance sheet date. The assumed rates of increase were 2.75% for salaries and 2.0% for pensions. The assumed probable employee turnover rates are shown in the table below.

Probable staff turnover rates in %

Age	Men	Women
20	11.5	11.6
25	7.9	7.9
30	5.4	5.5
35	3.7	3.8
40	2.5	2.5
45	1.4	1.4
50	0.7	0.7
50 or older	0	0

The provision for pensions was discounted using an interest rate of 5.13 % and assuming a remaining term of 15 years. In the 2010 balance sheet year, the option in Article 67 (1) sentence 1 of the Introductory Act to the German Commercial Code (EGHGB) to distribute the required addition to the provisions for pensions over the maximum of 15 years and to recognize in each case as extraordinary expenses, was exercised. This method of allocations was continued in the reporting period.

Provision for pensions

in EUR 000	
Provision for pensions according to BilMoG as of 31 December 2010	**299,589**
Transfers*	-37,314
Use	12,001
Reversal	0
Addition	8,955
Accrued interest/interest rate change	18,700
Offset (carried forward)	6,044
Provision for pensions recognized as of 31 December 2011	**283,973**

The settlement amount for the employer-funded provision for pensions as of 31 December 2011 was EUR 314,568,000. The fair value of the funds held as cover for this amount as of 31 December 2011 was EUR 30,968,000. The amortized cost was equal to EUR 28,678,000. The settlement amount for the employee-funded provision for pensions was EUR 8,997,000. The nettable plan assets are reinsurance claims. The amortized cost determined according to the lower of cost or market principle and thus the fair value within the meaning of § 255 (4) sentence 3 HGB is equal to the so-called actuarial reserves of the insurance agreement plus excess. The income and expenses netted in the Income Statement and resulting from the offset of assets and liabilities were equal to EUR 330,000.

**As of 1 January 2011, parts of the pension liabilities were transferred to Talanx AG. Talanx AG has assumed sole liability for these balances by way of a collateral promise in the internal relationship.*

in EUR 000	
Total BilMoG difference amount	127,650
Allocation to date	19,561
The amount for provision not yet recognized on the balance sheet in accordance with § 67 (2) EGHGB.	**108,089**

** The amount of the allocation breaks down into EUR 11,293,000 for 2010 and EUR 8,268,000 for 2011. In 2010, the difference amount for the employee-financed commitments of EUR 2,919,000 was added in full. In addition, a pro-rata share of EUR 106,000 was still added in via HG-I in 2010, starting in 2011, this amount is added via the subsidiary HDI-Gerling Sicherheitstechnik GmbH by way of a contractual undertaking to perform the obligation.*

D. III. Other provisions

	As of 31/12/2010	Transfers	Use	Reversal
in EUR 000				
Impending losses on reinsurance claims	6,857	0	92	6,747
Provision for "Pension Scheme UK"	0	0	0	0
Cartel law infringement proceedings	25,900	0	0	20,000
Partial retirement*	11,177	196	3,089	0
Foreign branches	1,409	0	1,195	0
Compensation payable	10,936	0	8,859	0
Provision for restructuring	3,435	0	1,072	0
Outstanding building repairs	5,000	0	372	0
Anniversary bonuses	4,580	115	563	0
Litigation expenses	3,237	0	150	353
Provisions for costs	2,514	0	2,514	0
Vacation claims and credit balances in flextime accounts	3,654	0	3,654	0
Pension fund****	1,200	0	1,200	0
Compensation levy for non-employment of severely handicapped persons	0	0	0	0
Cost of financial statements	1,551	0	1,545	5
Consulting costs	1,157	0	1,074	83
Contribution to employer´s liability insurance association	387	0	387	0
Provisions for obligations assumed*****	0	5,015	0	0
Miscellaneous	1,284	0	648	233
Grand total	**84,278**	**5,326**	**26,414**	**27,421**

** The settlement amount of the provision of partial requirement was equal to EUR 15,308,000. The fair value of the funds held as cover for this amount as of 31 December 2011 was EUR 5,672,000. The amortized cost was equal to EUR 6,183,000. The income and expenses netted in the Income Statement and resulting from the offset of assets and liabilities were equal to EUR 145,000.*

***Interest rate 3.94% 1(11/2011)*

****Interest rate 4.08%*

*****The settlement amount of the pension commitments not recognized on the balance sheet in accordance with Article 28 (2) EGHGB as of 31 December 2011 was equal to EUR 354,000.*

