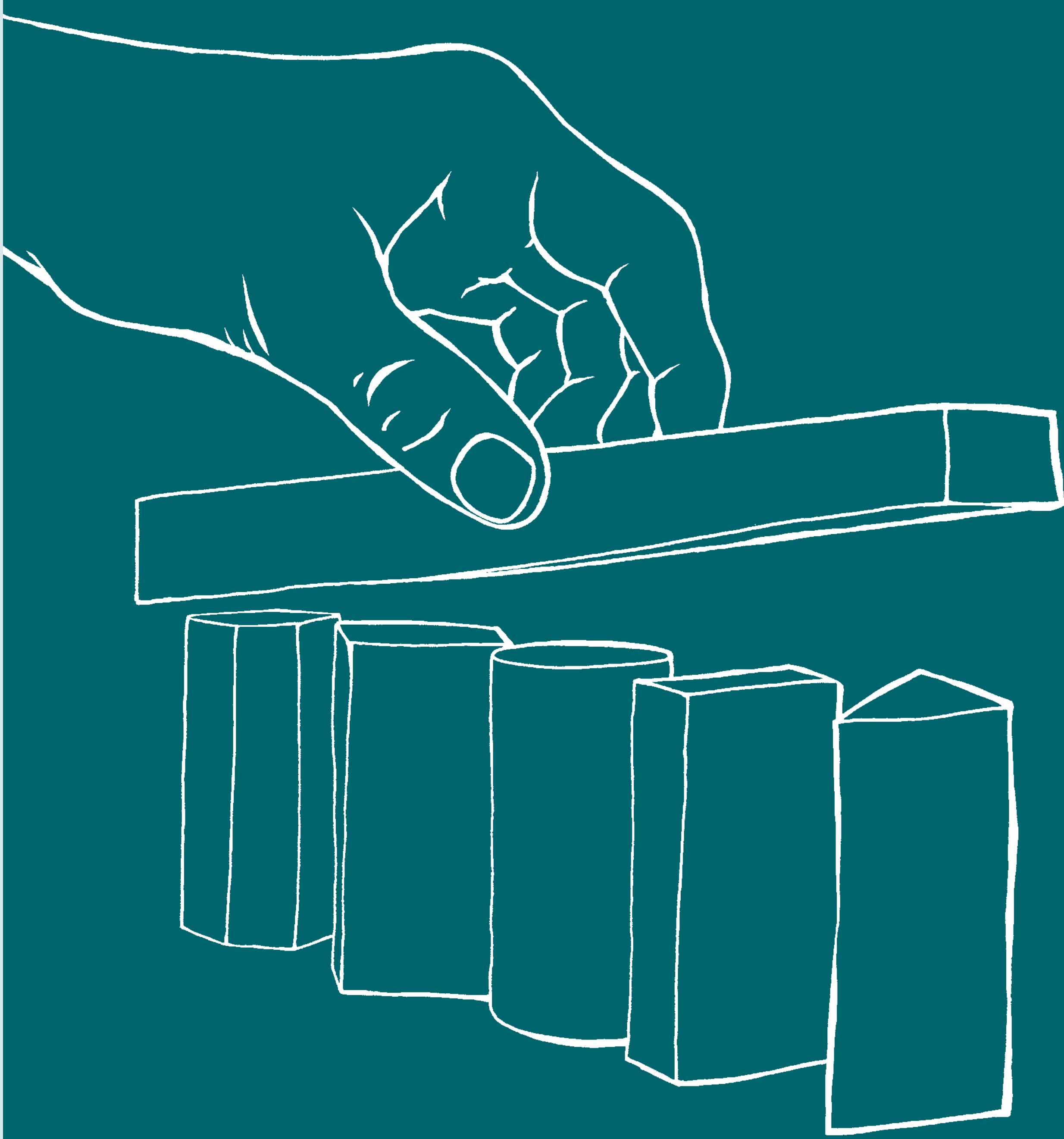


Talanx Group Annual Report 2008

Group Annual Report 2008

We are building on our strengths.

talanx.

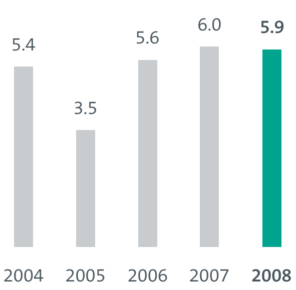
talanx.

Key figures of the Group segments

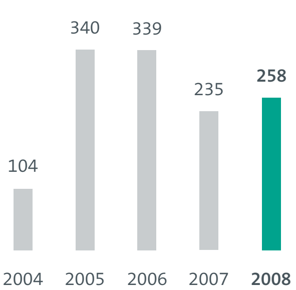
Property/Casualty Primary Insurance

- Appreciably improved underwriting result pushes EBIT slightly higher despite weak investment income
- Favorable development of foreign business: modest organic growth along with acquisitions in Chile and Ukraine
- Organizational aspects of the Gerling acquisition completed

Gross written premium [1)]
in EUR bn



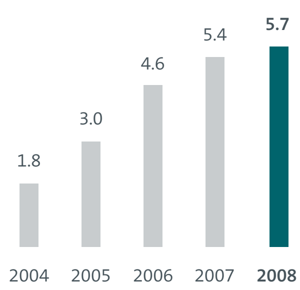
Operating profit (EBIT) [1)]
in EUR m



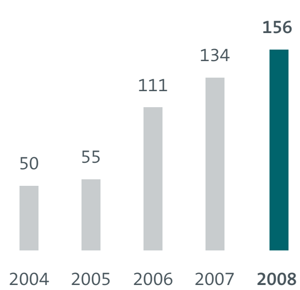
Life Primary Insurance

- Highest-growth segment boosts gross premiums by a further 6%, inter alia due to first-time recognition of PBV for an entire financial year and full consolidation of the PB insurers
- Group segment ranks fourth among Germany's largest life insurance groups
- Bancassurance companies in Russia and Turkey off to a successful start

Gross written premium [1)]
in EUR bn



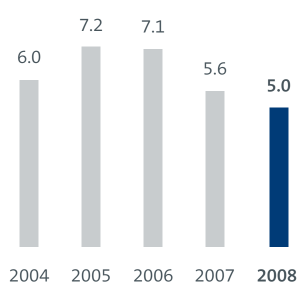
Operating profit (EBIT) [1)]
in EUR m



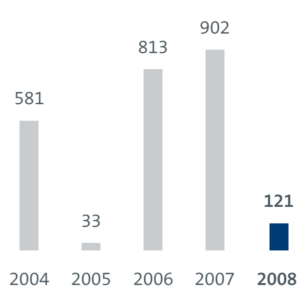
Non-Life Reinsurance

- Withdrawal from specialty business and dollar weakness cause premium to contract
- Combined ratio and underwriting result improve, investment income dramatically lower
- Globe Re: First transaction of its type packages risks and transfers them to the capital market

Gross written premium [1)]
in EUR bn



Operating profit (EBIT) [1)]
in EUR m



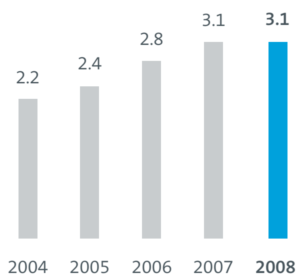
All figures: IFRS

1) Comparability of figures for 2004 and 2005 is limited due to modified segment allocation

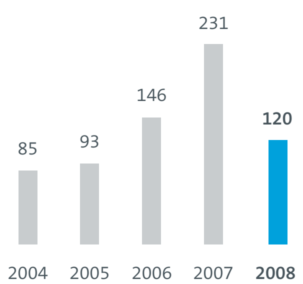
Life/Health Reinsurance

- Growth in gross premium curtailed by inhibiting effects of exchange rate movements
- Systematic expansion into major emerging markets of Asia and Latin America
- Presence in the Islamic life insurance market further extended

Gross written premium
in EUR bn



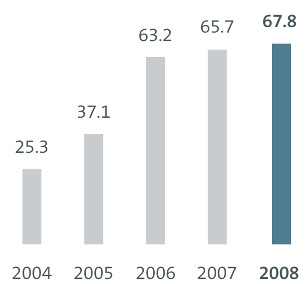
Operating profit (EBIT)
in EUR m



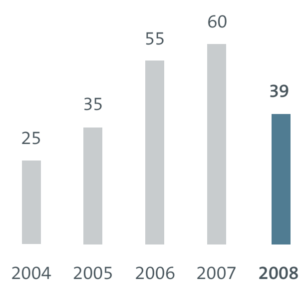
Financial Services

- Modest growth in asset volume
- Retail business with funds for private investors holds its ground in a very difficult climate
- Protection Re contributes EUR 13 million to the segment result

Assets under management
in EUR bn



Operating profit (EBIT)
in EUR m



One of the largest independent asset managers in Germany forms the core of the Group's Financial Services segment.

Offerings for special target groups – based on unit-linked insurance products designed to strike an optimal balance between provision and investment.

The fully integrated specialist insurer offering exclusive and efficient provision and security solutions in cooperation with its distribution partner Citibank.

Hannover Re is one of the largest reinsurance groups in the world. Its subsidiary E+S Rück is a specialist reinsurer serving the German market.

Active around the world: the Property & Casualty Insurance Group for industrial and private customers and the Life Group offering products in all lines of risk protection, old-age provision and occupational retirement provision.

A broad range of non-life products for private customers in Germany – through HDI Direkt – and in international markets.

The provision specialist for Sparkasse savings institutions with above-average growth rates and the lowest administrative expense ratio in the German insurance industry.

Exclusive insurance partner of Postbank for life and personal accident products that are optimally tailored to the needs of Postbank customers.

The high-growth bancassurance cooperation with the Hungarian postal service that concentrates on the life and property/casualty lines.

The Group's own professional reinsurance broker for the non-life reinsurance business ceded by the Talanx Group.

The Talanx Group is the third-largest insurance group in Germany. Talanx operates as a multi-brand provider. Its brands include HDI and HDI-Gerling, providing insurance for private and industrial customers, Hannover Re, one of the industry's most profitable reinsurers, Aspecta, which markets its insurance products through brokers and multiple agents, the bancassurance specialists CiV, PB and Neue Leben as well as the investment fund provider and asset manager AmpegaGerling. The Group transacts business in the segments of Property/Casualty Primary Insurance, Life Primary Insurance, Non-Life Reinsurance, Life/Health Reinsurance and Financial Services. The Hannover-based Group is active in 150 countries. The world's leading rating agencies consider the financial strength of Talanx to be "excellent".

Group key figures		2008	2007	+/– %
IFRS				
Gross written premium	EUR m	19,005	19,130	–1
Property/Casualty Primary Insurance	%	31	31	±0
Life Primary Insurance	%	30	28	+2 points
Non-Life Reinsurance	%	24	27	–3 points
Life/Health Reinsurance	%	15	14	+1 points
Net premium earned	EUR m	14,915	14,895	±0
Underwriting result	EUR m	–559	–992	+44
Combined ratio (property/casualty insurance and non-life reinsurance) [1]	%	95.2	99.3	–4.1 points
Net investment income	EUR m	1,610	2,702	–40
Operating profit (EBIT)	EUR m	618	1,462	–58
Net profit (after tax)	EUR m	121	999	–88
Group net income (after minorities)	EUR m	187	477	–61
Policyholders' surplus	EUR m	7,792	8,331	–6
Total shareholders' equity excluding minority interests	EUR m	3,614	3,732	–3
Minority interests	EUR m	2,104	2,431	–13
Hybrid capital	EUR m	2,074	2,168	–4
Return on equity after tax [2]	%	5.1	13.1	–8 points
Investments (excluding funds held by ceding companies)	EUR m	62,224	61,572	+1
Total assets	EUR m	96,045	95,395	+1
Staff (full-time equivalents as at 31.12. of the financial year)		16,541	15,996	+3

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

[1] *Combined ratio adjusted for deposit interest received*

[2] *Group net income (after minorities) relative to average shareholders' equity* $\left(\frac{\text{position as at 01.01. + position as at 31.12.}}{2}\right)$

We are building on our strengths. The five pillars on the cover symbolize the five Group segments of the Talanx Group: Property/Casualty Primary Insurance, Life Primary Insurance, Non-Life Reinsurance, Life/Health Reinsurance and Financial Services. These are our strengths, upon which we have built a solid Group well equipped to handle the challenges of the insurance markets. And we continue to build, always with an eye to achieving the optimal results for our customers, staff and investors. This report explains just how we are adapting and extending the Group in order to accomplish this goal.

Build on us!

Letter from the Chairman of the Board of Management

Ladies and Gentlemen,

2008 will be remembered as the year in which the financial crisis shook the very foundations of capital markets like an earthquake, brought financial institutions crashing down like a house of cards, opened up gaping cracks in the real economy and relegated the preceding subprime crisis to the status of a mere temblor. Looking back, the year under review has quite rightly been branded as an "annus horribilis".

Although our Group net income similarly bears the marks of the financial crisis, it would be wrong for the Talanx Group to take a wholly negative view of 2008: not only did Talanx survive the turmoil largely unscathed – the Group made good progress despite the crisis.

There can be no question that the Talanx Group too – as a large institutional investor in international capital markets – was unable to divorce itself from their downward slide, especially as the financial crisis impacted virtually all asset classes worldwide. The price slump on international equity markets was thus also the crucial factor that shaped our income statement for 2008. The severe repercussions on our investment income prevented us reaching our profit target: as far as Group net income is concerned, it may be stated that the financial crisis took a substantial chunk out of our Group's earnings. The net investment income of EUR 1.6 billion came in well below the previous year's level of EUR 2.7 billion. The contraction in the operating profit (EBIT) to EUR 0.6 billion from EUR 1.5 billion in the previous year was attributable almost exclusively to this effect.

In terms of catastrophe losses, 2008 ranked as one of the most costly years since records began. The burden of catastrophe losses and major claims incurred by the Talanx Group was similarly heavier than expected. Hurricanes "Gustav" and "Ike" alone took a net toll on the Group's account of around EUR 240 million altogether.

So much, then, for the bad news about the Group – but what about the good news? First of all, I would like to emphasize that the financial crisis has in no way changed the Group's good market positioning and financial strength – we continue to enjoy a healthy and very solid financial foundation.

What goals had we set ourselves for 2008 and how did we match up to them?

Our insurance business is in excellent shape and delivered a very pleasing performance. In Property/Casualty Primary Insurance and Non-Life Reinsurance our goal is to maintain profitability, even if this means accepting temporary losses of market share. In this we were successful: despite the heavy burden of catastrophe losses we achieved a good combined ratio of 95.2% in 2008 that comfortably improved on the previous year. The Group segment of Property/Casualty Primary Insurance closed with a very good result despite the financial crisis and sometimes difficult market conditions. With organic growth of more than 2% foreign business played its part in the favorable development.

We also have good news to report as regards another strategic objective, namely the fine-tuning of the Group's structure. The organizational aspects of the integration of the former Gerling and BHW companies were completed in 2008 – in each case within the envisaged timeframe. The architects and master-builders of the Gerling integration can take especially great pride in the rapid pace with which the integration was implemented. It should, after all, be remembered that this was one of the largest takeovers in German insurance history.

We have also made successful progress towards our long-term goal of growing in promising foreign markets. In the Property/Casualty Primary Insurance segment we gained a foothold in the vigorously expanding Ukrainian insurance market, followed by our entry into the Chilean market. In the Bancassurance division we received a full license from the Turkish regulator to operate as a life and personal accident insurer, while our new company in Russia commenced its business activities. In Life/Health Reinsurance we obtained a license in China and established a branch in Seoul. In the Indian market we were able to conclude an exclusive cooperation agreement for life reinsurance business with the state reinsurer GIC Re.

Looking ahead, even though we do not expect the financial crisis and the associated global weakening of the real economy to quickly recede from the daily agenda, we are contemplating the future with optimism. The prospects for the current year in key markets are encouraging. Industrial insurance has probably bottomed out, and in private customer business too – especially motor insurance – we anticipate improved conditions. Rates in non-life reinsurance are similarly recovering: the financial crisis has made capital a scarce resource, a situation which reinsurers are turning to their advantage.

We continue to see promising opportunities in the area of retirement provision, not least because the crisis has clearly demonstrated the importance of secure and reliable old-age provision. The need to make adequate provision has, if anything, become even greater and more evident as a consequence of the financial crisis. This has boosted the appeal of insurance providers. Their expertise in granting and being able to deliver on long-term guarantees is an argument that is likely to be even better appreciated by consumers going forward.

With this in mind our mood is one of cautious optimism. Based on its good market positioning and capitalization, the Talanx Group is optimally placed to act on the opportunities that are now opening up. What is more, I am confident that in the current year we shall be able to build on the levels of profitability recorded in past years.

The unsolicited stress test which was imposed on us by the financial crisis and which the Talanx Group has passed clearly shows that the "construction work" carried out on the Group structure in recent years has fulfilled its purpose. The Talanx Group has a very robust structure that is capable of withstanding even the most severe tremors.

In order to ensure that this remains the case, we shall not cease in our efforts to make the Group even more stable and weatherproof. For this reason, among others, we adopted the theme of "building" as a leitmotif in preparing this annual report. For although our house already stands on a solid foundation today, we have no reason to abandon further construction projects. Quite the contrary: we shall continue to build in order to ensure that going forward, as in the past, our Group remains solid and attractive for customers, staff and investors.

Yours sincerely,

Herbert Haas

Herbert K. Haas

Board of Management

Herbert K. Haas
Chairman

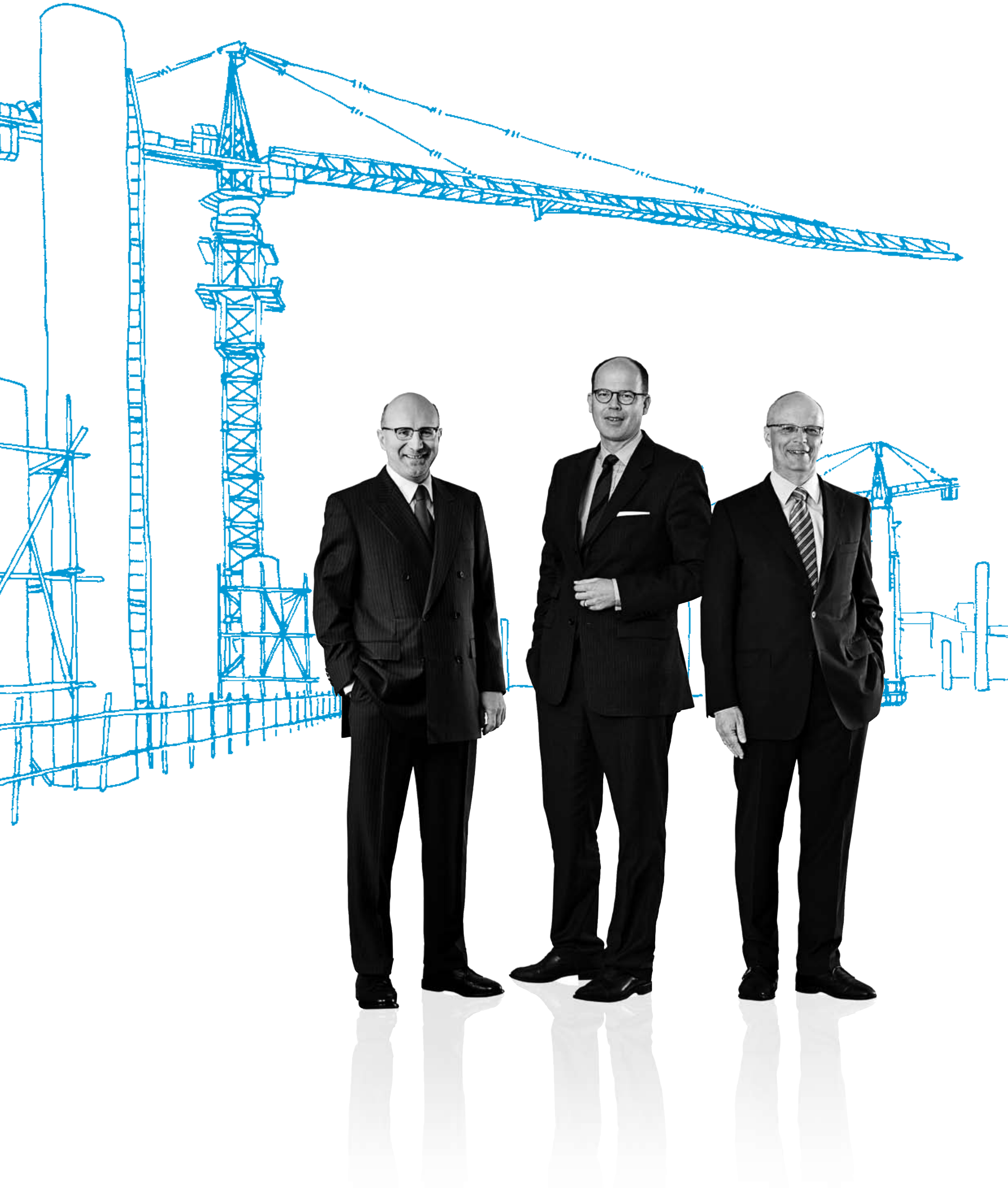
Burgwedel
*1954

Dr. Immo Querner

Ehlershausen
*1963

Dr. Thomas Noth

Hannover
*1960



Dr. Christian Hinsch

Burgwedel
*1955

Dr. Hans Löffler
(until 31.12.2009)

Niederkrüchten
*1949

Dr. Heinz-Peter Roß
(from 01.07.2009)

Gräfelfing
*1965

Norbert Kox

Bergisch Gladbach
*1946

Ulrich Wallin

Hannover
*1954

Supervisory Board
Valid: 01.05.2009

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

Johannes Funck
Deputy Chairman
Employee, HDI Direkt Versicherung AG,
Mülheim

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

Reinhard Faßhauer
(from 01.03.2008)
Senior executive, HDI-Gerling Sach Serviceholding AG,
Langenhagen

Hans-Ulrich Hanke
(from 16.07.2008)
Employee, HDI-Gerling Leben Betriebsservice GmbH,
Brühl

Götz Hartmann
(until 29.02.2008)
Senior executive, Talanx AG,
Gehrden

Gerald Herrmann
Trade union secretary,
Norderstedt

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

Otto Müller
Employee, Hannover Rückversicherung AG,
Hannover

Rudolf Müller
(until 30.06.2008)
Employee, Gerling Kundenservice Firmen und Privat GmbH,
Leverkusen

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

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

Dr. Michael Rogowski
Chairman of the Supervisory Board of Voith AG,
Heidenheim

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

Barbara Schulze
Employee, HDI-Gerling Industrie Versicherung AG,
Bochum

Jürgen Stachan
(until 31.12.2008)
Trade union secretary,
Sarstedt

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

Dr. Eggert Voscherau
Chairman of the Supervisory Board of BASF SE,
Ludwigshafen

Prof. Dr. Ulrike Wendeling-Schröder
(from 03.02.2009)
Professor at Leibniz University,
Hannover

Supervisory Board Committees

Valid: 01.05.2009

Finance and Audit Committee	Personnel Committee	Mediation Committee	Nomination Committee
Wolf-Dieter Baumgartl Chairman	Wolf-Dieter Baumgartl Chairman	Wolf-Dieter Baumgartl Chairman	Wolf-Dieter Baumgartl Chairman
Johannes Funck	Reinhard Faßhauer	Johannes Funck	Dr. Thomas Lindner
Dr. Thomas Lindner	Prof. Dr. Eckhard Rohkamm	Prof. Dr. Eckhard Rohkamm	Dr. Michael Rogowski
Prof. Dr. Eckhard Rohkamm		Barbara Schulze	
Dr. Erhard Schipporeit			

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

Tasks of the committees

Finance and Audit Committee

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

Personnel Committee

- Preparation of personnel matters for the full Supervisory Board
- Decisions in lieu of the full Supervisory Board on certain personnel matters such as the content of service contracts with Board members

Mediation Committee

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

Nomination Committee

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

Board of Management

Herbert K. Haas
Chairman

Investor Relations, Human Resources, Corporate Communications, Legal Affairs/Executive Staff Functions, Internal Auditing, Corporate Development

■

Werner Dettmer
(until 21.04.2008)

■

Dr. Christian Hinsch

Domestic and Foreign Property/ Casualty Primary Insurance

■

Norbert Kox

Domestic and Foreign Bancassurance

■

Dr. Hans Löffler

Domestic and Foreign Life Insurance
(until 31.07.2009)

■

Dr. Thomas Noth
(from 01.06.2008)

Information Services

■

Dr. Heinz-Peter Roß

Domestic and Foreign Life Insurance
(from 01.08.2009)

■

Dr. Immo Querner

Finance/Participating Interests, Financial Services segment, Real Estate, Planning and Controlling, Quantitative Risk Management, Accounting/Taxes

■

Ulrich Wallin
(from 22.01.2009)

Reinsurance

■

Wilhelm Zeller
(until 22.01.2009)

Reinsurance

■

Report of the Supervisory Board

In the 2008 financial year the Supervisory Board again performed with the utmost diligence the tasks prescribed by statutory requirements and the Articles of Association. We considered at length the economic situation and strategic development of Talanx AG and its major subsidiaries. We advised the Board of Management on the direction of the company, monitored the management of business and were directly involved in decisions of fundamental importance.

In the year under review we came together for three ordinary meetings and one constitutive meeting of the Supervisory Board. As in the previous year, the Federal Financial Supervisory Authority (BaFin) exercised its legal powers and sent two representatives to attend two of these meetings. The Audit Committee of the Supervisory Board met three times and the Personnel Committee met twice. The Nomination Committee met in April 2008 for the first time and in this context suggested suitable candidates to the Supervisory Board, which the latter put forward for election to the Supervisory Board at the 2008 General Meeting. The Mediation Committee prescribed under the Co-Determination Act again had no reason to meet in 2008. The full Supervisory Board was briefed on the work of the various committees. In addition, we received quarterly written reports from the Board of Management on the course of business and the position of the company and the Group in accordance with § 90 German Stock Corporation Act (AktG). At no point in the year under review did we consider it necessary to conduct audit measures pursuant to § 111 Para. 2 German Stock Corporation Act (AktG). Insofar as transactions requiring approval arose between meetings, the Board of Management submitted these to us for a written resolution. The Chairman of the Supervisory Board also remained in constant contact with the Chairman of the Board of Management and was regularly advised of all important business transactions within the company and the Talanx Group. All in all, within the scope of our statutory responsibilities and those prescribed by the Articles of Association we assured ourselves of the lawfulness, expediency, regularity and efficiency of the actions of the Board of Management.

The Board of Management provided us with regular, timely and comprehensive information about the business and financial situation – including the risk situation and risk management –, major capital expenditure projects and fundamental issues of corporate policy as well as about transactions that – while not subject to the approval of the Supervisory Board – nevertheless need to be reported in accordance with the requirements of the Rules of Procedure.

In the year under review compliance guidelines were adopted by Talanx AG and its major subsidiaries governing the lawfulness of corporate actions and a whistleblower hotline was set up.

Key areas of discussion

The business development of the company and the individual Group segments, the effects of the international financial crisis on results and the planning for 2009 formed the primary focus of the reporting and were discussed at length during our meetings. The reasons for divergences between the business experience and the relevant plans and targets in the financial year just-ended were explained to us, and we were able to satisfy ourselves accordingly with the explanations provided.

A further focus of our deliberations was the reporting by the Board of Management on the progress of the integration of the former Gerling Group. We received reports on the status of the integration steps still pending under company law as well as on the new construction projects in Cologne and Hannover, and we adopted the necessary resolutions in this connection. In addition, we were briefed on the strategic orientation of the Talanx Group and the preparations for a possible Initial Public Offering of Talanx AG. In this regard, discussions concentrated especially on the adjustment and documentation of the company's key business processes.

