HDI-Gerling Industrie Versicherung AG

Annual Report 2012

HDI-Gerling Industrie Versicherung AG at a Glance

		2012	2011
Gross written premiums	in EUR million	3,057	2,721
Increase/decrease in gross premium income	in %	12.4	7.5
Income from premiums earned for own account	in EUR million	1,329	1,065
Expenditures on insurance claims for own account	in EUR million	1,053	1,035
Loss ratio for own account	in %	79.3	97.2
Expenses for insurance operations for own account	in EUR million	286	271
Expense ratio for own account	in %	21.5	25.5
Net underwriting result before equalization reserve for own account	in EUR million	–15	–101
Combined ratio for own account	in %	100.8	122.7
Investments	in EUR million	6,207	6,245
Investment income	in EUR million	291	277
Net profit/loss from non-insurance business*	in EUR million	217	96
Net income/loss from ordinary activities	in EUR million	121	154
Tax expense/ tax income (-)	in EUR million	33	28
Profit transferred under a profit/loss transfer agreement	in EUR million	82	133
Operating results (net profit/loss from ordinary activities plus changes in the equalization reserve)	in EUR million	202	–5
Capital, reserves and underwriting provisions			
Shareholders‘ equity	in EUR million	407	407
Subordinated liabilities	in EUR million	250	250
Equalization reserve and similar provisions for own account	in EUR million	607	526
Other underwriting provisions for own account**	in EUR million	4,369	4,415
Total	in EUR million	5,633	5,598
Of premiums earned for own account	in %	423.9	525.6
Ratio of underwriting provisions for own account	in %	296.9	375.0
Insurance contracts	in 1,000	729	678
Reported claims	in 1,000	250	208
Headcount	Number	1,962	1,919

** Sum of net investment income and other net income/expenses*
*** Excluding provision for premium refunds*

Contents

Ladies and Gentlemen,

The 2012 financial year showed clear signs that the market is hardening. This change in direction is, indeed, urgently needed after an eight-year phase of soft markets. The extent to which the market has hardened differs, however, from line to line and from market segment to market segment.

Our business indicators send equally mixed signals. Gross written premiums rose, in fact, sharply in the 2012 financial year, and exceeded the EUR three billion mark for the first time. But the net underwriting loss of -EUR 96 million was anything but satisfactory. Even though we succeeded in improving the combined ratio (net) to 100.8% from the earlier 122.7%, prices still require further adjustments.

In the past year, we have begun to establish an adequate relationship between premiums and risk across all industries and insurance lines. Successfully! We were able to realise welcome premium increases in virtually all lines despite an intensely competitive market environment.

We are now also on the right course in the international business. We succeeded for instance, in winning new attractive lead mandates in the past financial year. HDI-Gerling Industrie Versicherung AG now leads more than 2,200 international programmes and is a co-underwriter in total of about 2,800 such programmes. These impressive numbers illustrate that we have since grown far beyond our origins as an insurer focused on risks in Germany.

Responding to the needs of our customers, we also continued to expand our global network significantly in the past year by forming new branches in Singapore and Manama (Bahrain) and by entering the Indian market through the joint venture Magma HDI. In addition, we expanded our equity interest in the leading Vietnamese industrial insurer PVI Holdings. Ultimately, this means:
Today, HDI-Gerling can offer industrial customers and corporate groups insurance solutions that meet international standards in more than 130 countries through its own branches and joint ventures, through direct insurance providers from the Talanx Group and through our network partners.

Since demand for insurance in Germany is likely to remain stagnant while capacity grows, foreign markets will likely continue, in our opinion, to offer the most important growth opportunities in the future. Thus we plan to move forward in developing HDI-Gerling Industrie Versicherung AG into a global player. Latin America, South-East Asia and the Arabian Peninsula remain our target regions outside of Europe. Our guiding principle is: we will go wherever there is a need for high-quality industrial insurance services. At the same time, we will not lose sight of our German home market, and will defend our strong position here.

If we stay on this course, we will be able to anticipate rising premium income and a stable business performance for this coming year as well. In this connection, our sound capital position will allow us to increase our retention rate in successive stages over the next few years. In that way, our results will profit more than proportionately from the growth in premiums.

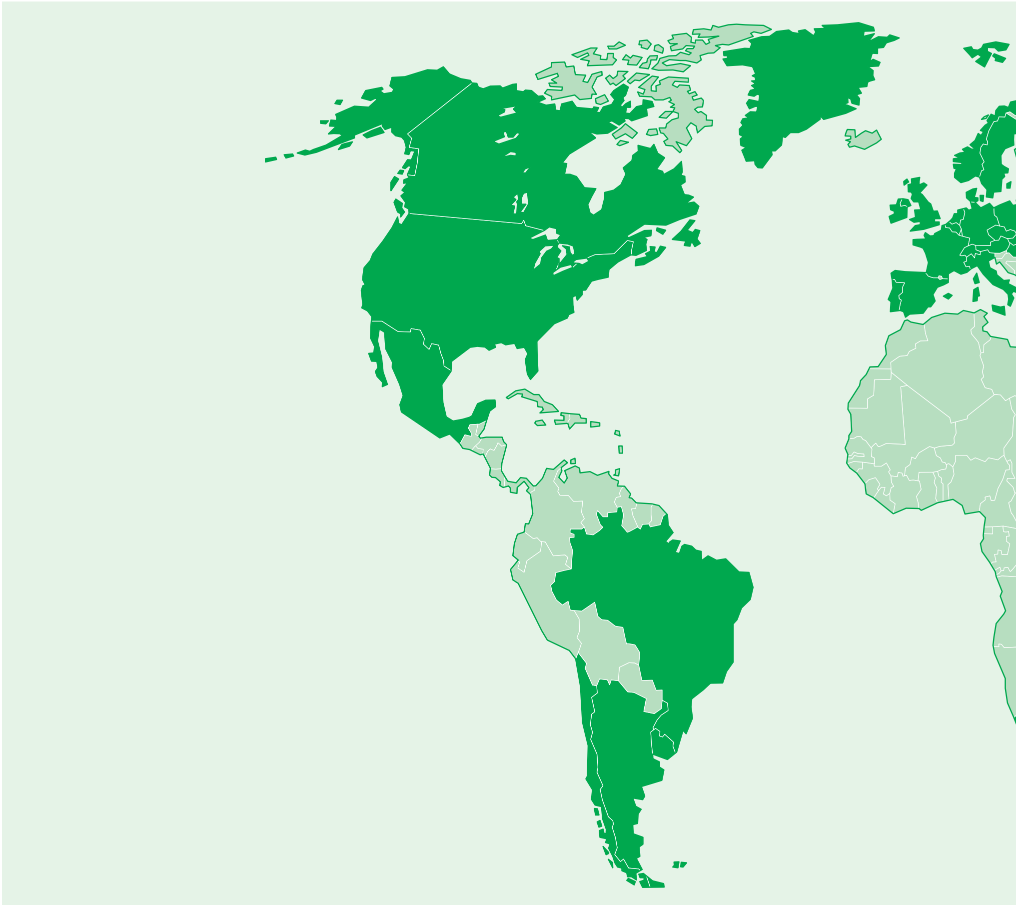
HDI-Gerling Industrie Versicherung AG is among the leaders in industrial insurance in Germany and throughout Europe. We owe this position above all to our employees. Their drive and commitment, their entrepreneurial spirit and actions have helped our Company to gain its present position. For this, the Board of Management owes all team members our thanks and recognition. I am convinced of this: Together, we will continue to realise our ambitious goals in the future.

Sincerely,

Dr. Christian Hinsch

Chairman of the Board of Management of HDI-Gerling Industrie Versicherung AG

HDI-Gerling Industrie world-wide



Australia
HDI-Gerling Industrie Versicherung AG
Sydney

Austria
HDI Versicherung AG
Vienna

Argentina
HDI Seguros S.A.
Buenos Aires

Bahrain
HDI-Gerling Industrie Versicherung AG
Manama

Belgium
HDI-Gerling Assurances S.A.
Brussels

Brasil
HDI Seguros S.A.
São Paulo

Canada
HDI-Gerling Industrie Versicherung AG
Toronto

Chile
HDI Seguros S.A.
Santiago

China
HDI-Gerling Industrie Versicherung AG
Hong Kong

Czech Republic
HDI Versicherung AG
Prague

Denmark
HDI-Gerling Verzekeringen N.V.
Copenhagen

France
HDI-Gerling Industrie Versicherung AG
Paris

Germany
HDI-Gerling Industrie Versicherung AG
Hannover

Greece
HDI-Gerling Industrie Versicherung AG
Athens

Hungary
HDI Versicherung AG
Budapest

India
Magma HDI General Insurance Company Limited
Kolkata
(Joint venture)

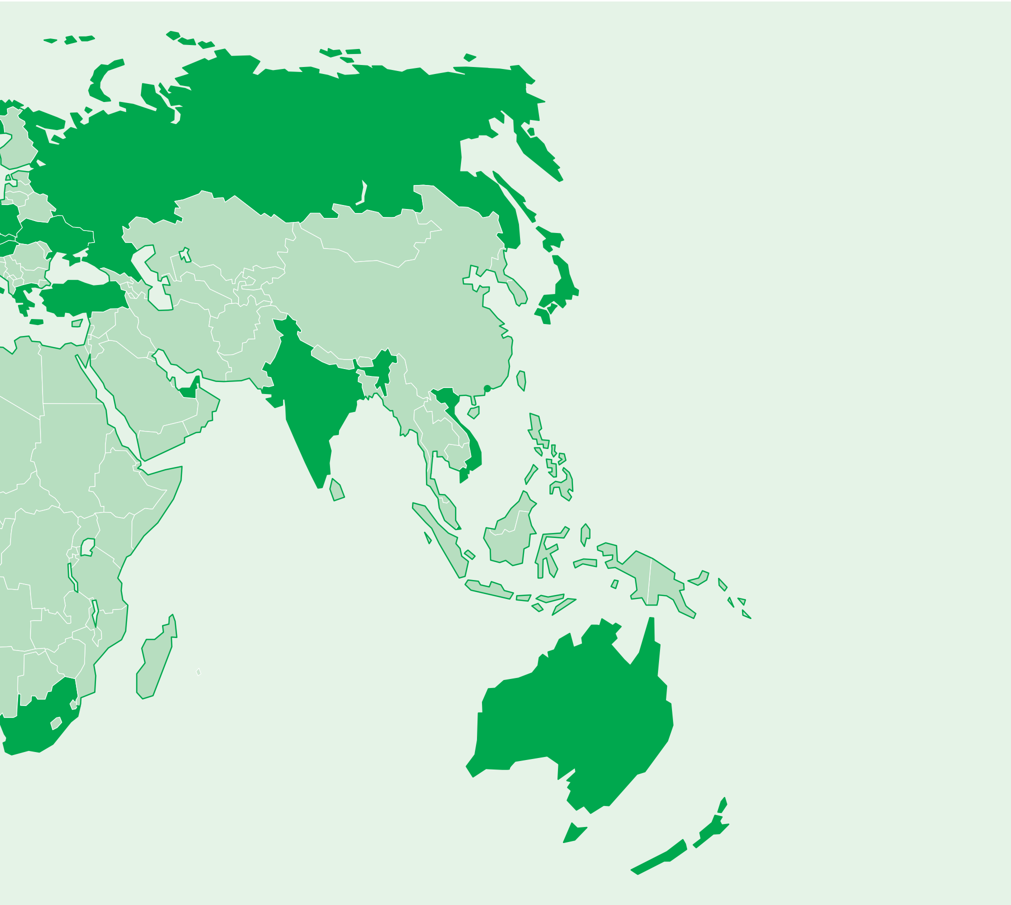
Ireland
HDI-Gerling Industrie Versicherung AG
Dublin

Italy
HDI-Gerling Industrie Versicherung AG
Milan

Japan
HDI-Gerling Industrie Versicherung AG
Tokyo

Luxembourg
HDI-Gerling Assurances S.A. Luxembourg
Luxembourg

Mexico
HDI-Gerling de México Seguros, S.A.
Mexico



New Zealand
(customer service is provided through:
HDI-Gerling Industrie Versicherung AG
Sydney)

The Netherlands
HDI-Gerling Verzekeringen
N.V. Rotterdam

Norway
HDI-Gerling Industrie Versicherung AG
Oslo

Poland
Towarzystwo Ubezpieczeń i
Reasekuracji
„WARTA“ S.A.
Warsaw

Portugal
(customer service is provided
through HDI HANNOVER
INTERNATIONAL (España) Cia de
Seguros y Reaseguros S.A. Madrid)

Russia
OOO Strakhovaya Kompaniya
„HDI Strakhovanie“
Moscow

Singapore
HDI-Gerling Industrie Versicherung AG
Singapore

Slovak Republic
HDI Versicherung AG
Bratislava

South Africa
HDI-Gerling General Insurance of South
Africa Ltd.
Johannesburg

Spain
HDI HANNOVER
INTERNATIONAL (España) Cia de
Seguros y Reaseguros S.A.
Madrid

Sweden
International Insurance
Company of Hannover Ltd.
Stockholm

Switzerland
HDI-Gerling Industrie Versicherung AG
Zurich

Turkey
HDI Sigorta A.Ş.
Istanbul

Ukraine
HDI Strakhuvannya
Kiev

United Kingdom
HDI-Gerling Industrie Versicherung AG
London

Uruguay
HDI Seguros S.A.
Montevideo

USA
HDI-Gerling
America Insurance Company
Chicago

Vietnam
PVI Insurance Corporation
Hanoi
(minority interest)

Executive bodies of the Company

Supervisory Board

Herbert Haas
Chairman
Burgwedel

Chairman of the Board of Management of
Talanx AG

Dr. Erwin Möller
Deputy Chairman
Hannover

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

Wolfgang Brinkmann
Herford
Managing Director of
bugatti GmbH

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

Hans-Joachim Birg*
Wedemark
Employee
(until 31.03.2012)

Jutta Mück*
Oberhausen
Employee

Detlev Preugschat*
Burgwedel
Employee
(since 01.04.2012)

* Employee representative

Board of Management

Dr. Christian Hinsch
Chairman
Hannover

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

Member of the Board of Management of
HDI-Gerling Industrie Versicherung AG
responsible for the
- 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 Line (operations/claims/safety engineering systems) excluding marine insurance
- Supervision of HDI-Gerling Sicherheitstechnik GmbH

Gerhard Heidbrink
Member of the Board of Management of
HDI-Gerling Industrie Versicherung AG
responsible for the
- Domestic Sales except for the Corporate Division
- Industrial Motor Vehicle Insurance Line (operations/claims/safety engineering systems)

Karl-Gerhard Metzner
Member of the Board of Management of
HDI-Gerling Industrie Versicherung AG
responsible for the
- Marine Insurance Line
- Aviation Insurance Line
- Group Accident Insurance Line
- Credit Insurance Line

Dr. Stefan Sigulla
Member of the Board of Management of
HDI-Gerling Industrie Versicherung AG
responsible for the
- Industrial Liability and Legal Protection Insurance Line (operations/claims/safety engineering systems)
- Corporate Division

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

Ulrich Wollschläger
Member of the Board of Management of
HDI-Gerling Industrie Versicherung AG
responsible for the
- Accounting
- Premium collections
- Investments
- Controlling
- Risk Management

Report of the Supervisory Board

The Supervisory Board monitored the conduct of the business by the Board of Management in the past financial year 2012 on a continuous basis in accordance with the law, the Articles of Association and rules of procedure and arranged for comprehensive information about the business performance and the financial position 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 8 March 2012 and 30 October 2012. 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 2012 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 2012 financial year, there was no occasion for the Supervisory Board to undertake examinations within the meaning of § 111 Para 2 of the German Stock Corporation Act (Aktiengesetz - AktG).