****** HDI-Gerling Industrie Versicherung AG has assumed sole liability for the pension obligations of HDI-Gerling Sicherheitstechnik GmbH under a contractual undertaking to perform the obligation in the internal relationship.. HDI-Gerling Industrieversicherung AG is required to recognize a provision for the obligations under this contractual undertaking.*

F. IV. Other liabilities

	31.12.2011	31.12.2010
in EUR 000		
Liabilities to affiliated companies*	345,182	240,437
Liabilities not yet attributable	41,203	35,716
Liabilities due to tax authorities	32,352	28,737
Liabilities due to timing differences in accounting entries	62,729	24,486
Liabilities from non-group lead business	28,660	21,058
Liabilities from interest on hybrid capital	6,757	6,757
Liabilities from uncashed checks	4,908	4,625
Miscellaneous	22,422	20,538
Grand total	544,213	382,354

**This includes liabilities from profit transfers in the amount of EUR 133,102,000 due to Talanx Service AG.*

Addition	Discounting**	Accrued interest/interest rate changes***	Offset (fcarried forward)	Carrying amount 31/12/2011
0	0	0	0	**18**
19,000	0	0	0	**19,000**
0	0	0	0	**5,900**
856	0	600	-104	**9,636**
862	0	0	0	**1,076**
12,878	0	0	0	**14,955**
721	0	0	0	**3,084**
10,432	536	0	0	**14,524**
259	0	225	0	**4,616**
4,388	0	0	0	**7,122**
500	0	0	0	**500**
3,631	0	0	0	**3,631**
755	0	0	0	**755**
45	0	0	0	**45**
1,583	0	0	0	**1,584**
2,383	0	0	0	**2,383**
390	0	0	0	**390**
998	0	309	0	**6,322**
6,282	0	0	0	**6,685**
65,963	**536**	**1,134**	**-104**	**102,226**

G. Deferred and accrued items

	31/12/2011	31/12/2010
in EUR 000		
Discounts on registered bonds, promissory notes and loans	0	203
Rents and ancillary expenses	39	39
Other	761	0
Total	**800**	**242**

Income statement

I. 1.a) Gross premiums written

Direct written insurance business

in EUR 000	2011	2010
Accident insurance	70,272	72,050
Liability insurance	664,872	668,536
Motor vehicle liability insurance	194,063	174,240
Other motor vehicle insurance	109,073	97,839
Fire and property insurance	458,222	473,769
of which:		
a) Fire insurance	210,974	255,327
b) Technical insurance	191,665	165,694
c) Other property insurance	55,583	52,748
Transport and aviation insurance	193,657	203,406
All-risk insurance	237,219	147,188
Legal protection insurance	16,130	17,932
Other insurance	40,670	40,400
Total	**1,984,178**	**1,895,360**
Reinsurance business accepted	736,369	634,517
Total insurance business	**2,720,547**	**2,529,877**

Origin of gross premiums written for the direct written insurance business

	2011	2010
in EUR 000		
a) In Germany	1,451,011	1,403,083
b) Other member states of the European Community as well as other treaty states of the Agreement Creating the European Economic Area	344,195	310,493
c) Third countries	188,972	181,784
Total	**1,984,178**	**1,895,360**

I. 1. Gross premiums earned

Direct written insurance business

	2011	2010
in EUR 000		
Accident insurance	71,461	74,504
Liability insurance	645,956	679,921
Motor vehicle liability insurance	191,605	176,591
Other motor vehicle insurance	108,358	98,002
Fire and property insurance	465,329	497,349
of which:		
a) Fire insurance	225,177	266,065
b) Technical insurance	185,990	169,708
c) Other property insurance	54,162	61,576
Transport and aviation insurance	191,350	205,894
All-risk insurance	206,207	146,342
Legal protection insurance	16,211	17,587
Other insurance	40,950	39,755
Total	**1,937,427**	**1,935,945**
Reinsurance business accepted	720,603	595,195
Total insurance business	**2,658,030**	**2,531,140**

I. 1. Net premiums earned

Direct written insurance business

	2011	2010
in EUR 000		
Accident insurance	61,193	60,555
Liability insurance	107,598	252,398
Motor vehicle liability insurance	174,561	160,723
Other motor vehicle insurance	98,251	88,528
Fire and property insurance	123,801	184,626
of which:		
a) Fire insurance	37,925	75,477
b) Technical insurance	73,467	8,778
c) Other property insurance	12,409	21,369
Transport and aviation insurance	147,072	156,573
All-risk insurance	56,933	37,556
Legal protection insurance	14,418	16,827
Other insurance	33,165	28,178
Total	**816,992**	**985,964**
Reinsurance business accepted	247,937	191,192
Total insurance business	**1,064,929**	**1,177,156**

I. 2. Interest income on premium funds and provisions

In the direct written gross insurance business, interest income on premium funds and provisions was calculated on the annuity provision. The income was calculated by applying a rate of 2.25% to half of the opening balance and a rate of 1.75% to half of the closing balance of the provision.