The Supervisory Board also considered a capital increase at an Irish reinsurance subsidiary in connection with the acquisition of part of the insurance portfolio of a US life reinsurer as well as the acquisition of insurance companies in Ukraine and Chile.

Along with preparations for discussion and adoption of resolutions in the full Supervisory Board, the Audit Committee of the Supervisory Board considered at length the company's quarterly financial statements compiled on a voluntary basis and received information from the Board of Management on performance management processes within the Talanx Group. The Audit Committee also discussed the findings of an actuarial audit of the net loss reserves for non-life insurance business within the Talanx Group as well as the profitability trend at the individual Group companies as at 31 December 2007. The Board of Management additionally provided us with a detailed explanation of risk management within the Group, especially against the backdrop of the financial crisis.

The transactions and measures subject to approval in accordance with legal requirements, the company's Articles of Association or Rules of Procedure were agreed with the Board of Management following examination and discussion. This included inter alia the adoption of resolutions regarding termination and materialization of control and profit transfer agreements within the Group.

Corporate Governance

The Supervisory Board again devoted special attention to the issue of Corporate Governance. In accordance with the requirements of the Act on the Modernization of Accounting Law (BilMoG), the Audit Committee was enlarged to include an additional "specially qualified" member within the meaning of the legislation (for the members and functions of the various committees please see page 7 of the Annual Report).

Audit of the annual and consolidated financial statements

The annual financial statements of Talanx AG submitted by the Board of Management, the financial statements of the Talanx Group – drawn up in accordance with International Financial Reporting Standards (IFRS) – as well as the corresponding management reports and the bookkeeping system were audited by KPMG Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Hannover. The General Meeting appointed the auditor and the Audit Committee awarded the concrete audit mandate. In addition to the usual audit tasks, the audit focused particularly on the adequacy of the provisions for pensions and the provisions for tax risks in the case of the annual financial statements as well as – in the case of the consolidated financial statements – the application of IFRS 7 ("Financial Instruments") and the impairment of assets (IAS 36).

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

The financial statements and the audit reports of KPMG were distributed to all the members of the Supervisory Board in due time. They were examined in detail at a meeting of the Audit Committee on 16 June 2009 and at a meeting of the Supervisory Board on 17 June 2009. The auditor took part in the deliberations of the Audit Committee and of the full Supervisory Board regarding the annual and consolidated financial statements, reported on the conduct of the audits and was available to provide the Supervisory Board with additional information. In accordance with the final outcome of our own examination of the annual financial statements, the consolidated financial statements, the corresponding management reports and the audit reports, we concurred with the opinion of the auditors and approved the annual and consolidated financial statements drawn up by the Board of Management.

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

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

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

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

Changes on the Supervisory Board and Board of Management

Mr. Götz Hartmann, the senior executives' representative on the Supervisory Board, stepped down from the Supervisory Board on 29 February 2008 upon reaching the age of 65. The Supervisory Board expressed its appreciation and recognition of his work on the full Supervisory Board and the Personnel Committee and paid tribute to his many years of service as Head of Group Accounting. Mr. Reinhard Fasshauer succeeded Mr. Hartmann on the Supervisory Board immediately after the latter had stepped down.

Mr. Werner Dettmer's mandate and contract of service were terminated by mutual agreement effective 21 April 2008. With effect from 1 June 2008 Dr. Thomas Noth was appointed to succeed Mr. Dettmer as a member of the Board of Management.

Mr. Jürgen Stachan relinquished his mandate as an employee representative on the Supervisory Board effective 31 December 2008. Prof. Dr. Ulrike Wendeling-Schröder was appointed to succeed him as a member of the Supervisory Board by a resolution of Hannover County Court on 3 February 2009.

After the Supervisory Boards of Hannover Rückversicherung AG and E+S Rückversicherung AG appointed Mr. Ulrich Wallin as Chief Executive Officer of both companies on 20/21 January 2009 with effect from 1 July 2009, the Supervisory Board of Talanx AG appointed Mr. Wallin as a member of the Board of Management of Talanx AG with responsibility for the Reinsurance segment with immediate effect on 22 January 2009. Here – as is also the case at the reinsurance companies – Mr. Wallin succeeds Mr. Wilhelm Zeller, who stepped down from the Board of Management of Talanx AG on 22 January 2009.

The mandate of Dr. Hans Löffler on the company's Board of Management will end by mutual agreement with effect from 31 December 2009. Dr. Heinz-Peter Ross was appointed to succeed Dr. Löffler as a member of the Board of Management with effect from 1 July 2009.

The Supervisory Board of Talanx AG expressed its special appreciation to Mr. Zeller and Dr. Löffler, who are retiring on 30 June 2009 and 31 December 2009 respectively, for their many years of successful work on the Board of Management of Talanx AG and within the Talanx Group.

The mandates of Ms. Schulze, Mr. Fasshauer and Mr. Funck on the company's Supervisory Board end today with the company's General Meeting. The Supervisory Board expressed its gratitude and appreciation for their conscientious and valuable contributions. Ms. Jutta Mück and Ms. Katja Sachtleben-Reimann were elected to the Supervisory Board from among the employee delegates, with Mr. Karsten Faber chosen to represent the senior executives. The other existing employee representatives were re-elected to the Supervisory Board.

Word of thanks to the Board of Management and staff

The Supervisory Board thanked the members of the Board of Management and all the staff of the Talanx Group for their efforts in the year under review – one which was again notable for its special challenges.

Hannover, 17 June 2009

For the Supervisory Board

Wolf-Dieter Baumgartl
(Chairman)

Cathedrals are never finished. Men and women have worked on these monuments for centuries, and their labors continue to this day. Even looked at with the sober distance of today's perspective, the beholder cannot help but appreciate the greatness of what was achieved back in the Middle Ages.

Nor are companies ever finished. In this case, too, men and women spend long periods of time building an "edifice". And for many of these people part of what counts is attracting the recognition of those who contemplate the undertaking.

In no way would we wish to equate commercial enterprises with cathedrals, yet we would allow ourselves to point out some parallels. For example, the fact that many people pour their heart and soul into building something together that endures; that experts carry out the work, and that the construction project takes place in the public gaze; or that there is a shared desire to show something to the world and enjoy success, but that at the same time mistakes are made. Or we may point to the ceaseless striving to build ever higher in an effort to attract people who are excited by the structure and the ideas behind it.

How to build a secure Group

The metaphor of construction can also be applied to Talanx. The Board of Management of the holding company assumes the role of the architect, who draws up his plans based on the needs and budgets of the "residents". A robust foundation is the indispensable basis for a stable construction. And just how robust our foundation is has been demonstrated by a broad spectrum of market upheavals.

Yet you have to continue building, renovating and modernizing in order to keep a structure in good condition. That is just what we are doing: only last year we successfully completed key alterations at the very heart of the undertaking – extensions were added in the form of acquisitions. And when it comes to the building's interior finishing work, walls are being torn down here and there so as to convert two rooms into one and move forward with united operations.

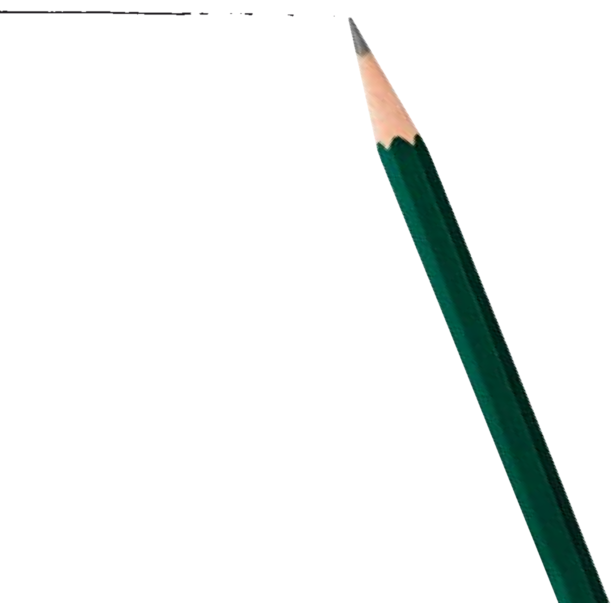
What properties must the building have? Robustness – in fact more than that, the capacity to withstand earthquakes – is the overriding priority. Low operating costs are also right up at the top of this list. Functionality, weatherproofing, appeal and a pleasant working environment – these are all factors that should help to persuade customers, staff and investors.

At many sites within the Group, however, building continued in the literal sense of the word: the new offices in Cologne are currently in the process of being occupied, in Hannover an annex was completed and the foundation stone was laid for a new building, and in Hamburg Neue Leben is awaiting completion of the construction work on its future headquarters.

On the following pages members of staff from various Group segments describe projects in which they have contributed to the Group's ongoing development.

Anja Dix
Group Controlling
Talanx AG

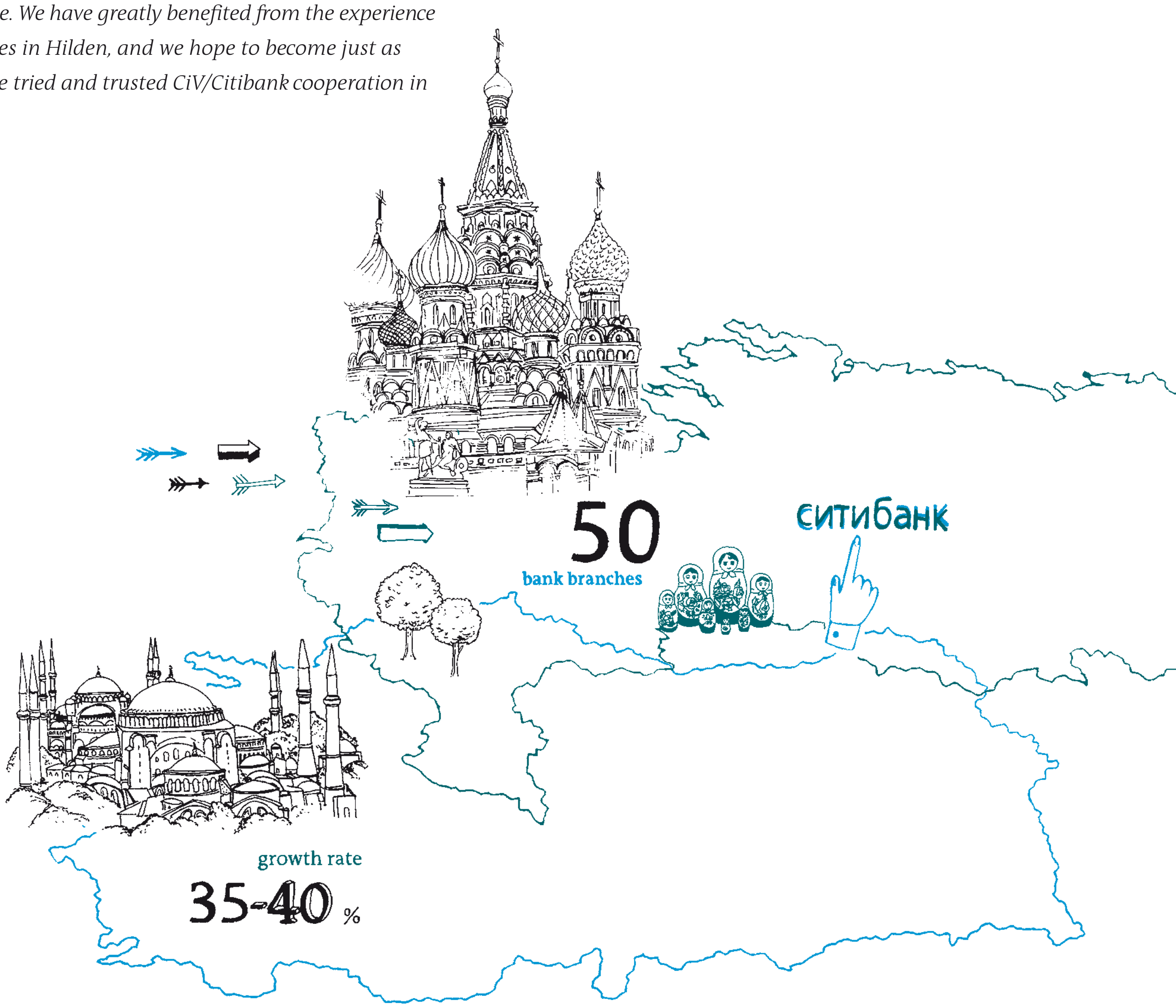
"If the Talanx Group were a building, I would describe it like this: modular structure, a combination of interlocking parts that lend each other greater stability and strengthen the construction. At the same time, however, the structure is open in many directions, thereby making it possible to add on parts that further enhance stability. Numerous craftsmen, all experts in their discipline, are permanently committed to continuously improving and weatherproofing this building. In order to ensure that this works, some of us at the holding company draw up a strategy, a plan, that the experts for the individual construction phases are required to follow. It defines the areas where expansion or modification makes sense."



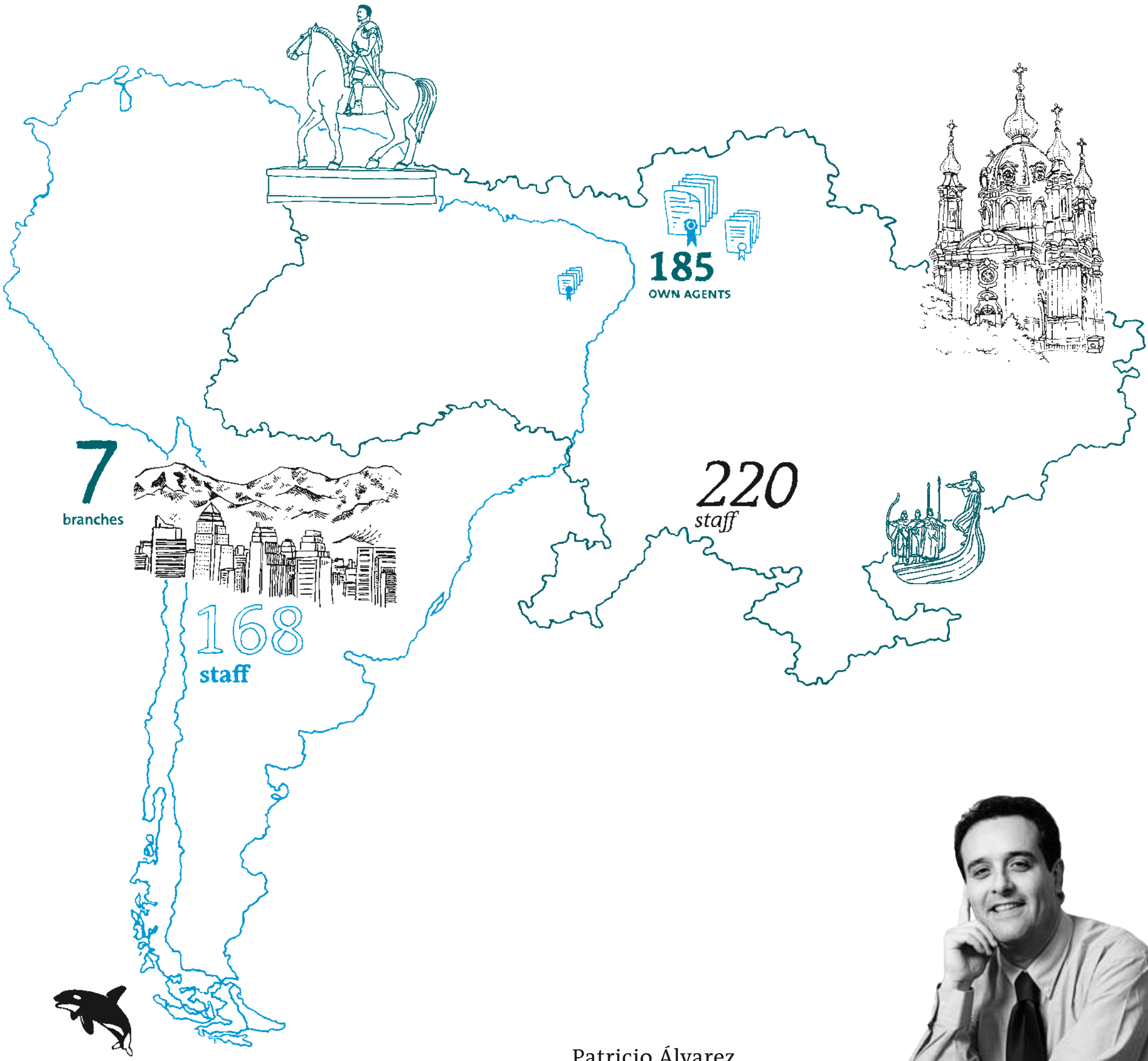
Last year we were able to follow Citibank into Russia and Turkey and thereby establish our Bancassurance Division on a broader regional basis. Two new companies, CiV Life in Moscow and CiV Hayat Sigorta in Istanbul, got off to a successful start.

Suhbel Özdogan
Sales Coach
CiV Hayat Sigorta (Turkey)

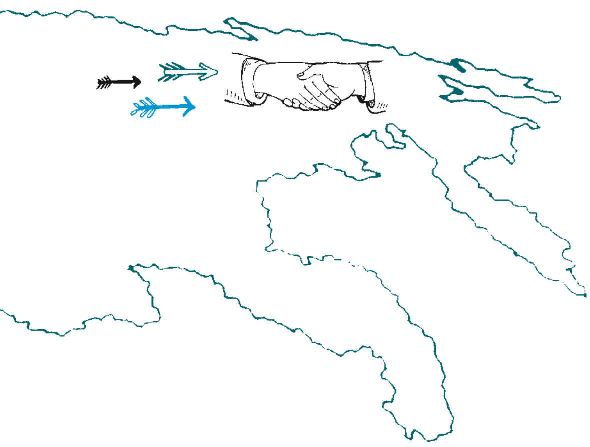
"As a young dynamic company we are ***building*** *together with our business partner Citibank for a promising future. We are excited about the enormous potential inherent in the Turkish market. 75% of the population has no form of private insurance whatsoever, and a very large proportion of policyholders have no life insurance. We have greatly benefited from the experience of our colleagues in Hilden, and we hope to become just as successful as the tried and trusted CiV/Citibank cooperation in Germany."*



The acquisitions of the past year highlight the Property & Casualty Insurance Group's concentration on promising and dynamic regions: companies in Chile and Ukraine have been added to the Group.



Patricio Álvarez
Sales: Independent brokers
HDI Seguros (Chile)



"With the acquisition of the Chilean insurance company the Property & Casualty Insurance Group has been able to promisingly ***expand*** *its business in the Latin American region. The Chilean market offers good opportunities, especially for companies with the renown of HDI-Gerling. We currently rank twelfth in the entire Chilean insurance market and are very well positioned from a marketing standpoint: we have a network of 800 insurance brokers and are present nationwide through seven branches."*

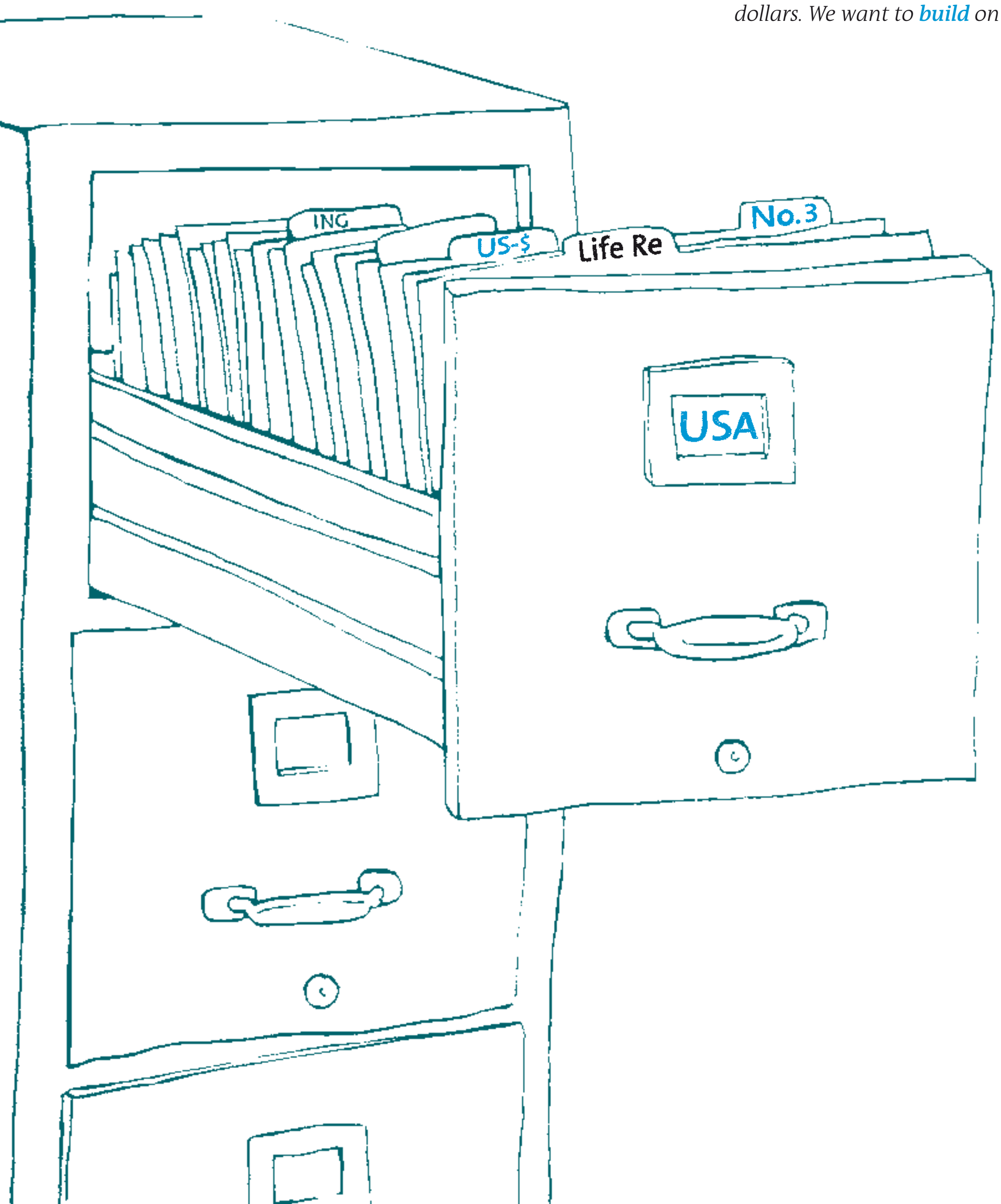
Talanx Group 2008:
We are building on our strengths.

Strengths:
Capacity for cooperation
Selective expansion

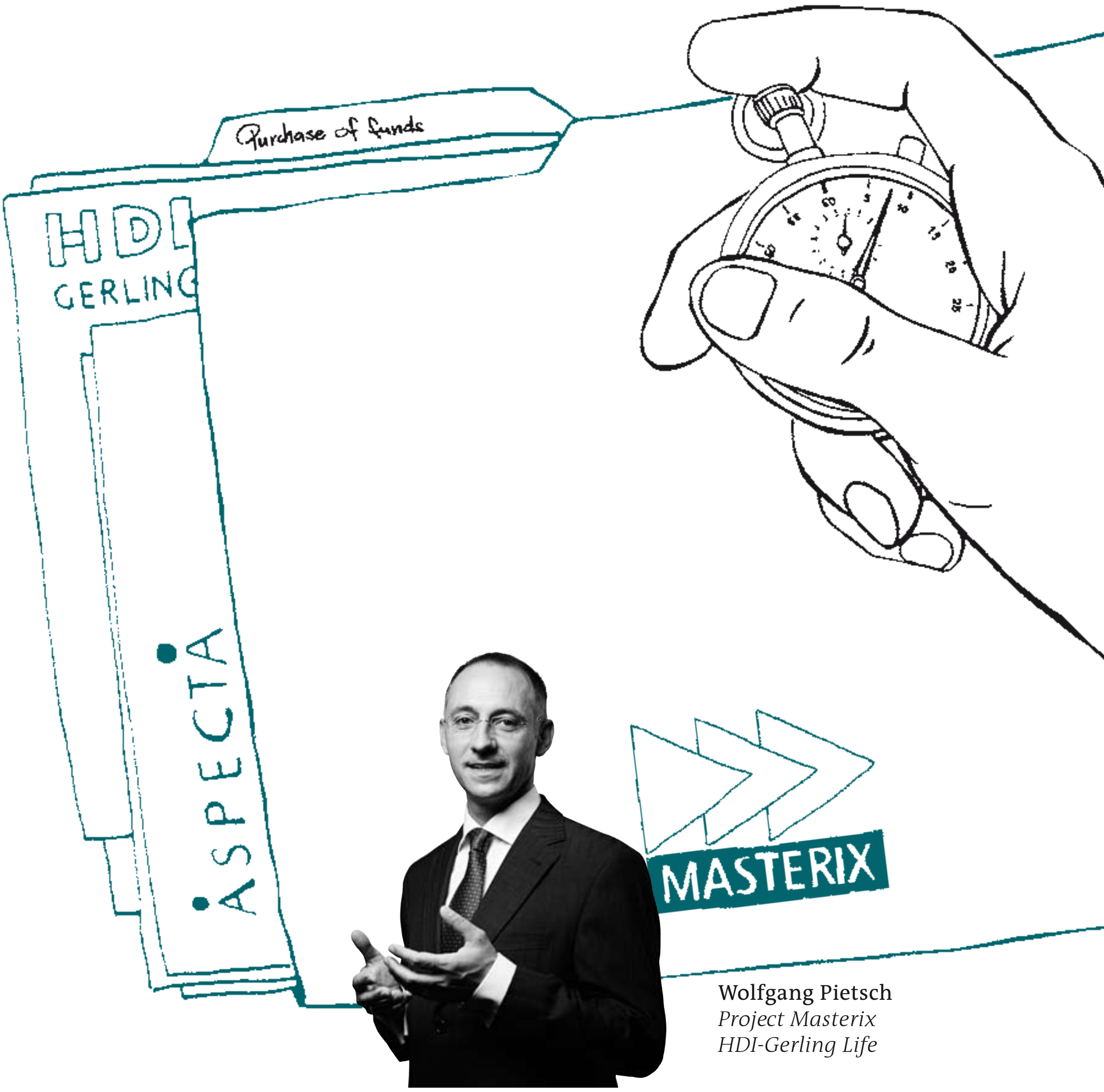
The Talanx subsidiary Hannover Re operates highly successfully not only in non-life reinsurance but also in life/health reinsurance. It expanded in this area in the year under review and acquired a large portfolio.

Christiane Willner
Coordination International Operations Hannover Re

"With the acquisition of life reinsurance portfolios and the corresponding infrastructure in the United States we have put in place an important platform for further growth. We have thus moved a major step closer to our stated objective of becoming one of the three large, globally operating and profitable life/health reinsurers. In the current year this business is already expected to bring in a premium volume in excess of one billion dollars. We want to ***build*** *on this and further boost profitability."*

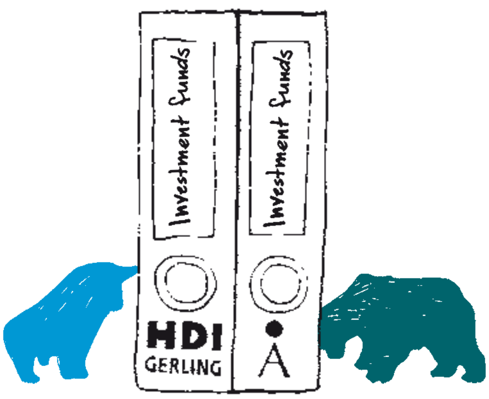


With the aim of offering customers even better service, the HDI-Gerling Life Group has launched an initiative for continuous process improvement: “Masterix” is part of its corporate strategy and agenda for the future. Service and quality are to be appreciably improved and the speed and simplicity of processes significantly optimized.