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

A major focus for the deliberations of the Supervisory Board were the implementation of the globalisation strategy as well as the planning for the 2013 financial year.

To the extent that the transactions and measures taken by the Board of Management required the approval of the Supervisory Board in accordance with the law, the Articles of Association and the rules of procedure, resolutions to that effect were adopted after a review and deliberations. During the 2012 financial year, the Supervisory Board voted, inter alia, to approve a capital increase at HDI Versicherung AG in Austria as the basis for the equity investment of Talanx International AG in this entity, the acquisition of the Luxembourg insurance company Les Assurance Mutuelles d’Europe Lux S.A. by HDI-Gerling Assurances S.A. in Belgium and the sale of THV Versicherungsmakler GmbH by the subsidiary IVEC AG.

The Supervisory Board assured itself that the risk management system was 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 2012 as well as the management report presented by the Board of Management, including the accounting, were audited by KPMG AG, Wirtschaftsprüfungsgesellschaft, Hannover. The 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 §§ 317 and 321 of the German Commercial Code (Handelsgesetzbuch - HGB) and that it did not raise any concerns. The Supervisory Board further concluded that the management report satisfied the requirements in § 289 HGB and conformed to the statements in the reports to the Supervisory Board pursuant to § 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 12 March 2013, 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

There were no changes in the appointments to the Board of Management during the year under review.

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

Hannover, 12 March 2013

For the Supervisory Board

Herbert K. Haas
(Chairman)

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. In the past financial year, HDI-Gerling Industrie Versicherung AG expanded its Global Network with the formation of new branches in Singapore and Bahrain. 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
In the year under review, the European sovereign debt crisis was once again the dominant factor shaping global economic developments. But even at the world-wide level the economic environment proved fragile in 2012 though prospects improved slightly at year-end if only within regional limits. In the US, for instance, the recovery gained some speed in the second half of the year, which allowed the emerging countries, in particular, to benefit. The economic environment in the Eurozone remained difficult in comparison.

The Eurozone slid effectively into recession in 2012. After a first quarter with no growth over the preceding quarter, it suffered slight declines in the further course of the year. The German economy grew by a surprisingly strong 0.5% year-on-year in the first quarter but could only realise moderate gains in the following quarters. After six declines of the Ifo business climate index in the six most recent reports (in October 2012 to the lowest level since February 2010), this carefully monitored economic indicator provided a positive surprise in December at a reported level of 102.4. The unemployment rate in the Eurozone reached a new record high of 11.8% in November, with Spain, alone, struggling with an unemployment rate of more than 25%.

The United States were once again the main driver of the global economy. While economic growth in the US initially slowed from an annualised rate of 2.0% in the first quarter to 1.3% in the second quarter, the US economy succeeded in accelerating the pace to 3.1% as early as in the third quarter. In the United Kingdom, the economic picture reflected the same stagnation as in the Eurozone. The British economy is nevertheless likely to contract slightly on an annual basis.

While the euro declined significantly in comparison to the US-dollar from around USD 1.35/EUR to USD 1.21/EUR in the course of the persisted euro debt crisis during the first half of 2012, it recovered later in the year, specifically due to the ECB commitment to support the currency. In the final quarter, it traded at a level close to USD 1.32/EUR. The movement of the euro versus the British pound followed a similar trend: After reaching a bottom rate of GBP 0.78/EUR, the currency recovered to GBP 0.82/EUR. The declared intention of the Swiss central bank that it would no longer tolerate an exchange rate below CHF 1.20/EUR had some effect. But in September, the euro moved once again away from a rate near CHF 1.20/EUR and rose to about CHF 1.21/EUR by year-end. The euro lost just short of 9% compared to the Polish zloty and gained just short of 12% versus the Brazilian real.

Capital markets
The euro debt crisis and the liquidity and/or refinancing conditions in the banking sector also dominated the performance of the bond markets in the year under review. The year started with market participants ready to take risks, even though no sustained progress toward a solution of the crisis was in sight. Until it was finally implemented in early March, the debate about the haircut on Greek debt exerted a persistent negative influence. The two three-year tenders of the ECB nevertheless succeeded in calming the markets, at least from the perspective of liquidity.

The start of the year saw significant activity in new issues across various asset classes. Given the possibility of alternative funding via the ECB, it was not surprising that the share of bond issues was appreciably lower than in recent years. Government bonds accounted for the largest overall share, with Spain and Italy being the main drivers in the first quarter (especially in January). In the second quarter, investors focused on the unsolved problems of the Eurozone and the weak macroeconomic environment, and returned to a noticeably more risk-averse stance. The market for new issues only showed very limited activity for long stretches and the bond markets grew once again significantly more volatile. Risk premiums stretched across a broader range and returns on German Government Bonds (Bunds) declined sharply. Toward the end of May, ten-year Bunds reached new historic lows at about 1.13%.

Despite the concerns about a renewed escalation of the crisis, the overall sentiment crystallised around news that encouraged more favourable spreads in the third quarter. Initially hesitant and volatile in July, the trend toward narrower spreads on the credit markets started to grew relatively stable by August. The clear position taken by the ECB and the announcement of further bond purchases was the starting point for a positive development. In this environment, the issuers of corporate, financial and covered bonds showed lively interest in refinancings, which met with great interest on the part of the investors. Interest in funding was especially high in Spain and Italy, in particular. The rating environment on the whole remained under pressure: In the third quarter, various banks and countries (Spain, Italy, Slovenia, Cyprus) suffered a number of downgrades. This development has not yet come to an end.

The positive trend continued in the fourth quarter. Despite many unsolved problems—such as the bank rescue in Spain, the buy-back of Greek bonds, the sluggish reforms in France, the debate about the fiscal cliff in the US—upcoming political decisions such as the elections in Italy in February 2013 as well as other negative news (downgrades of France to AA+ and the EFSF to Aa1), the bond markets as a whole showed a very stable performance. Toward the end of the year, German government bonds with a remaining term to maturity of three years traded at slightly negative yields. Two-year German government bonds were quoted in late December at −0.02%, five-year bonds at 0.29% and ten-year German government bonds reported a yield of 1.29%.

After strong gains in the first quarter, driven mainly by liquidity, the equity markets came under strong pressure in the second quarter. But monetary policy initiatives, such as the lowering of the key interest rates in the Eurozone and in China, the plans of the ECB to purchase additional sovereign bonds and further quantitative easing by the Fed, ensured the return of rising equity prices. Robust US economic data and a recovery of leading indicators in Germany and China helped the European markets to realise further gains in the fourth quarter. The threat of the fiscal cliff in the US, which envisioned automatic budget cuts and tax increases, dampened the movement of the US stock market in the final quarter. On an annual basis, the German DAX index recorded an explosive gain of +29%, and the performance of the EURO STOXX 50 Index of +14% was also more than respectable. The Dow Jones index realised a 7% gain in comparison to the start of the year.

Insurance business

The year 2012 was a year of relatively few major natural catastrophes. The renewed exacerbation of the sovereign debt crisis in the Eurozone, as well as the generally weak performance of the global economy as a whole, posed challenges for the insurance industry world-wide. In addition to the weak economic activity in the developed insurance markets the dynamic momentum of the emerging countries has also begun to slow down. But it is still noticeably higher than in the industrialised countries. The Talanx Group has defined the growing regions of Latin America as well as Central and Eastern Europe as target regions for the expansion of its international business. We will therefore give priority to a discussion of developments in these regions; we will address our goals for the German market further below in this chapter.

For the property and casualty insurance, 2012 was a year of strong sales with the highest premium growth since the deregulation of the insurance industry in 1994. All property and casualty lines have benefited from this development. Premium income rose especially in the motor vehicle insurance lines, based on premium increases for existing as well as for new business. The trend toward a hardening of the market, which was already noted in the prior year, has thus continued but remains limited to motor vehicle insurance. The second highest growth rate and at the same time the strongest growth over the last ten years was found in property insurance. Here this movement is largely attributable to the rise in the value of insured properties. High growth rates were also recorded in the smaller classes of marine and aviation insurance as well as of credit insurance. General liability insurance, private casualty insurance and legal protection insurance realised lower growth rates.

But the growth rate for insurance pay-outs in 2012 was similar to that on the premium side. Providers of property and casualty insurance had to absorb a higher claims burden than in any previous year. Expenses rose in almost all insurance classes, with the highest growth rates experienced in property and credit insurance. Property insurance was affected by the period of sharp freezes at the beginning of the year, a growing number of residential burglaries and—in industrial property insurance—the largest single fire loss in Germany ever of EUR 335 million. The jump in credit insurance payouts was primarily attributable to a number of insolvencies. A smaller increase in claims expenses, on the other hand, was only recorded in motor vehicle insurance. The German National Insurers' Association (GDV) projects a combined ratio that is largely unchanged from the prior year and a slight increase in underwriting profits across all classes of property and casualty insurance line.

Business performance

Business performance of HDI-Gerling Industrie Versicherung AG

Insurance business (total)

	2012	2012	2011	2011
EUR millions	**Gross**	**Net**	**Gross**	**Net**
Premiums	3,057	1,329	2,7210	1,099
Earned premiums	3,032	1,329	2,658	1,065
Claims expenses	2,167	1,053	2,186	1,035
Operating expenses	569	286	503	271
Net underwriting result for own account		-96		58
In %				
Loss ratio	71.5	79.3	82.2	97.2
Expense ratio	18.8	21.5	18.9	25.5
Combined (loss/expense) ratio	90.3	100.8	101.1	122.7

Total gross written premiums of HDI-Gerling Industrie Versicherung AG grew in the period under review by a significant EUR 336 million to EUR 3,057 (prior year: 2,721) million. This generally positive trend prevailed throughout all insurance lines. Even in the intensely competitive market environment, welcome premium increases could be achieved in the liability and motor vehicle as well as the marine and aviation insurance lines.

Gross premiums for the financial year (total)

EUR millions, %		
Liability insurance	937	30.6
Fire insurance	239	7.8
Motor vehicle insurance	337	11.0
Transport and aviation insurance	261	8.5
Tecnical insurance	306	10.0
Casualty insurance	105	3.4
All-risk insurance	741	24.3
Other insurance	132	4.4
Total	**3,057**	**100.0**

Net premiums earned followed the development on a gross basis, rising by EUR 264 million to EUR 1,329 (1,065) million.

Gross expenditures on insurance claims rose by EUR 19 million year-on-year to EUR 2,167 (2,186) million. Overall claims expenses remained within the expected range. While claims expenses for the year in the direct written insurance business, especially in the fire insurance, all-risk insurance and marine insurance lines were strongly impacted by several major losses, a significant year-on-year improvement in the result was realised from the business accepted for reinsurance. Due to the favourable change in premiums, the gross loss ratio improved by 10.7 percentage points to 71.5 (82.2) %.

Net expenditures on insurance claims rose by EUR 18 million to EUR 1,053 (1,035) million. The overall net loss ratio declined to 79.3 (97.2) %. A major factor contributing to the drop in the net loss ratio compared to the prior year was the significant decrease in reinsurance premiums, which was attributable to the reclassification of the provision for reinstatement premiums in the amount of EUR 179 million from other underwriting expenses to reinsurance premiums that was implemented in the prior year. Excluding that effect, the net loss ratio for the prior year would have been equal to 83.2%.

Gross expenses for insurance operations for the insurance business rose by EUR 66 million to EUR 569 (503) million. Relative to the significantly higher gross premiums, the gross expense ratio of 18.8 (18.9) % declined slightly, while the net expense ratio of 21.5 (25.5) % dropped by a more significant 4.0 percentage points. The combined ratios reflected the developments described above and were recorded as 90.3 (101.1) % for the gross ratio and 100.8 (122.7) % for the net ratio.

On balance, our Company was able to report a year-on-year improvement of EUR 86 million in the net underwriting result before equalisation reserve in the amount of -EUR 15 (-101) million. After additions to the equalisation reserve of EUR 81 (withdrawal of 159) million, the net underwriting result was a loss of -EUR 96 (net underwriting profit of 58) million. The reclassification of the total amount of reinstatement premiums from other underwriting expenses to reinsurance premiums was a major factor that influenced the high withdrawal in the prior year.

Liability insurance line

Direct written insurance business

	2012	2012	2011	2011
EUR millions	**Gross**	**Net**	Gross	Net
Premiums	685	291	665	126
Earned premiums	684	295	646	108
Claims expenses	528	232	493	124
Operating expenses	110	57	104	50
Net underwriting result for own account		-22		109
In %				
Loss ratio	77.2	78.6	76.4	115.2
Expense ratio	16.1	46.8	16.1	46.8
Combined (loss/expense) ratio	93.3	97.8	92.5	162.0

Gross written premiums in the industrial liability insurance line were successfully increased by EUR 20 million to EUR 685 (665) million even in an intensely competitive market environment. While profitable relationships were successfully maintained, high-loss customer relationships and relationships that are expected to be unprofitable for the foreseeable future were not renewed. The international business, in particular, contributed to the welcome premium growth.

Net premiums earned increased by a significant EUR 187 million to EUR 295 (108) million. Reinsurance premiums for the financial year were appreciably lower year-on-year, since the effect of the reclassification of reinstatement premiums from other underwriting expenses to reinsurance premiums that was implemented in the prior year were no longer felt.

Gross expenses for claims incurred rose by EUR 35 million to EUR 528 (493) million. Claims expenses for the year increased by EUR 14 million to EUR 571 (557) million. Owing to the disproportionate increase of gross premiums in relation to the claims expenses for the year, the loss ratio for the year dropped by 2.7 percentage points to 83.5 (86.2) %. The run-off result declined by EUR 21 million to EUR 43 (64) million, which was largely due to retroactive appropriations to reserves for potential major losses. Owing to the favourable trend for premiums, the gross loss ratio grew only by a slight 0.8 percentage points to 77.2 (76.4) %.