I. 4. Gross claims expenses

Direct written insurance business

	2011	2010
in EUR 000		
Accident insurance	44,673	509
Liability insurance	49,342	485,252
Motor vehicle liability insurance	142,868	14,615
Other motor vehicle insurance	117,872	102,002
Fire and property insurance	27,962	27,941
of which:		
a) Fire insurance	152,113	121,279
b) Technical insurance	127,309	105,903
c) Other property insurance	198	52,228
Transport and aviation insurance	178,365	167,049
All-risk insurance	171,516	132,065
Legal protection insurance	11,604	13,712
Other insurance	1,867	657
Total	**1,458,608**	**1,377,197**
Reinsurance business accepted	727,216	265,176
Total insurance business	**2,185,824**	**1,642,373**

I. 7.a) Gross operating expenses for the insurance business

Direct written insurance business

	2011	2010
in EUR 000		
Accident insurance	17,674	17,528
Liability insurance	103,905	104,164
Motor vehicle liability insurance	33,536	31,707
Other motor vehicle insurance	21,843	19,443
Fire and property insurance	93,379	99,231
of which:		
a) Fire insurance	38,911	46,906
b) Technical insurance	41,732	38,893
c) Other property insurance	12,736	13,432
Transport and aviation insurance	48,343	47,836
All-risk insurance	35,047	29,667
Legal protection insurance	4,387	4,583
Other insurance	12,231	11,860
Total	**370,345**	**366,019**
Reinsurance business accepted	132,262	121,465
Total insurance business	**502,607**	**487,484**

Of the gross operating expenses for the financial year, EUR 74,392,000 (EUR 69,205,000) are attributable to acquisition expenses and EUR 428,216,000 (EUR 418,279,000) are attributable to general and administrative expenses.

Run-off result

Direct written insurance business

	2011	2010
in EUR 000		
Accident insurance	-6,906	-10,171
Liability insurance	-115,329	-76,923
Motor vehicle liability insurance	-10,606	-6,439
Other motor vehicle insurance	-966	-619
Fire and property insurance	-42,249	-118,153
of which:		
a) Fire insurance	-15,331	-9,065
b) Technical insurance	-1,722	-11,306
c) Other property insurance	-25,196	-16,197
Transport and aviation insurance	-8,126	-9,738
All-risk insurance	-29,872	-2,357
Legal protection insurance	1,763	3,661
Other insurance	-8,782	-48,291
Total	**-221,073**	**-269,030**
Reinsurance business accepted	10,584	-121,067
Total insurance business	**-210,489**	**-390,097**

- = in favor of the reinsurers
The reinsurance balance is calculated as the reinsurers' earned premiums and the reinsurers' share of gross claims expenses and gross operating expenses for the insurance business.
** The balance for the reinsurance business includes a total amount of EUR 179 million for non-cash reinstatement premiums. This breaks down into EUR 137 million for the direct written insurance business and EUR 42 million for the business accepted for reinsurance.*

I. 11. Underwriting results for own account

Direct written insurance business

	2011	2010
in EUR 000		
Accident insurance	803	1,411
Liability insurance	108,900	-21,808
Motor vehicle liability insurance	-347	-6,099
Other motor vehicle insurance	-32,371	-21,864
Fire and property insurance	58,443	13,381
of which:		
a) Fire insurance	26,699	18,277
b) Technical insurance	1,542	15,414
c) Other property insurance	16,324	-2,031
Transport and aviation insurance	-7,677	2,609
All-risk insurance	-27,696	-15,808
Legal protection insurance	-434	-293
Other insurance	2,927	-20,750
Total	**102,548**	**-69,221**
Reinsurance business accepted	-44,993	23,449
Total insurance business	**57,555**	**-45,772**

Run-off result

In the financial year, HDI-Gerling Industrie Versicherung AG realized a run-off profit in the amount of EUR 218,012,000 (EUR 429,090,000). The information on the run-off results for the individual categories are discussed in the Management Report under Results of operations

Commissions and other compensation for insurance agents, personnel expense

	2011	2010
in EUR 000		
1. Comissions of any kind for insurance agents according to § 92 of the german commercial code (Handelsgesetzbuch, HGB) for direct written insurance business	159,601	160,266
2. Wages and salaries	133,400	98,181
3. Social insurance contributions and expenditures for benefits	21,761	15,111
4. Expenditures for retirement benefits	10,983	-838
5. Total expenditures	**325,745**	**272,720**