Wolfgang Pietsch
Project Masterix
HDI-Gerling Life

“Everyone can help to optimize processes within the enterprise. By way of example, both Aspecta and HDI-Gerling Life deal with funds in life insurance business, yet to date they have handled their purchase, launch, modification and closure differently. As interdepartmental project managers we came together with all our affected colleagues in a workshop to identify how trivial issues hamper our thinking. We have now been able to clarify responsibilities, define information channels and initiate measures. Processes have now been ***transformed*** *in such a way that they are consistent, more transparent and more straightforward – to the benefit of our customers.”*



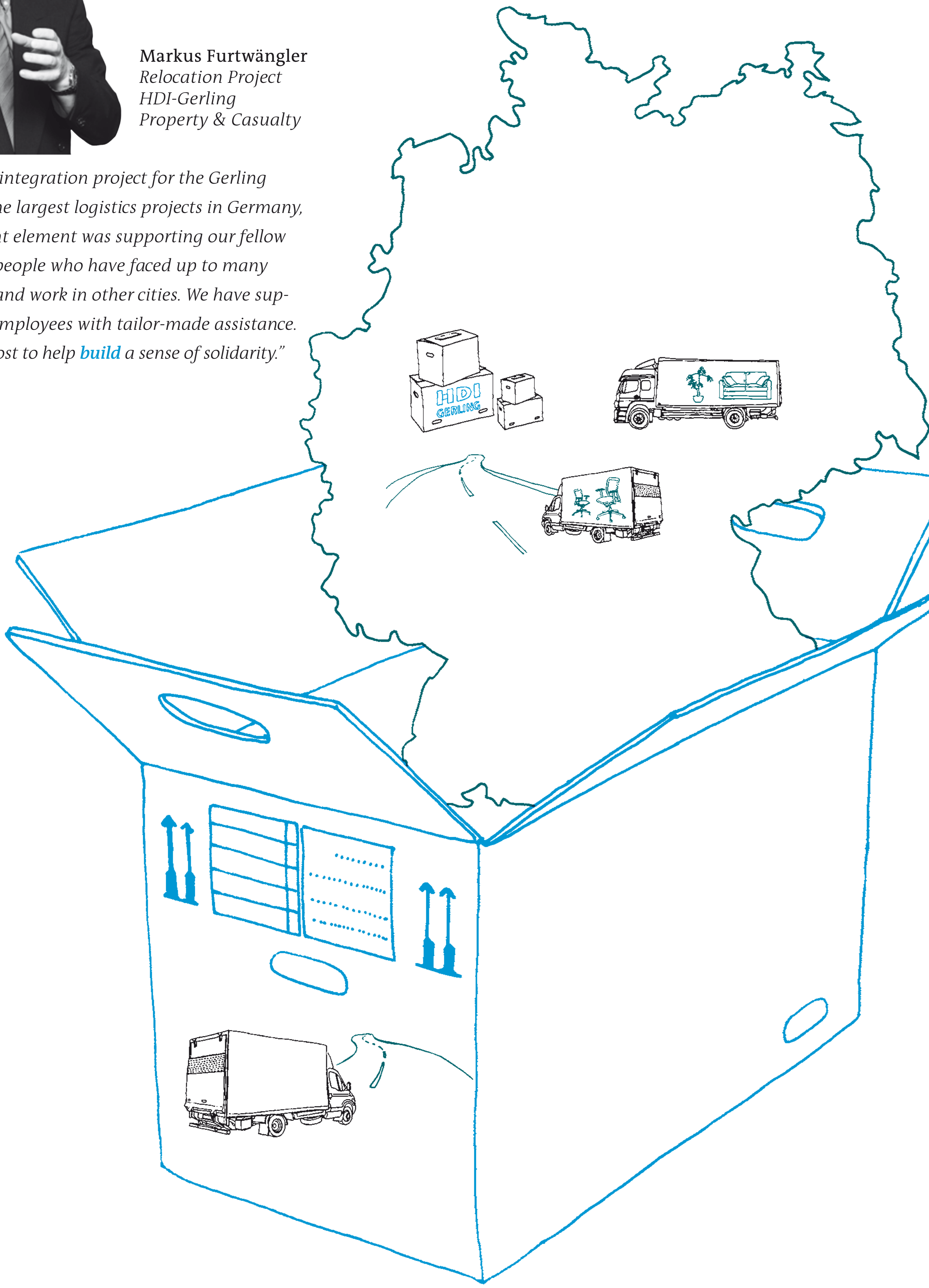
Talanx Group 2008:
We are building on our strengths.

Strengths:
Profitable growth
Continuous improvement

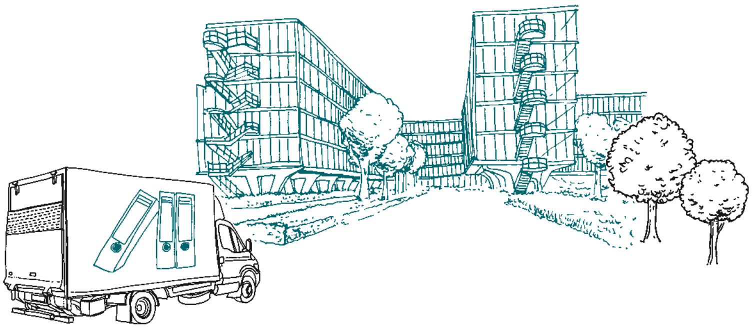
The integration of HDI and Gerling necessitated numerous relocations. Members of staff were given extensive relocation support so as to make their change of location as smooth as possible.

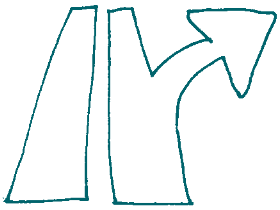
Markus Furtwängler
Relocation Project
HDI-Gerling
Property & Casualty

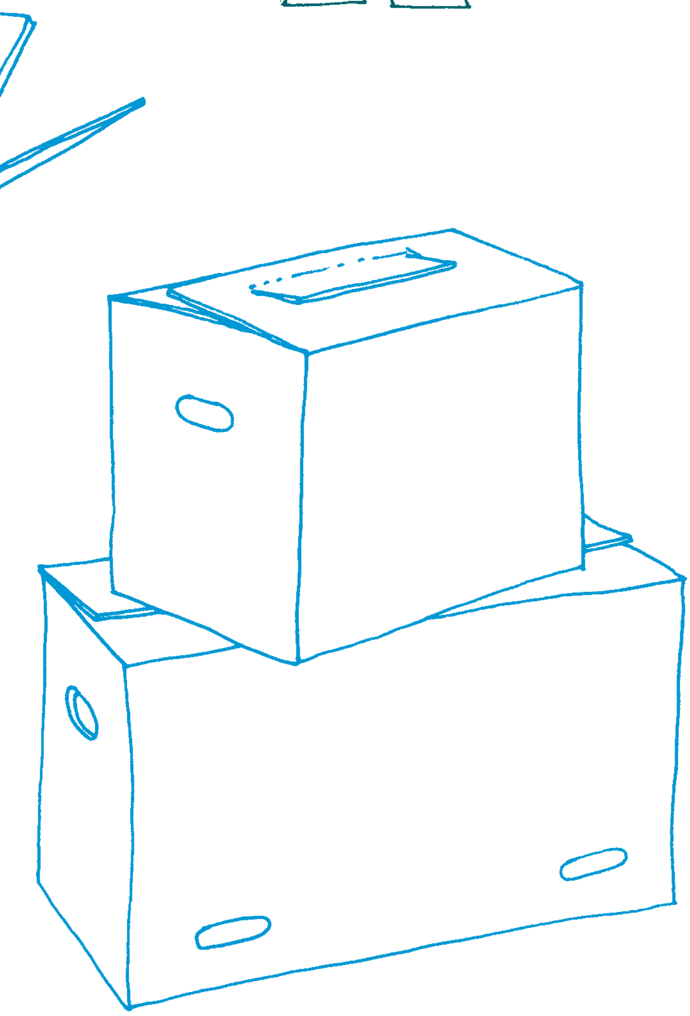
"We like to describe the integration project for the Gerling companies as one of the largest logistics projects in Germany, but the most important element was supporting our fellow members of staff: the people who have faced up to many changes and now live and work in other cities. We have supported around 1,000 employees with tailor-made assistance. We have done our utmost to help ***build*** *a sense of solidarity."*



Just a few hundred meters from the existing corporate headquarters, the new centerpiece of the HDI-Gerling Property & Casualty Insurance Group is rising out of the ground. Phase 1 of the new building will accommodate 1,800 staff, bringing together in a single building the units that are currently split between seven Hannover locations.







Gereon Drewing
Construction Management AmpegaGerling

"Within the scope of the building of the new HDI-Gerling headquarters in Hannover, AmpegaGerling Immobilien Management functions as the extended arm of the builder-owner and represents the P&C Group to all those involved in the planning and construction. As the Group's own real estate company with many years of experience, this work forms part of our core business. Ground was broken on 23 June 2009. We have, however, already been involved in the ***building*** *of the new headquarters for two years and will continue to be for a further two years. Supporting such a project from the outset right through to completion is a very special challenge."*

Talanx Group 2008:
We are building on our strengths.

Strengths:

People
Real estate expertise

We are building on our staff.

The Board of Management would like to thank all staff for their dedicated and successful efforts in the financial year just-ended. The Board of Management thanks the Group Employee Council for its close and constructive cooperation, especially in connection with the HDI/Gerling integration.

Integration of HDI and Gerling completed

The organizational aspects of the integration of the HDI-Gerling companies were completed as planned in 2008. Following on from the successful conclusion of integration activities in the Life Group and in the asset management sector in the previous year, the synergies envisaged for the HDI-Gerling Property & Casualty Group were achieved to a level in excess of 95% by the end of the year under review.

Almost all the necessary personnel relocations have also been completed. Altogether, more than 5,000 job transfers were carried out as part of the integration; the bulk of them occurred within the same political municipality and related largely to the merging of branches and business offices. More than 1,000 employees moved to a new city: mainly those from the former life insurance locations in Hamburg and Wiesbaden who moved to Cologne, those from the property/casualty offices in Cologne who came to Hannover, and the staff in asset management who transferred from Hannover to Cologne.

Our people thus displayed enormous flexibility. Not only that, the implementation of the restructuring activities and the strained working environment inevitably imposed by the integration placed a special burden on them. It is thus all the more commendable that they successfully coped with the demands of business. The Board of Management therefore extends its special gratitude to the staff affected by the integration for their very high level of dedication and gratifying achievements in 2008.

The measures described above were carried out on the basis of the settlements of interest concluded with the Group Employee Council. In the course of 2008 settlements of interest were reached for more than 6,000 employees on the property/casualty insurance side. They encompassed the reorganization of all central and localized functions in industrial, commercial and private as well as direct insurance together with the restructuring of the sales organization.

All measures were cushioned by the social compensation plan agreed in 2007, which provides inter alia for generous compensatory payments and assistance benefits in the event of relocations.

Bancassurance division restructured

Following the growth of recent years and the acquisition of BHW (now: PBV) Lebensversicherung, the organizational structure of the Bancassurance division was simplified and streamlined. All service functions were concentrated in the hands of Proactiv Servicegesellschaft mbH. These steps were accompanied by a transition agreement reached with the Group Employee Council and all affected Employee Councils.

Occupational retirement provision improved

In view of the anticipated adverse changes within the statutory pension insurance scheme, occupational retirement provision is becoming an increasingly important pillar of old-age provision alongside the steps taken by employees towards individual provision. Working together with the Group Employee Council, Talanx AG therefore moved to further improve occupational retirement provision within the Group in 2008. The employer-financed provident fund is the principal carrier of retirement provision within the Group. The Group increased employer contributions to this provident fund for all non-executive staff and at the same time updated and modernized the benefit guidelines.

In addition, a new agreement was reached with the Group Employee Council on the transformation of remuneration components into pensionable emoluments that gives our staff access to all modern methods of implementation: direct insurance, pension fund, reinsured provident fund and direct commitments.

Human resources strategy overhauled

A key outcome of the work of the personnel departments in 2008 is the strategic reorientation of human resources management within the Group with the goal of putting in place a Group-wide human resources strategy. In the area of personnel development the systems used to identify potential and plan succession are to be coordinated on a Group-wide basis. Personnel marketing activities are to be bundled with an eye to the external impact on the labor market. There are also plans to set up a Corporate Academy to complement and improve the skills enhancement offerings available to senior managers at all Group companies worldwide. Personnel reporting will be further improved and expanded in conformity with capital market standards. In order to be able to work on these important tasks in a purposeful manner, cooperation between personnel departments has been restructured and enhanced. Further potential synergies are to be leveraged through increased standardization of the deployed IT systems.

Advances in personnel development

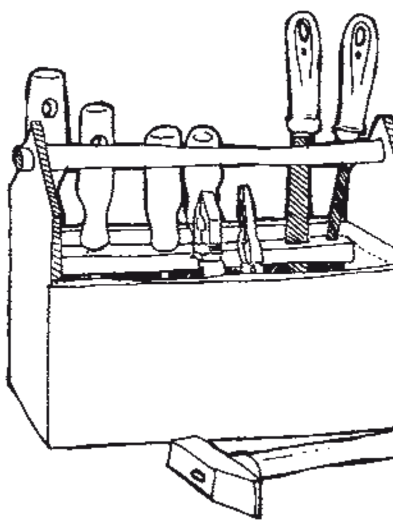
The continuous fostering and development of specialist and managerial staff is an important corporate objective that was again supported with individual measures in all segments in the year just-ended.

The HDI-Gerling Life Group developed a systematic personnel development concept aimed at assuring the better-than-average skills level of staff on a lasting basis and optimally equipping the company to face the challenges posed by the market. The personnel departments are assisted in these efforts by the company's own "live-academy" set up in 2007, which offers a comprehensive program of technical seminars, personality training and specialist programs designed specifically for in-house and field staff as well as for marketing partners.

In the HDI-Gerling Property & Casualty Group, too, employees were systematically prepared for their tasks – which in some cases were modified as part of the integration process – through needs-oriented skills enhancement activities in technical and interdisciplinary matters and familiarized with the latest requirements in order to satisfy the needs of customers and live up to the company's strategic objectives. In order to be able to achieve our stated objective of filling vacant positions extensively from among our own ranks, special support programs were implemented for different target groups.

Human resources management in the Bancassurance Division was shaped above all by growth and change. Numerous staff were freshly recruited or entrusted with new, more demanding duties. This was accompanied by commensurate further training and personnel development measures. What is more, many colleagues were able to enhance their personality skills thanks to corresponding training opportunities. A new 18-month program was launched for young professionals; it is aimed at highly qualified university graduates with little or no career experience.

The Hannover Re Group traditionally attaches outstanding importance to personnel development. In order to strengthen the Group's fitness for the future, a "Future Workshop" aimed particularly at younger employees was instituted in 2008; it gives staff who have been with the company for between two and five years the opportunity to put aside the concerns of day-to-day business and discuss strategy, the future and the company as such. Over the medium to long term the purpose of this Future Workshop will be to establish a group of junior executives. A task force was set up for the recruitment of mathematicians – a scarce resource in the market. The task force will canvass the labor market using a number of measures, including an 18-month trainee program designed specially for mathematicians.



2008

January

Acquisition in Ukraine

HDI-Gerling International Holding AG purchases Alcona, a Ukrainian property/casualty insurer established in 1992. The company, which has been trading as HDI Strakhuvannya since August 2008, concentrates principally on motor products and accident insurance.

The Management Board of HDI Strakhuvannya

February

Talanx bancassurance launched in Turkey

The newly established Talanx subsidiary CiV Hayat Sigorta is fully licensed as a life and accident insurer by the Turkish insurance regulator. It develops insurance products exclusively for Citibank, which are then sold through the bank's distribution channels in Turkey.

The team at CiV Hayat Sigorta

March

Hannover Re honored in Russia

Hannover Re is crowned best foreign reinsurer in a survey of insurers and brokers at the 12th All-Russia Reinsurance Conference in Moscow. This is all the more remarkable because the company does not have a representative office in Russia, but instead writes the reinsurance business from Hannover.

The team of underwriters responsible for the Russian market at Hannover Re

CiV Life Russia commences business operations

After Russian insurance regulators award CiV Life, Moscow, a full license to sell insurance at the end of December 2007, sales of life and accident insurance products are officially launched on 1 March 2008 through the branches of Citibank.

First rating for Aspecta

The rating agency Standard & Poor's evaluates Aspecta Lebensversicherung AG for the first time. Right from the outset it receives a financial strength rating of "A+". The rating agency thus assesses the company's financial situation as "strong". With this rating Aspecta receives the same mark as its affiliate HDI-Gerling Lebensversicherung AG.

April

HDI-Gerling Industrie comes out on top

In a survey of large corporate insurance buyers Euromoney magazine identifies HDI-Gerling as "Germany's Best Industrial Insurer" after it ranks first in all individual categories: product range, price, claims settlement and innovations. In Poland HDI Asekuracja also takes first place.

May

Hannover Re best reinsurer in the United States

In a survey conducted by the US Flaspöhler Research Group Hannover Re is crowned best reinsurer overall in North America for the third time in succession. 32 reinsurers operating in the US market were included in the survey.

Life/health reinsurance in Asia

As part of the deregulation of the Korean market Hannover Re establishes a life branch in Seoul that will concentrate on bancassurance and the cultivation of new markets. In the same month it receives a license from the Chinese regulator (CIRC) to open a branch in China, thereby enabling it to conduct operational business as a local provider.

June

Property & Casualty Group completes acquisition in Chile

HDI-Gerling International Holding AG takes over the company ISE Chile Compañía de Seguros S.A. The company, which was rebranded HDI Seguros S.A. at the beginning of 2009, is a successful property/casualty insurer with a sales focus on brokers, agents and retail chains.

The new Chilean company makes a splash at the Messe ExpoAlemania

Top marks for the life insurance group

The rating agency Franke & Bornberg hands out top marks nine times to retirement provision solutions offered by Aspecta and HDI-Gerling Life. It awards the highest rating of FFF (excellent) to all surveyed unit-linked annuity products offered by both companies as well as the Riester annuity Duplex Dynamic tt.

"Excellent" – quality seal for the Life Group

Innovative capital market transaction

Hannover Re concludes the first transaction as part of its extended Insurance-Linked Securities activities: property catastrophe risks of several US cedants were bundled and transferred to the capital market. It thus enables clients to access the capital market for risks that would not lend themselves to this on a stand-alone basis.

July

Integration at PB completed

Effective 1 July BHW Lebensversicherung AG is rebranded PBV Lebensversicherung AG and BHW Pensionskasse becomes PB Pensionskasse AG. The PB insurers thereby complete the integration of the BHW companies.

August

PBV Lebensversicherung is financially strong

PBV Lebensversicherung AG receives good ratings: its first financial strength rating from Assekurata is an "A+". The independent rating agency Morgen & Morgen follows with a 4-star rating ("very good"); the magazine WirtschaftsWoche adds PBV to its 5-star category reserved for the financially strongest companies.

September

HDI honored in Austria

For the second time in succession the Austrian company HDI Versicherung AG secures first place in the motor section of the AssCompact Awards. It received the distinction on the basis of a representative survey of independent insurance intermediaries conducted by SMART-compagnie GmbH.

AssCompact Award for HDI Versicherung

October

Independent advice for "best agers"

The HDI-Gerling Life Group establishes the Darmstadt-based DTPVO Deutsche Privatvorsorge AG. It concentrates on high-income private clients aged 45 and older, offering these so-called "best agers" holistic advice specially tailored to their needs. In so doing, it relies not only on products from HDI-Gerling and Aspecta, but also on an independent portfolio of insurance and banking services.

Norbert Hergenhahn, serving on the new company's Management Board alongside Lüder Mehren

Cooperation with Turkish bank

HDI-Gerling Life has entered into a marketing cooperation with the German arm of the largest Turkish private bank, Isbank GmbH. The bank offers retirement provision products exclusively from HDI-Gerling Life through its German branch network. Provision experts at the twelve branches in Germany are trained by HDI-Gerling in all matters relating to retirement provision.

HDI-Gerling Innovation Prize awarded

Walter Hirche, Minister of Economic Affairs, Labor and Transportation for Lower Saxony, and Dr. Christian Hinsch, Chief Executive Officer of HDI-Gerling Property & Casualty Insurance, hand over the HDI-Gerling Innovation Prize for Safety 2008. Five inventors are honored for their ideas; the top spot went to the "light-Inside" bicycle lamp built into the handlebars or steering column.

Prize-winner Lothar Niewald with his invention

November

Partner Office welcomes 250th intermediary

A year after entering the market Partner Office AG welcomes its 250th intermediary: the sales service company helps intermediaries – their clients – to comply with the new mediation requirements, thereby enabling them to concentrate on their core business, namely discussions with customers.

Reviewing pension commitments with HDI-Gerling

HDI-Gerling Life launches its holistic consulting offering "PzConcept", which facilitates the analysis of pension commitments for possible funding shortfalls or content-related shortcomings as well as the identification of solutions. In this way HDI-Gerling is preparing businesses for fresh challenges arising in connection with the reform of accounting legislation.

December

Aspecta Luxembourg opens German branch

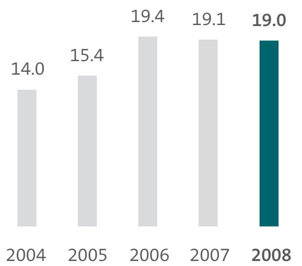
ASPECTA Assurance International Luxembourg S.A. establishes a branch in Germany, its third after Spain and Italy. It is able to offers its German customers product solutions from Luxembourg to safeguard their future and manage their investments.

The worldwide financial market crisis and the associated crash on equity markets were the dominant factors that shaped the net profit of the Talanx Group in 2008. Despite a thoroughly gratifying performance on the underwriting side, the serious repercussions on investment income prevented Talanx from achieving all the goals that it had set itself and left it unable to post a significant profit in the year under review. The robust capital strength of Talanx nevertheless remains unaffected.

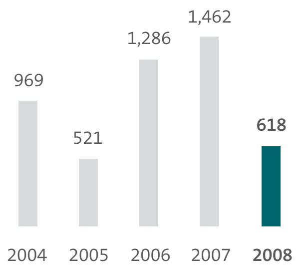
The financial year passed off successfully in those areas that were not directly impacted by the crisis: core underwriting business fared well. The combined ratio improved to 95.2% despite a heavy burden of catastrophe losses. Most notably, the Property/Casualty Primary Insurance segment generated a very good result and pleasing growth in foreign markets despite the financial crisis.

Talanx also has good news to report on its structural optimization: the organizational aspects of the integration of the former Gerling and BHW companies were completed in 2008 – within the envisaged timeframe.

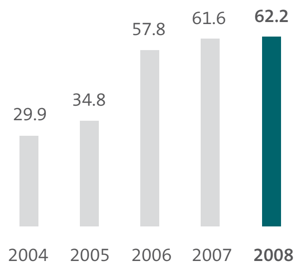
Gross written premium
in EUR bn



Operating profit (EBIT)
in EUR m



Investments (excluding funds hold by ceding companies)
in EUR bn



Group management report. Contents

Business operations, organization and structure

The Talanx Group is the third-largest German insurance group measured by gross premium income and operates as a multi-brand provider in the insurance and financial services sector. At the end of 2008 Talanx employed around 17,700 staff worldwide.

Talanx has split its activities into five Group segments: Property/Casualty Primary Insurance, Life Primary Insurance, Non-Life Reinsurance, Life/Health Reinsurance and Financial Services. The individual divisions are controlled – usually via intermediate holding companies – by the Hannover-based financial and management holding company Talanx AG, the sole owner of which is HDI V.a.G., a mutual insurance company.

Talanx is represented by its own companies or branches in around 40 countries worldwide. We have the capacity to act in altogether 150 countries through cooperation arrangements. In the international arena primary insurance activities in personal lines are concentrated on Europe, while in property/casualty business the focus is principally on the high-growth regions of Central and Eastern Europe as well as Latin America. On other continents – in addition to our network serving industrial insurance customers – particular prominence attaches to reinsurance locations such as in North America, South Africa, Australia and some Asian countries.

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

Our segments

	Property/Casualty Primary Insurance
Products and services	■ Professional industrial insurance: tailored solutions for industrial and commercial clients ■ Property and casualty insurance for private customers in promising, high-growth markets
Markets	■ Industrial insurance: worldwide through our own companies, branches and cooperation with the Royal & SunAlliance Insurance Group, which is present in more than 120 countries ■ Private customers: nationally and internationally; key foreign markets: Western, Central, Eastern and Southern Europe as well as Turkey and Latin America
Distribution channels	■ Tied agents' organization ■ Brokers ■ Sales outlets ■ Cooperations ■ Bancassurance ■ Internet
Goals	■ Profit-oriented growth: expansion of foreign business, strengthening of selling power in Germany ■ Consolidation and expansion of private customer business ■ Increase in product standardization, industrialization and digitizing of processes and initiatives to boost profits on the underwriting side

Life Primary Insurance	Non-Life Reinsurance	Life/Health Reinsurance	Financial Services
■ For private individuals: retirement provision, personal risk protection, asset accumulation ■ Traditional life and disability insurance ■ Innovative – e.g. unit-linked – products ■ Occupational retirement provision: comprehensive range featuring models for all methods of implementation	■ Comprehensive product range: experience in all lines of non-life reinsurance ■ Structured reinsurance as a complement to existing reinsurance solutions ■ Undogmatic, flexible and innovative alternative to the regional market leaders ■ One of the five largest reinsurers in the world	■ Holistic approach from new business financing to strategic market positioning ■ Target clients: providers of unit-linked products, bancassurance models in German- and Romance-speaking markets and small to mid-sized niche insurers ■ One of the largest life and health reinsurers in the world	■ Management of the Group's assets ■ Comprehensive solutions in asset management for institutional clients ■ Investment fund products for institutional investors and private clients ■ Group's own internal reinsurance broker
■ Central and Eastern Europe, Western and Southern Europe	■ Global network consisting of more than 100 subsidiaries and participations, branches and representative offices in around 20 countries ■ Reinsurance relations with more than 5,000 insurers in over 150 countries	■ Present on five continents with more than 20 locations	■ Concentration on the German retail market ■ Global investment experience, know-how and research for institutional and private investors in Germany through cooperation with a globally operating partner
■ Life insurance: tied agents' organization, intermediaries, brokers and multiple agents, direct sales ■ Bancassurance: branch network of the cooperation partners	■ Predominantly broker-oriented ■ Selected representative offices and branches ■ Centralized underwriting in treaty business	■ Global, localized marketing structure ■ Worldwide network ■ Direct sales	■ Group's distribution channels ■ Cooperative ventures with banks, brokers and asset managers ■ Direct sales
■ Further stepping up of customer orientation and service quality ■ Efficiency enhancement through bundling of expertise and services ■ Cost cutting ■ Life insurance: growth in new business ■ Bancassurance: expansion of leading market position in Germany	■ One of the most profitable non-life reinsurers in the world ■ Correct assessment of risks ■ Risk-oriented determination of prices and conditions and adequate level of reserving	■ One of the three most profitable life/health reinsurers in the world ■ Annual double-digit growth in premium volume and profit ■ Regional and biometric balance of the portfolio ■ Leading market position in financing arrangements for life, annuity and accident portfolios	■ Increase in the collective value contribution for the Group through value-added for departments and the holding company

Strategy

Corporate policy background

The Talanx Group is internationally active in the insurance, reinsurance and financial services sectors. In its target markets our Group is a major player in shaping the insurance industry. At Talanx, more than in any other insurance group, we optimize the interplay of insurance and reinsurance as an integral component of the business model with the aim of consistently enhancing the opportunity/risk profile, increasing capital efficiency and leveraging growth opportunities more flexibly. What is more, this composition of the Group portfolio ensures that even in difficult market phases our Group has at its disposal sufficient independent capacity to reliably support its clients, tap into attractive markets and thereby secure and increase the intrinsic value of the Group over the long term.