Net expenditures on insurance claims rose by EUR 108 million to EUR 232 (124) million, since reinsurance recoveries were lower than a year earlier as a result of the less than proportionate reinsurance structure. The major factor contributing to the significant reduction in the net loss ratio by 36.6 percentage points to 78.6 (115.2) % was the significant year-on-year decrease in reinsurance premiums, which was attributable to the reclassification of the provision for reinstatement premiums in the amount of EUR 132 million from other underwriting expenses to reinsurance premiums that was implemented in the prior year. Excluding this effect, the net loss ratio for the prior year would have been equal to 51.7%.

Expenses for insurance operations rose to EUR 110 (104) million on a gross basis and to EUR 57 (50) million on a net basis. Owing to the growth in premiums, the gross expense ratio remained constant at 16.1 (16.1) %. The net expense ratio, on the other hand, dropped significantly to 19.2 (46.8) %, which was mainly attributable to the special effect arising from the reclassification of the reinstatement premium in the prior year.

The combined ratio reflected the developments described above and was equal to 93.3 (92.5) % for the gross ratio and 97.8 (162.0) % for the net ratio. The overall result is a net underwriting loss of EUR -22 (profit of 109) million, which includes an addition to the equalisation reserve in the amount of EUR 27 (withdrawal of EUR 60) million.

Fire insurance

Direct written insurance business

	2012	2012	2011	2011
EUR millions	**Gross**	**Net**	**Gross**	**Net**
Premiums	154	25	211	28
Earned premiums	161	31	225	38
Claims expenses	228	66	152	8
Operating expenses	37	15	39	11
Net underwriting result for own account		-41		27
In %				
Loss ratio	141.4	215.0	67.6	20.5
Expense ratio	22.8	49.2	17.3	29.9
Combined (loss/expense) ratio	164.2	264.2	84.9	50.4

Gross premium income from industrial fire and fire business interruption insurance declined in the financial year to EUR 154 (211) million. The deciding factor for the reduction in premiums was the continuing conversion, started two years ago, from pure industrial fire and extended coverage insurance to all-risk insurance. Moving in parallel with gross premiums, net premiums earned declined to EUR 31 (38) million.

Gross expenditures on insurance claims grew by EUR 76 million to EUR 228 (152) million. This was attributable to a sharp increase in claims expenses for the financial year, which was significantly affected by a major loss equal to EUR 148 million. The run-off result, on the other hand, improved slightly over the prior year. The gross loss ratio climbed steeply by a corresponding 73.8 percentage points to 141.4 (67.6) %.

Gross expenditures on insurance claims rose by EUR 58 million to EUR 66 (8) million. The significant increase compared to the exceedingly favourable performance a year earlier is largely attributable to the significantly skewed distribution of losses toward major and maximum losses. Owing to a continued favourable run-off result, part of these losses could be offset. The net loss ratio climbed nevertheless by 194.5 percentage points to 215.0 (20.5) %.

Gross expenses for insurance operations were further reduced in the financial year just ended to EUR 37 (39) million. Relative to the lower growth premiums, the gross loss ratio rose to 22.8 (17.3) %. Expenses for insurance operations for own account grew to EUR 15 (11) million. Owing to the decrease in premium income, the net expense ratio rose to 49.2 (29.9) %. The combined ratio reflected the aforementioned developments, rising to 164.2 (84.9) % on a gross basis and to 264.2 (50.4) % on a net basis.

On balance, this resulted in a net underwriting loss of -EUR 41 (profit of 27) million, which included a withdrawal from the equalisation reserve in the amount of EUR 15 (7) million.

Motor vehicle insurance

Direct written insurance business

	2012	2012	2011	2011
EUR millions	**Gross**	**Net**	**Gross**	**Net**
Premiums	330	301	303	276
Earned premiums	331	301	300	273
Claims expenses	273	255	261	250
Operating expenses	62	55	55	51
Net underwriting result for own account		-23		-33
In %				
Loss ratio	82.4	84.9	86.9	91.7
Expense ratio	18.6	18.4	18.5	18.5
Combined (loss/expense) ratio	101.0	103.3	105.4	110.2

Owing to the continued hardening of the market, the gross written premiums in the motor vehicle insurance line could be increased in the existing as well as the new business by a significant EUR 27 million to EUR 330 (303) million. HDI-Gerling Industrie Versicherung AG was able to continue and strengthen its strong market position in the fleet insurance category in particular. Net premiums earned followed the pattern of gross premiums, growing to EUR 301 (273) million while the reinsurance structure remained virtually unchanged.

Gross expenditures on insurance claims rose at a less than proportionate rate to EUR 273 (261) million. However, this was characterised by divergent trends. Despite a higher burden of major losses both the increase in premium levels as well as the higher premium quality were important drivers of the lower loss ratio for the financial year. In line with slightly lower run-off profits, the gross loss ratio consequently declined by a noticeable 4.5 percentage points to 82.4 (86.9) %.

Net expenditures on insurance claims rose to EUR 255 (250) million. The movement of the let loss ratio followed the gross loss ratio and dropped by 6.8 percentage points to 84.9 (91.7) %.

Gross expenses for insurance operations rose to EUR 62 (55) million. The main driver here was the increase in provisions and adjustments—in proportion to premiums—in connection with allocated costs from other service units of the Company. In relation to the significantly higher gross premiums, the gross expense ratio remained virtually constant at 18.6 (18.5) %. The net expense ratio of 18.4 (18.5) % changed in line with the gross ratio. The combined ratio reflected the developments described above, declining to 101.0 (105.4) % on a gross and to 103.3 (110.2) % on a net basis.

Based on the favourable business performance, the net underwriting loss recorded after additions to the equalisation reserve of EUR 12 (5) million was equal to -EUR 23 (- 33) million.

Marine and aviation insurance

Direct written insurance business

	2012	2012	2011	2011
EUR millions	**Gross**	**Net**	**Gross**	**Net**
Premiums	213	160	194	143
Earned premiums	211	159	191	147
Claims expenses	136	108	178	148
Operating expenses	49	43	48	42
Net underwriting result for own account		-11		-8
In %				
Loss ratio	64.6	67.9	93.2	100.9
Expense ratio	23.3	26.9	25.3	28.7
Combined (loss/expense) ratio	87.9	94.8	118.5	129.6

Gross premium income from the marine and aviation insurance rose by EUR 19 million in the financial year to EUR 213 (194) million. The classes within the marine and aviation line successfully held their ground in a sharply competitive environment. In the marine insurance business, significant premium growth was achieved during the financial year as a result of new business, while the core business in the aviation line could be further expanded by the acquisition of new relationships. Net premiums earned matched the trend for gross premiums, rising by a total of EUR 12 million to EUR 159 (147) million.

Total gross expenditures on insurance claims declined by EUR 42 million to EUR 136 (178) million. The marine insurance line recorded an increase in claims expenses for the financial year owing to a need for increased reserves for individual major losses in the wake of natural disasters. This was more than offset by an improvement in the results from the settlement of pre-existing losses (Altschäden). The improvement in run-off results was achieved by the more than average number of claims settled on favourable terms by way of compromise. Recoveries from third parties also increased. The aviation insurance line reported a positive business performance without special burdens from major losses. It also realised a significant year-on-year improvement in run-off results; in the comparison period for the prior year, retroactive appropriations to reserves for major losses had been required for the aviation insurance line. Due to the favourable business performance, the gross loss ratio declined by significant 28.6 percentage points to 64.6 (93.2) %.

Net expenses for claims incurred also declined by EUR 40 million to EUR 108 (148) million, thus matching the development on a gross basis. Owing to the existing reinsurance structure, the run-off effects described above also had a favourable effect on the net loss ratio for the marine insurance line. The ratio also dropped significantly to 67.9 (100.9) %.

Gross expenses for insurance operations grew to EUR 49 (48) million. Relative to the significantly higher gross premiums, the gross expense ratio dropped slightly to 23.3 (25.3) %. The net expense ratio followed this trend and also declined slightly to 26.9 (28.7) %.

The combined ratio reflected the above trend, declining overall to 87.9 (118.5) % on a gross basis and to 94.8 (129.6) % on a net basis.

After additions to the equalisation reserve in the amount of EUR 18 (withdrawal of EUR 35) million, the net underwriting result was a loss of -EUR 11 (-8) million.

Technical insurance

Direct written insurance business

	2012	2012	2011	2011
EUR millions	**Gross**	**Net**	**Gross**	**Net**
Premiums	204	74	192	75
Earned premiums	199	73	186	74
Claims expenses	129	53	127	48
Operating expenses	41	8	42	10
Net underwriting result for own account		11		15
In %				
Loss ratio	64.7	72.9	68.5	65.7
Expense ratio	20.8	10.6	22.4	13.6
Combined (loss/expense) ratio	85.5	83.5	90.9	79.3

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

Gross written premiums in the engineering insurance line grew by EUR 12 million in the year under review to EUR 204 (192) million. The primary driver here was mainly the favourable change in premiums due to new business in the installation insurance line. Overall premium growth in engineering insurance matched market levels. However, due to the increase in reinsurance premiums in response to the increased internationalisation of the insurance line and retrocession within the network, net premiums earned dropped slightly to EUR 73 (74) million.

Gross expenditures on insurance claims grew to EUR 129 (127) million, as the financial year was impacted by a major loss—from a hurricane—in the construction services line. The run-off result, which had decreased year-on-year, was strongly marked by the need for retroactive allocations to reserves for a major loss in the international business of the London branch office. Owing to the favourable trend in premiums, the gross loss ratio declined to 64.7 (68.5) %.

Net expenditures on insurance claims rose by EUR 5 million to EUR 53 (48) million owing to the major loss referred to above and the need for a retroactive allocation to reserves in London. The net loss ratio rose by 7.2 percentage points to 72.9 (65.7) %.

Gross expenses for insurance operations dropped to EUR 41 (42) million. Relative to the increased gross premium income, the gross loss ratio declined to 20.8 (22.4) % and the net loss ratio to 10.6 (13.6) %. The combined ratios reflected the developments described above and were recorded as 85.5 (90.9) % for the gross ratio and 83.5 (79.3) % for the net ratio.

Due to the increase in expenditures on insurance claims, the net underwriting result declined by EUR 4 million to EUR 11 (15) million.

Casualty insurance

Direct written insurance business

	2012	2012	2011	2011
EUR millions	**Gross**	**Net**	Gross	Net
Premiums	96	66	70	60
Earned premiums	97	67	72	61
Claims expenses	45	36	45	43
Operating expenses	23	17	18	16
Net underwriting result for own account		2		1
In %				
Loss ratio	46.6	53.5	62.5	69.6
Expense ratio	23.3	25.7	24.7	26.8
Combined (loss/expense) ratio	69.9	79.2	87.2	96.4

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

In the financial year, the casualty insurance line achieved a welcome increase in gross written premiums by EUR 26 million to EUR 96 (70) million. The change is largely attributable to the acquisition of two major customers as well as premium increases resulting from a higher number of persons insured under group accident insurance policies. Net earned premiums largely paralleled the development of gross premiums but grew at a slower rate to EUR 67 (61) million.

Net expenditures on insurance claims remained virtually constant at EUR 45 (45) million. Higher claims expenses during the financial year, which were marked by projected losses under a fronting agreement in the international group accident insurance class, were partly offset by the year-on-year improvement in run-off results. In the clinical trials insurance class, on the other hand, gross expenditures on insurance claims recorded a welcome decrease from the prior year due to a lower burden from major losses. Owing to the favourable change in premiums, the overall gross loss ratio improved by 15.9 percentage points to 46.6 (62.5) %.

Net expenditures on insurance claims declined to EUR 36 (43) million, since the reinsurers had a share in larger losses in the clinical trials insurance business and therefore realised slight run-off losses.

Expenses for insurance operations recorded a moderate increase to EUR 23 (18) million. Due to the favourable change in premiums, the gross expense ratio dropped to 23.3 (24.7) %. The net expense ratio followed this trend and also declined slightly to 25.7 (26.8) %.

The combined ratio reflected the development described above, declining to 69.9 (87.2) % on a gross and to 79.2 (96.4) % on a net basis. After additions to the equalisation reserve in the amount of EUR 11 (1) million, the net underwriting profit for the financial year was equal to EUR 2 (1) million.

All-risk insurance

Direct written insurance business

	2012	2012	2011	2011
EUR millions	**Gross**	**Net**	**Gross**	**Net**
Premiums	329	68	237	71
Earned premiums	313	58	206	57
Claims expenses	333	47	172	73
Operating expenses	45	10	35	14
Net underwriting result for own account		1		-28
In %				
Loss ratio	106.2	81.2	83.2	128.9
Expense ratio	14.2	17.7	17.0	24.2
Combined (loss/expense) ratio	120.4	98.9	100.2	153.1

The all-risk insurance line was able to record a significant increase in gross written premiums by EUR 92 million to EUR 329 (237) million, which was partly due to the continuing conversion from pure industrial fire and extended coverage insurance to all-risk concepts that had begun two years ago. The underwriting of new business, predominantly outside of Germany, also produced higher premium income. Net premiums earned grew somewhat more slowly to EUR 58 (EUR 57) million. The deciding factor here was the significant increase in reinsurance premiums in the international programme business and the associated retrocession.

Gross expenditures on insurance claims climbed EUR 161 million to EUR 333 (172) million. The main driver was the growth of claims expenses for the financial year, which were severely impacted by four major losses accounting in aggregate for EUR 110 million. The gross loss ratio reflected a corresponding noticeable increase to 106.2 (83.2) %.

Net expenditures on insurance claims fell to EUR 47 (73) million. The reinsurance coverage for part of the aforementioned major losses was not proportionate, so that the net loss ratio declined by a significant 47.7 percentage points to 81.2 (128.9) %.

Gross expenses for insurance operations for the financial year grew to EUR 45 (35) million. The major driver was the increase in commissions in proportion to premiums. Due to the favourable change in premiums, the gross expense ratio declined to 14.2 (17.0) %. The net expense ratio followed this trend and declined to 17.7 (24.2) %. The combined ratios reflected the developments described above and were recorded at 120.4 (100.2) % for the gross ratio and 98.9 (153.1) % for the net ratio.

Owing to the growth in premiums, the all-risk insurance line was able to report a strong improvement in net underwriting results to EUR 1 (loss of - 28) million.