Number of insurance contracts with a minimum term of one year

Direct written insurance business

	2011	2010
Number		
Accident insurance*	42,503	40,973
Liability insurance	19,389	19,282
Motor vehicle liability insurance*	578,211	531,749
Other motor vehicle insurance*	380,053	354,583
Fire and property insurance	37,192	38,045
of which:		
a) Fire insurance	10,304	11,717
b) Technical insurance	18,591	17,535
c) Other property insurance	8,297	8,793
Transport and aviation insurance	13,696	12,774
All-risk insurance	4,897	3,349
Legal protection insurance	5,170	4,965
Other insurance	2,442	2,409
Total	**1,083,553**	**1,008,129**
Total of all contracts	677,751	629,197
Change due to inclusion of risks under motor vehicle insurance under motor vehicle insurance	405,802	378,932
Total insurance business	**1,083,553**	**1,008,129**

**With respect to accident insurance and motor vehicle insurance, this represents the number of risks.*

II. 4. Other income

	2011	2010
in EUR 000		
Currency exchange gains	11,464	444,408
Reversals of write-downs	0	6,083
Income from services rendered	17,649	17,761
Income from the reduction or reversal of other provisions	6,814	48,305
Income from agency and portfolio management services	1,316	762
Other interest and similar income	4,518	3,083
Income from reversal of specific and global valuation allowances	8,763	26,832
Derecognition of liabilities	4,072	2,741
Miscellaneous	10,523	8,969
Total	**65,119**	**558,944**

II. 5. Other expenses

	2011	2010
TEUR		
Currency exchange losses	28,102	475,835
Write-downs of receivables	17,561	369
Interest expense	27,209	25,438
Additions to the interest portion of the provision for pensions	17,619	21,468
Expenses for services	17,412	17,622
Expenses on behalf of the enterprise as a whole	6,646	4,111
Additions to the provision for the UK pension scheme	19,000	0
Adjustments carried forward in connection with foreign currency entries	18,871	0
Miscellaneous	17,674	14,693
Total	**170,094**	**559,536**

II. 9. Extraordinary result

The extraordinary items in the amount of EUR 7,467,000 are mainly related to income of EUR 20,000,000 from the reversal of a provision for cartel law infringement proceedings, to an amount of EUR 8,268,000 for adjustment entries to the provision for pensions required by the German Accounting Law Modernization Act (BilMoG), and an amount of EUR 4,219,000 recognized as a provision for cartel law proceedings against the branch in Italy.

II. 10. Taxes on income

In the financial year, taxes on income only affect profit/loss from ordinary business activities.

Other disclosures

Employees

	2011	2010
Full-time employees	1,728	1,643
Part-time employees	191	170
Total	**1,919**	**1,813**

Governing bodies of the Company

Please find the names of the members of the Supervisory Board and the Board of Management in the overview on pages 24 and 25 of this report.

Remuneration for the members of governing bodies and advisory boards

Remuneration for the members of the Board of Management totaled EUR 4,129,000. Total remuneration for the Supervisory Board was equal to EUR 78,000 and remuneration for the Advisory Board totaled EUR 898,000. The remuneration of former Board of Management members and their survivors totaled EUR 4,183,000. A total of EUR 35,209,000 were recognized for pension liabilities due to former Management Board members and their survivors. The share of Talanx AG in this total is equal to EUR 7.641,000.

Derivative financial instruments

A covered DAX-Call was sold in June as an earnings enhancement and closed out at a profit in August. Until the sale of the Index ETF in the third quarter, this position was hedged with stock index futures. As of 31 December 2011, there was only one remaining foreign exchange futures contract as an exchange rate hedge for excess cover denominated in CAD.

Class	Currency	Nominal	Carrying amount	Market value
Foreign Exchange Future	CAD	-39,172	0	0
Foreign Exchange Future	EUR	28	0	-1,715

Important agreements

A control and profit and loss transfer agreement is in effect with Talanx AG as the controlling company; moreover, in the course of the financial year, this agreement was carved out from Talanx Service AG (formerly HDI-Gerling Sach Serviceholding AG) together with the equity investment in our Company and spun off to Talanx AG. A control and profit and loss transfer agreement is further in effect between HDI-Gerling Industrie Versicherung AG as the controlling company and HDI-Gerling Welt Service AG as the controlled company.