The Group is headed by Talanx AG as a financial and management holding company. Its primary task is to steer and manage the Group. In its management of the Group Talanx AG relies on the organizational principle that has proven its worth in recent years: as locally as possible, as centrally as necessary – always in compliance with our Corporate Governance guidelines. The success enjoyed by the Talanx Group is attributable in special measure to this organizational structure, which accords the individual business units a high level of entrepreneurial freedom and responsibility. In this way the various segments are best able to act on their opportunities – always with an eye to profitable growth.

While the Talanx brand is oriented exclusively towards the capital market, on the operating side our considerable international product expertise, our forward-looking underwriting policy and our marketing power are reflected in a multi-brand strategy. This enables us to optimally align ourselves with the needs of different customer groups, regions and cooperation partners. Furthermore, new companies can be efficiently integrated into the Group. Not only that, this structure facilitates a highly developed capacity for cooperation which can be harmonized with a diverse range of partners and business models.

In so doing, we trust in efficient business processes, optimally supported by state-of-the-art IT systems – another key success factor for our Group.

Strategic objectives of the Talanx Group

The paramount strategic objective of the Talanx Group is the ongoing refinement of an ownership structure that safeguards on a lasting basis the independence of the Group and its focus on a shareholder value orientation. This is driven by the firm conviction that only on this basis can company policy be geared to reliable continuity, above-average profitable growth and hence long-term value enhancement. This is done with the intention of living up to the interests of both shareholders and – so to speak as a prerequisite – policyholders and staff in a balanced manner and generating the greatest possible benefit for these groups. This is accomplished by way of a strong Talanx Group that is continuously able to provide the best possible insurance protection by consistently safeguarding and optimizing its equity base and capital allocation. As a binding guiding principle, this strategic objective forms the basis from which all other company goals are derived.

Profit target

The Talanx Group strives for continual, above-average value enhancement of the invested capital. We seek to rank among the five most profitable of Europe's 20 largest insurance groups – measured by our sustained return on equity under IFRS. Our Group's minimum target in relation to profitability: a return on equity 750 basis points in excess of the average risk-free market interest rate for 10-year German government bonds over the past five years.

On the Group level we ensure that all company-specific profit targets at least satisfy the defined target return on equity.

Capital management

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

This is achieved in two ways: firstly, we minimize the cost of capital by using appropriate equity substitutes and financing instruments; secondly, we align our equity resources such that they at least meet the standards of Standard & Poor's capital model for an "AA" rating. In accordance with the profit target, equity resources above and beyond this requirement are established to enhance our independence from the international insurance markets and hence promote the optimal provision of insurance capacity and protection.

Capital resources are allocated to those areas that promise the highest risk-adjusted post-tax profit over the medium term. In this context we make allowance for the desired portfolio diversification and, in particular, the regulatory framework. Measurement is based on the expected contribution to value added, derived from the coordinated business plans.

Growth target

In order to preserve and further improve our competitiveness, we strive for profit-oriented growth within the Talanx Group while preserving the optimal segmental and regional diversification of the portfolio. This is achieved organically, by way of strategic and complementary acquisitions as well as through cooperations – with a preferred concentration on the segments of Property/Casualty Primary Insurance, Life Primary Insurance and Life/Health Reinsurance.

The growth strategy pursued by Talanx is geared to diversification of the portfolio with a view to optimizing the risk-adjusted return generated by the Group.

Along with segment-oriented diversification, our stated strategic objective is more extensive regional risk spreading within the individual primary insurance segments. The Talanx Group additionally targets complementary acquisitions outside Europe in selected growth markets. In the medium term, it is envisaged that the proportion of gross premium generated in Germany from primary insurance business should not amount to more than half the total gross premium income from primary insurance. In view of the different risk profiles of our various divisions, we set ourselves exclusively profit targets in volatile segments. In less risk-exposed segments we define both profit and growth targets.

Markets, business climate and legal environment

Overall economic development

The 2008 financial year witnessed the most drastic financial market crisis since the Second World War. The subprime segment of the US real estate market must be regarded as the origin of this crisis. It resulted, most conspicuously, in a crisis of confidence among banks as well as in the stability of the global financial system. Government intervention and aid packages on a hitherto unprecedented scale ensued. Central banks around the world slashed key interest rates, thereby lending support to fiscal policy measures on the monetary side.

The effects of the financial market crisis on the real economy exacerbated the cyclical weakness that had begun to set in at the start of the year and plunged the global economy into a recession in the second half of 2008. Growth rates in gross domestic product fell around the world: US economic output still grew by 1.1% in 2008 overall, but the slump in the final quarter of 2008, amounting to an annualized –6.2%, was extraordinarily abrupt. The Eurozone similarly recorded minimal growth of 0.7% for the full 2008 financial year, despite an annualized decline of –5.7% in the fourth quarter.

The German economy, too, was impacted by this development. Gross domestic product in the final quarter contracted by 1.6% relative to the previous quarter, equivalent to an annualized decline of –8.2%. This fall was attributable above all to softer demand in foreign markets, as reflected in sharply weaker exports. It was only thanks to a strong first quarter that overall growth of 1.3% was achieved in the year just-ended.

Development of real gross domestic product

In % relative to previous year	2008 [1)]	2007
USA	+1.1	+2.0
Eurozone	+0.7	+2.6
Germany	+1.3	+2.5
United Kingdom	+0.7	+3.0
Japan	–0.7	+2.4

[1)] *Provisional figures*

The trend in consumer prices was crucially shaped by rising commodity and food prices until the end of the first half-year. The price trend peaked in July 2008 at 5.6% p.a. in the United States and 4.0% p.a. in the Eurozone. Plummeting commodity and food prices – fostered by growing pessimism about the economic outlook – led to sharply falling inflation rates. Inflation in the United States stood at just 0.1% p.a. in December, while in the Eurozone it had decreased to 1.6% p.a. by year-end.

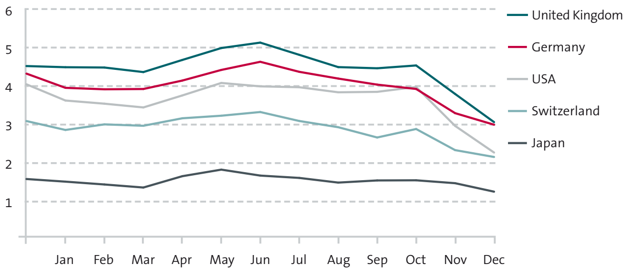
Central banks responded to the financial market crisis, falling rates of inflation and the biting recession – the Fed and the Bank of England slashed key interest rates in record speed to the lowest levels in their history: the US Federal Reserve reduced prime rates by more than 400 basis points (bp) in the course of 2008 to a range of 0 to 0.25%, while the Bank of England made cuts of altogether 300 bp to a record low of 2.0%. Ultimately, the ECB also reduced base rates by 175 bp to 2.5%. What is more, the central banks made additional liquidity available through their extended money market instruments and the direct purchase of securities.

Capital markets

2008 was a year of extremes on the capital markets. Initially, the yield on 10-year German federal government bonds climbed in the first half of the year from 4.3% to 4.7% on the back of rising inflationary expectations in the Eurozone; from mid-year, onwards, declining consumer prices led to a trend reversal in the yields on government bonds. The return on 10-year German federal government bonds, for example, sank to a record low of 2.95% in December. In the United States, 10-year Treasury bonds fell to their lowest level in 50 years to close the year at 2.2%.

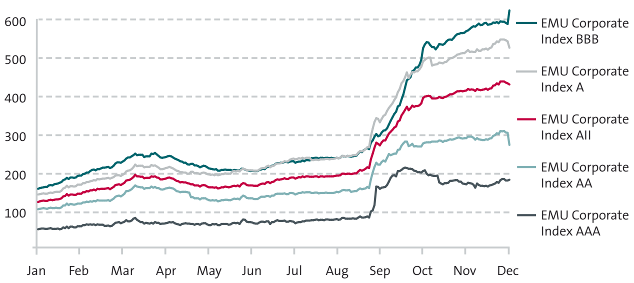
In the face of growing pessimism about the economic outlook, the trend towards a flight to quality (especially into German government bonds) was sustained. Most countries in the Eurozone found themselves increasingly dragged into recession. As to its severity and duration, however, the market factored in considerable differences between the individual national economies. Thus, despite interest-rate premiums, government bonds issued by peripheral countries (especially Italy/Greece) fared significantly more poorly.

Yields on 10-year government bonds in 2008
in %



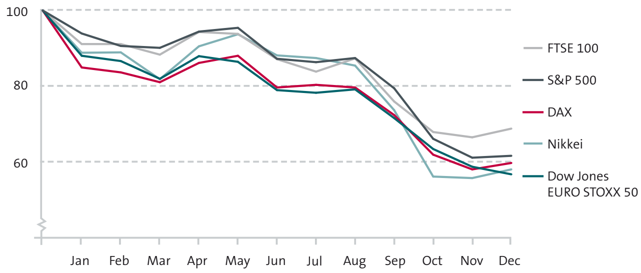
When the investment bank Lehman Brothers failed in September 2008 financial bonds were already priced with historically high premiums compared to government bonds. These instruments were then impacted again by the bank's collapse, and industrial bonds were also severely affected. 2008 ended with sharp price declines for virtually all types of bonds.

Spread development of EUR corporate bonds in 2008
Premiums relative to government bonds in basis points



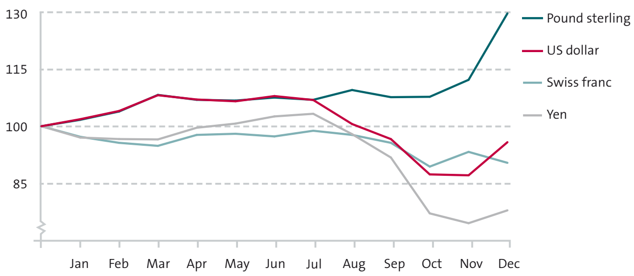
The 2008 stock market year went down as one of the darkest in market history: the Dow Jones EURO STOXX 50 closed the year with a loss of 44%. The S&P 500 index fell by 39%, the third-worst annual performance since 1927 – after 1931 and 1933. The German stock index, the DAX, closed the year 40% down – a drop second only to that seen in 2002. The British FTSE 100 index turned in its worst performance since 1984 with a minus of 38%. The extraordinarily poor performance of the equity markets was driven principally by the financial market crisis and the economic slump. The billions in write-downs taken by banks as the year got underway merely heralded the start of a need to take substantial value adjustments. Uncertainty and mistrust gave rise to a pronounced risk aversion, necessitating state intervention. Ultimately, governments around the world acquired direct stakes in financial institutions.

Movements on equity markets in 2008
31.12.2007 = 100



Influenced by high inflation in the Eurozone, the euro climbed to a new record level of just under USD 1.60 against the greenback in April 2008, only to subsequently retreat again sharply before rallying to USD 1.39 at year-end. The euro gained almost 30% in value against the pound sterling in the course of the year, closing the year at GBP 0.95 on the back of a substantial rise in the fourth quarter. The British currency was dragged down by the more abrupt economic downturn in the United Kingdom relative to other core European countries as well as by the drastic policy of interest rate cuts pursued by the Bank of England. Closing the year at 126 yen, on the other hand, the euro shed around 22% of its value against the Japanese currency compared to the exchange rate at the beginning of the year. The yen's recovery in the second half of 2008 was connected with the considerable flows of capital back to Japan and a narrowing of interest rate differences following the policy adopted by central banks in the West to combat the financial market crisis.

Movement of the euro relative to other currencies in 2008
31.12.2007 = 100



International insurance markets

For the insurance markets 2008 consisted of two profoundly different phases: while the first phase was still characterized by a relatively stable and flourishing environment, an economic downturn prompted by the intensifying financial crisis set in from around the middle of the year and progressively encompassed virtually all regions and markets around the world. At the latest by the fourth quarter the real economy worldwide was entirely dominated by the economic slump – which slid into recession with increasing impetus; insurance markets were also heavily impacted in view of their close interlinking with the real economy and their status as an integral part of the financial system. Although the international insurance industry was affected significantly less markedly than the banking sector, the experience of past economic crises was once again reinforced – namely that in times of economic uncertainty most consumers initially cut back their spending on decisions relating to investments, provision and risk protection that involve long-term financial commitments in favor of ensuring their ability to meet the needs of daily life.

Particularly for providers operating on the international life insurance markets, 2008 thus brought a number of adverse factors: in the first place, as large institutional investors on the international financial markets, life insurers were hard hit by the repercussions of the financial market crisis – declining yields for government bonds, substantial price losses on equities and considerable upheavals on credit and money markets as a consequence of a steadily spreading general loss of confidence in financial assets. It must be assumed that the high volatility on capital markets and the low interest rate level for fixed-income securities have led to a significant weakening of the capital base of life insurance companies. A further cause for concern was the softening demand for life insurance products against the backdrop of a virtually worldwide recession and the associated restraining effect on purchasing power and the demand trend among consumers in the affected countries. What is more, some markets saw the entry into force of changes in the legal and regulatory environment, which ushered in new requirements for insurance undertakings.

On property and casualty insurance markets, where premium growth is also in large measure dependent on macroeconomic conditions and the development of the economic climate, providers similarly found it increasingly difficult to achieve their sales, volume and profit targets. The pressure on insurance results emanating from the price competition prevailing in numerous lines was further exacerbated by the major loss situation – which was notable for a series of devastating natural catastrophe events. These included, in particular, snow- and ice-storms in several Chinese provinces, winter storm "Emma" in Europe, the severe earthquake in the Chinese province of Sichuan, hailstorms in Germany as well as hurricanes "Gustav" and "Ike", which caused extensive damage along coastal regions in the Caribbean and the United States. The latter produced insured losses in the order of USD 20 to 25 billion, of which around USD 3 billion were attributable purely to damage to drilling rigs and oil platforms in the Gulf of Mexico.

The Talanx Group is represented in the world's most important markets by various subsidiaries in numerous lines of insurance and reinsurance business. For details of the development of individual insurance markets please see the corresponding annual reports of our Group companies transacting insurance business in the countries concerned.

German insurance industry

The premium growth generated by the German insurance industry amounted to 0.8% in 2008, an insignificant improvement on the pace of growth in the previous year. While German property and casualty insurance returned to marginally positive growth for the first time after years of declining premium income, German life insurance suffered under a lack of macroeconomic stimuli and appreciably muted overall demand in the 2008 financial year.

Development of premium income in the individual insurance lines in Germany

In % compared to previous year	2008 1)	2007
Property/casualty insurance	+0.2	–0.9
Life insurance/occupational retirement provision	+0.5	+0.6
Private health insurance	+2.9	+3.4
Total	**+0.8**	**+0.6**

1) Provisional figures

The major trends on the German life insurance market in 2008 can be summarized as follows:

- minimal growth in written premiums
- contracting portfolio by number of policies and regular premium
- declining new business by number of policies
- rising new business by regular premiums and single premiums

Particularly in the second half of the year, the intensification of the banking and financial market crisis as well as the looming recession proved to have a significant restraining effect on new business*, which in the fourth quarter of 2008 fell appreciably short of the comparable quarter of the previous year both in terms of regular premiums and single-premium business. New business nevertheless increased in 2008 by 4.9% to EUR 19.2 billion, with growth in regular premiums assisted by the fourth and last step increase on the incentive scale for Riester policies. All in all, gross written premiums in German life insurance* climbed by 0.9% in 2008 to EUR 76.1 billion. Excluding the special Riester effect accounting for an estimated premium volume of roughly EUR 1 billion, a modest premium decline would have been booked in 2008. The net return generated by German life insurers contracted owing to developments on capital markets. Given an average guaranteed interest rate of 3.4% in the in-force portfolio, the pressure on unadjusted earnings therefore increased.

Despite the curtailing influencing factors due to the muted state of private households and the similarly unfavorable economic climate for industrial business, the premium trend in German property and casualty insurance recovered somewhat compared to previous years. Against a backdrop of sometimes sharply diverging growth rates in the individual insurance lines, the latest projections of the German Insurance Association (GDV) indicate minimal premium growth for the segment as a whole of 0.2% to reach EUR 54.6 billion. The proportion of the total insurance market attributable to property and casualty insurance therefore remained unchanged at 34%. The potential for growth was, however, limited due to the relatively high degree of market saturation and the prevailing price competition in major lines such as motor and industrial property insurance, which had been further fueled by the moderate claims experience of recent years. On the other hand, the repercussions of the financial market crisis on property and casualty insurance also remained within limits. The profits generated by property and casualty insurers from their core insurance business proved to be generally robust, as a result of which it was possible to absorb relatively comfortably the write-downs and value adjustments that had to be taken on investments as a consequence of the financial market crisis.

** excluding providers of occupational retirement provision in the form of Pensionskassen and Pensionsfonds*

Business development

Legal and regulatory environment

In the year under review the Group was again confronted with numerous new or modified legal requirements.

In April 2008, for example, the Statutory Order on Minimum Premium Refunds in Life Insurance entered into force; this provides for all participating in-force and new policies to share consistently in positive investment, risk and other results.

The Financial Markets Stabilization Act also had a bearing on our Group in light of investment considerations (cf. also the risk report).

As far as the regulatory environment is concerned, special mention should be made of the intensive discussions surrounding the Draft Solvency II Framework of the European Commission. In anticipation of the adoption of the framework expected for 2009, the Talanx Group has already been preparing for the new supervisory requirements for some time. In January 2009 the Federal Financial Supervisory Authority (BaFin) published a Circular on Minimum Requirements for Risk Management in Insurance Undertakings (MaRisk VA), which interprets the requirements placed by § 64 a Insurance Supervision Act (VAG) on the organization of insurance undertakings from a supervisory standpoint and preempts many of the provisions of the future Solvency II Directive. The bill to strengthen financial market and insurance regulation, which has been available in draft form since March 2009, may also have implications for the organization of our Group going forward.

The global financial market crisis and the associated slump on equity markets were the factors that decisively shaped the results of the Talanx Group in the 2008 financial year. Although the Group lost none of its financial strength, the repercussions of the crisis on international capital markets took a heavy toll on the net profit. This development left Talanx unable to accomplish all the goals that it had set itself for the year under review.

If we restrict our gaze purely to core business, however, 2008 was a gratifying year: underwriting business continued to fare well overall. The combined ratio improved markedly despite a heavier burden of catastrophe losses. The primary insurers, in particular, closed the year with very good results despite the financial crisis. The business written by the Property/Casualty Primary Insurance segment in foreign markets also progressed favorably with organic growth of 2.4%.

The Group's gross written premium (including savings elements of premium under unit-linked life and annuity policies) contracted slightly by 1% to EUR 19.0 (19.1) billion. Several factors played into this decline: in Non-Life Reinsurance, the segment with the largest contraction (11%), the principal reasons were the withdrawal from specialty business and the weakness of foreign currencies, especially the US dollar against the euro. The fall of 1% in the Property/Casualty Primary Insurance segment was attributable to adverse market conditions, above all in motor insurance. Yet the profit-oriented underwriting policy pursued in such market phases – which includes a preparedness to temporarily accept losses of market share rather than deviate from our profit orientation – was also a factor in the contraction. Life Primary Insurance grew by 6% due, most notably, to the first-time recognition of the former BHW companies for an entire financial year and the full consolidation of the PB insurers. Life/Health Reinsurance boosted its gross premium income by 2%. Yet these increases in premium volume did not make up for the decline in the Non-Life Reinsurance segment. If special effects are factored out, the gross written premium booked by the Group increased by 3%.

Owing to the increased level of retained premium, deriving primarily from the Property/Casualty Primary Insurance and Non-Life Reinsurance segments, the net premium earned remained virtually unchanged at EUR 14.9 (14.9) billion.

The loss experience in both these segments was more favorable overall. As a result, the joint combined ratio of these segments improved appreciably to 95.2 (99.3)%.

While developments on the premium and claims sides were in line with our expectations overall, the investment income came in significantly below the planned level. The financial market crisis, which escalated in October, had a double impact on the Group: firstly, investment income was hampered by write-downs and disposal losses on equities – an amount of altogether EUR 1.5 billion (after allowance for all equity hedges the figure still stood at EUR 0.9 billion). Secondly, the investment income suffered under value adjustments on fixed-income securities, including most notably those taken on bonds issued by banks and corporations which had found themselves in difficulties as a consequence of the crisis. After netting with write-ups recognized in income they amounted to roughly EUR 174 million. Owing to the considerable volume of write-downs and impairments, net investment income slipped sharply by 40% to EUR 1.6 (2.7) billion.

The operating profit (EBIT) contracted to EUR 0.6 (1.5) billion. Group net income was heavily weighed down by the tax load, which climbed to almost 74% after 25% in the previous year. A negative factor here is that losses on equities cannot be treated as tax-deductible by composite insurers and reinsurers in Germany. Group net income fell to EUR 187 (477) million.

Successful progress towards structural optimization

Talanx has good news to report as regards the integration of the former Gerling and BHW companies:

With the closure of the "integration office" as at year-end 2008, the HDI-Gerling Property/Casualty Group was able to officially complete the overall integration. Remaining tasks will be finalized internally as part of normal day-to-day business activities. Following the successful steps towards integration in the Asset Management sector (May 2007) and in the HDI-Gerling Life Group (year-end 2007), one of the largest acquisitions in the German insurance industry has thus been successfully completed within the envisaged timescale.

In the Bancassurance division, too, the integration of the former BHW companies is progressing according to plan. Having acquired these companies in September 2007, the division had already completed the organizational aspects of their integration by the end of 2007. At the end of June 2008 BHW Leben was rebranded PBV Lebensversicherung AG.

Financial position and assets

The balance sheet structure of the Talanx Group is shaped by its character as a diversified, globally operating financial services group. The dominant item on the assets side is the investments, which accounted for 74% of total assets. They serve first and foremost as security for the provisions constituted in insurance business, the amount of which was almost the same at 73% of total assets. The most important sources of financing are the shareholders' equity (6% of total assets) and the issued subordinated debt (2% of total assets).

The increase of EUR 0.7 billion in total assets to EUR 96.0 billion can be attributed first and foremost to the growth of our investments by around EUR 1.7 billion – equivalent to 2% – to EUR 71.3 (69.6) billion. Cash inflows from our investments themselves, assisted by a modest recovery of the US dollar, enabled the portfolio of assets under our own management to rise slightly to EUR 62.2 (61.6) billion despite the decline in fair values. The appreciation in the value of our portfolio of fixed-income securities and receivables was also a factor here.

Balance sheet structure and key figures	31.12.2008	31.12.2007 [1)]
Figures in EUR million		
Assets		
Intangible assets	2,938	3,142
Investments (including funds held by ceding companies)	71,318	69,627
Investments for the account and risk of holders of life insurance policies	3,371	4,314
Reinsurance recoverables on technical provisions	6,989	7,552
Accounts receivable on insurance business	4,438	3,758
Deferred acquisition costs	3,509	3,278
Cash	1,408	2,038
Deferred tax assets	295	236
Other assets	1,736	1,450
Assets of disposal groups classified as held for sale	43	—
Total assets	**96,045**	**95,395**
Liabilities		
Shareholders' equity (incl. minority interests)	5,718	6,163
Subordinated liabilities	2,074	2,168
Technical provisions	69,612	69,022
Technical provisions in the area of life insurance insofar as the investment risk is borne by policyholders	3,371	4,314
Other provisions	2,416	2,558
Liabilities	11,477	10,015
Provisions for deferred taxes	1,377	1,155
Debts of disposal groups classified as held for sale	—	—
Total liabilities	**96,045**	**95,395**

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

The funds held by ceding companies recognized under the investments amounted to EUR 9.1 (8.1) billion as at the end of the year under review. Detailed explanations of the investments are provided below in this section and on page 134 under "Nature of risks associated with insurance contracts and financial instruments". The portfolio of "Investments for the account and risk of holders of life insurance policies", which is comprised of the investments relating to unit-linked insurance products, moved in the opposite direction from EUR 4.3 billion to EUR 3.4 billion (–22%) – principally due to the market-related decline. At the same time the liabilities item "Technical provisions in the area of life insurance insofar as the investment risk is borne by policyholders" also retreated. In the case of these life insurance products, the technical liabilities reflect the fair values of the corresponding assets.

The breakdown of the major **provisions connected with the insurance business**, after allowance for the shares of reinsurers, was as follows:

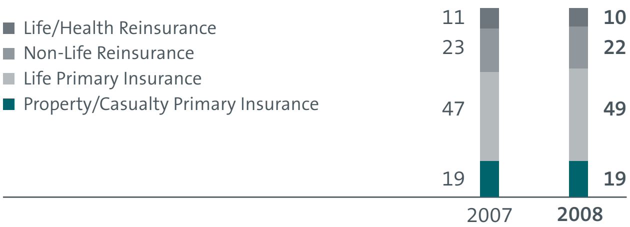
	31.12.2008	31.12.2007
Figures in EUR billion		
Benefit reserve	35.5	34.9
Loss and loss adjustment expense reserve	21.7	21.0
Unearned premium reserve	4.5	4.2
Provision for premium refunds	0.9	1.4

The slight rise of 2% in the benefit reserve – representing future obligations in life insurance – to EUR 35.5 billion derived principally from the life insurance business written by our primary insurers. A particularly significant factor here was the favorable development of new business generated by our bancassurance activities.

The increase in the loss and loss adjustment expense reserve resulted first and foremost from the Non-Life Reinsurance segment. It can be attributed to the higher burden of major claims and catastrophe losses – owing to a number of devastating natural disasters, with movements in exchange rates also a crucial factor here. In particular, the rise of the US dollar against the euro led to a slight increase in the loss reserves on a euro basis – despite opposing effects associated with other key foreign currencies.

The technical provisions were divided as follows among the individual Group segments:

Technical provisions
in %



The year-on-year comparison highlights the increasingly well-balanced Group structure: the proportion of the technical liabilities attributable to reinsurance business stood at 32 (34)%, while primary insurance business accounted for 68 (66)%. Particularly as a consequence of the additional portfolios of the BHW companies (from 1 July 2008: PBV) and PB insurers included in the previous year, the Group segment of Life Primary Insurance was significantly strengthened. Almost half (49%) of the technical provisions were apportionable to this Group segment in 2008. Extensive information on these liabilities is provided in the section of the Notes entitled "Notes on the consolidated balance sheet – liabilities", page 172.

The **long-term debt** taken out was slightly lower than in the previous year, principally due to the repurchase of several tranches of the debentures that we had issued in the Life Primary Insurance segment. As at the balance sheet date it was composed of altogether seven subordinated debts in a total nominal amount of EUR 2.1 (2.2) billion and a loan of nominally EUR 550 (550) million. More detailed information is provided in the Notes under "Subordinated liabilities" (page 174) and "Notes payable and loans" (page 186). Long-term debt complements our shareholders' equity and serves primarily to optimize our cost of capital and safeguard liquidity at all times. It makes up altogether 3 (3)% of the balance sheet total or 32 (31)% of the sum total of shareholders' equity and long-term debt.

The real estate parcels from the Group segment of Life Primary Insurance that are to be sold in 2009 are recognized under the item "Assets of disposal groups classified as held for sale"; see also the section of the Notes entitled "Disposal groups", page 134.

There were also contingent liabilities and other financial commitments, which are described in the corresponding section of the Notes.