Other insurance

Direct written insurance business

	2012	2012	2011	2011
EUR millions	**Gross**	**Net**	Gross	Net
Premiums	128	73	112	62
Earned premiums	124	73	111	60
Claims expenses	77	72	31	20
Operating expenses	32	22	29	21
Net underwriting result for own account		-18		19
In %				
Loss ratio	62.1	98.5	27.4	32.8
Expense ratio	26.0	29.4	26.4	34.8
Combined (loss/expense) ratio	88.1	127.8	53.8	67.6

Those insurance categories that, in light of their business volumes, are not required to be reported separately, are combined under other insurance. The most important aspects of this line of business relate to industrial risks in the all-risk and extended coverage (EC) insurance classes. In addition, the multi-line and multi-risk products, which span across insurance lines, are also included under other insurance.

Gross written premiums for other insurance lines recorded a gain of EUR 16 million in the financial year to a total of EUR 128 (112) million. The individual insurance classes were marked by a variety of factors. The other property damage liability insurance line achieved an increase in gross written premiums equal to EUR 10 million. The main reason for the rise in premiums was an existing insurance portfolio that was taken over toward the end of the prior year, so that the full effect in terms of written premiums was realised in the current financial year. In connection with extended coverage, the effects of the continuing conversion of contracts from pure industrial fire and extended coverage insurance to all-risk concepts that was begun two years ago could be offset by higher premium income resulting from new business. Net premiums earned followed the development on a gross basis, rising by EUR 13 million to EUR 73 (60) million.

Gross expenditures on insurance claims climbed by a total of EUR 46 million to EUR 77 (31) million. While the overall claims expenses for the financial year suffered an increase of EUR 8 million, which was largely marked by a major loss in the multi-risk insurance area, the recorded run-off profit showed a significant year-on-year decrease. In the prior year, the reversal of provisions for unknown losses incurred but not reported produced significant run-off profits in the area extended coverage insurance. The overall gross loss ratio climbed by 34.7 percentage points to 62.1 (27.4) %.

Net expenditures on insurance claims followed the development on a gross basis, rising by EUR 52 million to EUR 72 (20) million. The net loss ratio climbed by significant 65.7 percentage points to 98.5 (32.8) %.

The gross expenses for insurance operations were equal to EUR 32 (29) million, thus rising only slightly. Owing to the favourable trend for premiums, the gross expense ratio nevertheless decreased slightly to 26.0 (26.4) %. Net expenses for insurance operations of EUR 22 (21) million reflected a proportional change. The net expense ratio declined to 29.4 (34.8) %. The combined ratios reflected the trends described above and were equal to 88.1 (53.8) % as the gross ratio and 127.8 (67.6) % as the net ratio.

Due to the sharp increase in claims expenses, the other insurance classes generated an overall net underwriting loss of -EUR 18 (profit of 19) million.

Business accepted for reinsurance

	2012	2012	2011*	2011*
EUR millions	**Gross**	**Net**	**Gross**	**Net**
Premiums	918	270	736	259
Earned premiums	912	273	721	248
Claims expenses	419	184	727	321
Operating expenses	171	59	132	56
Net underwriting result for own account		4		-45
In %				
Loss ratio	45.9	67.5	100.9	129.3
Expense ratio	18.7	21.7	18.4	22.5
Combined (loss/expense) ratio	64.6	89.2	119.3	151.8

**Due to an accounting policy change, the year 2011 includes thirteen months as a one-time effect. To that extent the individual items are only comparable to a limited extent.*

The business accepted for reinsurance predominantly represents the share of foreign premiums from international insurance programmes for which HDI-Gerling Industrie Versicherung AG acts as the lead or sole underwriter for its customers 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 918 (736) million. The major part of this total, or EUR 412 (250) million, was attributable to the all-risk insurance line (incl. business interruption), followed by liability at EUR 252 (222) million and engineering insurance at EUR 102 (86) million. The noticeable increase in gross premiums in the all-risk insurance lines was largely due to the continuing conversion of pure industrial fire and extended coverage insurance agreements to all-risk concepts that begun two years ago. New business also saw an increase.

The growth in net premiums earned of EUR 25 million to EUR 273 (248) million was noticeably smaller when compared to gross earned premiums. The deciding factor for this was the noticeable increase in reinsurance premiums in the all-risk insurance line. A significant share of the increase in gross premiums was related to the international programme business. In cases where it acts as lead underwriter in the international programme business, the part of the premium that HDI-Gerling Industrie Versicherung AG fronts for the participating insurers abroad and passes on to them by way of retrocession falls under reinsurance. This must be seen as the reason for the increased share of reinsurance.

Gross expenditures on insurance claims rose by an appreciable EUR 308 million to EUR 419 (727) million. On the one hand, claims expenses for the financial year were less impacted by major claims than in the prior year. And on the other hand, it was possible to report noticeably improved run-off results. In the fire insurance line, the reversal of provisions for claims incurred but not yet reported was a major factor, as was the continued conversion of pure fire and extended coverage insurance to all-risk products. The loss run-off for last year's natural catastrophes in Japan and Thailand had an additional positive effect on run-off results. The gross loss ratio thus fell sharply by 55.0 percentage points to 45.9 (100.9) %. Net expenditures on insurance claims declined less sharply by EUR 137 million to EUR 184 (321) million. The net expense ratio followed this trend and also declined appreciably to 67.5 (129.3) %.

Expenses for insurance operations for the insurance business rose by EUR 39 million to EUR 171 (132) million on a gross basis. Due to the change in premiums, the gross expense only rose slightly to 18.7 (18.4) %. The increase in net expenses was an even more moderate rise of EUR 3 million to EUR 59 (56) million. The net loss ratio declined by 0.8 percentage points to 21.7 (22.5) %.

In total, the business accepted for reinsurance showed a net underwriting profit of EUR 4 (loss of -45) million. This includes an addition to the equalisation reserve of EUR 30 (withdrawal of 66) million.

Business accepted for reinsurance – All-risk insurance line

	2012	2012	2011	2011
EUR millions	**Gross**	**Net**	**Gross**	**Net**
Premiums	412	99	250	69
Earned premiums	408	93	218	51
Claims expenses	307	92	248	71
Operating expenses	69	14	40	13
Net underwriting result for own account		-12		-32
In %				
Loss ratio	75.2	99.5	113.8	140.1
Expense ratio	16.9	15.6	18.5	25.9
Combined (loss/expense) ratio	92.1	115.1	132.3	166.0

Business accepted for reinsurance – Liability insurance line

	2012	2012	2011	2011
EUR millions	**Gross**	**Net**	**Gross**	**Net**
Premiums	252	89	222	114
Earned premiums	254	93	219	108
Claims expenses	83	59	260	135
Operating expenses	43	23	33	19
Net underwriting result for own account		-12		8
In %				
Loss ratio	3.7	63.0	118.9	125.0
Expense ratio	16.7	25.0	15.2	17.8
Combined (loss/expense) ratio	49.7	88.0	134.1	142.8

Non-insurance business

Investment results

During the year under review, current investment income grew to EUR 244 (232) million. This is primarily attributable to higher income from equity investments. In addition, slight gains were recorded for the direct portfolio of fixed-interest securities, while returns on a bond fund declined year-on-year due to significantly lower distributions (and correspondingly higher amounts retained for reinvestments in the fund itself). These income items compare to current expenses of EUR 16 (28) million for a net current investment income of EUR 228 (203) million. The average rate of return was 3.7 (3.3) %.

Net realised gains on the disposal of investments for the year under review were equal to EUR 13 (7) million. Close to one-third of the gains on the disposal of investments of EUR 15 (32) million were attributable to equities while just short of 60% were attributable to fixed-interest securities. In view of the noticeably smaller losses on the disposal of EUR 2 (25) million, net realised gains consequently improved by EUR 6 million.

The net balance of write-downs/reversals of write-downs was equal to EUR 27 (loss of -8) million, which is a significant improvement over the prior year. The primary driver for this change was the reversal of write-downs on a bond fund, which had been recognised in prior years and which needed to be reversed since the bond had recovered its value. In addition, significantly fewer write-downs were recognised in relation to equities and bonds as markets slowly stabilised in 2012.

The investment result before the deduction of interest income on premium funds and provisions was equal to EUR 268 (202) million. The total net return for the reporting period reached 4.3 (3.3) %.

Other net income/expenses

Other net income/expense for the Company in the current financial year was equal to a net expense of -EUR 51 (-105) million. In the prior year, other net income/expense 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 of the London branch office in the local London insurance market, as well as write-downs of reinsurance receivables by an amount of EUR 15 million.

A write-down in the amount of EUR 6 million was applied to reinsurance receivables during the financial year. The net balance of exchange rate gains and losses for the financial year was a net loss of -EUR 7 (-17) million.

Net profit/loss of HDI-Gerling Industrie Versicherung AG

	2012	2011
Figures in EUR million		
Underwriting results for own account	-96	58
Total investment income (incl. underwriting interest)	268	201
Other net income/expenses	-51	-105
Net income/loss from ordinary activities	**121**	**154**
Net profit/loss from extraordinary items*	-6	7
Taxes	33	28
Net profit/loss transferred to Talanx AG	**82**	**133**

** The breakdown of net profit/loss from extraordinary items is explained on page 79 of this report in the notes to the financial statements.*

In the financial year, HDI-Gerling Industrie Versicherung AG was able to transfer a net profit in the amount of EUR 82 (133) 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 declined by EUR 30 million year-on-year in 2012 and was equal to EUR 6,125 (6,155) million by year-end.

As in prior years, the investments were primarily composed of fixed-interest securities at 61.2 (63.8) %, bond funds at 14.7 (11.7) % and investments and shares in affiliated companies accounting for 11.9 (10.3) %. The allocation to equities at the end of the year under review was 0.6 (1.0) %.

Shares in affiliated companies and equity investments rose by EUR 96 million to EUR 729 (633) million in the course of the financial year. This increase was largely driven by activities related to the globalisation strategy. On the one hand, the existing stake in PVI Holdings in Vietnam was increased to 31,8 (25) % (+ EUR 22 million), and on the other hand, HDI-Gerling Industrie Versicherung AG acquired a share in Magma HDI General Insurance Co. Ltd. equal to an interest of 26% (+ EUR 24 million). In 2012 private equity activities were further consolidated and expanded in a new vehicle, HG-I Alternative Investment Beteiligungs-GmbH Co. KG. In the fixed-interest segment, new investments were made in bearer bonds with a high credit rating as well as in a build-up of bond fund holdings; while the exposure to “high yield” and “investment grade CLOs” was also moderately increased. The quality of the fixed-interest securities with an ave-rage rating of A declined slightly in comparison to the prior year (A+).

In addition, three new special funds were established in the course of the year, which invest primarily in commodities and equities (total volume EUR 85 million).

Disposals occurred mainly in the registered securities and bonds segment. In part, funds were not reinvested in this asset class when securities matured. In addition, the holdings in this segment were also reduced by early disposals of securities to further the implementation of the realignment. The volume of fixed-term and time deposits also decreased quite appreciably compared to the prior year, driven also by the sharply lower interest rates in this segment.

The market value of the investments as at the balance sheet date was equal to EUR 6,808 million. In this connection, the valuation reserves continued to increase to a total of EUR 684 (503) million owing to the further drop in the level of interest rates.

Underwriting provisions

Underwriting provisions rose by EUR 36 million to EUR 4,985 (4,949) million. This item is largely related to insurance claims not yet settled.

Our Company operates on an international scale and therefore recognises underwriting liabilities in foreign currencies. The impact of exchange rate movements on the level of provision for losses recognised as at 1 January of the financial year as determined by the translation of provisions denominated in foreign currencies at reference date exchange rates was a reduction of EUR -18 million in the total amount to be recognised as provision for losses. The movement of underwriting equity and liability items denominated in foreign currencies are covered by matched foreign currency items on the asset site on an on-going basis.

Financial position

The Company realises incoming cash flows from ongoing premium income, investment income and the return flows from investments of capital. According to the current liquidity planning, which covers projected changes in liquidity for the coming twelve months, the cash flows required to meet current payment obligations is assured.

Please refer 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 composition of the above, as well as other line items on the balance sheet, are set out in the notes to the financial statements.

Personnel and social report

The year 2012 was characterised, above all, by the initial public offering of Talanx AG, but further economic, technological, cultural and social changes in the entire corporate environment have also marked the year 2012 and the work of each individual staff member.

Throughout, our highly skilled, performance-oriented employees, acting on their own responsibility, have been the deciding success factor for HDI-Gerling Industrie Versicherung AG. To recruit and develop such employees, to help them increase their skills on an on-going basis and to gain their long-term loyalty are key goals of the human resources work that is provided by Talanx Service AG for the entire Talanx Group, and thus also for HDI-Gerling Industrie Versicherung AG. To this end, on-going skills development and the strategic development and promotion of employees as well as an employee-oriented management style are critically important.

Through needs-oriented measures to enhance their technical and broad-based skills, employees at HDI-Gerling Industrie Versicherung AG are systematically prepared for their tasks and introduced to new challenges, so that they are able to meet the needs of our customers as well as the strategic goals of the Company.

Strategically-oriented career development at the Group has continued its successful work. In the year under review—as in prior years—staff members, employees showing potential and executive staff members have systematically acquired qualifications for their current or future, more challenging, assignments through diverse training measures and career development programmes. Skill-building measures include project manager training and personal development initiatives, among others. Given equal qualifications, management positions are preferably filled by in-house candidates.

Enhancing the qualifications of our employees for current or future assignments is essential to ensuring that they remain employable in times of rapid change. The offering of training and continuing education opportunities is continuously adapted to current and future requirements. A broad range of insurance and other specialised seminars are offered, as are training in methods, conduct and management, together with IT and language courses.

The various trainee programmes were continued in 2012. The trainee programmes will be continued in 2013 in order to develop a sufficient number of employees with the relevant qualifications with the aim of ensuring the continued success of our business in the future as other staff members leave upon reaching retirement age.

The apprenticeship programmes are also important to ensure the next generation of employees. An apprenticeship at the Talanx Group is highly valued. The apprenticeship training places great emphasis on an action-oriented approach and independent work within the team. Apprentices rotate through all companies across the Talanx Group, so that they are ready for flexible placements later. For years, now, this has kept the training quotas as well as our permanent placement rates at a high level. Since 2005, the Talanx apprenticeship programme has been awarded an educational prize from the German insurance industry on a total of four occasions. In order to put the attractive training opportunities at Talanx in a more favourable position with high school students, a new personnel marketing campaign was initiated in 2012, which featured our own apprentices as models.

The twin track of studies for a bachelor of arts (business management, insurance, sales) as well as a bachelor of science (business information technology) was further enhanced as well. To this end, cooperation with FHDW (University of Applied Sciences) Hannover and Bergisch Gladbach was expanded. To strengthen the international approach, work-study rotations in international subsidiaries or branches will increasingly be incorporated into the course of studies.