Shareholdings in the Company

The sole shareholder of HDI-Gerling Industrie Versicherung AG is Talanx AG, which holds 100% of the share capital. In January 2007, Talanx AG had informed us pursuant to § 20 (1) and (4) of the German Stock Corporation Act (Aktiengesetz; AktG) that it was indirectly holding a majority interest in our Company by virtue of attribution pursuant to § 16 (4) AktG, and did so with respect to the share capital and also with respect to voting rights. With the carve-out of our Company from Talanx Service AG (formerly HDI-Gerling Sach Serviceholding AG) Talanx AG now also holds a direct interest in HDI-Gerling Industrie Versicherung AG.

Other financial liabilities

HDI-Gerling Industrie Versicherung AG is a member of Verkehrsopferhilfe e.V., Hamburg. As a result of this membership, it is obligated to contribute to the potential payments made by the association as well as its general and administrative expenses in line with our pro-rata share of the premium income generated by the members of the association in direct written motor vehicle liability insurance in the next to last calendar year.

As a member of the Pharma-Rückversicherungs-Gemeinschaft, HDI-Gerling Industrie Versicherung AG is required to assume a pro-rata share of the outstanding obligations in the event that any of the remaining members becomes insolvent. The similar obligation exists under a contractual agreement with the Deutsche Kernreaktor-Versicherungsgemeinschaft as regards a default of one of the association members.

The carrying amount of the assets pledged, assigned or deposited as security is equal to EUR 53,970,000 (EUR 51,302,000).

Call commitments are in effect vis-à-vis HG-I Alternative Investments Beteiligungs GmbH & Co. KG in the amount of EUR 95,120,000, vis-à-vis M 31 Beteiligungsgesellschaft mbH & Co. KG in the amount of EUR 22,534,000, vis-à-vis Equity Partners III GmbH & Co. KG in the amount of EUR 1,900,000, vis-à-vis Equity Partners IV GmbH & Co. KG in the amount of EUR 3,250,000, vis-à-vis AllianceBernstein Legacy Securites C1, L.P. in the amount of EUR 2,500,000, and vis-à-vis Recap Investments VII in the amount of EUR 356,000. There are no further call commitments on shares and equities, notes payable or other contingent liabilities of any kind.

Talanx AG, Hannover has assumed liability, in the internal relationship, for the settlement of the retirement benefit obligations of the Company to former employees. Under this pension commitment, the Company has a joint liability in an amount totaling EUR 49,665,000 as of the end of the financial year.

As the sponsoring company for the Gerling Versorgungskasse [Pension Fund], the Company is liable, on a pro-rata basis, for shortfalls, if any.

Additional liabilities in the amount of EUR 3,315,000 are related to guaranteed credits (“Avalkredite”). Letters of credit in effect with various banks total EUR 346,172,000.

The Board of Management of our Company views the probability that obligations arising from the above contingent liabilities will result in actual claims and payments to be low.

Related party disclosures

The Company is engaged in extensive reinsurance agreements with companies in the HDI-Gerling Group. Appropriate considerations are paid and received for all reinsurance coverage as well as any and all services that are received and/or rendered in connection with this protection. To that extent, this business has no effect on the net assets or results of operations when compared to the use and rendering of the described services by or for companies that are not related parties.

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

Total audit fees

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

Consolidated financial statements

The Company is a member company of the HDI Haftpflichtverband der Deutschen Industrie V.a.G. Group. HDI V. a. G. (the parent company) prepares consolidated financial statements for the Group according to § 341i HGB that includes the Company within the scope of consolidation. The consolidated financial statements will be published in the German electronic Federal Gazette (elektronischer Bundesanzeiger). They can also be obtained at the head office of the parent company, Hannover, Riethorst 2. The financial statements of the Company are further included in the scope of consolidation of the Consolidated Financial Statements of Talanx AG, Hannover.

Hannover, 1 March 2012

The Board of Management

Dr. Hinsch

Dr. ten Eicken	Heidbrink
Metzner	Dr. Sigulla
Wohlthat	Wollschläger

Auditor's Report

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

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

Our audit has not led to any reservations.

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

Hannover, 7 March 2012

KPMG AG
Wirtschaftsprüfungsgesellschaft

Husch	Hellwig
[German Public Auditor]	[German Public Auditor]

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Konzernstruktur
Group Structure

talanx.

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

Konzernfunktionen
Corporate Operations

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

Nur die wesentlichen Beteiligungen
Main participations only

Stand / As at: 31.12.2011

400-GB058

HDI-Gerling Industrie Versicherung AG 2011 Annual Report

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