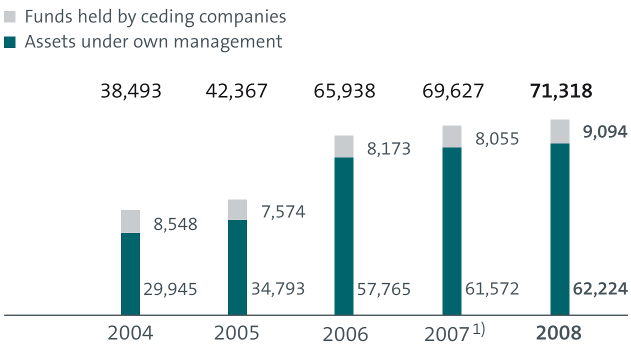
Asset/liability management

The structure of our technical provisions and other liabilities essentially constitutes the basis for the Talanx Group's investment strategy. The linking and harmonization of the underwriting portfolio (liability management) with the investment portfolio (asset management) delivers integrated asset/liability management (ALM). The aim is to stabilize the position in the face of fluctuations on capital markets. Please see also the risk report on page 69 et seq.

We also use derivative financial instruments in order to structure asset management activities as effectively as possible (see here the sections of the Notes entitled "Hedge accounting", page 152, and "Derivative financial instruments and structured products", page 167).

Investments

Breakdown of the investment portfolio
Figures in EUR million



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

We were able to further enlarge the investment portfolio despite the severe turmoil on capital markets. Notwithstanding sometimes appreciable declines in fair value, the positive development of our insurance activities as well as cash inflows from investments – assisted by a modest rally on the part of the US dollar – helped boost our asset holdings by EUR 1.7 billion or 2% to EUR 71.3 billion. This was accompanied by a slight shift in the asset mix: the decrease in the equity portfolio was more than offset by the increase in value of our portfolio of fixed-income securities and loans.

Based on our high diversification of risks within the scope of the investment strategy, the assets held by the Talanx Group broke down as follows as at the balance sheet date:

Breakdown of the investment portfolio
in %

Fixed-income securities

The asset portfolio of the Talanx Group is dominated by investments in fixed-income securities and loans. A total volume of EUR 54.0 billion (78%) was invested in this asset class as at the balance sheet date. The vast bulk of the holdings ("Loans and receivables", "Financial instruments held to maturity") are recognized at amortized cost, and fluctuations in fair value therefore do not normally have any effects on income or shareholders' equity. In 2008 we boosted the subportfolio of "Loans and receivables" by 3% to EUR 30.1 billion through new additions. These consist primarily of unlisted covered bonds (Pfandbriefe) and government bonds of issuers with first-class ratings.

At the same time, we further built up the volatile holdings – relative to equity – of fixed-income securities ("Financial instruments available for sale"). The book values carried as at year-end amounted to EUR 23.6 (21.3) billion even though fair values moved in the opposite direction; they accounted for 44% of the fixed-income securities as at year-end.

The focus of our investments in the area of fixed-income securities – with a volume of around EUR 21.2 billion – was on government bonds or instruments issued by debtors of similar quality (39%). A further 30% was invested in mortgage- or other asset-backed securities. These were comprised largely of German mortgage bonds and public-sector covered bonds. Roughly 28% of the portfolio was invested in bonds issued by corporations or banks, the majority of which were issued by German entities. The marked widening of risk premiums on corporate bonds was particularly striking. By expanding these holdings from 19 to 21% we are seeking to earn higher interest income.

Our exposure to financial institutions as at the balance sheet date was EUR 33.0 billion; the exposure to banks* – as a subset of this category – totaled EUR 32.3 billion, equivalent to 59% of our portfolio of fixed-income securities and loans. 96% thereof were rated A or better. Subordinated securities and participation rights accounted for 6% of this subportfolio. The loan loss risk – at a partial amount of EUR 27.4 billion – was reduced through a variety of credit enhancements. An amount of EUR 14.5 billion is attributable to covered bonds, for which a collateral pool is available in the event of the issuer's insolvency. Fixed-income securities and loans totaling around EUR 12.9 billion fall under the protection of various German deposit protection schemes such as the Deposit Protection Scheme of the National Association of German Banks and the deposit protection arrangements of various groups of banks (public-sector banks, mutual assistance funds maintained by regional savings bank associations with a joint liability agreement, statutory ultimate guarantee obligation for claims against regional banks and savings banks that arose prior to 18 July 2005).

* *The totality of all fixed-income securities and loans held within the Group that were issued/extended by banks.*

We actively manage the duration of our fixed-income securities. In order to cover our obligations from underwriting business with appropriate investments, we match the maturity structure of our fixed-interest investments with our liabilities. In view of the long time horizon in primary insurance business, especially in life insurance, the focus here is on long-term investments, whereas the maturities of interest-bearing securities in reinsurance vary more widely. The duration (i.e. the average capital commitment) of the Group's bond portfolios was 5.9 years as at the reporting date.

The proportion of the total investment portfolio held in foreign currencies at the major companies belonging to the Talanx Group is moderate overall and remained unchanged at 20%. Investments denominated in US dollars – at around 66% – continued to account for the bulk of holdings in foreign currencies.

The mortgage loans and policy loans granted and disbursed to predominantly German policyholders remained virtually unchanged at EUR 1.8 (1.8) billion, accounting for 3% of the investments.

The breakdown of our asset holdings clearly reveals our prudent investment policy. Based on the neutral to defensive posture of our fixed-income portfolio, results came in within the planned parameters. Our value adjustments due to loan losses remained modest despite the global credit and financial market crisis thanks to our broad diversification and tight issuer limits. Write-downs on fixed-income securities were limited to EUR 191 (45) million; write-ups of EUR 17 million were recognized.

Specific securities of affected issuers were scaled back for the purposes of risk minimization. The charges on available-for-sale financial instruments recognized at fair value, which are taken in shareholders' equity, amounted to EUR 131 (292) million as at 31 December 2008. This reduction in hidden losses is the result of opposing developments over the course of the year: a sharp decline in risk-free interest rates accompanied at the same time by a widening of risk spreads. Since our portfolio is comprised largely of lower-risk instruments, the interest rate decline more than offset the widening of the spreads.

The quality of our portfolio of fixed-income securities – measured by rating classes – was good. On 31 December 2008 around 94 (92)% of fixed-income securities, including those held in bond funds, were rated "A" or better.

Rating of fixed-income securities
in %

For detailed information on the quality of our investments please see pages 145–151 of the Notes.

Equities and equity funds

In the year under review the Talanx Group reduced its equity portfolio from EUR 4.7 billion to EUR 1.3 billion. On the one hand, we scaled back our equity holdings in the course of the year through targeted disposals, while on the other hand the decrease can also be attributed to the abrupt price slump on stock markets. The equity allocation – i.e. the proportion of total assets attributable to equities and equity funds – consequently fell from 7 to 2%.

These equities were partially protected against price losses by means of systematic hedging strategies. The net balance of unrealized losses on equity securities classified as available for sale amounted to EUR 54 million as at the balance sheet date of 31 December 2008, compared with unrealized gains of EUR 410 million recognized in Group shareholders' equity one year earlier. The considerable decrease was attributable not only to movements on stock markets but also to the increased realization of profits through equity sales in the year under review.

The carrying amounts of equity hedges moved in opposing directions and totaled EUR 380 (8) million as at the balance sheet date.

The funds held by ceding companies stood at EUR 9.1 (8.1) billion as at the balance sheet date. They involve collateral furnished by reinsurers to cedants as collateral for possible reinsurance payments. The amount of and changes in the recoverables normally reflect changes in the corresponding technical liability for the reinsured business.

Real estate including shares in real estate funds

The real estate allocation of our portfolio in relation to investment property – predominantly own-use real estate is not included in the investments, but is instead recognized in the balance sheet item "Other assets" in an amount of EUR 572 million – is very low in comparative terms after the significant reduction of our real estate holdings over the past three years. Investments in real estate are always made with a view to generating a commensurate return. Existing properties are therefore consistently reviewed with an eye to their long-term profitability and future risks, e.g. locational risks.

Two modest real estate portfolios were classified as held for sale and reallocated to a separate item of the balance sheet in the year under review. The book values of real estate used by third parties, which are recognized under the investments, consequently contracted as at 31 December 2008 to EUR 584 (616) million.

Net investment income

Development of net investment income

	2008	**2007 [1)]**	**2006**	**2005**	**2004**
Figures in EUR million					
Ordinary investment income	3,067	2,853	2,544	1,666	1,393
thereof current income from interest-bearing securities	2,490	2,345	1,869	1,177	864
thereof income from funds held by ceding companies	330	251	283	372	410
Profit from shares in associated companies	3	10	5	3	—
Realized net gains on investments	149	245	169	234	441
Write-ups/write-downs on investments	–1,369	–218	–64	–36	–48
Unrealized net gains/losses on investments	–78	–64	–15	34	23
Other investment expenses	162	124	123	67	65
Net investment income	**1,610**	**2,702**	**2,516**	**1,834**	**1,746**

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

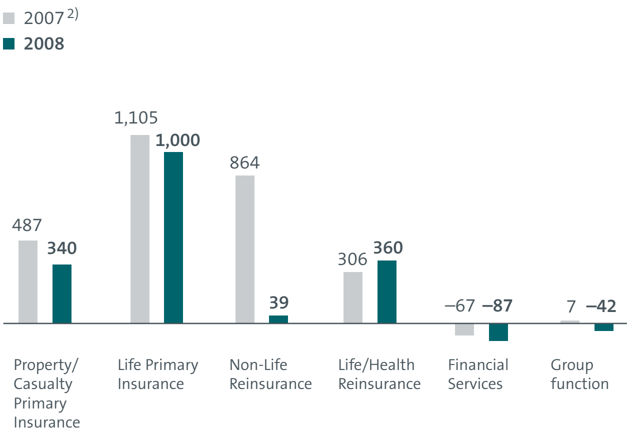
The sharp decline of 40% in net investment income was attributable to high losses on disposals and value adjustments on the equity portfolio as well as reduced gains on disposals. Ordinary investment income nevertheless climbed by a significant EUR 214 million to EUR 3.1 billion, principally due to the increase in the portfolio of fixed-income securities and loans – which more than offset the effect of the decline in interest rates.

On balance, a profit of EUR 149 (245) million was generated in the 2008 financial year from the disposal of investments as part of proactive asset management. This figure includes losses from equity investments of around EUR 346 million, contrasting with profits of EUR 322 million generated in the previous year. This was opposed by profits from the liquidation and closing out of hedges (equities, foreign exchange) and other derivative positions in an amount of EUR 422 million as well as profits on disposals of fixed-income securities amounting to EUR 75 (–102) million.

The crisis on capital markets also led to a sharp deterioration in the net balance of write-ups and write-downs. This can be attributed in particular to the considerable falls in share prices, which were only partially offset by the use of derivative financial instruments. We took impairments in income of EUR 1.1 billion on our equity portfolio. This effect was alleviated by opposing changes in the value of equity hedges and other derivative positions in an amount of EUR 191 million recognized in income.

Thanks to our policy of risk diversification we have only been affected to a relatively modest extent by write-downs associated with the failures of major financial groups that made headlines in the year under review. Our largest exposures here are Lehman Brothers with write-downs of EUR 60 million and Washington Mutual with write-downs of EUR 36 million.

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



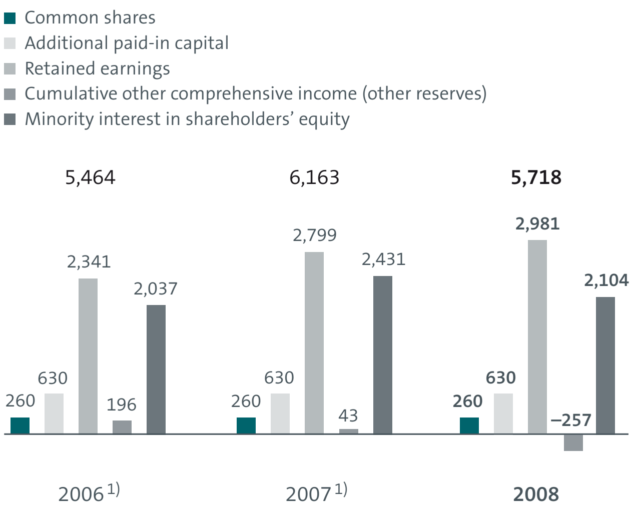
1) Presentation after elimination of intra-Group relations between two segments
2) Adjusted on the basis of IAS 8

The investment income reported by the Group segment of Financial Services consists principally of the costs of managing all assets – both the Group's own and third-party holdings. The costs increased as a consequence of income allocations to own segregated assets.

The consolidation effects reported in the segmental statement of income are allocated to the various segments according to economic causation in this presentation. The amounts contributed by each of the segments to the Group's net investment income are thus immediately apparent. The "Group function" principally encompasses Talanx AG, which does not perform any operational functions with non-Group entities but instead discharges primarily holding company functions.

Group shareholders' equity and valuation reserves not recognized in the balance sheet

Changes in shareholders' equity
Figures in EUR million



1) Adjusted on the basis of IAS 8

In the financial year just-ended our shareholder's equity decreased by EUR 445 million or 7% to EUR 5.7 (6.2) billion (see also the "Statement of changes in shareholders' equity" on page 87). The major changes in shareholders' equity were due to the following reasons:

The Group net income for 2008 attributable to the shareholders of the Talanx Group fell by 61% to EUR 187 (477) million.

The shareholders' portion of the "Cumulative other comprehensive income (other reserves)" contracted by a substantial EUR 300 million year-on-year to –EUR 257 million. This can be attributed principally to the sharp decline in "unrealized gains and losses on investments". Along with the reallocation of our available-for-sale fixed-income securities to the category of loans and receivables recognized at amortized costs, the reduction of the equity allocation as well as price falls on capital markets were the main factors in a marked decrease in the positive balance of unrealized gains and losses to EUR 19 (188) million. As a consequence of fluctuations in the exchange rates of foreign currencies against the euro, the currency translation reserve dropped in the year under review by EUR 100 million to –EUR 227 million. This reserve recognizes exchange rate effects arising out of the translation of the assets and liabilities of our foreign subsidiaries into euros.

The minority interests in shareholders' equity decreased by EUR 327 million to around EUR 2.1 billion. The reduction was principally connected with the minority interest in the result of the Hannover Re subgroup. Having posted a record profit in the previous year, Hannover Re reported a deficit for the time in its history as a consequence of the financial market crisis. The minority interest in the net income of the Talanx Group amounted to –EUR 66 (+522) million.

Valuation reserves not recognized in the balance sheet

The valuation reserves not recognized in the balance sheet shown in the following table make no allowance for technical liabilities.

	31.12.2008	31.12.2007 [1]	31.12.2006 [1]
Figures in EUR million			
Group shareholders' equity	5.7	6.2	5.5
Valuation reserves not recognized in the balance sheet before taxes, including the shares of policyholders and minority interests	1.6	–1.2	–0.1

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

Rating of the group and its major subsidiaries

In recent months the Talanx Group and its companies again received excellent or very good ratings from the international rating agencies Standard & Poor's (S&P) and A.M. Best. They can be distinguished between the "Financial Strength Rating", which primarily assesses our company's ability to meet obligations to customers – i.e. our policyholders –, and the "Issuer Credit Rating" or "Counterparty Credit Rating", which provides investors with information from an independent source about a company's financial strength.

Financial Strength Ratings of the Talanx Group and its subgroups Talanx Primary Group and Hannover Re

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

[1] *Designation used by A.M. Best: "Talanx AG's main operating subsidiaries".*
[2] *This rating applies to the subgroup of primary insurers (Property/Casualty Primary Insurance and Life Primary Insurance segments of the Talanx Group) as a whole as well as its major core companies.*
[3] *This rating applies to Hannover Re and its major core companies. The Hannover Re subgroup corresponds to the Non-Life Reinsurance and Life/Health Reinsurance segments of the Talanx Group.*

On the basis of these ratings, the rating agencies categorize the financial stability of the Talanx Group as "Excellent" (A.M. Best) or "Strong" (Standard & Poor's). S&P awarded the Reinsurance segment of the Talanx Group the second-highest possible rating of AA– ("Very Strong"), while the Primary Group was placed within the third-best rating category with an A+ ("Strong"). The outstanding competitive position and strong earnings power of the Talanx Group are highlighted as particularly impressive strengths. The rating of A ("Excellent") awarded by A.M. Best corresponds to the second-best rating category with respect to both the Talanx Group and the Hannover Re Group.

The rating activities of the Talanx Group were significantly expanded in 2007 and 2008. S&P was commissioned to issue Financial Strength Ratings for additional primary insurance companies. In some instances an independent rating is a prerequisite for being able to generate improved sales in operational business. HDI-Gerling Firmen und Privat Versicherung AG has thus now been added to the list of rated companies. This company emerged out of Aspecta Versicherung AG in 2007, which was not rated.

Financial Strength Ratings of companies belonging to the Talanx Primary Group [1]

Companies	Standard & Poor's Rating	Standard & Poor's Outlook	A.M. Best Rating	A.M. Best Outlook
HDI-Gerling Industrie Versicherung AG	A+	Stable	A	Stable
HDI Direkt Versicherung AG	A+	Stable	—	—
HDI-Gerling Firmen und Privat Versicherung AG	A+	Stable	—	—
HDI-Gerling Lebensversicherung AG	A+	Stable	A	Stable
Aspecta Lebensversicherung AG	A+	Stable	—	—
Neue Leben Lebensversicherung AG	A+	Stable	—	—
HDI-Gerling America Insurance Company [2]	A+	Stable	A	Stable
CiV Lebensversicherung AG	A	Stable	—	—
HDI-Gerling Verzekeringen N.V. (Nederland)	A	Stable	—	—
HDI-Gerling Verzekeringen N.V./ HDI-Gerling Assurances S.A. (Belgie/Belgique)	A	Stable	—	—
HDI-Gerling Welt Service AG	A	Stable	—	—

1) Current ratings of Hannover Re subsidiaries are available at the Hannover Re website.

2) The A.M. Best rating shown here is still assigned to the parent company Gerling America Insurance Company. Upon implementation of the target structure (planned for 2009) the two companies are to be merged and will conduct operational business under the name shown above.

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

Issuer Credit Ratings of companies belonging to the Talanx Group

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

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

On the basis of this rating the ability to pay of Talanx AG is assessed by S&P as A– ("Strong"), hence corresponding to the third-best category within the issuer credit ratings. A.M. Best rates the ability to pay as bbb+ ("Good"), corresponding to the fourth-best rating category. A.M. Best raised the outlook for this rating from "Stable" to "Positive" in July 2008.

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

Hannover Re has received an Issuer Credit Rating of AA– ("Very Strong") from S&P, equivalent to the second-best rating category. A.M. Best raised its rating in July 2008 to a+ ("Strong"); this assessment corresponds to the third-best category of an Issuer Credit Rating. The outlook for this rating is positive.

**A notch is used to indicate a downgrade within a single rating category.*

Various ratings also exist for the subordinated liabilities issued by Group companies (issuer ratings). These ratings are set out in the explanatory notes on the consolidated balance sheet under "(17) Subordinated liabilities" in the Notes.

Analysis of the consolidated cash flow statement

The cash flow statement of insurance undertakings is of only limited informational value.

The full statement of cash flows is published in the cash flow statement on page 88; it is summarized below:

Change in cash and cash equivalents

	31.12.2008	31.12.2007 [1]
Figures in EUR million		
Cash flow from operating activities	963	3,544
Cash flow from investing activities	–1,117	–3,443
Cash flow from financing activities	–460	286
Change in cash and cash equivalents	–614	387

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

The point of departure for determining the cash flow from operating activities is the net profit of EUR 121 (999) million.

The **cash flows from operating activities**, which also include incoming payments from the generated investment income, declined sharply year-on-year to EUR 963 (3,544) million – principally due to the fall in other non-cash expenses and income. In the context of this calculation the net profit was adjusted (net perspective) in the consolidated cash flow statement to allow for the increase in technical provisions (EUR 1.8 billion). Particularly as a consequence of the gratifying development of bancassurance activities, the benefit reserve increased in the Life Primary Insurance segment. In addition, the technical liabilities in the Non-Life Reinsurance segment increased slightly.

The **outflow of funds from investing activities** was determined by payments made for the purchase of investments. Amounting to EUR 1.9 billion, they exceeded the incoming payments from the sale or final maturity of investments. Most notably, we further enlarged the portfolio of top-quality fixed-income securities. The funds were predominantly invested with matching maturities according to the technical provisions. The acquisitions of the two non-life insurers HDI Strakhuvannya and HDI Seguros S.A. (Chile) completed in the year under review had no significant effects on the portfolio of investments and technical provisions. In the previous year the proceeds from the sale of consolidated companies were shaped by cash inflows from the sale of Praetorian Financial Group, Inc. and the companies belonging to the Gerling-at-Lloyd's Group. The cash outflow from the purchase of consolidated companies in 2007 derived principally from the acquisitions of BHW Lebensversicherung AG and BHW Pensionskasse AG as well as the purchase of the remaining 50% stake in the PB insurers. The inflows from the sale of real estate related primarily to the real estate packages of HDI-Gerling Lebensversicherung AG that were sold in 2007.

The **cash outflow from financing activities** in the year under review was crucially influenced by the dividend payments of the Hannover Re subgroup. In addition, in 2008 we recognized the "Net changes in contract deposits" in the cash flows from operating activities. The figures for the previous year were adjusted accordingly. There were no significant changes in debt financing year-on-year.

The total cash and cash equivalents decreased by EUR 630 million in the year under review to EUR 1.4 billion.

For further details of our cash management please see the section of the risk report entitled "Liquidity risk" on page 76.

Non-financial performance indicators

Staff

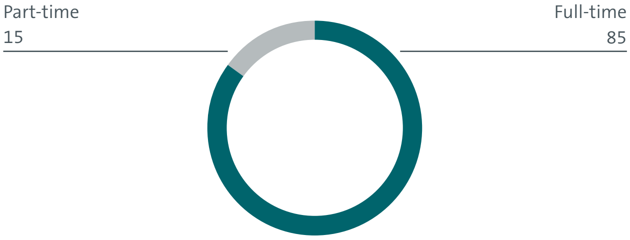
The number of staff employed by the Group on an annual average rose to 17,457, an increase of 1.6% compared to the previous year (17,178). The growth was attributable in large part to the foreign acquisitions in Ukraine (255 staff) and Chile (163 staff). It contrasted with a reduction of the German labor force as a consequence of integration activities.

The number of staff as at 31 December 2008 stood at 17,734; translated into full-time positions this is equivalent to 16,541 personnel capacities. Of the total workforce of 17,734, 11,705 (66%) were employed in Germany and 6,029 (34%) worked abroad. Female employees accounted for 48% of the German labor force, a figure very close to the industry average of 46%. The proportion of part-time employees stood at 15%, which is exactly in line with the industry average.

The integration-related manpower reductions in the primary sector, especially in the Property/Casualty Primary Insurance segment, were implemented in the most socially responsible manner possible. Extensive use was made of partial retirement arrangements and termination agreements. Under the social compensation plan staff who left the Group received fair termination payments. Numerous employees also took the opportunity to join an employment and placement company; new employment was found for two-thirds of these staff within a year. Employees who were mobile and willing to work at a different location received generous assistance benefits.

Headcount by gender
in %

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



Sustainability

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

Several companies are reducing their paper consumption through the use and further expansion of end-to-end digital processes for applications handling, portfolio management and archiving. One helpful aspect here, for example, is that faxes are mostly received and forwarded by digital means. Energy-saving measures take many forms, including for example replacement of incandescent light bulbs with energy-saving bulbs and automatic deactivation of lights at night, adjustments to the heating system at certain times of the day and energy-efficient office equipment. At Hannover Re such measures are brought together in the "Ecological Project for Integrated Environmental Technology" (Ecoprofit), the goal of which is to reduce CO_2 emissions. As far as the office buildings are concerned, here too close attention is paid to environmentally compatible construction activities and ecologically friendly operation: Neue Leben, for example, decided on the Lindley Carrée development for its new headquarters, which it expects to occupy in mid-2010. This is the first office complex in Hamburg to have been certified as a "green building". The certification requirements include, inter alia, particularly non-polluting and energy-saving construction as well as environmentally compatible operation of the building.

In the course of their business operations our insurers develop products for customers who are clamoring for investment products that address the issue of sustainability. One example of such a product is the unit-linked annuity policy "neue leben futureprotect", which invests in funds managed according to ecological, social and ethical criteria. The unit-linked annuity products offered by CiV Leben place a similar emphasis on investments in sustainability.

HDI-Gerling Firmen und Privat Versicherung AG is also paying closer attention to the issue of environmental protection. In motor insurance, for example, customers whose vehicles are powered by alternative energy sources – hence helping to reduce CO_2 emissions – are assisted with discounts. What is more, coverage is offered in home insurance for systems that generate renewable energies (photovoltaic technology).

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

Sales, marketing and advertising

The multi-brand principle pursued within the Talanx Group is reflected in its external communication inasmuch as the subsidiaries seek to address their specific customer segments with their various brands through tailored marketing and advertising. Primary insurers such as HDI, HDI-Gerling and Aspecta engage directly with a broader public, using inter alia TV commercials, publicity campaigns and sponsorship activities.

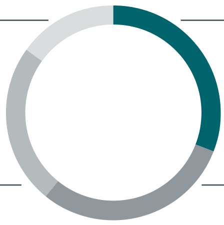
Talanx AG systematically targets the broader financial community and business journalists. We enhance awareness among these target groups inter alia through sponsorship of a stock market bulletin on television. The findings of the latest survey indicate that awareness of Talanx is already high: in the spring of 2009 51 (52)% of the program's audience were familiar with Talanx as an insurance group. The TV commercial and Talanx advertising show not only the Talanx logo but also the logos of the Group's major brands so as to underline the connection.

The sales channels employed by the Group's companies are extremely diverse. They range from the use of brokers and independent agents through tied agents' organizations and local representation by branch offices and sales outlets to highly specialized bancassurance cooperations. For further information please see pages 26/27 and the sections on the various Group segments.

Development of the Group segments

The business operations of the Group segments remain unchanged: as in the previous years, the activities of the Talanx Group continue to encompass the same five Group segments. Whereas in the previous year several companies had been reallocated to different Group segments as a consequence of alignment with the management approach required by IFRS, only one allocation changed in the year under review: the Luxembourg-based Euro International Reinsurance S.A. was reclassified from the Primary/Casualty Primary Insurance segment to the Non-Life Reinsurance segment.

Segmental breakdown of gross premium
in %



The significant additions to the Talanx Group in 2008 were the Ukrainian property/casualty insurer HDI Strakhuvannya and the Chilean company HDI Seguros S.A.

The figures presented below for individual companies were determined in accordance with IFRS after consolidation within the relevant Group segment.

Property/Casualty Primary Insurance

Key figures: Property/Casualty Primary Insurance [1]

Figures in EUR million	2008	2007 [2]	2006	2005	2004
Gross written premium	5,896	5,984	5,632	3,507	5,383
Net premium earned	3,864	3,683	3,783	2,116	2,361
Underwriting result	135	–39	207	184	–13
Net investment income	342	481	389	225	245
Operating result (EBIT)	258	235	339	340	104
Combined ratio (net) in %	95.3 [3]	100.1 [3]	92.7 [3]	91.3	100.6

[1] *The years prior to 2007 are of only limited comparability due to changes in segment allocation. Since 2005 the primary insurers of the Hannover Re Group have been allocated to the Non-Life Reinsurance segment.*
[2] *Adjusted on the basis of IAS 8*
[3] *Excluding life insurance business of the Italian subsidiary*

With an eye to its competition with other insurers, the goals of the largest Talanx Group segment for 2008 were consolidation of the market position and selective expansion in target markets of the HDI-Gerling Property & Casualty Group. These goals were broadly accomplished.