The Potential Development Program (PEP) for future technical specialists and management staff as well as project managers was continued and the conceptual design was revised. Skills training to qualify as project manager, which has meanwhile become established, was also continued in 2012 and implemented throughout the Group. In addition to the management and technical career track, the project management career track is assuming an increasingly important role at Talanx.

Targeted advancement through work-time models that are properly aligned with the specific phases of life, such as part-time assignments or telecommuting, as well as assistance in the search for adequate child care placement are designed to gain the loyalty of qualified woman and to help them develop their management potential to an optimal level. We expect women to gain greater access to all levels of management as a result of all these measures.

In the year under review, HDI-Gerling Industrie Versicherung AG had 1,962 (1,919) employees. The average age of the employees was 44.6 (44.5) years. The part-time employment ratio was 12.5 (11.8) %. The average length of service at the Company was 16.3 (16.1) 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, organisational 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. Medium-sized companies and Groups rely on its more than 100 years of experience, its specific functional know-how and comprehensive expertise in realising 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 relationships are based on long-standing contacts that are characterised by reliable cooperation and mutual trust - be it in connection with the implementation of risk management activities or of claims adjustment.

In working with customers, HDI-Gerling Sicherheitstechnik GmbH plays an ever more important role in the field of loss prevention. Together with engineers and scientists from various disciplines, this subsidiary focuses especially on the development of risk assessment tools and risk mitigation strategies.

In contrast to industry trends, HDI-Gerling Industrie Versicherung AG continues to emphasise closeness to its insurance customers. Permanently employed regional staff guarantees high quality and continuity by providing direct advisory services to companies. The decentralised regional presence across nation-wide locations ensures an efficient decision-making process and support services near customer locations.

HDI-Gerling Industrie Versicherung AG also continues consistently and successfully to work with high-performing brokers. In 2012, the "In Motion" event was once again attended by more than 80 representatives of major brokerage firms. In 2012, this knowledge exchange and communications forum, which was started in 2009, offered an extensive discussion about the always relevant topic of "accident causes and accident prevention strategies".

The Marienburger Marklerforum (Marienburger brokers' forum), which has been conducted since 2005, was once again a complete success this year. As in previous years, guests at the Villa Marienburg in Cologne included owners, managing directors and/or board members of large broker partners. After a series of presentations by board members responsible for various industries on the key topic "HDI Global Network: Current Status and Future Developments in Providing World-Wide Insurance Solutions", followed by a round of discussions, the evening offered ample time for specialised discussions.

A first "Sachtag HDI-Gerling Industrieversicherung" one-day conference with brokers connected with the Company was held in April 2012. Under the motto "continuity in times of change", this day offered the opportunity to attend interesting presentations on the topics of loss prevention, natural catastrophes and reinsurance risks.

The successful introduction of the KLIMArisk weather risk insurance product shows that HDI-Gerling Industrie Versicherung AG has once again pointed toward new directions in the market. It allows companies to protect themselves against the financial impact 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, contract penalties or lost sales caused by climate and weather conditions. A number of policy holders—for instance in the tourist industry or energy suppliers—are now using this product as a marketing tool.

Optimal customer service requires dedicated commitment: One example is the special skills training and certification of employees who are then authorised to act in the interests of the customer in connection with offshore installations. This requires support as needed during the planning of the installations but also in a loss event.

Based on proven IT liability concepts, HDI-Gerling Industrie Versicherung AG now offers "CLIC.IT" as specialised insurance protection for software developers and IT service providers. In terms of scope and structure, the insurance terms and conditions were specifically adapted to the needs of companies in the non-technical and/ or commercial realm.

The implementation of the Centers of Competence (CoC) enables the qualified monitoring of technological change in an inter-disciplinary fashion across insurance lines. The Risk Engineering, Claims and Operations departments work together to develop common solution approaches for our customers. The aim of the CoCs is to ensure the exchange of expertise between various insurance line divisions, to identify industry trends and jointly to develop individual underwriting solutions. The “Automotive” and “Renewable Energy” CoC has established itself and is continuing through diverse workshops and the development of individual solutions adapted to industry requirements. Know-how transfer across insurance lines will also be established as a CoC for other industries in the future.

For the fourth time, the industrial insurer won first place in the “2012 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 products offered by HDI-Gerling Industrie Versicherung AG are consistently persuasive to industrial customers.

HDI-Gerling Industrie Versicherung AG is known as an industrial insurer in the—national and international—markets and perceived as a strong brand of the Talanx Group. Customers can continue to rely on its special expertise in the future: for individual insurance solutions, for risk and claims management. HDI-Gerling Industrie Versicherung AG stands for competence and experience.

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 recognise, assess and manage risks but also to identify opportunities.

HDI-Gerling Industrie Versicherung AG is incorporated into the pre-application process for the internal model of HDI V.a.G.

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 organisational framework for the Company’s risk management has been set out using a role concept that defines and delimits the rights and responsibilities. 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 utilisation 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 organisational units, combined with the regular monitoring of limit utilisation. 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, which are regularly held by the divisions and the corporate functions, rely on systems-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	
2012	79.3
2011	97.2
2010	75.2

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	
2012	7.9
2011	7.7
2010	7.7

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 at the balance sheet date totalled EUR 107.8 million. This represents 22.0% of gross receivables. Over the past three years, HDI-Gerling Industrie Versicherung AG was required to write off an average of 3.9 (5.3) % of receivables on reinsurance business as at the balance sheet date.

Investment risk

Investment risks encompass primarily market risk, credit risk and liquidity risk.

Market risk arises from potential losses due to unfavourable 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 on-going 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 characterised, 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 (Investment Regulation; Anlagenverordnung - AnlV) 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%	-15.5
Fixed-interest securities and other loans	
Rise in yield + 100 basis points	-183.4
Decline in yield - 100 basis points	175.5

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.

Figures in EUR millions, %		
Bearer Bonds:		
Rating AAA	746	50.7
Rating AA	279	19.0
Rating A	199	13.5
Rating BBB	166	11.3
Rating < BBB	80	5.5
Total	1,470	100.0
Registered bonds/ promissory note loans:		
Rating AAA	743	38.3
Rating AA	975	42.1
Rating A	379	15.0
Rating BBB	145	4.1
Rating < BBB	12	0.5
n.r.	5	0.2
Total	2,259	100.0
Fixed income funds:		
Rating A	841	100.0
Total	841	100.0
Loans:		
Rating BBB	15	71.4
Rating < BBB	6	28.6
Total	21	100.0
Grand total:		
Rating AAA	1,489	32.4
Rating AA	1,254	27.3
Rating A	1,420	30.9
Rating BBB	326	7.1
Rating < BBB	99	2.1
n.r.	5	0.2
Total	4,593	100.0

Government bonds and other fixed-interest securities from the euro periphery states are generally subject to a heightened default risk. Owing to the Company's conservative investment policy, the exposure to the so-called GIIPS countries (Portugal, Ireland, Italy, Greece and Spain) and the resulting risk can be considered manageable.

Exposure to GIIPS countries	Market value in EUR million	Carrying amount in EUR million
Griechenland	3,1	2,2
Irland	44,9	41,3
Italien	131,9	125,8
Portugal	0,0	0,0
Spanien	70,0	68,3
Gesamt	249,9	237,6

The existing exposures from investments in the GIIPS countries were further reduced in comparison to the prior year and are currently equal to app. 4.6% of total investments. As of the balance sheet date, there were virtually no hidden liabilities (Stille Lasten). Due consideration is given to the risks within the framework of the Company's risk management system.

Key liquidity indicators are reviewed and reported quarterly to monitor liquidity risks. Compliance with the minimum and maximum limits set by the Chief Financial Officer is tested in connection with the maintenance of 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 centre which is operated by Talanx Systeme AG under a service agreement, as well as by contingency plans.

Process risk is mitigated by the internal management and control system. 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 programmes 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 organisational terms, the handling of these issues is supported by appropriate organisational 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 risk
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 jeopardise the continued existence of HDI-Gerling Industrie Versicherung AG. The Company exceeded the solvency requirements.

Outlook

Economic climate

The sovereign debt crisis continues to dominate the economic climate in the Eurozone. The intervention of the ECB in the capital markets—even if only as a verbally announced intent at this time—has had a positive effect and produced some easing, not least through public perceptions. The deciding factor will be the extent to which reports of structural successes from the euro countries in crisis can reinforce the recently improving sentiment. At best, we are seeing a tentative trend toward stabilisation in Europe, which might strengthen in the current year.

The recently improved US data is certainly good news for the global economy. But the need for budget consolidation grows ever more pressing even in the US, which was demonstrated by the tense negotiations surrounding the fiscal cliff at the end of the year. Since a rising trend is emerging in the US, the United States may once again serve as the main driver of global economic growth in 2013. The global economy could also be strengthened by developments in the emerging countries, where economic growth is likely to gain momentum—especially in China.

In our estimate, the continued very expansive monetary policy will not lead to a significant increase in the rates of inflation in the current year, since the liquidity induced by the central banks has not yet flowed through to the real economy. The danger of inflation will only become pressing when economic activity gains significant momentum.

Capital markets

Even if market sentiment at year-end can be described as a kind of positive scepticism, the sustained stabilisation of the general risk situation remains uncertain. The easing of the Basel 3 liquidity guidelines have, in fact, relieved some of the pressure to act on the banks, and in addition the lower refinancing needs of banks and corporations meet with continued high investor demand for investments and returns. But the structural problems of the euro debt crisis persist. Brush fires may conceivably erupt in various places, for instance as a result of unexpected decisions by the ratings agencies, or by political actors. We therefore expect that returns and risk premiums will remain volatile and that interest rates will continue to move around a very low level for the foreseeable future. For now, the ECB has adopted a wait-and-see stance with respect to upcoming interest rate decisions. We are expecting a reduction in the key interest rate to 0.5%, but likely not until the second quarter of 2013. The US Federal Reserve has more or less committed itself officially to leave the key interest rates at the present low level for the next two years. The debate about an early curbing of the Fed initiatives has recently intensified and further actions are increasingly tied to developments on the labour market.

We expect that the European debt crisis will continue to exert a drag on the equity markets. But in our current estimation, the liquidity-driven movement during the year under review will also continue in 2013 as long as unlimited ECB credit remains available and the Fed will also continue to pursue an exceedingly expansionist policy. In our opinion, this will remain so for some time yet. Market valuations, which are not excessive by historical standards—especially for the European markets—and the dividend returns, which remain attractive in comparison to the bond markets, lend further support. After the significant downward revisions in the past few months, the first signs of stabilising profit expectations are also emerging, especially in the Eurozone. We are presently assuming that these trends will firm up in the coming months and that there will be a successful turn-around in profit growth. In our estimation, positive signs are increasingly predominant, especially with regard to the European equity markets. Abrupt reverses after short-term liquidity-driven booms will nevertheless continue as long as market gains are not supported by the return of a stabilising macro-economic picture.

Property and casualty insurance

We expect business development in the property and casualty insurance to remain stable in the coming year, while possibly losing some momentum in comparison with the year under review. Limits to further growth are posed by the high degree of market penetration that has already been reached in many property and casualty insurance classes. The positive development that already started in the past two years is likely to continue—if in somewhat weakened form—in the motor vehicle industry, where price increases could be enforced. Beyond that, business performance will be influenced by general economic growth. In this respect, the current expert projections suggest that the environment can be expected to stabilise in 2013.

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. Industrial insurance customers in Germany and abroad benefit from decades of experience in risk assessment and risk management, because the complex risks to which industry and middle-market firms are exposed, demand special protection. Individually tailored coverage concepts realise comprehensive insurance solutions and thus offer a complete range of products for the coverage of entrepreneurial risks. Just as important: Owing to many years of experience, HDI-Gerling Industrie Versicherung AG can provide professional claims management, which can provide immediate assistance in a loss event.

The Company has built a comprehensive global network in response to the needs of its customers. HDI-Gerling Industrie Versicherung AG is able to offer insurance solutions that meet international standards to industrial customers in 38 countries through primary insurance providers in the Talanx Group and through network partners in more than 100 countries. In the 2013 financial year, plans call for the further expansion of the industrial insurance business in Europe as well as in Latin America, (South) East Asia and the Arabian Peninsula.

We are planning for an increase in gross premiums for 2013. This will likely—given our already high domestic market penetration—be generated primarily outside of Germany. The branches newly formed in 2012 will likely provide a major share of this growth. Despite the continued tight competition in the industrial insurance market, we anticipate that the hardening of the market that began in 2012 will continue so that it will likely be possible to enforce some limited premium adjustments.

After the natural catastrophes in the last two years, we expect the claims experience in the coming year to improve slightly.

While reinforcing existing strength in direct sales on the basis of close customer contacts and technical and personal competencies, work continues on the on-going improvement of internal procedures, systems and processes. The costs associated with this work are expected to be offset by the anticipated increase in premiums.

We are assuming that the tensions in the capital markets will continue in a somewhat weakened form in 2013, and that the very low level of interest rates will change very little on the whole. This will affect the yields on new investments accordingly. We therefore expect net investment income after adjustment for special factors to decline slightly in comparison to 2012. We expect that this decrease will be offset, on balance, by the underwriting side, and that the total net profit/loss will show a slight favourable variance.

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, Manama, Oslo, Paris, Singapore, Sydney, Tokyo, Toronto, Zurich.