The HDI-Gerling Property & Casualty Group is headed by HDI-Gerling Sach Serviceholding AG. Its subsidiaries HDI-Gerling Industrie Versicherung AG, HDI-Gerling Firmen und Privat Versicherung AG, HDI Direkt Versicherung AG and HDI-Gerling International Holding AG each operate, for their part, with subsidiaries and branches at home and abroad in the market segments of commercial/private customer business and industrial insurance business.

The integration of the Gerling companies and hence one of the largest takeovers in the German insurance market was officially completed in 2008. Remaining tasks will be finalized in the course of normal day-to-day business activities.

The synergies planned for the HDI-Gerling Property & Casualty Group were accomplished to a level in excess of 95% by the end of the year under review. Although around 1,000 jobs were eliminated in Germany, fewer than 300 employees received termination notices. Prior to termination all members of staff were offered a job within the Group at another location. 250 former Cologne-based personnel took up the offer of a job in Hannover.

A particularly telling gauge of a successfully completed integration is the development of business with customers of the formerly separate corporate groups. Despite certain overlaps – especially in industrial business – between the customer portfolios of the two long-established HDI and Gerling brands, the new HDI-Gerling organization forfeited less than 10% of its premium volume for integration-related reasons during the almost three-year integration phase.

In the traditional area of industrial insurance German industry puts its trust – especially for complex risks – in HDI-Gerling, which has at its disposal the largest underwriting capacity in the German market. 90% of all DAX-listed corporations currently have contractual relations with HDI-Gerling, often with our company assuming the lead mandate – as is the case, for example, with two-thirds of DAX industrials in the liability line. The underwriting policy pursued by HDI-Gerling in industrial insurance continues to be guided by the principle of stable earnings before premium growth. In hard markets we seek to generate profitable growth, while in soft markets we are willing to accept losses of market share rather than jeopardize profitability – a development that, as in the previous year, was again observed in the year under review.

In the area of commercial and private insurance we provide protection for the material assets and everyday risks of freelance professionals, small and mid-sized enterprises and private individuals.

The Group sees growth opportunities in the direct insurance market. In this segment HDI Direkt has contacts with customers through almost 100 sales outlets and customer service points, by phone, in writing or – via the HDI 24 brand – online. A highly standardized product range enables us to offer good value for money. In domestic affinity business, i.e. business conducted with company employees, HDI Direkt has assumed the mantle of market leader.

The broad range of sales channels through which the Group markets its products gives it a competitive edge in German private customer and commercial business. They cover virtually the entire market spectrum – a diversity that is scarcely available to any other corporate group. Another competitive advantage is afforded by the systematic pooling of back-office resources, thereby enhancing the efficiency and market opportunities of the Property & Casualty Group in keenly contested routine business.

In 2008 foreign business contributed 48% of premium in the total segment, in part due to the transfer to HDI-Gerling International of foreign portfolios previously allocated to HDI-Gerling Industrie Versicherung. In its principal international target markets, namely Southern, Central and Eastern Europe as well as Latin America, the HDI-Gerling Property & Casualty Group now enjoys a leading position.

Business experience in 2008

Bearing in mind the protracted difficult state of the competitive environment, the segment enjoyed a gratifying business development overall. Gross written premium contracted by 1% to EUR 5.9 (6.0) billion on account of market-related effects. The gross premium income differs from that reported in the previous year because the Luxembourg-based Euro International Reinsurance S.A. was no longer allocated to this segment in the year under review. After factoring out this change, the decline can be attributed in part to the protracted soft market conditions – most strikingly in motor insurance – and also to the profit-oriented underwriting policy pursued by the segment in such market phases.

The systematic increase in the level of retained premium caused net premium earned to climb by 5% to EUR 3.9 (3.7) billion. Thanks to a significantly more favorable claims experience – industrial business, in particular, recorded a lower-than-average burden of major losses – the underwriting result improved appreciably to EUR 135 (–39) million.

The combined ratio consequently decreased sharply to 95.3 (100.1)%.

Investment income contracted by 29% to EUR 342 (481) million. This reflected the repercussions of the financial market crisis, which necessitated increased write-downs in the non-life segment as well. The amortization taken on the acquired portfolios of former Gerling companies also increased. EBIT was nevertheless boosted by 10% to EUR 258 (235) million.

Germany remains the most important market

Producing 52% of the total premium volume, Germany continues to be the most important market. The Property/Casualty Primary Insurance segment generated gross premium of EUR 3.1 (3.2) billion in this market, making it the second-largest German non-life insurer. In both industrial insurance and private customer business, the Talanx companies overall rank among the market leaders.

Industrial insurance was the scene of undiminished fierce competition in 2008. The industry saw further premium declines across all lines of business. In the subsegment comprised of medium-sized customers, not only new foreign entrants to the German market but also domestic mid-sized players increasingly stepped up their fight for market shares. Despite these difficult market conditions, the business development of HDI-Gerling Industrie Versicherung AG was very good overall. The reported premium reduction of 11% derived almost exclusively from the reallocation of around EUR 300 million in gross premiums within the segment to HDI-Gerling International.

In common with HDI Direkt Versicherung AG, HDI-Gerling Firmen und Privat Versicherung AG was again exposed to fierce cutthroat competition in 2008. That said, developments in the individual lines written by HDI-Gerling Firmen und Privat Versicherung AG varied. HDI Direkt Versicherung AG was able to boost policy numbers in motor insurance. Yet the premium income across the two companies declined by a modest 0.4% as the general tariff level in the motor insurance market continued to fall. The pleasing trend in policy numbers was attributable in considerable measure to the launch of online sales with the HDI24 brand. All in all, the business experience of both companies was satisfactory.

International business develops favorably

The positive development of international business was again sustained in 2008. Gross written premium increased by 2.4% to EUR 2.8 (2.7) billion, thereby accounting for a 48% share of the total segment. Measured by number of policies, we have achieved disproportionately strong growth over the past seven years. Whereas the portfolio of foreign business stood at only around 1 million policies back in 2001, this figure had climbed to 7.1 million by 2008. The company with the largest growth in premium volume in the year just-ended (20%) was HDI Seguros S.A. in Brazil. In addition to organic growth foreign business was also enlarged through acquisitions: in the course of 2008 the Group segment was reinforced by the addition of the Ukrainian property/casualty insurer HDI Strakhuvannya and HDI Seguros S.A. in Chile.

We are already well established in Western Europe and the growth markets of Central and Eastern Europe as well as Latin America. In industrial insurance we rank among the "top 3" in Eastern Europe, while in Germany, Poland and the Netherlands we are the number one or two. Around 70% of all companies listed in the Euro Stoxx are insured with us.

HDI-Gerling is presently active in more than 130 countries. In industrial business we currently operate with 27 units of our own in foreign countries – the number of which is being progressively expanded – as well as through strategic cooperations in virtually all other countries where our clients require local service. Our industrial insurance network gives us an area-wide presence throughout Western Europe. In Eastern and Central Europe we write local business and also offer international programs to our clients in these markets.

In international private customer business HDI-Gerling entrusts the direction of its on-the-spot activities to expert local management. In foreign target markets HDI-Gerling extends its market position principally through partnership-based cooperations, although in specific instances also through acquisitions.

Major international regions in the Group segment

Western, Central and Eastern Europe

Along with the domestic German market, which remains the most important market for the segment, the following regions in Europe are significant:

Benelux

The Rotterdam-based HDI-Gerling Verzekeringen N.V. ranks first in the Dutch industrial insurance market. This leading position was further extended with the integration of the Gerling portfolio. In light of the intense price competition prevailing on the Dutch insurance market – into which we do not allow ourselves to be drawn on account of our profit-oriented underwriting policy – the company incurred modest premium erosion, although this was more than offset by the integration of the Gerling portfolio. Gross written premium consequently surged to EUR 243 (180) million.

HDI-Gerling Assurances S.A., the Belgian subsidiary of HDI-Gerling Verzekeringen N.V., resumed its underwriting of industrial business in Belgium in 2007 following the Gerling acquisition. Due among other things to a portfolio transfer, gross written premiums totaled EUR 99 (4) million, almost all of which can be attributed to the former Gerling business.

Poland

We have been active in Poland since 2002. HDI Asekuracja TU S.A., Warsaw, is the fifth-largest insurer operating on the market and has attained a strong nationwide presence with what is now the second-largest distribution network. The company has around 1.6 million customers and insures more than 2.5 million vehicles. In the financial year just-ended it was honored as the best insurer in the segment by the magazine EuroMoney. The company generated a gross premium volume of EUR 242 (226) million.

HDI-Gerling Polska TU S.A., Warsaw, offers professional solutions for industrial insurance clients. In the 2008 financial year the participating interest in the company was transferred from HDI-Gerling Industrie Versicherung AG to HDI-Gerling International. The company closed the 2008 financial year with gross premium income of EUR 25 million.

The two Polish companies are to be legally merged – a step which is expected to be completed in the second half of 2009.

Austria, Hungary, Czech Republic and Slovakia

The Vienna-based HDI Versicherung AG (formerly HDI Hannover Versicherung AG) was crowned Austria's best motor insurer for the fourth time in succession. The in-force portfolio reached almost 280,000 insured vehicles. Outside the Austrian market the company successfully transacts industrial business via branches in Hungary, the Czech Republic and Slovakia.

Our Austrian subsidiary, which is active in both industrial and private customer business, enjoyed a favorable business development to mark its twenty-fifth anniversary despite fierce competitive pressure. It administers a portfolio of altogether 399 (387) thousand policies.

In the 2008 financial year the former Gerling branches in Hungary and the Czech Republic as well as the portfolio of the former Gerling branch in Vienna were transferred as planned to HDI Versicherung AG with retroactive effect as from 1 January. This resulted in a premium increase of some EUR 57 million. Gross written premium grew by 34% to EUR 196 (147) million, approximately 49% of which derived from industrial business.

Ukraine

Effective 1 July 2008 the Talanx Group acquired the Ukrainian company HDI Strakhuvannya, Kiev (formerly Alcona). Although the company transacts predominantly private customer business, it also serves commercial clients. Altogether, it has an in-force portfolio of some 41,000 policies. The primary emphasis is on the sale of motor insurance. Despite the financial crisis we see promising opportunities in this market over the long term: both gross domestic product and new car sales in Ukraine are showing unusually strong growth. As is our practice in other countries, we shall use this company as a platform for expanding our local insurance activities. The company generated gross premiums of EUR 2 million in 2008.

Bulgaria

Our company in Bulgaria HDI ZAD, Sofia – which we established as a start-up in 2001 – enjoyed further vigorous growth and now insures around 47,000 vehicles. The gross premium volume amounted to EUR 10 (7) million.

Southern Europe and Turkey

Italy

In Italy we are represented by HDI Assicurazioni S.p.A. The company transacts both life and property/casualty business. The Italian insurance market, which had enjoyed brisk growth until only a few years ago, is now flat. For this reason diversification of distribution channels is becoming increasingly important. The company has been successful in this regard, agreeing cooperation arrangements with banks and expanding its agency network. The gross premium volume booked by the company rose modestly to EUR 564 (558) million, of which EUR 318 million derived from the life sector. The company was hard hit by the international financial crisis in 2008, which compelled it to take impairments on investments of altogether EUR 77 million.

Spain

Our Spanish subsidiary HDI HANNOVER International (España) Cía. de Seguros y Reaseguros S.A., Madrid, which transacts business with both private customers and industrial clients, successfully integrated the portfolio of the former Gerling branch in Madrid with retroactive effect from 1 January 2008.

Despite the sustained fierce competition in the motor line and an unchanged soft market for industrial insurance, our company enjoyed moderate growth and substantially improved profitability in 2008.

The company generated gross premiums of EUR 177 (153) million. The contraction in premium income from motor business, which can be attributed in particular to our profit-oriented underwriting policy, was more than offset by the transfer of the former Gerling branch's portfolio amounting to altogether EUR 15 million.

Turkey

Acquired in 2006, our Istanbul-based company HDI Sigorta A.Ş is active in a market that offers considerable growth potential. By international standards, many individuals and businesses in Turkey are still heavily underinsured or indeed have no insurance protection whatsoever. The company concentrates on private customer and routine business. It now insures more than 380,000 vehicles. HDI Sigorta has expanded its area-wide sales network of around 600 agents in accordance with its strategic reorientation. The distribution partnership agreed upon in the previous year with the Turkish post and telecommunications company PTT and Tekfen Bank was successfully continued in the 2008 financial year and further expansion is planned going forward. Gross premium income contracted to EUR 80 (88) million on account of a selective underwriting policy.

Latin America

Brazil

The Talanx Group regards Latin America as one of its strategic growth markets, with key importance attached to Brazil. The fifth-largest country on earth and the eleventh-largest national economy offers enormous growth potential.

For this reason we have long been successfully operating in this market, and in recent years we have significantly expanded the sales network: our products are marketed through 54 branch offices of our own and through more than 1,000 sales outlets of HSBC Bank on the basis of a long-term marketing agreement.

Our company HDI Seguros S.A. now ranks among the leading motor insurers in Brazil and in some states is one of the top three providers. HDI insures more than 900,000 vehicles in Brazil and has received numerous awards as the best motor insurer in the market. The company belongs to the top ten insurers in the market as a whole. It further boosted its premium volume to altogether EUR 407 (339) million.

Chile

The Talanx Group has been active in Chile since 2008. HDI Seguros S.A., Chile (formerly ISE Chile) – which was acquired in the year under review – markets its products mainly through brokers and agents, although the company also has its own distribution channels in private customer business. Ranking twelfth overall among Chilean property/casualty insurers, the company has a network of 800 insurance brokers and is represented nationwide by seven branches. At the end of the year under review the company administered an in-force portfolio of some 471,000 policies and generated gross premium income of EUR 14 million.

Life Primary Insurance

Key figures: Life Primary Insurance [1]

	2008	2007 [2]	2006	2005	2004
Figures in EUR million					
Gross written premium	5,691	5,354	4,603	2,964	1,768
Net premium earned	3,978	3,803	3,228	2,085	1,029
Net investment income	985	1,098	861	450	225
Operating result (EBIT)	156	134	111	55	50

[1] The years prior to 2007 are of only limited comparability due to changes in segment allocation and adjustments to the recognition of various items.
[2] Adjusted on the basis of IAS 8

The Talanx Group segment of Life Primary Insurance is composed of the Life Insurance and Bancassurance Divisions.

The Life Insurance Division operates in its national and international target markets with the HDI-Gerling and Aspecta brands. In the areas of both individual and occupational retirement provision HDI-Gerling offers the complete product range of risk protection and old-age provision. Aspecta is a specialist for innovative and performance-oriented insurance solutions, most notably in the product segment of unit-linked provision.

We use the term "bancassurance" to refer to the sale of insurance products through a bank's distribution channels. The Talanx Bancassurance Division, concentrated in the hands of the intermediate holding company Proactiv, cooperates in a highly specialized manner with numerous partner banks and savings institutions as well as with a postal service partner in Hungary. The hallmark of the division, which is active in several markets, is the seamless integration of the insurance offerings into the product worlds and production processes of the respective cooperation partners.

Business experience in the Group segment

The Life Primary Insurance segment was faced with adverse conditions in the year under review. In addition to the worldwide financial market crisis, the implementation of government regulatory requirements in Germany and a host of internal restructuring activities, new business growth at Aspecta was curtailed by a company-specific factor: a large portion of the growth in the German market, where the division generates the bulk of its premium volume, derived from the last step increase on the incentive scale for so-called Riester annuity policies. This involved graduated adjustments to the government-subsidized maximum contribution for such policies. Aspecta was unable to share in this "automatic" new business because it is not active in this product segment.

The Life Primary Insurance segment of the Talanx Group was therefore unable to divorce itself from the muted new business trend on the insurance market in the 2008 financial year. Measured by the Annual Premium Equivalent (APE), which is composed of regular premiums plus 10% of single premiums, new business contracted by 4% to 713 (742) million.

Gross written premiums – including premiums from unit-linked life and annuity insurance – in the Talanx Group's highest-growth segment climbed by 6% to EUR 5.7 (5.4) billion. This can be attributed above all to the first-time recognition of the former BHW Leben for an entire financial year and the full consolidation of the PB insurers.

The Talanx Group segment thus took a step up in the ranks of German life insurance groups. According to rankings published by the trade journal Zeitschrift für Versicherungswesen, the Talanx life insurers have now moved up to the number four spot from fifth place in the previous year; it should be borne in mind that our analysis disregards the various Sparkasse insurers since they do not operate on the market as a group.

In terms of gross sum insured the in-force portfolio (not including riders) remained virtually unchanged at EUR 178.6 (178.5) billion. The number of in-force policies (excluding riders) in the Life Primary Insurance segment was on a par with the previous year, falling slightly by 0.4% to 8.4 (8.4) million.

The number of policies in domestic business decreased by 2% to 7.6 (7.8) million, as against significant growth of 20% in foreign markets – where the portfolio grew to 772 (644) thousand policies.

The level of retained premium in the Life Primary Insurance segment stood at 87.9 (86.9)%. Net premiums earned climbed by 5% to EUR 4.0 (3.8) billion.

Ordinary investment income grew to EUR 1.4 (1.3) billion; in the wake of the financial market crisis net investment income fell by 10% to EUR 1.0 (1.1) billion on account of sharply higher write-downs on equities and fixed-income securities. Despite the repercussions of the financial crisis the operating profit (EBIT) in the segment was boosted by 17% to EUR 156 (143) million. Of this total amount, EUR 63 million stemmed from the Life Insurance Division and EUR 93 million from the Bancassurance Division. Two effects, above all, served to more than offset the profit-reducing impact on EBIT of the write-downs: in the first place, the first-time recognition of PBV Leben for an entire financial year and the full recognition of the PB insurers; secondly, the revaluation of the Neue Leben Group in the previous year in the context of its inclusion in Proactiv Holding AG, which had led to a goodwill adjustment in an amount of EUR 50 million in 2007.

Life Insurance Division

In addition to Germany, its main market, the HDI-Gerling Life Group – which also includes Aspecta – is represented by companies and branches in Poland, Liechtenstein and Switzerland, Luxembourg, Austria, Italy and Spain.

The Life Insurance Division is very well positioned from a marketing standpoint: the distribution channels of HDI-Gerling range from tied agents to brokers and multiple agents as well as direct sales. In Germany HDI-Gerling Life additionally cooperates with the European arm of Turkey's largest private-sector bank, Isbank GmbH. This represents a diversity of distribution channels, the breadth of which few competitors can equal. Aspecta, on the other hand, concentrates almost exclusively on independent distribution partners: its focus is on investment expertise and the associated provision of holistic investment advice through intermediaries. The company is active in pursuing this approach in several European markets.

Including premiums from unit-linked life insurance and unit-linked annuity insurance, the gross written premium booked by the division fell by 3% in 2008 to just over EUR 3.0 (3.1) billion. The in-force portfolio excluding riders contracted marginally by 0.7% to 3.31 (3.34) million policies.

New business measured by the APE decreased by 24% to EUR 277 (363) million. There were a number of reasons for the decline: in the first place, the implementation of the reform of the Insurance Contract Act (VVG) and adoption of the EU Mediation Directive resulted in a contraction of the broker market. The HDI-Gerling Life Group, which cooperates with brokers to a considerable extent, recorded sharp drops in sales figures in this distribution channel – in common with the market as a whole. What is more, many customers became uncertain as a consequence of the financial crisis, and more than a few of them put off the purchase of life insurance. Secondly, the comparison with the market is distorted by the atypical structure of Aspecta's business, which does not have any Riester annuity products in its portfolio.

For the HDI-Gerling brand, on the other hand, the year under review was shaped by the development of Riester business. The focus of new business consequently continued to shift in the year under review away from occupational retirement provision towards individual retirement provision, which accounted for 60 (55)% of new business.

Bancassurance Division

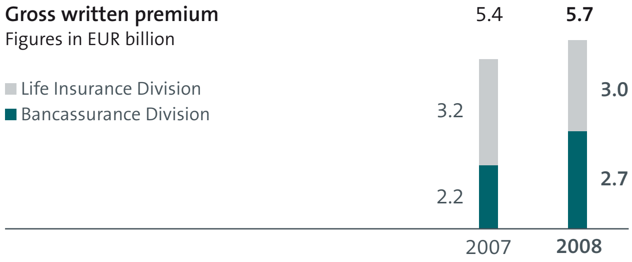
The sale of insurance policies over the counter at banks is a highly successful business model for Talanx. Crucial to the success of such cooperations is the capacity to work together seamlessly, i.e. complete integration into the partner's corporate culture, branch architecture, product world and IT infrastructure. In this division the Group cooperates in Germany with Postbank via the PB insurers and with numerous Sparkasse savings institutions via Neue Leben. In Germany, Russia and Turkey Talanx works together with Citibank through the CiV insurers. In Hungary the Group cooperates with the Hungarian postal service. Since January 2008 the Bancassurance Division has been led by the intermediate holding company Proactiv, which is positioned directly under Talanx AG.

In December 2008 the German Citibank Privatkunden AG & Co. KGaA was sold by Citigroup to the French Crédit Mutuel Group. The cooperation is to be continued unchanged with the new shareholder. In 2010 the partner bank intends to unveil a new name, which the CiV insurers will accommodate accordingly. The cooperation agreement between the two partners runs until 2025. Following their successful launch the subsidiaries CiV Life in Moscow and CiV Hayat Sigorta in Istanbul commenced active insurance operations in 2008 and were already able to book gross premiums of EUR 16 million.

The shareholding structure of Postbank also changed following the sale of a parcel of shares of Deutsche Post AG to Deutsche Bank AG. A cooperation agreement exists between the PB insurers and Postbank until 2022. The renewal of the exclusive cooperation in 2007 was and is a clear statement of belief in the joint model for success and a sign of mutual trust. The PB insurance brand will also continue against the backdrop of these changes. The integration of the BHW companies, which were acquired in 2007, was completed as planned in the year under review. By the end of June 2008 BHW Leben had already been rebranded as PBV Lebensversicherung AG.

Gross written premium including premiums from unit-linked life insurance and unit-linked annuity insurance rose by 20% in the Bancassurance Division to EUR 2.7 (2.7) billion, due in particular to the fact that the PB insurers were fully recognized for an entire financial year for the first time in 2008.

The premiums generated by the division in new business climbed by 15% – measured by the APE – to reach EUR 434 (378) million. The in-force portfolio excluding riders remained on a par with the previous year at 5.1 million policies.



Major regions in the Group segment

Not only in Germany is the need for retirement provision products growing; in foreign markets, too, we are active with our life insurance companies and branches. We operate successfully in Poland, Liechtenstein and Switzerland, Luxembourg, Austria, Italy and Spain as well as Hungary, Russia and Turkey.

Germany

The most important market for the Life Primary Insurance segment, the bulk of the premium volume is generated in Germany. The domestic market remains attractive: even though the financial crisis has currently curtailed demand for insurance products, retirement provision continues to be a "hot topic" for consumers. Equipped with a broad range of interesting products and well positioned in the market, the Talanx life insurers see considerable opportunities here. The gross premium income booked by the segment in Germany climbed last year to EUR 5.2 (4.9) billion.

The implementation of reform of the Insurance Contract Act (VVG) in Germany demanded close attention, since new rules have been in force since 1 January 2009 – applicable not only to new business but also to existing customers. This necessitated adjustment of the insurance terms and conditions for more than 2.5 million policies by the end of November. In this regard, from September onwards all policyholders were personally notified of the implications of the VVG reform.

Central and Eastern Europe

In Central and Eastern Europe, too, the financial crisis was a dominant factor that shaped market events. This was equally true of the business written by our companies. Nevertheless, we remain convinced that the markets of Central and Eastern Europe offer considerable promise – despite the financial crisis – for our segment over the long term. There is substantial growth potential inherent in the national economies, and this also has positive implications for business catering to retirement provision. In this respect our companies are assisted by their strong sales positioning in these markets.

Hungary – with premium income in property/casualty and life insurance of EUR 114 million – and Poland are the region's most important markets for the Life Primary Insurance segment. Our Hungarian subsidiaries were high-growth companies in this segment. Most notably, the life insurer Magyar Posta Életbiztoso Rt. boosted its gross written premiums by 43% to EUR 83 (58) million, thereby bucking the general trend on the Hungarian life insurance market – which saw new business contract by 6% in 2008. The increase can be attributed to the success of traditional single-premium life products with a guaranteed quarterly interest rate, which enjoy the strongest demand among customers on account of their security. As far as portfolio-building products are concerned, the company was able to grow its premium income by launching two new unit-linked products with higher average premiums.

The company in Poland was unable to divorce itself from the depressed market trend. Gross written premium (including savings elements of premium under unit-linked life insurance policies) slipped by 55% to EUR 43 (96) million due to lower single premiums.

Western and Southern Europe

The difficult market conditions prevailing in this region also left their mark on our companies. Nevertheless, we still anticipate good prospects for the markets of Western and Southern Europe once the financial crisis begins to fade. In the year under review Aspecta Assurance International Luxembourg S.A. boosted its gross premium volume by 27% to EUR 78 (62) million in the Italian market. The company also sells its products in Spain, where gross premiums held steady at EUR 13 (13) million. In 2008 Aspecta Assurance International Luxembourg S.A. also established a branch in Germany, thereby enabling the company to market products originating from Luxembourg to its German customers seeking solutions for their future security and asset management.

Non-Life Reinsurance

Key figures: Non-Life Reinsurance [1]

Figures in EUR million	2008	2007 [2]	2006	2005	2004
Gross written premium	4,997	5,611	7,143	7,243	6,046
Net premium earned	4,287	4,631	5,638	5,481	5,050
Underwriting result	200	16	79	–694	–154
Net investment income	47	863	925	872	853
Operating result (EBIT)	121	902	813	33	581
Combined ratio (net) [3] in %	95.0	98.8	98.2	109.4	97.7

[1] The years prior to 2007 are of only limited comparability due to changes in segment allocation: from 2005 onwards the primary insurers belonging to the Hannover Re Group have been allocated to the Non-Life Reinsurance segment.

[2] Adjusted on the basis of IAS 8

[3] Including deposit interest

Non-life reinsurance is transacted within the Talanx Group almost exclusively by the Hannover Re Group, one of the world's leading reinsurance groups, which maintains business relations with more than 5,000 insurance companies in about 150 countries. The Group's global network consists of more than 100 subsidiaries, affiliates, branches and representative offices in around 20 countries.

Cycle management in the interest of profitability

Non-life reinsurance is volatile and cyclical in almost all lines and markets. In such lines and markets, therefore, we do not pursue any volume, growth or market share targets – but instead we closely monitor rate movements: during an upswing we increase our market share, while in a downward cycle we scale back our involvement. This active cycle management continues to be a cornerstone of our underwriting together with a profit-oriented underwriting policy, according to which we concentrate on those segments that promise the greatest profitability. In the year under review this strategy enabled us to largely offset more pronounced premium declines in some areas with increases in the German market as well as in worldwide credit and surety reinsurance.

Capital market transactions reduce risks

In 2008 we again took steps to ensure that our equity base is not strained by exceptionally large losses. On the one hand, for example, we further scaled back our peak exposures, while on the other we again topped up our "K5" capital market transaction.

At the beginning of the year we set up an Insurance-Linked Securities (ILS) department, which inter alia aggregates risks from primary insurers and transforms them into securities tailored to the capital market. As part of these activities an initial transaction was completed in the year under review: property catastrophe risks of a number of US cedants were packaged and passed on to the capital market in several tranches. Unlike Hannover Re's previous securitizations, it was not designed for our own protection but rather to directly transfer clients' business to the capital market. A special purpose entity capitalized at USD 133 million was established in Bermuda for this transaction.

Business development in 2008

The Talanx segment of Non-Life Reinsurance differs from the business group of the Hannover Re Group that bears the same name in part because of reinsurance activities conducted by the Talanx Group outside the Hannover Re Group – especially due to the first-time inclusion of the company Euro International Reinsurance in this Group segment in the year under review. Discrepancies also derive from the fact that the two groups are on different consolidation levels, resulting in a differing treatment of the same circumstances – especially with respect to the deconsolidation of Praetorian Financial Group in the previous year.

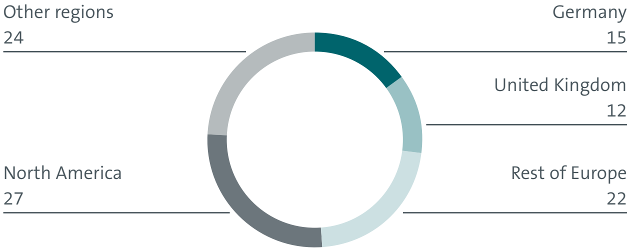
Owing to the restraining effects of exchange rate movements, primarily during the first half of the year, the gross premium volume booked by the Group segment of Non-Life Reinsurance in the year under review contracted by 11% to EUR 5.0 (5.6) billion. The withdrawal from specialty business – the previous year's figures still included Praetorian, which had been sold in 2007, for the first five months – was another factor that curbed premium income. Adjusted for this effect and at constant exchange rates, especially against the US dollar, growth would have come in at 1.3%. The level of retained premium climbed from 82.2 to 89.0% as a consequence of optimization of the retrocession structure. Net premium earned consequently declined less sharply by 7% to EUR 4.3 (4.6) billion.

The most striking feature of the major loss situation in the year under review was a series of devastating natural disasters. These included, most notably, the snow and ice storms in China, winter storm "Emma" in Europe, the severe earthquake in the Chinese province of Sichuan, hailstorms in Germany as well as the two hurricane events "Gustav" and "Ike". The latter alone was responsible for damage to drilling rigs and oil platforms in the Gulf of Mexico with an estimated market loss of around USD 3 billion; with a net strain of EUR 222 million it was the largest single loss for Hannover Re's account. Total net expenditure on catastrophe losses and major claims in 2008 amounted to EUR 458 (285) million. This figure corresponds to 10.7% of net premium in non-life reinsurance and was thus only slightly higher than the expected level for the year of 10%. The combined ratio (including deposit interest received) stood at 95.0 (98.8)% in the year under review and the underwriting result improved to EUR 200 million after EUR 16 million in the previous year. Net investment income fell by 95% in the year under review to EUR 47 (863) million owing to heavy write-downs and realized losses on equities. It should be mentioned in this context that our equity investments in the reinsurance segments are allocated to non-life reinsurance, and the strain here was therefore disproportionately higher than in life and health reinsurance. The segment result for the previous year had included extraordinary income of EUR 179 million from the sale of Praetorian; this fact, combined with the drop in investment income, caused the operating profit (EBIT) in non-life reinsurance to contract by 87% to EUR 121 (902) million.

Major regions in the Group segment

In reinsurance business we are active in all markets that have a sound legal system and permit free transfer of payments. The largest regional markets are Germany and the United States, which also continue to be the most important in view of their above-average profit potential.

Gross premium breakdown by regions
%



E+S Rück expands market share in Germany

E+S Rück is the Group's specialist reinsurer for Germany – the world's second-largest non-life reinsurance market. The company has for decades been a sought-after partner thanks to its excellent financial standing, highly developed customer orientation and the continuity of its business relationships; it continues to rank second in the German market. In view of the competitive climate prevailing on the German primary insurance market, we expanded our portfolio very selectively. Comparatively speaking, the climate on the reinsurance side was more positive, i.e. rates and conditions continued to be broadly adequate. We made the most of attractive business opportunities in the year under review, with the favorable overall loss situation enabling us to generate a satisfactory result.

The target line of personal accident insurance continued to develop favorably. In addition to the traditional assumption of risks, our clients again benefited from our product innovations in the year under review; by way of example, we may cite here the combined personal accident annuity product designed by our company that also provides benefits in case of severe illnesses. Furthermore, we complemented our range of services in the year under review through our cooperation with external providers. By way of increased treaty shares under existing accounts and new customer relationships we were able to further enlarge our market share in the year under review and extend our position as one of the leading reinsurers in the profitable German market.

United Kingdom and the London Market for international risks

In the year under review we acquired new accounts and further diversified our portfolio in the United Kingdom. In accordance with our marketing strategy the focus was on expanding specialized niche business, such as travel personal accident covers, while scaling back our catastrophe-exposed business as planned. While the price level in the previous year had held stable, the year under review saw a slight reduction in rates. Although in a few instances our involvement is of a long-term nature, we generally pursue an opportunistic underwriting policy in the London Market. Our premium volume in the year under review remained stable; all in all, the loss experience was moderate.

The London Market is also a prominent centre for the underwriting of international marine and aviation risks; in both lines Hannover Re ranks among the market leaders. Rates softened slightly in marine reinsurance in 2008, albeit with regional differences. Overall, we largely preserved our existing portfolio, although exposures in the Gulf of Mexico were purposefully reduced. In view of the considerable hurricane damage, prices for covers in the Gulf of Mexico are therefore likely to rise appreciably. As a further factor, the crisis on financial markets has prompted general market hardening as insurance capacities contract. In aviation insurance there was heavy pressure to stop the premium erosion. The crisis on financial markets and associated loss of capital among insurers also had a favorable effect on rate movements on both the insurance and reinsurance sides, with the result that initial tendencies towards stabilization and rising rates could be discerned in the year under review. What is more, the opening up of the Brazilian insurance market presented new business opportunities in aviation reinsurance.

Business in North America scarcely impacted by the financial crisis

The North American (re)insurance market is the world's largest single market and – accounting for 27% of our premium volume in non-life reinsurance – also of considerable importance to the Talanx Group.

With a view to further diversifying our portfolio we again scaled back larger shares with some cedants in the year under review, while at the same time expanding our business relationships with mid-sized regional players and mutual insurers. The focus of our activities in North America will be on systematic adherence to our client segmentation, with greater weight attached to strategically oriented customer relationships.

Our long-established, tried and trusted anticyclical business policy lends itself to consolidating our profitability in the North American market across various cyclical phases. Consequently, we did not seek to enlarge our market shares in 2008. Instead, for example, we scaled back our market shares in property and casualty business. We nevertheless continue to form part of the small group of reinsurers that are approached for placement and pricing.

We are one of the market leaders in credit and surety reinsurance in North America. The protracted crisis on financial markets led to a drop in the solvency level of businesses and hence to a rising number of bankruptcies in the year under review. The claims frequency in the credit line consequently increased. Losses in surety business, on the other hand, rose only marginally. Rates in credit reinsurance climbed in the year under review in the face of a growing number of claims; the rate level in the surety line remained virtually unchanged. The meltdown on the US mortgage market did not have any repercussions for our credit and surety portfolio, since our underwriting guidelines preclude the writing of credit derivatives, i.e. including mortgage guarantee business.

Advances in other international markets

Following the abolition of Brazil's reinsurance monopoly in 2008, Hannover Re opened a representative office in Rio de Janeiro and is now able to operate in the Brazilian market as an "admitted reinsurer". This gives us more direct access to clients and an optimal platform for acquiring a satisfactory market share in Latin America's largest market. The business written in Brazil encompasses both obligatory and facultative acceptances in all lines, including motor, aviation, credit and surety, agricultural risks, structured products and life reinsurance.

Retakaful business – that is to say, insurance business transacted in accordance with Islamic law – once again generated dynamic growth for our portfolio both in Southeast Asia and on the Arabian peninsula: this can be attributed to the favorable state of the economy in the Gulf States, which was supported by high oil prices – at least until the autumn – as well as a boom in public and private investment. The effect of the financial market crisis on economic growth in the Gulf States has hitherto been at most marginal. Since 2006 Hannover Re has maintained a Bahrain-based subsidiary, Hannover ReTakaful, which bears exclusive responsibility for transacting our retakaful business; it also has a local branch that writes traditional reinsurance in the region. Hannover ReTakaful serves a global customer base. Along with the Gulf States, Malaysia is one of the largest markets. In the year under review we established relationships with clients in Syria, Egypt and Libya, and we currently do business with 66 takaful insurers. It remains our goal to be the first and preferred partner for these companies over the long term. We considerably enlarged our premium volume in this sector in the year under review.

Life/Health Reinsurance

Key figures: Life/Health Reinsurance

	2008	2007	2006	2005	2004
Figures in EUR million					
Gross written premium	3,135	3,083	2,794	2,425	2,200
Net premium earned	2,785	2,795	2,374	2,258	1,998
Net investment income	371	313	345	281	254
Operating result (EBIT)	120	231	146	93	85

The Group segment of Life/Health Reinsurance combines under the worldwide Hannover Life Re brand the international reinsurance activities in the lines of life, health, annuity and personal accident (insofar as transacted by life insurers). The strategic emphasis is on long-term, directly acquired customer relationships that can generate a discernible value-added for our clients in their risk and financial management.

Growing international network

The operating units of Hannover Life Re are active at more than twenty locations on all five continents in order to offer clients optimal local service. We operate as a decentralized network through our subsidiaries, branches and service offices. This organization safeguards the rapid and efficient transfer of knowledge in the interests of our clients at all times and all around the world.

We appreciably strengthened our international market position in the year under review, with systematic expansion in the large emerging markets of Asia and Latin America playing a key role. Despite adverse effects of movements in the exchange rates of all major currencies relative to the euro, we enlarged our premium income and currently enjoy a global market share of 10 to 12%. Indeed, we rank first or second in a number of significant markets. In the worldwide arena Hannover Life Re is one of the four most important life and health reinsurers and is distinguished by its excellent rating and global presence.

Along with Hannover Life Re Bermuda, which is reporting on a full financial year for the first time after receiving its license in October 2007, two new branches in Shanghai and Seoul commenced their operational activities; in the second half of 2008 we also established a service company in Mumbai – concentrating on life and facultative non-life business – to serve the Indian market. With a view to the further cultivation of this vital emerging market we were able to agree upon a strategic partnership with the leading Indian reinsurer GIC Re; this was cemented in June 2008 with the official signing of the cooperation agreement in Mumbai. We also established a service company in Rio de Janeiro in the middle of the year under review, thereby completing our entry into the Brazilian life market.

In 2008 we once again devoted special attention to extending our presence in the Islamic life insurance market, which we support principally through our Bahrain-based subsidiary Hannover ReTakaful. With an eye to the group business that traditionally predominates in the Islamic and Arab markets, we substantially boosted our personnel resources at this location in the fields of actuarial marketing and product development.

Unremarkable development of biometric and structural risks

On the underwriting side, we did not observe any changes in the claims experience for the biometric risks (mortality, longevity and morbidity), and there were also no unusual developments affecting structural risks – such as the persistency of the business in force or the counterparty risk associated with ceding companies. These main factors with a bearing on the performance of our life and health reinsurance business group thus remained unchanged. However, the repercussions of the worldwide financial market crisis, which became especially apparent on an enormous scale in the second half of the year under review, adversely affected the operating result of Hannover Life Re.

Business experience in 2008

The key figures for this Group segment also diverge from those of the business group of the same name within the Hannover Re Group. The gross premium income totaled EUR 3.1 (3.1) billion in the year under review; this corresponds to growth of 2% year-on-year. The strength of the euro against the three most important foreign currencies – the pound sterling, US dollar and Australian dollar – means that the real increase in the international portfolio is not fully reflected; at constant exchange rates growth would have stood at 8%. Net premium earned contracted by 0.4% to EUR 2.8 (2.8) billion owing to a slight reduction in the level of retained premium.

As in the past, we attach considerable importance to lean processes and a flat management structure at all our operating units. As far as internal administrative expenses are concerned, we were again the cost leader among highly reputed international life and health reinsurers in the year under review.

The impact of the capital market on the result was severe in the year under review, although the various operations of Hannover Life Re scarcely hold any equity securities or shares in their asset portfolios. The result includes considerable unrealized losses from participation in the investment results of ceding companies: the fair value adjustment required for assets deposited with clients produced a negative special effect of EUR 72 million. Unrealized losses refer to the fact that from today's perspective they may be significantly reduced over the remaining term depending upon movements on capital markets. While the investment income generated for life and health reinsurance surpassed the previous year by 19% at EUR 371 (313) million, this increase derived from interest income on deposits associated with a large block assumption transaction in the United States – which was opposed by correspondingly higher interest expenses on deposits that are not included in the investment income. Instead, such deposit interest expenses are recognized under the other expenses, which consequently rose from EUR 47 to EUR 165 million. The operating profit (EBIT) generated for the Life/Health Reinsurance segment amounted to EUR 120 (231) million.

Major regions in the Group segment

Germany remains third-largest market

In life and health reinsurance, too, the German market is served by E+S Rück, which saw its premium income from this segment decline in 2008. Key factors in this development were the further planned run-off of a large transaction from 2004 and the reduction of our involvement in financing new business acquisition costs on the German market. New business profited from the fourth step increase for government-assisted Riester annuity products. Many of our existing clients used this incentive step as an opportunity to substantially raise premiums and benefits.

Insurance solutions for the so-called "60-plus generation" are a focus of our activities, particularly in the area of long-term care annuity insurance. We have amassed special expertise here, which is attracting growing interest in what is still – in Germany – a relatively rare form of individual risk provision.

Market leader in the United Kingdom

For many years we have devoted special attention to the UK market, the most significant European life reinsurance market. We participate not only in traditional risk-oriented business but also in the area of enhanced annuities with a reduced payment period. The vitality of the private annuity segment was undiminished. We significantly extended our customer base in this area and have considered ourselves the market-leading reinsurer for many years. The United Kingdom reaffirmed its position as the largest market in our portfolio through significant expansion of this business – despite the fact that we scaled back our involvement in risk-oriented covers in the face of the competitive situation. Traditional reinsurance relationships were also adversely impacted by slowing new business on the back of the mortgage crisis. Gross written premium contracted owing to the weakness of the pound sterling.

Ceding companies from this market are reinsured by various risk carriers within Hannover Life Re: the parent company Hannover Re, Hannover Life Re United Kingdom, Hannover Life Re Ireland and – since 2008 – by our new subsidiary Hannover Life Re Bermuda. For the first time we concluded a number of block assumption transactions for existing pension funds under which we assume the longevity risk for a defined group of pensioners.

Significant premium increases in North America

Responsibility for the US market is borne by the Orlando-based Hannover Life Re America, which concentrates on the underwriting of financially oriented covers for US clients, supplementary private health insurance for seniors and a number of other US specialty segments. In the United States we realized the largest block assumption transaction involving US individual life business in the history of Hannover Life Re; the transaction encompassed the monetization of embedded values in several portfolios of endowment insurance. The premium volume booked by the company climbed 21%. It was significantly affected by fair-value adjustments to securities deposits.

The English-speaking Canadian market plays a minor role in the assumed business. Canada is, however, home to Hannover Life Re's most important retrocessionaires, with whom we work together on a long-term basis; they are of considerable significance to our worldwide risk management with respect to large and complex individual risks that surpass our retention.

The Hamilton-based Hannover Life Re Bermuda, a subsidiary that was newly established in 2007, can report a gratifying business development in its first full financial year. It systematically consolidated its position as a specialist within the Hannover Life Re network and acquired its first clients in Bermuda, the Caribbean, the United Kingdom, South Africa and the United States. Gross premium totaled EUR 30 million, producing an operating profit (EBIT) of EUR 9 million.

New branches in other regions

Events have taken a new turn in Brazil: following the long-awaited opening up of the reinsurance market, Hannover Re has now secured the status of an "admitted reinsurer" and established a representative office in Rio de Janeiro for life and non-life business. We intend to be more of a pacesetter in this key market going forward.

In China we have been represented by a fully operational life branch in Shanghai since May 2008. We made the most of the extended opportunities opened up by the status of a locally licensed reinsurer to acquire several new customer relationships and thus moved closer to attaining our goal of ranking among the market's three leading life reinsurers.

In the Korean market, the largest life reinsurance market in Asia, we have also made significant progress since our new life branch in Seoul commenced business operations in May 2008.

We have successfully taken the first steps towards tapping into the Indian market by concluding a multi-year cooperation agreement with the leading local reinsurer GIC Re. In a parallel move, we established our own service company in Mumbai to support our customer relationships in life and facultative non-life business. This company started doing business on 1 December 2008.

Financial Services

Key figures: Financial Services

	2008	2007	2006	2005	2004
Figures in EUR million					
Net investment income	–91	–67	–49	–28	–25
Other income	144	144	121	73	61
Other expenses	14	17	17	10	11
Operating result (EBIT)	39	60	55	35	25

This Talanx segment, which consists of the AmpegaGerling companies and the Group's own reinsurance broker Protection Re, offers a product range that extends from individual investment concepts for private investors to comprehensive asset management solutions for institutional clients.

Multifaceted expertise at AmpegaGerling

The central task of AmpegaGerling is asset management for all companies belonging to our Group – this ranges from strategic and operational investment decisions for the various portfolios to administrative services such as investment bookkeeping, accounting and investment reporting. Yet not only is the management of the Talanx Group's assets and real estate concentrated here; under the AmpegaGerling brand we also offer institutional and private clients outside the Group our know-how in the field of asset management. AmpegaGerling Asset Management GmbH is responsible for investments made by the Talanx Group. In addition, AmpegaGerling Investment GmbH operates as a funds provider for private clients and institutional investors. AmpegaGerling Immobilien Management GmbH handles the coordination of real estate management for the Group. As the combination of these three closely cooperating companies, AmpegaGerling is thus one of the largest asset managers in Germany with no ties to a banking partner.

Institutional clients in the investment sector include insurers, "Pensionskassen" (pension insurance companies set up by one or more companies to serve exclusively their own employees), provident funds as well as external asset managers. The portfolio of products and services encompasses special funds, public funds and institutional asset management activities, including specialized administration services for clients outside the Group. Private clients are able to invest in a broad range of funds for capital accumulation or in state-of-the-art, dynamic retirement provision.

Reinsurance brokering by Protection Re

The Talanx segment of Financial Services also includes Protection Reinsurance Intermediaries AG (Protection Re), the professional reinsurance advisor and intermediary for non-life reinsurance cessions of the Talanx Group. Protection Re is tasked with safeguarding on a long-term basis the reinsurance capacities needed for all insurance undertakings within the Talanx Group in the non-life sector and with developing optimal solutions for our clients and business partners. Protection Re cooperates worldwide with reinsurers, selected reinsurance brokers and other service providers.

Business experience in 2008

A key business ratio in the Financial Services segment is the volume of managed assets, which grew by 6.1% in the year under review to EUR 67.8 billion. The assets under management within the Group climbed by EUR 4.7 billion. In this context there were a number of reallocations between the Group companies: special fund volumes of AmpegaGerling Investment GmbH became direct asset holdings of AmpegaGerling Asset Management GmbH.

The total volume of assets under management at AmpegaGerling Asset Management GmbH amounted to EUR 53.9 billion as at year-end and hence exceeded the previous year's level by EUR 5.5 billion. The company performs its services exclusively for clients within the Talanx Group.

AmpegaGerling Investment GmbH had 186 (157) portfolios under management as at the balance sheet date with a total volume of EUR 12.7 (14.1) billion, including 48 (53) special funds and 78 (67) public funds with a combined volume of EUR 9.1 (9.7) billion. In addition, the company administered 60 (55) financial portfolios with a volume of EUR 3.6 (4.4) billion.

The total volume of the administered portfolios was spread over three areas: somewhat more than half – EUR 6.9 billion – was apportionable in 2008 to asset portfolios managed for Group companies. Owing to reallocations within the segment this fell short of the previous year's volume of EUR 7.9 billion. The remaining volume was attributable to institutional and retail business – i.e. funds designed primarily with private investors in mind. In institutional business AmpegaGerling positions itself on the basis of its existing know-how profile as an outsourcing partner for small and mid-sized insurers and as an administrator for non-Group asset managers. In 2008 it acquired a master fund of around EUR 1.0 billion from an insurance undertaking outside the Group. Altogether, the volume of institutional business as at year-end 2008 stood at EUR 3.7 billion. In retail business, the strategic focus of AmpegaGerling's sales activities, the general state of the industry was heavily impacted by the crisis on financial markets: in Germany, for example, investors throughout the sector pulled EUR 27.8 billion out of public funds, with bond and money market funds the hardest hit. Despite this climate AmpegaGerling was able to generate a breakeven result in fund unit processing on the retail side (net cash inflow of EUR 16 million). The fact that the volume still contracted by EUR 0.9 billion year-on-year to EUR 2.2 billion was attributable to the performance trend on equity and bond markets.

A special situation arose in the fourth quarter of 2008 regarding the development of equity funds under own management: the increasingly intense volatility of the markets resulted in internal risk limits being exceeded. In the context of reductions to the risk limits, supplementary allocations were made to the affected segregated assets in an amount of EUR 17 million from own funds.

The list of cedants served by Protection Re reflects the significantly modified Group structure after completed integration of the Gerling companies into the Talanx Group as well as the expansionary activities of the Talanx Group in foreign markets. The positive overall development of the Talanx Group led to further strengthening of the company; with the placement volume handled in 2008 again exceeding EUR 1.5 billion in ceded premium, the company ranks among Europe's major reinsurance brokers.

The operating profit generated by the Group segment contracted in 2008 on account of higher administrative expenses and reduced fees and commissions. The supplementary allocations to the segregated assets of equity funds had an adverse effect here; in addition, the newly agreed commission arrangements within the Group also served to reduce profitability. The EBIT in the segment as a whole fell by 34% to EUR 39 (60) million, of which EUR 13 (15) million was attributable to Protection Re.

Capital and performance management

The capital management process is subdivided into five parts.

Due to a disproportionately strong growth phase the Talanx Group is considerably more complex than it was some years ago. We therefore use our tools for managing the Group in order to systematically chart a course for the years ahead. At the same time, the regulatory environment, the capital markets and rating agencies are placing increasingly exacting requirements on insurance groups. The point of departure determined by these internal and external influencing factors causes us to define the following goals:

- Increase profitability and create value
- Make optimal use of capital
- Optimize the cost of capital
- Invest in areas where we generate the highest risk-adjusted return over the long term
- Seize strategic opportunities and at the same time remain aware of and manage the immanent risks

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

Capital management

The Group steering function of capital management

- creates transparency as to the actually available capital,
- specifies the required risk capital and coordinates the determination thereof,
- optimizes the capital structure, implements financing measures and supports all structural changes that have implications for the required capital.

Capital management is based on a process for the optimization of capital steering and capital deployment within the Group that is structured through clear guidelines and workflows.

An important subfield of capital management is identifying capital that exceeds the required risk capital on our defined level of certainty of a 99.5 percent Value at Risk or – in the opposite case – falls short of this level. This defines the estimated maximum loss that with a specified probability will not be exceeded within a specified holding period. If such over- or undercapitalization exists, the next step is to rectify or at least alleviate it by taking appropriate corrective actions. In the case of significant overcapitalization at the company level, for example, capital management measures may be geared to systematically reducing free excess capital.

In this context we consider it our stated aim to achieve the most efficient possible utilization of our capital while at the same time ensuring appropriate capital adequacy and making allowance for the effects of diversification. We view the optimization of our capital and financing structure as a further crucial aspect of capital management. Our goal in this regard is to arrive at an optimal cost of capital and the best possible capital allocation.

In the management system of the Talanx Group we differentiate between three fundamental capital concepts, namely "Company's Capital", "Risk-Based Capital" and "Excess Capital".

In the context of our value-based management approach, the company's capital serves as a basis for determining the cost of capital and the excess return above and beyond the cost of capital (cf. also under "xRoCC"). It represents the total capital available in a unit (company or segment/division), and is composed of the IFRS shareholders' equity and the so-called soft capital. For us, soft capital includes, for example, the loss reserve discount, a level of overreserving in property/casualty insurance that goes beyond best estimate reserving and the non-capitalized value of in-force business in life insurance and life/health reinsurance.

Risk-based capital is the amount of capital necessary for the conduct of insurance business in order to ensure that the probability of capital erosion is kept below 0.5% (cf. the risk report). The comparison with the available (company's) capital indicates over- or undercapitalization and capital adequacy.

Excess capital is the residual of the company's capital and risk-based capital; it constitutes the capital that is not at risk.

Performance management

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

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

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

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

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

Core management ratios

From Group parameters and Strategic Program Planning of the segments/divisions:

- **IVC, xRoCC**
- **Dividend**
- **Risk budget, capital adequacy ratio (CAR)**

Operational management ratios

Operational requirements from the segments/divisions:

Financial perspective **Finance**	Market and customer perspective **Market/Customers**
Internal perspective **Processes**	Learning and development perspective **Staff**

Our five core management ratios:

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

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

Management indicators

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

The IVC enables us to record and consistently allocate the value contributions of the Group on different hierarchical levels – Group, segment/division and company. The IVC and its methodological determination form the basis on which the value contributions of the segments/divisions and of the individual operational units can be measured in a comparable manner – making allowance for their specific characteristics – in order to reliably identify value-creating areas.

The core management ratios, the operational management ratios and their respective degrees of goal accomplishment create the transparency needed to optimize the allocation of capital and resources, pinpoint risks and opportunities and initiate further measures.

We refined our value-based management tools in 2008 and revised the calculation of the cost of capital. The basic methodological determination of the IVC – and hence of the economic value creation – in accordance with the consistent method for non-life and life nevertheless remains unchanged. Under this approach, the value creation constitutes the economic net income for the period less the cost of capital.

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

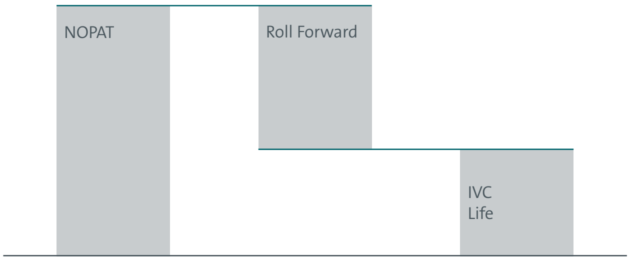
IVC calculation in non-life

In **non-life business** (Property/Casualty Primary Insurance and Non-Life Reinsurance) the IVC measures the difference between the NOPAT (net operating profit after adjustments and tax) and the cost of capital for risk-based capital and excess capital.

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

The cost of capital consists of the costs for the allocated risk-based capital and the costs of excess capital. While the risk-based capital is divided between the profit centers in a manner commensurate with the risk using the Talanx risk model on the basis of a 99.5 percent Value at Risk, the excess capital is arrived at as the difference between the risk-based capital and the company's capital. The costs for the risk-based capital are determined from the following components: a risk-free basic interest rate [1], frictional costs [2] and a risk margin to reflect the market in question. For the excess capital, on the other hand, only the risk-free interest rate and the frictional costs are used, since the capital involved here is not at risk. On the basis of our currently applicable determination of the cost of capital, the investor incurs opportunity costs for the risk-based capital that are 600 basis points above the risk-free interest rate. Value is created above this rate of return. The targeted return-on-equity for the Group of at least 750 basis points above the "risk-free" rate defined in our umbrella strategy thus already includes a considerable aspiration to value creation.

IVC calculation in life



Value creation in **life business** (Life Primary Insurance and Life/Health Reinsurance) is measured on the basis of the change in the market-consistent embedded value (MCEV), which is expressed in the MCEV earnings. The MCEV is defined as the value of the undertaking, which is measured as the discounted present value of future earnings until final run-off of the in-force portfolio plus the fair value of equity, making allowance for capital commitment costs. We chose the MCEV as the basis for the value-based management of life insurance business because it constitutes the intrinsic value of the undertaking from the standpoint of the shareholder. The IVC Life is determined as the difference between the MCEV earnings and the roll forward, which corresponds to the expected cost of capital after allowance for the risk exposure in relation to capital market risks.