Casualty insurance
Aviation accident insurance,
clinical trials insurance,
individual comprehensive accident insurance,
individual partial accident insurance,
group accident insurance,
motor vehicle accident insurance,
medical insurance in connection with foreign travel insurance;
other accident insurance

Liability insurance line
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

Marine 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 surety insurance
Surety 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,
engineering 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 2012

Assets			**31/12/2012**	**31/12/2011**
Figures in EUR thousand				
A. Intangible fixed assets			5,120	6,233
B. Investments				
I. Land, land rights and buildings, including buildings on third-party land		63,168		64,064
II. Investments in affiliated companies and other equity investments		1,021,484		926,884
III. Other investments		5,040,009		5,164,364
IV. Deposits retained on business accepted for reinsurance		82,242		89,251
			6,206,903	**6,244,563**
C. Receivables				
I. Receivables arising from direct written insurance business, due from:				
1. Policy holders	263,279			268,022
2. Intermediaries	216,176			163,600
		479,455		**431,622**
II. Receivables on reinsurance business thereof due to affiliated companies: EUR 92,152 (142,706) thousand		279,750		371,999
III. Other receivables thereof due to affiliated companies: EUR 36,273 (69,451) thousand		199,412		238,456
			958,617	**1,042,077**
D. Other assets				
I. Tangible fixed assets and inventories		6,030		5,937
II. Current account balances with financial institutions, checks and cash		147,888		130,249
III. Other assets		102		102
			154,020	**136,288**
E. Prepaid expenses				
I. Deferred rent and interest income		75,490		82,479
II. Other prepaid expenses		1,534		918
			77,024	**83,397**
F. Excess of plan assets over post-employment benefit liability			6,646	4,304
Total assets			**7,408,330**	**7,516,862**

Total equity and liabilities			**31/12/2012**	**31/12/2011**
Figures in EUR thousand				
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	610,562			588,347
2. less: share for business ceded for reinsurance	218,936			193,074
		391,626		**395,273**
II. Provision for outstanding claims				
1. Gross amount	8,165,798			8,068,223
2. less: share for business ceded for reinsurance	4,220,113			4,075,251
		3,945,685		**3,992,972**
III. Provision for profit-related and non-profit related premium refunds				
1. Gross amount	10,443			8,093
2. less: share for business ceded for reinsurance	408			-25
		10,035		**8,118**
IV. Equalization reserve and similar provisions		606,566		525,962
V. Other underwriting provisions				
1. Gross amount	33,414			29,036
2. less: share for business ceded for reinsurance	2,088			2,269
		31,326		**26,767**
			4,985,238	**4,949,092**
D. Other provisions				
I. Provisions for pensions and similar obligations		300,248		283,973
II. Provisions for taxes		37,588		45,801
III. Other provisions		95,814		102,226
			433,650	**432,000**
E. Deposits retained on insurance ceded			57,895	54,562
F. Other liabilities				
I. Liabilities from direct written insurance business due to:				
1. Policy holders	68,777			89,293
2. Intermediaries	182,114			139,152
		250,891		**228,445**
II. Payables on reinsurance business -thereof due to affiliated companies: EUR 131,779 (116,687) thousand		640,023		651,210
III. Liabilities to banks		–		4
IV. Other liabilities: thereof taxes: EUR 34,276 (32,352) thousand thereof social security: EUR 3,058 (1,511) thousand thereof due to affiliated companies: EUR 152,714 (345,182) thousand		383,462		544,213
			1,274,376	**1,423,872**
G. Deferred and accrued items			635	800
Total equity and liabilities			**7,408,330**	**7,516,862**

The annuity provision recognized on the balance sheet as of the close of the 2012 financial year under Equity and Liabilities C.II. is equal to EUR 22,157,618. 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, 25 February 2013 The Responsible Actuary Carls

Statement of Income for the period from 1 January through 31 December 2012

I. Underwriting income and expenses			**2012**	**2011**
Figures in EUR thousand				
1. Premiums earned for own account				
a) Gross premiums written	3,056,939			2,720,547
b) Premiums ceded to reinsurance	1,728,188			1,621,175
		1,328,751		1,099,372
c) Change to the gross premium reserve unearned	-24,962			-62,517
d) Adjustment of reinsurers' share in gross premiums unearned	-25,345			-28,074
		383		**-34,443**
			1,329,134	**1,064,929**
2. Interest income on premium funds and provisions for own account			375	406
3. Other underwriting income for own account			4,028	6,238
4. Expenditures on insurance claims incurred for own account				
a) Claims payments				
aa) Gross amount	2,045,373			1,914,852
bb) Reinsurer's share	945,791			844,083
		1,099,582		**1,070,769**
b) Changes to loss and loss adjustment expense provision				
aa) Gross amount	121,768			270,972
bb) Reinsurer's share	167,990			307,153
		-46,222		**-36,181**
			1,053,360	**1,034,588**
5. Change to other net underwriting provisions			4,523	-130,076
6. Expenses for profit-related and non-profit related premium refunds for own account			3,658	1,582
7. Expenses for insurance operations for own account				
a) Gross expenses for insurance operations		569,089		502,607
b) less: commissions and profit commissions received for business ceded to reinsurance		283,276		231,375
			285,813	**271,232**
8. Other underwriting expenses for own account			1,576	-4,595
9. Subtotal			**-15,393**	**-101,158**
10. Changes to equalization reserve and similar provisions			-80,605	158,713
11. Underwriting results for own account			**-95,998**	**57,555**

II. Non-underwriting income and expenses			**2012**	**2011**
in EUR thousand				
1. Investment income				
a) Income from long-term equity investments - of which from affiliated companies: EUR 58,954 (24,219) thousand	63,756			24,418
b) Income from other investment - of which from affiliated companies: EUR 19,664 (19,896) thousand				
ba) Income from land, land rights and buildings, including buildings on third-party land	8,962			13,296
bb) Income from other investments	171,633			190,132
c) Income from write-ups	32,470			13,784
d) Gains on disposal of investments	14,489			31,889
e) Income from profits received under profit pooling, profit or loss transfer, or partial profit transfer agreements	–			3,826
		291,310		**277,345**
2. Investment-related expenses				
a) Investment management expenses, interest expenses and other expenses related to capital investments	12,803			25,158
b) Write-downs of investments	8,634			25,482
c) Losses on disposal of investments	1,597			25,069
d) Cost of loss absorption	36			–
		23,070		**75,709**
			268,240	**201,636**
3. Interest income on premium funds and provisions		375		397
			201,239	**201,239**
4. Other income		48,659		65,119
5. Other expenses		99,568		170,094
			-50,909	**-104,975**
6. Net income/loss from ordinary activities			**120,958**	**153,819**
7. Extraordinary income		1,734		20,000
8. Extraordinary expenses		8,293		12,533
9. Extraordinary result			**-6,559**	**7,467**
10. Taxes on income		26,718		37,743
11. Other taxes		6,044		-9,559
			32,762	**28,184**
12. Profit transferred on the basis of profit pooling, profit and loss transfer, or partial profit transfer agreements		81,637		133,102
			-81,637	**-133,102**
13. Net profit/loss for the year			**0**	**0**

Notes to the financial statements

General information

The annual financial statements for the 2012 financial year were prepared in accordance with the regulations in the German Commercial Code (Handelsgesetzbuch - HGB) and the German Stock Corporation Act (Aktiengesetz - AktG) in conjunction with the Regulation on the Accounting of Insurance Undertakings (Verordnung über die Rechnungslegung von Versicherungsunternehmen -RechVersV).

Assets

Intangible fixed assets

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

Land, land rights and buildings, including buildings on third-party land

Land and buildings were recognised at historical cost less depreciation according to their customary useful life.

To determine the fair value of our real properties, we have mainly applied the gross rental value method in accordance with the regulations concerning the principles governing the assessment of the fair market values of properties (Wertermittlungverordnung [Valuation Ordinance]; (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 modernised 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 the Accounting of Insurance Undertakings. In accordance with § 55 Para 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. During the financial year, the large majority of items were valued in accordance with the German Valuation Ordinance (WertV).

Investments in affiliated companies and other equity investments

Shares in affiliated companies and equity investments are recognised at cost less write-downs (if any) to their fair value in accordance with § 341b Para 1 sentence 2 HGB in conjunction with § 253 Para 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. Investees with operating business units were valued at their going concern value. As a general rule, non-operating entities were recognised at their carrying amount. Net asset values were determined and recognised for entities whose principal assets are composed of real estate. However, if, owing to the existence of additional assets, the total equity carried on the balance sheet is greater than the market value of the properties, this total equity is used as the market value. 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 recognised 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 at 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 recognised at the lower of cost or market. Securities designated for use in continuing operations were recognised pursuant to § 341b Para 2 HGB in conjunction with §253 Para 3 HGB 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 other investments was generally determined on the basis of their open market value (§ 56 RechVersV). For investments having a market or listed price, the market value is defined as the market or listed price on the balance sheet date, or on the last day prior to this date for which a market or listed price could be identified. In cases in which no listed prices are available, pricing methods that are established in the financial markets are employed. Investments are valued at maximum at their expected realisable value in accordance with the principle of prudence.

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 were 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 were valued as appropriate in accordance with either method.

Registered bonds, borrower's note loans including refinancing loans, mortgages and other loans are recognised at amortised cost. For this purpose, investments are recognised at cost upon acquisition and the amount of the difference from the repayment amount is amortised over the remaining term using the effective interest method. The option provided for in § 341c Para 1 HGB to recognise 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.

Private equity investments held directly or indirectly as fixed assets are recognised at the lower of cost or market. Owing to the J-curve effect, no write-downs are generally applied to new investments in the first two years, unless there are significant losses. Write-downs are applied during years 3 to 5 from the subscription if the net asset value is lower than 80% of the carrying amount; in year 6 after the subscription as soon as the net asset value is lower than the carrying amount. In the case of some asset backed securities products, the Company assumes for reasons of prudence that there will be no distributions until maturity and recognises the loans at their present value. The repayment amount is reached at the final maturity date by the recognition of gains or losses as described above.

According to the German Accounting Standard IDW HFA18, shares in partnership companies that are part of fixed assets, must always be recognised as investments within the meaning of § 271 Para 1 sentence 1 HGB. This is independent of the equity interest held. If the conditions under § 271 Para 2 HGB are met, they are shares in an affiliated company. Shares in private equity funds are treated as the equivalent of partnerships, so that they must also be recognised as equity investments. The investments in question were reported as equity investments by way of a reclassification effective as at 21 January 2012 in the statement of changes to fixed assets according to HGB.

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

Receivables
Receivables from direct written insurance business were recognised at their notional amounts. A global valuation allowance based on the aging of the receivables was recognised 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 recognised on the balance sheet at their nominal amounts. The general default risk was accounted for by recognising 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 recognised as other receivables. This accrued item is 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 Company and the Amendments of Other Tax Regulations (Gesetz über steuerliche Begleitmaßnahmen zur Einführung der Europäischen Gesellschaft und zur Änderung weiterer steuerlicher Vorschriften - SEStEG) using a notional interest rate of 0.44 %.

Other assets
Tangible fixed assets and inventories are recognised at cost. Operating and office equipment was recognised 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/ amortised 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 recognised 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, cheques and cash have been recognised at their notional amount.

Total equity and liabilities

Subordinated liabilities
The subordinated liability was recognised 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. Provisions for outstanding claims were influenced by the estimates for claims payments and non-cash changes.

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 written premiums 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.

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 were 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 2012 that was recognised with a shift in timing by one quarter was equal to EUR 486,272 thousand.

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 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 at 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 at the balance sheet date. If current information was available in individual instances, the relevant appropriate amounts were recognised as provisions on a case-by-case basis. The annuity provision calculated in accordance with § 65 VAG (Versicherungsaufsichtsgesetz; German Insurance Supervision Law) and the provision for anticipated claims settlement expenses were recognised 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. Receivables from recoveries, salvages and loss sharing agreements for settled claims have been taken into account as deductions to the net loss reserve.

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

The equalisation reserve was calculated in compliance with the regulations according to § 29 RechVersV and the Appendix to § 29 RechVersV as well as the Regulation on Reporting by Insurance Undertakings to the Federal Financial Supervisory

Authority (Versicherungsberichterstattungsverordnung - BerVersV). To determine the equalisation reserve for the fire only insurance class, different loss ratios were used for the period under review versus the prior year in accordance with the attribution of reinsurance premiums for the 2010 and 2011 financial years to the proper period.

The provision for the insurance for nuclear facilities and terrorism risk was calculated in accordance with § 30 Para 2 and Para 2a RechVersV. The provision for major risks relating to pharmaceutical risk was determined in accordance with § 30 Para 1 RechVersV.

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 recognised 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.

In the case of the insurance business accepted for reinsurance, the provisions ceded by the lead underwriters were generally recognised 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 reserve 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 Para 1 HGB, the provision for pensions was recognised 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 for vested claims that grew after 31 December 1986, the option not to recognise any provision in accordance with Article 28 Para 2 of the Introductory Act to the German Commercial Code (Einführungsgesetz zum Handelsgesetzbuch - 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 Para 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 recognised on the balance sheet.

Provisions for anniversary bonuses were recognised 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 Para 1 sentence 1 EGHGB was exercised.

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

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

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

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

Other liabilities are recognised at their settlement amounts.

Currency translation
If there are items denominated in foreign currency, they are converted as at 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 at the closing date but represents a composite of the respective individual exchange rate translations for each month.

In order to limit exposure to currency risk as much as possible, liabilities denominated in a foreign currency are largely matched with assets in the same currencies/amount. For the major foreign currencies, any currency translation gains net of currency translation losses during the period were allocated to a provision for currency risk. The provision is reviewed quarterly and future unrealised effects will be netted against the provision.

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	Reclassifications
A.	A. Intangible fixed assets			
	1. Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	6,233	125	–
B. I.	Land, land rights and buildings, including buildings on third-party land	64,064	2,253	–
B. II.	Investments in affiliated companies and other equity investments			
	1. Shares in affiliated companies	558,727	94,795	–
	2. Loans to affiliated companies	293,532	–	–
	3. Other long-term equity investments	74,625	52,832	34,136
	4. Total B.II.	**926,884**	**147,627**	**34,136**
B. III.	Other investments**			
	1. Shares, investment shares and other non-fixed interest securities	800,647	308,984	–
	2. Bearer bonds and other fixed-interest securities	1,435,476	293,711	–
	3. Mortgages, land charges and annuity land charges	3,205	–	–
	4. Other loans			–
	a) Registered bonds	1,309,390	13,616	–
	b) Promissory notes and loans	1,156,110	77,628	–
	c) Other loans	21,000	–	–
	5. Deposits with financial institutions	402,100	37,308,870	–
	6. Other investments	36,436	–	-34,136
	7. Total B.III.	**5,164,364**	**38,002,809**	**-34,136**
Grand total		**6,161,545**	**38,152,814**	**0**

** The carrying amount of owned properties used in connection with Company operations was equal to EUR 32,172 (37,326) thousand.*

*** Disclosure pursuant to § 277 Para 3 HGB*

Write-downs in the amount of EUR 493 thousand were applied to assets recognised as fixed assets § 285 no. 18 HGB.

The Company has exercised the option to classify investments as fixed assets pursuant to § 341b HGB. The write-down not taken was equal to EUR 1,651 thousand; the associated carrying amounts totalled EUR 88,517 thousand.
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 PIIGS 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.
The Company has exercised the option pursuant to § 341bPara 2 HGB to classify investments as fixed assets with a carrying amount of EUR 1,935,154 thousand.

Disposals	Reversal of write-downs	Exchange rate fluctuations	Amortization, depreciation and write-downs	Balance sheet value for the financial year	Market value Investments
–	–	0	1,238	**5,120**	–
–	–	–	3,149	**63,168***	**112,753**
52,002	–	–	–	**601,520**	**900,813**
100	–	-70	855	**292,507**	**307,295**
33,707	68	–	498	**127,456**	**127,457**
85,809	**68**	**-70**	**1,353**	**1,021,483**	**1,335,565**
110,723	30,206	-2,362	2,232	**1,024,520**	**1,049,310**
259,689	2,195	487	1,837	**1,470,343**	**1,604,313**
653	–	–	–	**2,552**	**2,936**
166,998	–	-2,067	–	**1,153,941**	**1,251,416**
126,589	–	-1,089	64	**1,105,996**	**1,169,730**
–	–	–	–	**21,000**	**20,659**
37,447,471	–	-1,842	–	**261,657**	**261,657**
2,300	–	–	–	**0**	**0**
38,114,423	**32,401**	**-6,873**	**4,133**	**5,040,009**	**5,360,021**
38,200,232	**32,469**	**-6,943**	**9,873**	**6,129,780**	**6,808,339**

Shares in investment asset pools

Disclosures pursuant to § 285 no. 26 HGB concerning shares in investment asset pools in EUR thousand	Balance sheet amount 31/12/2012	Market value 31/12/2012	Distribution in 2012
Fixed income funds			
Gerling Euro-Rent 3	841,246	858,587	5,000
Subtotal Fixed income funds	**841,246**	**858,587**	**5,000**
Mixed funds			
HG-I Commodity Fonds	29,258	29,258	–
HG-I Aktien VC-Strategie	40,500	43,580	500
Subtotal Mixed funds	**69,758**	**72,838**	**500**
Real property funds			
HG-I Real Estate Euro	10	4	–
HG-I Real Estate USD	10	4	–
Subtotal Real property funds	**20**	**8**	**–**
Total	**911,024**	**931,433**	**5,500**

Write-downs pursuant to § 253 Para 3 sentence 4 HGB were not fully applied to the special funds reportable under hidden reserves, since we considered the impairments toe temporary. For the equity funds held as fixed assets, the fair value of every single stock in the portfolio was calculated by the EPS ("earnings per share") method. If EPS data was not available, market values (max. 120%) were used as an alternative.
For bond funds held as fixed assets, the fair value of fund shares represents the sum of its constituting components (bonds, cash, accrued interest, payables/receivables, derivatives, etc). The fair value of each individual bond in the portfolio corresponds to the nominal value for each bond or the lower market value in the event of a default or for securities with a market value lower than 50% of the nominal value.

B. II. Investments in affiliated companies and other equity investments

Name, registered office	Share in %	Currency	Equity in thousand	Result in in thousand
Gerling Norge A/S, Oslo*	100.00	NOK	248	10
HDI Hannover International Espana Cia. de Seguros y Reaseguros. S.A., Madrid**	100.00	EUR	44,898	4,911
HDI Versicherung AG, Vienna*	100.00	EUR	44,979	6,380
HDI-Gerling Alternative Investments Beteiligungs GmbH & Co. KG, Cologne*	100.00	EUR	24,542	0
HDI-Gerling Schadenregulierung GmbH, Hannover*	100.00	EUR	25	-2
HDI-Gerling Sicherheitstechnik GmbH, Hannover*	100.00	EUR	3,393	1,518
HDI-Gerling Verzekeringen N. V., Rotterdam*	100.00	EUR	61,885	21,768
HDI-Gerling Welt Service AG, Hannover*	100.00	EUR	91,304	3,826
Institutional Venture and Equity Capital AG, Cologne*	23.80	EUR	145,867	7,739
Magma HDI General Insurance Ltd., Kalkutta, Indien***	25.50	INR	2,064,781	-15,529
Nassau Assekuranzkontor GmbH, Cologne*	100.00	EUR	25	0
Petro Vietnam Insurance Holdings, Hanoi,Vietnam*	31.82	VND	5,690,097,872	347,627,235
Riethorst Grundstücksgesellschaft AG & Co. KG, Hannover*	50.00	EUR	173,400	540

**Information as at 31 December 2011*

***Information as at 31 December 2010*

****Figures preliminary/unaudited*

C. III. Other receivables

in EUR thousand	31/12/2012	31/12/2011
Receivables not yet attributed (foreign branches)	51,873	49,078
Claims payments / Co-insurance	43,093	29,384
Receivables from affiliated companies*	36,273	69,451
Receivables due to timing differences in accounting entries	20,314	54,921
Receivables from tax authorities	17,745	19,224
Trade receivables	12,664	1,293
Interest and rents receivable	568	1,885
Miscellaneous**	16,882	13,220
Total	**199,412**	**238,456**

** The receivables are largely related to services rendered.*

*** Costs posted after the closing of the cost accounts (28.11.2012) were recognised as other receivables. In the following period, the accruals were reversed through profit and loss. These were equal to EUR 3,278 (3,003) thousand.*

D. Other assets

I. Tangible fixed assets and inventories

	31/12/2012	31/12/2011
Balance as of the start of the financial year	5,937	7,515
Additions	1,722	1,184
Disposals	167	1,502
Amortization, depreciation and write-downs	1,339	1,301
Exchange rate fluctuations	-123	41
Balance as at the end of the financial year	**6,030**	**5,937**

E. Prepaid expenses

I. Deferred rent and interest income

	31/12/2012	31/12/2011
Figures in EUR thousand		
Interest	75,490	82,479

II. Other prepaid expenses

	31/12/2012	31/12/2011
Figures in EUR thousand		
Administrative expenses	1,378	622
Discount on subordinated loans	156	296
Total	**1,534**	**918**
Prepaid expenses - total	**77,024**	**83,397**

Total equity and liabilities

A. Equity

	31/12/2012	31/12/2011
Figures in EUR thousand		
I. Subscribed capital*		
Balance as of the start of the financial year	125,000	125,000
Balance as the end of the financial year	**125,000**	**125,000**
II. Capital reserves		
Balance as of the start of the financial year	281,536	281,536
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 EUR 1,000 each. Talanx AG is the sole shareholder.*
The creation of a statutory reserve is not required since § 150 Para 2 AktG ("statutory reserve fund") has already been satisfied by the creation of a capital reserve in accordance with § 272 Para 2 no. 1 HGB.

B. Subordinated liabilities

The subordinated liabilities in the amount of EUR 250,000 thousand 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

	31/12/2012	**31/12/2011**
Figures in EUR thousand		
Direct written insurance business		
Casualty insurance	158,463	143,369
Liability insurance	4,144,107	4,214,439
Motor vehicle liability insurance	604,248	604,226
Other motor vehicle insurance	59,749	58,051
Fire and property insurance	876,128	859,348
thereof:		
a) Fire insurance	368,965	368,354
b) Engineering insurance	450,676	431,586
c) Other property insurance	56,487	59,408
Marine and aviation insurance	509,276	501,185
All-Risk-insurance	487,611	274,087
Legal protection insurance	72,540	21,102
Other insurance	107,871	139,465
Total	**7,019,993**	**6,815,272**
Reinsurance business accepted	2,406,791	2,404,389
Total insurance business	**9,426,784**	**9,219,661**

Thereof:

a, Gross loss and loss adjustment expense reserve: EUR 8,165,798 (8,068,223) thousand

b, Equalisation reserve and similar provisions: EUR 606,566 (525,962) thousand

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

	31/12/2012	31/12/2011
Figures in EUR thousand		
Direct written insurance business		
Casualty insurance	109,378	105,962
Liability insurance	3,934,717	4,035,740
Motor vehicle liability insurance	486,181	498,084
Other motor vehicle insurance	53,670	52,352
Fire and property insurance	679,581	649,314
thereof:		
a) Fire insurance	298,868	276,807
b) Engineering insurance	337,428	323,580
c) Other property insurance	43,285	48,927
Transport and aviation insurance	400,760	412,352
All-Risk-insurance	416,263	218,883
Legal protection insurance	66,879	67,830
Other insurance	102,811	81,279
Total	**6,250,240**	**6,121,796**
Reinsurance business accepted	1,915,558	1,946,427
Total insurance business	**8,165,798**	**8,068,223**

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

	As at 31/12/2011	Distribution	Reversal	Addition	Changes in exchange rtes	As at 31/12/2012
in EUR thousand						
Profit-related premium refunds						
Casualty insurance	2,156	1,203	83	1,203	9	2,082
Liability insurance	-65	159	11	1,469	0	1,234
Fire and property insurance	903	72	6	1,263	37	2,125
thereof:						
a) Fire insurance	0	49	–	1,234	370	1,222
b) Engineering insurance	903	23	6	29	0	903
Marine and aviation insurance	5,095	301	251	453	2	4,998
Legal protection insurance	4	4	–	4	–	4
Total provision (gross)	8,093	**1,739**	**351**	**4,392**	**48**	**10,443**

C. IV. Equalization reserve and similar provisions

	31/12/2012	31/12/2011
Figures in EUR thousand		
Direct written insurance business		
Casualty insurance	26,316	15,391
Liability insurance	61,981	35,416
Motor vehicle liability insurance	107,488	95,467
Fire and property insurance	41,965	56,958
thereof:		
a) Fire insurance	41,965	56,958
Marine and aviation insurance	69,737	51,436
Legal protection insurance	3,486	5,645
Other insurance	11	–
Total	**310,984**	**260,324**
Reinsurance business accepted	295,582	265,649
Total insurance business	**606,566**	**525,973**

D. I. Provision for pensions and similar liabilities

As required by the German Accounting Law Modernisation 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 2.06% for pensions. The assumed pro-bable 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 5.07% and assuming a remaining term of 15 years. In the 2010 balance sheet year, the option in § 67 Para 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 recognise in each case as extraordinary expenses, was exercised. This method of allocations was continued in the reporting period.

Provision for pensions

Figures in EUR thousand	
Provision for pensions according to BilMoG as of 31 December 2011	**283,973**
Transfers	60
Use	10,868
Reversal	0
Addition	9,207
Accrued interest/interest rate change	18,772
Set-off (carried forward)	-896
Provision for pensions recognized as of 31 December 2012	**300,248**

The settlement amount for the employer-funded provision for pensions as at 31 December 2012 was EUR 331,742 thousand. The fair value of the funds held as cover for this amount as at 31 December 2012 was EUR 38,347 thousand. The amortised cost was equal to EUR 29,301 thousand. The settlement amount for the employee-funded provision for pensions was EUR 8,994 thousand. The nettable plan assets are reinsurance claims. The amortised cost determined according to the lower of cost or market principle and thus the fair value within the meaning of § 255 Para 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 set-off of assets and liabilities were equal to EUR 357 thousand.

Figures in EUR thousand	
Total BilMoG difference amount	127,650
Allocation to date	27,829
The amount for provision not yet recognised on the balance sheet in accordance with Article 67 Para 2 EGHGB as at 31 December 2012.	**99,821**

D. III. Other provisions

Figures in EUR thousand	As at 31/12/2011	Reclassifications	Use	Reversal
Impending losses on reinsurance claims	18	–	–	18
Provision for "Pension Scheme UK"	19,000	–	–	–
Cartel law infringement proceedings	5,900	–	–	–
Partial retirement*	9,636	–	2,471	–
Foreign branches	1,076	477	610	–
Remuneration payable	14,955	–	13,359	296
Provision for restructuring	3,084	–	723	1,735
Outstanding building repairs	14,524	–	1,617	–
Anniversary bonuses	4,616	–	673	–
Litigation expenses	7,122	–169	5,567	680
Provisions for costs	500	–	298	253
Vacation claims and credit balances in flextime accounts	3,631	–	2,655	612
Pension fund****	755	–	753	2
Compensation levy for non-employment of severely handicapped persons	45	–	6	39
Cost of financial statements	1,584	–	1,524	44
Consulting costs	2,383	169	1,321	635
Contribution to employer´s liability insurance association	390	–	390	–
Provisions for obligations assumed*****	6,322	–	–	334
Miscellaneous	6,685	–477	2,147	33
Total	**102,226**	**0**	**34,114**	**4,681**

** The settlement amount of the provision of partial requirement was equal to EUR 13,412 thousand. The fair value of the funds held as cover for this amount as at 31 December 2012 was EUR 6,127 thousand. The amortised cost was equal to EUR 6,301 thousand. The income and expenses netted in the income statement and resulting from the set-off of assets and liabilities were equal to EUR 499 thousand.*

***Interest rate 3.71% (11/2011)*

****Interest rate 4.0%*

****As of 31 December 2012, the amount for the provision not yet recognised on the balance sheet in accordance with Article 28 Para 2 EGHGB was equal to EUR 714 thousand.*

****** 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 Industrie Versicherung AG is required to recognise a provision for the obligations under this contractual undertaking.*

F. IV. Other liabilities

Figures in EUR thousand	31.12.2012	31.12.2011
Liabilities to affiliated companies*	141,680	345,182
Liabilities not yet attributable	63,638	41,203
Liabilities from non-group lead business	38,795	28,660
Liabilities due to tax authorities	34,276	32,352
Liabilities due to timing differences in accounting entries	25,317	62,729
Trade payables	12,697	4,973
Liabilities from interest on hybrid capital**	6,757	6,757
Liabilities from un-cashed cheques	5,233	4,908
Payments received on account of orders/security deposits/prepayments	3,812	5,259
Miscellaneous	51,257	12,190
Total	383,462	544,213

**This includes liabilities from profit transfers in the amount of EUR 81,637 thousand due to Talanx AG.*
***Of that, EUR 2,918 thousand are due to affilated companies.*

Addition	Discounting**	Accrued interest/interest rate change***	Offset (carried forward)	Carrying amount as at 31/12/2012
–	–	–	–	**–**
–	–	–	–	**19,000**
–	–	–	–	**5,900**
60	–	516	-455	**7,286**
583	–	–	–	**1,526**
15,139	–	28	–	**16,467**
234	–	–	–	**860**
388	–	278	–	**13,573**
523	–	227	–	**4,693**
–	–	–	–	**706**
2,644	–	–	–	**2,593**
3,112	–	–	–	**3,476**
790	–	–	–	**790**
75	–	–	–	**75**
1,513	–	–	–	**1,529**
3,556	–	–	–	**4,152**
439	–	–	–	**439**
–	–	253	–	**6,241**
2,554	74	–	–	**6,508**
31,610	**74**	**1,302**	**-455**	**95,814**

G. Deferred and accrued items

	31/12/2012	31/12/2011
Figures in EUR thousand		
Rents and ancillary expenses	39	39
Other	596	761
Total	**635**	**800**

Income statement

I. 1.a) Gross written premiums

Direct written insurance business

	2012	2011
Figures in EUR thousand		
Casualty insurance	96,176	70,272
Liability insurance	685,238	664,872
Motor vehicle liability insurance	210,743	194,063
Other motor vehicle insurance	119,592	109,073
Fire and property insurance	414,874	458,222
thereof:		
a) Fire insurance	153,807	210,974
b) Engineering insurances	203,762	191,665
c) Other property insurance	57,305	55,583
Marine and aviation insurance	212,596	193,657
All-risk insurance	329,447	237,219
Legal protection insurance	16,813	16,130
Other insurance	53,875	40,670
Total	**2,139,354**	**1,984,178**
Reinsurance business accepted	917,585	736,369
Total insurance business	**3,056,939**	**2,720,547**

Origin of gross written premiums for the direct written insurance business

	2012	2011
Figures in EUR thousand		
a) In Germany	1,506,521	1,451,011
b) Other member states of the European Community as well as other treaty states of the Agreement Creating the European Economic Area	390,744	344,195
c) Third countries	242,089	188,972
Total	**2,139,354**	**1,984,178**

I. 1. Gross premiums earned

Direct written insurance business

	2012	2011
Figures in EUR thousand		
Casualty insurance	97,023	71,461
Liability insurance	683,824	645,956
Motor vehicle liability insurance	211,326	191,605
Other motor vehicle insurance	119,441	108,358
Fire and property insurance	414,898	465,329
thereof:		
a) Fire insurance	161,071	225,177
b) Engineering insurances	199,246	185,990
c) Other property insurance	54,581	54,162
Marine and aviation insurance	210,727	191,350
All-risk insurance	313,230	206,207
Legal protection insurance	16,796	16,211
Other insurance	52,689	40,950
Total	**2,119,954**	**1,937,427**
Reinsurance business accepted	912,023	720,603
Total insurance business	**3,031,977**	**2,658,030**

I. 1. Net premiums earned

Direct written insurance business

	2012	2011
Figures in EUR thousand		
Casualty insurance	66,554	61,193
Liability insurance	295,122	107,598
Motor vehicle liability insurance	193,115	174,561
Other motor vehicle insurance	107,475	98,251
Fire and property insurance	122,883	123,801
thereof:		
a) Fire insurance	30,732	37,925
b) Engineering insurances	72,978	73,467
c) Other property insurance	19,173	12,409
Marine and aviation insurance	159,083	147,072
All-risk insurance	57,795	56,933
Legal protection insurance	14,945	14,418
Other insurance	39,036	33,165
Total	**1,056,008**	**816,992**
Reinsurance business accepted	273,126	247,937
Total insurance business	**1,329,134**	**1,064,929**

I. 2. Underwriting interest income

In the direct written gross insurance business, underwriting interest income was calculated on the annuity provision. The underwriting interest income is calculated as 1.75% of the average of the opening balance and the closing balance of the provision.

I. 4. Gross expenditures on insurance claims

Direct written insurance business

	2012	2011
Figures in EUR thousand		
Casualty insurance	45,185	44,673
Liability insurance	528,223	49,342
Motor vehicle liability insurance	157,119	142,868
Other motor vehicle insurance	115,445	117,872
Fire and property insurance	370,946	27,962
thereof:		
a) Fire insurance	227,684	152,113
b) Engineering insurances	128,988	127,309
c) Other property insurance	14,274	198
Marine and aviation insurance	136,084	178,365
All-risk insurance	332,591	171,516
Legal protection insurance	18,034	11,604
Other insurance	44,765	1,867
Total	**1,748,392**	**1,458,608**
Reinsurance business accepted	418,750	727,216
Total insurance business	**2,167,142**	**2,185,824**

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

Direct written insurance business

	2012	2011
Figures in EUR thousand		
Casualty insurance	22,573	17,674
Liability insurance	110,298	103,905
Motor vehicle liability insurance	37,058	33,536
Other motor vehicle insurance	24,397	21,843
Fire and property insurance	91,079	93,379
thereof:		
a) Fire insurance	36,767	38,911
b) Engineering insurances	41,357	41,732
c) Other property insurance	12,955	12,736
Marine and aviation insurance	49,066	48,343
All-risk insurance	44,543	35,047
Legal protection insurance	4,502	4,387
Other insurance	14,729	12,231
Total	**398,245**	**370,345**
Reinsurance business accepted	170,844	132,262
Total insurance business	**569,089**	**502,607**

Of the gross expenses for insurance operations for the financial year, EUR 88,180 (74,392) thousand are attributable to acquisition expenses and EUR 480,909 (428,216) thousand are attributable to general and administrative expenses.

Reinsurance balance

Direct written insurance business

	2012	2011
Figures in EUR thousand		
Casualty insurance	-15,474	-6,906
Liability insurance	-38,873	-115,329
Motor vehicle liability insurance	-5,520	-10,606
Other motor vehicle insurance	-1,078	-966
Fire and property insurance	1,962	-42,249
thereof:		
a) Fire insurance	52,915	-15,331
b) Engineering insurances	-16,839	-1,722
c) Other property insurance	-34,114	-25,196
Marine and aviation insurance	-17,270	-8,126
All-risk insurance	64,528	-29,872
Legal protection insurance	3,084	1,763
Other insurance	-4,078	-8,782
Total	**-12,719**	**-221,073**
Reinsurance business accepted	-293,067	10,584
Total insurance business	**-305,786**	**-210,489**

- = 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 182 (179) million for non-cash reinstatement premiums. This breaks down into EUR 136 (137) million for the direct written insurance business and EUR 45 (42) million for the business accepted for reinsurance.*

I. 11. Underwriting results for own account

Direct written insurance business

	2012	2011
Figures in EUR thousand		
Casualty insurance	1,814	803
Liability insurance	-21,539	108,900
Motor vehicle liability insurance	-1,064	-347
Other motor vehicle insurance	-21,816	-32,371
Fire and property insurance	-36,276	58,443
thereof:		
a) Fire insurance	-40,737	26,699
b) Engineering insurances	11,229	1,542
c) Other property insurance	-6,768	16,324
Marine and aviation insurance	-10,541	-7,677
All-risk insurance	976	-27,696
Legal protection insurance	-523	-434
Other insurance	-11,068	2,927
Total	**-100,037**	**102,548**
Reinsurance business accepted	4,039	-44,993
Total insurance business	**-95,998**	**57,555**

Run-off result

In the financial year, HDI-Gerling Industrie Versicherung AG realised a run-off profit in the amount of EUR 317,213 (310,456) thousand. The information on the run-off results for the individual lines of business are discussed in the management report under "results of operations".

Commissions and other compensation for insurance agents, personnel expense

	2012	2011
Figures in EUR thousand		
1. Commissions of any kind for insurance agents within the meaning of § 92 HGB for direct written insurance business	178,281	159,601
2. Wages and salaries	143,280	133,400
3. Social insurance contributions and expenditures for benefits	23,964	21,761
4. Expenditures for retirement benefits	1,630	10,983
5. Total expenditures	**347,155**	**325,745**

Number of insurance contracts with a minimum term of one year

Direct written insurance business

	2012	2011
Number		
Casualty insurance*	44,463	42,503
Liability insurance	22,598	19,389
Motor vehicle liability insurance*	622,355	578,211
Other motor vehicle insurance*	399,472	380,053
Fire and property insurance	38,677	37,192
thereof:		
a) Fire insurance	10,706	10,304
b) Engineering insurance	19,767	18,591
c) Other property insurance	8,204	8,297
Marine and aviation insurance	14,376	13,696
All-risk insurance	6,430	4,897
Legal protection insurance	6,262	5,170
Other insurance	2,528	2,442
Total	**1,157,161**	**1,083,553**
Total of all contracts	729,734	677,751
Change due to inclusion of risks under motor vehicle insurance under motor vehicle insurance	427,427	405,802
Total insurance business	**1,157,161**	**1,083,553**

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

II. 4. Other income

Figures in EUR thousand	2012	2011
Income from services rendered	21,483	17,649
De-recognition of liabilities	9,939	4,072
Currency exchange gains	5,824	11,464
Income from agency and portfolio management services	2,231	1,316
Other interest and similar income*	1,690	4,518
Income from the reduction or reversal of other provisions	1,122	6,814
Income from reversal of specific and global valuation allowances	427	8,763
Miscellaneous	5,943	10,523
Total	**48,659**	**65,119**

**This also includes income of EUR 74 thousand from the application of the discount.*

II. 5. Other expenses

Figures in EUR thousand	2012	2011
Interest expense*	23,229	27,209
Additions to the interest portion of the provision for pensions	20,474	17,619
Expenses for services	19,207	17,412
Currency exchange losses	12,583	28,102
Write-downs of receivables	6,449	17,561
Expenses on behalf of the enterprise as a whole	6,181	6,646
Additions to the provision for the UK pension scheme	–	19,000
Adjustments carried forward in connection with foreign currency entries	–	18,871
Miscellaneous	11,445	17,674
Total	**99,568**	**170,094**

II. 9. Extraordinary result

The extraordinary items in the amount of -EUR 6,558 thousand are mainly related to income of EUR 1,734 thousand from the reversal of a provision for restructuring and an amount of EUR 8,268 thousand for adjustment entries to the provision for pensions required by BilMoG.

II. 10. Taxes on income

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

Other disclosures

Employees

	2012	2011
Full-time employees	1,770	1,728
Part-time employees	192	191
Total	**1,962**	**1,919**

Executive 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 executive bodies and advisory boards

Remuneration for the members of the Board of Management totalled EUR 4,355 thousand. Total remuneration for the Supervisory Board was equal to EUR 74 thousand and remuneration for the Advisory Board totalled EUR 940 thousand. The remuneration of former Board of Management members and their survivors totalled EUR 4,153 thousand. A total of EUR 49,801 thousand was recognised for pension liabilities due to former Management Board members and their survivors.

Derivative financial instruments

Foreign exchange futures are derivatives that are subject to a prohibition on recognition according to the so-called non-recognition principle for pending transactions. In case of a negative market value, provisions for impending losses from pending transactions are recognised. As of 31 December 2011, only two remaining foreign exchange futures contracts were pending as exchange rate hedges for excess cover denominated in AUD and JPY.

Class	Currency	Nominal amount in thousand	Carrying amount in thousand	Market value in thousand
Foreign Exchange Future	EUR	-12,143	0	-720
Foreign Exchange Future	JPY	1,300,000	0	0
Foreign Exchange Future	EUR	10,231	0	124
Foreign Exchange Future	AUD	-13,000	0	0

** A provision for impending losses from pending transactions was recognised in the amount equal to the market value of EUR 720 thousand.*

Important agreements

A controlling and profit-and-loss-transfer agreement is in effect with Talanx AG as the controlling entity. A control and profit-and-loss-transfer agreement is further in effect between HDI-Gerling Industrie Versicherung AG as the controlling company and, respectively, HDI-Gerling Welt Service AG as well as Nassau Assekuranzkontor GmbH and HDI-Gerling Schadenregulierung GmbH as the controlled companies.

Shareholdings in the Company

The sole shareholder of HDI-Gerling Industrie Versicherung AG is Talanx AG, which holds 100% of the share capital. Talanx AG has notified us that it holds a direct majority interest in HDI-Gerling Industrie Versicherung AG, Hannover (notice pursuant to § 20 Para 4 AktG) and that it holds more than one fourth of the shares HDI-Gerling Industrie Versicherung AG indirectly at the same time (notice pursuant to § 20 Para 1 and Para 3 AktG).

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 74,891 (53,970) thousand.

Call commitments are in effect vis-à-vis HG-I Alternative Investments Beteiligungs GmbH & Co. KG in the amount of EUR 140,627 thousand, vis-à-vis Equity Partners III GmbH & Co. KG in the amount of EUR 1,900 thousand, vis-à-vis Equity Partners IV GmbH & Co. KG in the amount of EUR 2,350 thousand. 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 totalling EUR 51,254 thousand as at 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 2,979 thousand are related to guaranteed credits (Avalkredite). Letters of credit in effect with various banks total EUR 358,634 thousand.

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 Haftpflichtverband 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 Versicherungsverein auf Gegenseitigkeit, Hannover and of Talanx AG, Hannover. HDI (the parent company of the HDI Group) prepares consolidated financial statements for the Group according to § 341 i HGB that includes the Company within the scope of consolidation. Talanx AG as the parent company of the Talanx Group is further required to prepare consolidated financial statements for the Group pursuant § 290 HGB, which are prepared—as provided for in § 315 a Para 1 HGB—on the basis of the International Financial Reporting Standards (IFRS) adopted for the European Union (EU) in accordance with Article 4 of Regulation (EC) No. 1606/2002. The consolidated financial statements are published in the German Federal Gazette (Bundesanzeiger).

Hannover, 25 February 2013

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, Hannover for the financial year from 1 January through 31 December 2012. The accounting and the preparation of the annual financial statements and the management report in accordance with the provisions of German commercial law and the additional regulations of the Articles of Association and rules of procedure are the responsibility of the Company's Board of Management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB and in compliance with the German generally accepted standards for the audit of financial statements as promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany, Incorporated Association - IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are 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 annual 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 reasonable basis for our opinion.

Our audit has not led to any reservations.

IIn our opinion, based on the understanding gained during the audit, the annual financial statements are in compliance with statutory regulations and the supplementary provisions of the Articles of Association and give a true and fair view of the net assets, financial position and results of operations of the Company in compliance with the German principles of proper accounting (Grundsätze ordnungsmäßiger Buchführung - GoB). The management report is consistent with the annual financial statements and, as a whole, provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development."

Hannover, 11 March 2013

KPMG AG
Wirtschaftsprüfungsgesellschaft

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

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Konzernstruktur
Group structure

Talanx AG

Geschäftsbereich Industrieversicherung
Industrial Lines Division

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

Geschäftsbereich Privat- und Firmenversicherung Deutschland
Retail Germany Division

- Talanx Deutschland AG
- HDI Versicherung AG
- HDI Lebensversicherung AG
- Talanx Pensionsmanagement AG
- HDI Pensionskasse 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
- HDI Seguros S.A. (Argentina)
- 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 Życie TU S.A. (Poland)
- TUiR WARTA S.A. (Poland)
- TU Europa S.A. (Poland)
- TU na Życie Europa S.A. (Poland)
- OOO Strakhovaya Kompaniya „CiV Life" (Russia)
- OOO Strakhovaya Kompaniya „HDI Strakhovanie" (Russia)
- CiV Hayat Sigorta A.Ş. (Turkey)
- HDI Sigorta A.Ş. (Turkey)
- HDI STRAKHUVANNYA (Ukraine)
- HDI Seguros S.A. (Uruguay)

Geschäftsbereich Rückversicherung
Reinsurance Division

Schaden-Rückversicherung
Non-Life Reinsurance

Personen-Rückversicherung
Life and Health Reinsurance

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

Konzernfunktionen
Corporate Operations

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

Nur die wesentlichen Beteiligungen
Main participations only

Stand / As at: 31.12.2012

400-GB076

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