In order to measure the comparable return delivered by business units or divisions of varying size, the IVC is considered in relation to the corresponding available capital. In this way we arrive at the ratio known as the xRoCC (Excess Return on Company's Capital), which indicates the return for the shareholder in excess of the cost of capital.

[1] *Calculated as the three-year average of ten-year swap rates*

[2] *Opportunity costs incurred by shareholders as a consequence of the fact that they invest their capital not directly in the capital market but rather by a "roundabout route" through a company and the capital is tied to the company rather than being freely fungible.*

Risk report

The acceptance of risks in return for payment constitutes the core of our business, and a highly developed level of risk awareness is vital to our success if we are to consistently maximize our opportunities. With its various Group segments the Talanx Group offers an extensive range of products encompassing not only insurance but also financial and other services. Talanx AG and its subsidiaries consequently employ a diverse range of methods and tools for risk monitoring and controlling.

Our decision-making processes and monitoring mechanisms not only satisfy the comprehensive requirements placed on reporting and information systems by the Insurance Supervisory Act, they also extend to the compilation and examination of the annual and consolidated financial statements, the internal control system and the use of powerful planning and controlling tools.

In accordance with an approach geared to ensuring comparatively extensive individual responsibility and decentralization, the subsidiaries each maintain their own risk management systems; for they are best able to assess and quantify their risks and implement timely risk controlling measures. Group Risk Management nevertheless defines guidelines for the structuring of local risk management systems – thereby assuring a consistent minimum standard across the Group that may be aggregated – and determines the risk situation of the Talanx Group as a whole from the local risks with the aid of an internal risk model. This internal risk capital model enables us to precisely quantify the risks. As we transition to an internal, stochastic Solvency II-compliant system approved by regulators, it is currently still based in key respects on a refined so-called GDV (German Insurance Association) standard model and is used for the analysis and measurement of individual risks as well as of the Group's overall risk position. The purpose of the risk quantification is to calculate the risk capital on the basis of a 99.5% Value at Risk. The time horizon considered under the model is a calendar year. The risk model makes allowance for correlations between Group companies and risk categories. A stochastic risk capital model is currently under development that will facilitate the Talanx-wide use of internal models. The Federal Financial Supervisory Authority (BaFin) has begun to examine this model.

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

Group Risk Management holds quarterly meetings with the responsible risk officers at the subsidiaries in order to remain constantly updated on the risk situation at the subsidiaries. The responsible risk officers at the subsidiaries report material changes in the risk position to Group Risk Management on an ad hoc basis. Regular reporting on both current business developments and on risk management ensures that the Board of Management of Talanx AG is kept constantly updated on risks and can intervene as necessary; the Supervisory Board is also kept regularly informed of the risk situation.

The Risk Committee of the Talanx Group monitors the capitalization and risk profile of the entire Group and ensures that the relationship between these two parameters is appropriate and in accordance with the risk strategy. The Risk Committee is also tasked with ensuring that comprehensive risk awareness is firmly anchored in the Talanx Group.

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

Risks of future development

Besides the repercussions of the financial crisis, no risks have as yet emerged that could jeopardize the Talanx Group or significantly impair its assets, financial position or net income. Substantial capital, reserves and underwriting provisions have been built up in order to cover for the financial consequences of conceivable risks.

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

- underwriting risks
- default risks in insurance business
- investment risks
- operational risks
- other risks

Effects of the financial and economic crisis

In common with other industry players, the repercussions of the financial crisis on capital markets have not left the Talanx Group unscathed. Extensive write-downs were taken on securities in 2008 owing to the adverse capital market climate. The market risk on stocks was then proactively reduced by significantly scaling back the equity allocation over the course of the year and to a very large extent hedging the remaining holdings against price losses.

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

Should the current low interest rate level be sustained or indeed should further interest rate cuts ensue, this would give rise to a considerable reinvestment risk for the life insurance companies offering traditional guarantee products since it would become increasingly difficult to generate the guaranteed return. The Group reduces this interest guarantee risk primarily by means of interest rate hedges, under which large parts of the portfolio held by the German life insurance companies are hedged against a low interest rate level through a variety of mechanisms.

The contraction in bank lending that has been observed in the market as part of the financial crisis and the associated potential difficulties raising cash are – irrespective of the availability of extensive unused lines of credit – of only minor importance for the Talanx Group compared to the banking industry for reasons connected with the business model; this is because Talanx inherently has sufficient cash owing to the regular premium payments and interest income from invested assets as well as its liquidity-oriented investment policy. Liquidity risks may, however, arise in particular as a consequence of illiquid capital markets and – in the life insurance sector – due to increased cancellations by policyholders, if this necessitates the liquidation of a large volume of additional investments at short notice. Overall, against a backdrop of declining interest rates, higher volatilities and increased risk spreads, an appreciable drop in the Market Consistent Embedded Value of the life insurers must be anticipated.

Furthermore, the financial and economic crisis may have implications for the business models of the Talanx Group's individual segments/divisions, such as potentially higher costs for reinsurance protection and possible softening of demand for insurance coverage.

Major underwriting risks

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

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

Underwriting risks in property/casualty business (primary insurance and reinsurance) derive principally from the premium/loss risk and the reserving risk. The premium/loss risk is the risk that previously defined insurance premiums are used to pay subsequent indemnification, although the amount of such payments is initially unknown. The actual claims experience may therefore diverge from the expected claims experience. This can be attributable to two reasons: the risk of random fluctuation and the risk of error.

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

The Talanx Group manages and reduces all components of the premium/loss risk first and foremost through claims analyses, actuarial modeling, selective underwriting, specialist audits and regular review of the claims experience as well as through the use of appropriate reinsurance protection.

The second underwriting risk in property/casualty business, namely the reserving risk, refers to the possibility that the underwriting reserves may not suffice to pay in full claims that have not yet been settled or reported. This may then give rise to a need to establish additional reserves. In order to manage this risk the Talanx Group sets aside extra reserves on the basis of its own claims investigations in addition to the losses reported by clients. Furthermore, a so-called IBN(E)R (incurred but not (enough) reported) reserve is constituted for claims that have probably already occurred but have not yet been (adequately) reported. What is more, the level of reserves is regularly reviewed – not only internally but also by external actuaries – and an external expert assessment of the reserves is commissioned in order to minimize the reserving risk. With regard to the run-off results of the loss reserves we would refer the reader to our comments in the Notes under "(20) Loss and loss adjustment expense reserve", page 177.

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

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

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

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

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

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

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

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

Typical risks in life insurance are associated with the fact that policies grant long-term benefit guarantees: while the premiums for a given benefit are fixed at the inception of the policy for the entire policy period, the underlying parameters (interest rate level, biometric assumptions) may change.

Biometric actuarial bases such as mortality, longevity and morbidity are established at the inception of a contract in order to calculate premiums and reserves. Over time, however, these assumptions may prove to be no longer accurate and may therefore necessitate additional expenditures, e.g. for raising the benefit reserve. The adequacy of the biometric actuarial bases is therefore regularly reviewed.

Epidemics, a pandemic or a worldwide shift in lifestyle habits may pose special risks to contracts under which death is the insured risk. Under annuity policies the risk derives first and foremost from the continuous improvement in medical care and social conditions, thereby increasing longevity – with the result that insureds draw benefits for a longer time than calculated.

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

In addition, life insurance policies entail lapse risks. In the event of cancellation it is possible, for example, that sufficient liquid assets may not be available to cover insurance benefits. This can give rise to the unplanned realization of losses on the disposal of assets. For this reason, the Group's life insurers regularly match and control the duration of their assets and liabilities. What is more, receivables due from insurance agents may be lost in the event of cancellation if the accounts receivable from intermediaries cannot be collected. Insurance intermediaries are therefore carefully selected. Cancellation may also create a cost risk if new business collapses and the fixed costs – unlike the variable costs – cannot be directly reduced. Cost controlling and a focus on variable sales costs through distribution channels such as brokers limit this risk.

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

In life and health reinsurance the previously described biometric risks are of special importance. The reserves in life and health reinsurance are based principally upon the information provided by ceding companies. The plausibility of the figures is checked using reliable biometric actuarial bases. Furthermore, local insurance regulators ensure that the reserves calculated by ceding companies satisfy all requirements with respect to actuarial methods and assumptions (e.g. use of mortality and morbidity tables, assumptions regarding the lapse rate etc.). The lapse and credit risks are also of importance with regard to the prefinancing of cedants' new business acquisition costs. The interest guarantee risk, on the other hand, is of only minimal risk relevance in most instances due to the structure of the contracts.

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

Default risks under insurance business

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

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

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

Major investment risks

Investment risks should be considered in the context of the investment policy. Based on Group investment guidelines, the investment policy at the individual companies is regulated within the Talanx Group by the supervisory framework applicable to each particular company and by internal investment guidelines.

Particularly in the interests of policyholders as well as with a view to accommodating the future requirements of the capital market, the investment policy adopted by Talanx – building upon the basic legal parameters – is guided by the following maxims:

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

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

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

Risks in the investment sector consist most notably of market, credit and liquidity risks.

Market risk

The market risk arises from the potential loss due to adverse changes in market prices and may be attributable to changes in interest rates, equity prices and exchange rates. This can necessitate a value adjustment or result in realized losses upon disposal of financial assets. A fall in the level of interest rates can also lead to lower investment income.

For the bulk of the securities portfolio the experts at Ampega-Gerling Asset Management GmbH simulate possible market changes that can cause significant price and interest losses as at the balance sheet date. The Value at Risk, which is determined daily on the basis of historical data, is a vital tool used to manage market price risks. In addition, the risk of market changes is identified using enterprise-specific stress tests and those required by regulators with correspondingly defined stress test parameters.

When it comes to managing the currency risk, we check that matching currency cover is maintained at all times. The risk is limited by investing capital wherever possible in those currencies where obligations are to be fulfilled under insurance contracts.

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

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

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

Credit risk

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

Liquidity risk

The liquidity risk refers to the risk that it may not be possible to sell holdings (or to do so only with delays) or to close open positions (or to do so without price markdowns) due to the illiquidity of the markets as well as to the risk that the traded volumes influence the markets in question. A liquid asset structure ensures that Group companies are able to meet their payment obligations – especially under insurance contracts – at all times. The expected due dates – among other considerations – are taken as a basis for the payment obligations, making allowance for the run-off pattern of the reserves.

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

Major operational risks

Operational risks encompass the risk of losses occurring because of

- inadequacy or failure of internal procedures
- human error or system failure
- external events

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

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

The Talanx Group – in common with the entire insurance industry – is facing far-reaching changes against the backdrop of the impending reform of regulatory requirements, especially in the context of IFRS, Solvency II, the Minimum Risk Requirements for Insurance Undertakings (MaRisk) and government measures taken in response to the crisis on financial markets (such as the Financial Market Stabilization Fund). We have identified – as far as possible – the more exacting standards associated with the regulatory changes and initiated measures to refine our risk management accordingly and hence enable us to satisfy the more complex and extensive requirements going forward. We view with some concern the planned extensions of government powers to intervene in the area of shareholders' and subordinated capital of financial sector undertakings.

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

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

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

As far as the integration of the former Gerling Group companies into the Talanx Group is concerned – an activity which we considered a risk factor in recent years –, organizational aspects of the integration had been successfully completed by year-end 2008.

Other major risks

Other risks consist primarily of participation risks of Talanx AG, especially those associated with the performance of subsidiaries, the stability of results in the portfolio of participating interests and a potentially inadequate balance in the business. Through profit transfer agreements and dividend payments Talanx AG participates directly in the business development and risks of the subsidiaries. What is more, negative results trends at the subsidiaries can prompt a need to write down the book values of participating interests at Talanx AG. The Group uses appropriate tools in the areas of controlling, internal auditing and risk management to counter risks arising out of the development of results at subsidiaries. A standardized reporting system regularly provides decision-makers with the latest information not only about the Group but also about the business development at all major subsidiaries. They are thus able to intervene at all times in order to control risks. Risks associated with a lack of stability in the results of the portfolio of participating interests or with an inadequate business balance are reduced for the various risk sources primarily by means of segmental and regional diversification, appropriate strategies for risk minimization and shifting as well as by investing systematically in growth markets and in product and portfolio segments that stabilize results.

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

Events of special significance after the balance sheet date

Events that could have an influence on our financial position, net income or assets are described in the following forecast and in the section of the Notes entitled “Events after the balance sheet date” on page 208 et seq.

Forecast

The following remarks about the expected development of the Talanx Group and its business environment are subjective assessments based on plans and forecasts that we consider coherent but the materialization of which is uncertain. Forecasting reliability has been made even more difficult by the repercussions of the international financial market crisis.

Economic environment

Future macroeconomic situation

Following the intensification of the worldwide financial and economic crisis in the early months of the current year, there is generally considerable uncertainty as to the development of the economic environment and capital markets that should be anticipated in 2009 and 2010. Essentially, it is not possible at the present time to make reliable statements as to how serious the recession triggered by the collapse of the financial system is likely to be and how long the recession will probably last. This forecasting uncertainty is principally due to the fact that the prevailing financial and economic crisis is a historically exceptional situation, for which the past patterns used to support forecasts do not produce viable and robust statements.

Against this backdrop, the most likely scenario is that 2009 will see a slump in the world economy and a continuing global recession. This assessment is shared by leading international institutions such as the International Monetary Fund (IMF) and the World Bank, which for the first time since 1945 are forecasting a contracting world economy for 2009. While economic forecasts for the Eurozone anticipate a decline of around 3% in gross domestic product, the expectations for industrial output in Germany are for the most part even more pessimistic: overall, the most severe economic collapse since the founding of the Federal Republic is to be expected here in 2009.

Considerable hopes have therefore been placed in the economic stimulus packages launched by governments all around the world; combined with a continued expansionary monetary policy on the part of the most important central banks that extends as far as a "zero interest rate policy", the hope is that sufficient impetus for renewed growth can be generated. In a best case scenario, for example, a gradual stabilization and recovery of the economic situation could begin to set in from around the third quarter of 2009 onwards.

Capital markets

Given that at least the first half of 2009 – and possibly also a time horizon stretching into 2010 – will thus be entirely overshadowed by the global recession and the associated uncertainties, risk premiums in the area of corporate bonds will probably remain on an unusually high level. The expected rise in the level of new public borrowing as a consequence of government rescue packages and economic stimulus programs will, on the other hand, lead to increasing issuance of government bonds. Despite offering a relatively low return, these government bonds will probably meet with sufficient demand owing to the pronounced risk aversion currently prevalent among market players. It is as yet still too early to predict if and when the low-interest phase will give way to a scenario of rising interest rates as a consequence of resurgent inflationary expectations and economic revival.

As far as equity markets are concerned, the indications at this point in time do not as yet point to a sustained upturn. This view is supported above all by the low probability that corporate profit expectations – which have fallen sometimes dramatically in the wake of the financial and economic crisis – could return to pre-crisis levels in the short term.

Future state of the industry

Although the insurance industry cannot divorce itself from the financial and economic crisis, its current underlying mood and the expectations with respect to future prospects are characterized by comparatively healthy stability and confidence. Whilst it is true that the value adjustments and write-downs taken as a result of financial conglomerates getting into difficulties and the severe price declines on stock markets have left their mark on the asset portfolios and overall balance sheets of insurers, it is nevertheless very likely that neither the turmoil on capital markets nor a recession-induced drop in demand will prove to be a serious threat to the core business of insurance companies.

The weak development seen in the fourth quarter of 2008, in which German life insurers incurred a contraction of 14.5% in premiums from new business and 2.6% in written premiums, demonstrates that the life insurance industry is also unable to entirely decouple itself from the unfavorable state of the economy. The ever-greater weight attached to scheduled maturities of policies taken out in earlier years – relative to new business – will probably lead to a further decline in the in-force portfolios in 2009. For this reason, a reduction of around 1.5% in premiums is anticipated for the life insurance sector overall. The current environment, however, offers the life insurance industry an inviting opportunity to realign its business policy. Along with the savings book, a life insurance policy is considered the most secure form of investment – and is therefore regaining its appeal in the competition among various types of investment. Not only that, awareness of the need for additional retirement provision is now firmly anchored in the minds of the population. It is therefore very likely that the life insurance industry will be able to emerge with fresh vigor after a temporary period of weakness.

In property and casualty insurance the difficult economic climate is likely to have a softening effect overall on the development of business. In private customer business the economic crisis will probably put private households under strain. Demand for property and casualty insurance products is consequently expected to fall.

In industrial and commercial business, too, we see, if anything, a period of cautious capital expenditure for the forecast period which will dampen demand for insurance. What is more, it remains to be seen whether a sustained easing can take hold in the fierce price competition that has obtained for many years. While the premium volume in property and casualty insurance is therefore likely to be flat in the 2009 and 2010 financial years, we assess the general growth prospects in this market segment as thoroughly favorable.

The prospects for international life insurance have taken a turn for the worse following the financial market crisis and the deterioration of the economic environment. The caution among potential customers that goes hand-in-hand with the growing intensity of the economic crisis is having a clear impact on new business – and this negative effect on premium growth is exacerbated by the rising lapse risk. Owing to the decreased willingness to buy and the comparatively poor returns on the reinvestment of assets, the pressure on the business results and solvency of life insurers is tending to increase. In our assessment, this market climate for the life insurance sector will likely remain broadly unchanged in the forecast period until 2010, before ushering in a brisker growth phase as the economy begins to recover.

The general environment for international life and health reinsurance, however, remains favorable from a medium-term perspective. Even against the backdrop of the current financial market crisis, the long-term demographic trends, heightened risk awareness among the urban middle classes, the opening up of the seniors' market and the creative design of innovative types of products should generate sustained growth stimuli, especially in key emerging markets. Increased demand from life insurers for reinsurance solutions that serve as equity substitutes while minimizing the risks is generating further attractive growth opportunities in this market segment. This state of affairs is encapsulated especially succinctly in the US life market, where the insurance industry suffered marked erosion of its capital base in the course of the year under review. Life/health reinsurance thus constitutes a subsector of the international financial services industry which has been more helped than hindered by the repercussions of the financial market crisis and which can look forward to attractive new business opportunities.

Overall, we expect to see a stable development in international property/casualty insurance and non-life reinsurance. Although the markets are tending to harden again and average premiums are rising in several lines – sometimes markedly so –, substantial growth in premium income can scarcely be anticipated given the state of the economy. Indeed, the premium volume is even likely to contract in lines more heavily dependent on the economic trend due to declining capital expenditure and restricted demand. The profitability of property/casualty insurers is nevertheless likely to prove robust overall, provided natural catastrophe losses remain within the expected bounds. For non-life reinsurers we expect to see a favorable market climate, the hallmarks of which will be rate increases and stronger demand for reinsurance protection.

Orientation of the company over the next two financial years

For the next two financial years the Talanx Group has set itself major goals derived from its umbrella strategy with a view to further improving the competitiveness of the Group and its segments. The target indications defined by the Board of Management of Talanx AG/Group Board of Management for the 2010 financial year address not only targets for our core management indicators but also specific issues which are intended to bring the Group a good deal closer to its long-term objectives.

We consider the following key action fields, among others, to be of decisive importance in shaping the Group's orientation: certification of the internal risk models by the Federal Financial Supervisory Authority (BaFin), accomplishment and consolidation of competitive combined ratios, ongoing optimization of our sustainable investment strategy and exploration of further growth prospects in foreign markets.

Sales markets

In our striving to systematically implement our goal of further profitable growth, our attention is directed first and foremost to expansion in the primary insurance sector – and here especially in private customer business. In the context of our expansionary strategy, we take care to extend the diversification of our Group in order to thereby further optimize our risk-based capital. In the medium term, our goal is to generate merely half the premium income in primary insurance from the domestic market, with the other half deriving from markets outside Germany. A further focus is on the balance between volatile and less volatile insurance business: while there are no explicit growth targets – but rather strictly profit-oriented targets – for the more volatile industrial, property and liability lines of insurance and reinsurance, we have defined not only profit- but also volume-based goals for less volatile life insurance and life/health reinsurance as well as private customer business.

New methods, products and services

Going forward, too, we continue to regard our multi-brand and multi-distribution strategy – which enables us to tailor our products and services specifically to the needs of our customers and other stakeholders – as one of our Group's key differentiating and distinguishing criteria. The Talanx Group's decentralized approach to operating business attaches prominence to customer intimacy and a multi-faceted marketing presence. In the coming years we shall continue to extend the advantages of our Group structure and, in particular, make use of this edge in order to cater quickly and professionally to our customers' expectations. As the financial and management holding company of the Group, Talanx AG performs the required central management functions and thereby generates value added for the Group.

A key starting point for the attainment of competitive advantages, in our assessment, is that our information technology puts us in a state-of-the-art position to largely anticipate future technological advances. Over the next two years we shall therefore make the investments in the IT sector needed to achieve this goal. What is more, we shall move forward with Group-wide projects ranging from the development of a stochastic internal risk model through the implementation of the Minimum Requirements for Risk Management at Insurance Undertakings (MaRisk) to the fulfillment of disclosure duties within significantly tighter deadlines.

Anticipated development of the Group

Group segment: Property/Casualty Primary Insurance

It is currently still too soon to reliably forecast the implications of the financial crisis in the current financial year for the insurance business written by the HDI-Gerling Property & Casualty Group. We nevertheless look to the current year with optimism. The first year of the crisis has already demonstrated that our insurance business is healthy to the core. With this in mind, we take a relaxed view of the situation: despite the difficult macroeconomic climate, virtually all companies belonging to the segment expect to further cement or even extend their positioning in their respective market segments in 2009. As far as premium income for 2009 is concerned, a modest decline is anticipated for the Property/Casualty Primary Insurance segment in Germany owing to the protracted difficult market conditions. In foreign markets we are again looking to moderate growth. Provided very large losses in industrial insurance do not exceed the average level and as long as there is no further turmoil on capital markets, we expect the operating profit (EBIT) to come in on a par with 2008.

Group segment: Life Primary Insurance

Although we are operating in a demanding environment, we anticipate positive business results for the Life Primary Insurance segment in the financial year that is already underway.

The Life Insurance division is superbly positioned with a range of innovative and flexible products. On the marketing side, too, the companies are very well placed. We have targeted a doubling of new business for the Life Group in Germany by 2012 as a concrete objective. In the Bancassurance division, too, based on our strong position in the market, the launch of new products and the further optimization of services for our partners, we expect to see a favorable development contrary to the general market trends.

Group segment: Non-Life Reinsurance

The treaty renewals as at 1 January 2009 presented a considerably improved picture in non-life reinsurance. Although the recession continues to spread, it will scarcely affect us as a reinsurer since its primary impact is on the income statement of companies and less on the fixed assets to be insured. Conditions for a financially strong reinsurer such as Hannover Re are good. The increased demand among insurers – triggered by diminished capital resources and greater risk awareness – is coming up against a reduced supply, hence prompting higher prices. A further positive factor is that the capital market's interest in reinsurance products has faded. In view of this environment and our very healthy diversification, and thanks to our excellent rating, we are able to generate attractive business. In non-life reinsurance we continue to have a close eye on profitable niche business, as a consequence of which we are looking forward to a very positive development in the current financial year.

In the Group segment of Non-Life Reinsurance we are guided exclusively by profit rather than growth targets, although we anticipate a significant increase in gross premium purely as a consequence of movements in exchange rates. The favorable business development should – provided the burden of catastrophe losses does not significantly exceed the expected level – be reflected in a healthy profit contribution in the current year.

Group segment: Life/Health Reinsurance

The general environment for international life and health reinsurance remains favorable – not only in the short term but also from a medium-term perspective. Even against the backdrop of the current financial market crisis, the long-term demographic trends, heightened risk awareness among the urban middle classes, the opening up of the seniors' market and the creative design of innovative types of products should generate sustained growth stimuli, especially in key emerging markets. In this context we believe that Hannover Life Re is very well positioned to share in these growth potentials to an above-average extent.

The international financial market crisis led to a visible weakening of the solvency position of primary insurers, prompting a wave of demand for both risk- and financially oriented reinsurance solutions – especially because direct access to the capital markets by way of securitizations is largely blocked. Overall, most life reinsurers belong to the subsegment of the international financial services industry that is currently profiting from the worldwide financial market crisis and for which attractive new business opportunities are opening up.

In life and health reinsurance we expect annual growth of 12 to 15%. Due to our purchase of a US individual life portfolio we anticipate growth of 35% for the current year. This acquisition is forecast to generate a premium volume in the order of USD 1.2 billion for 2009. As early as 2009 the acquisition of this portfolio will help to boost profitability.

Group segment: Financial Services

Provision of a full-service program for Group clients as well as the breadth and depth of its expertise in handling the management of insurance assets ensure that earning capacities can be quantitatively and qualitatively safeguarded and expanded. In third-party business with outside clients the tied agents' organization of HDI-Gerling – offering a sales platform in retail business – as well as the positioning as a niche provider for the outsourcing of the entire value-creation process in asset management constitute the platform for the planned development of business on the basis of a holistic IT platform. The allocation of public bond funds and money market funds to corporate bonds promises a strong potential for value growth on the back of a medium-term market rally.

In addition to managing the challenges posed by the special situation on financial and capital markets, key features of the 2009 financial year will be safeguarding the Talanx Group's capital market viability and obtaining certification by the Federal Financial Supervisory Authority (BaFin) as well as the associated review of process and production structures.

Given the market-induced reduction in the year-opening volumes, especially in retail business, the planning for 2009 envisages a decrease in fees and commission income. Combined with an increase in operating expenses, driven especially by the further expansion of production structures, the EBIT generated by the segment is expected to rise by roughly 10% – with the volume of managed assets likely to be on a par with the level at the beginning of the year.

Group as a whole

Based on a relatively strong US dollar with an exchange rate of 1.27 against the euro, we expect the gross written premium booked by the Group to surpass EUR 20 billion in 2009. Premium increases are anticipated especially in the Life Primary Insurance and Life/Health Reinsurance segments. We are convinced that the investment income generated by the Group will improve substantially in 2009. Thanks to its strong market positioning and capitalization, the Talanx Group is optimally placed to again build on its earning power of previous years.

As far as the return on equity (RoE) generated by the Talanx Group is concerned, the minimum target enshrined in our umbrella strategy continues to apply – namely to surpass the average risk-free market interest rate over the past five years for ten-year German government bonds by at least 750 basis points. With the aid of our performance management system, we are able to ensure that the profit targets of the Group segments arrived at from our value-based management approach at least produce the return on equity defined for the Group as a whole. We are, however, confident of generating Group net income that delivers a satisfactory return on equity. Our profit forecast assumes that the Group is spared major loss events and natural catastrophes that clearly go beyond our planning estimates and that further upheavals on capital markets remain within reasonable bounds.

Consolidated financial statements. Contents

Notes

Consolidated balance sheet as at 31 December 2008

Assets	Note			31.12.2008	31.12.2007 [1]
Figures in EUR million					
A. Intangible assets					
a. Goodwill	1		621		637
b. Other intangible assets	2		2,317		2,505
				2,938	**3,142**
B. Investments					
a. Real estate used by third parties	3		584		616
b. Investments in affiliated companies and participating interests	4		66		59
c. Investments in associated companies	5		135		178
d. Loans and receivables	6		30,123		29,243
e. Other financial instruments					
i. Held to maturity	7	1,378			1,477
ii. Available for sale	8	24,865			25,877
iii. At fair value through profit or loss	9	793			865
iv. Trading	10/12	423			18
			27,459		**28,237**
f. Other investments					
i. Funds held by ceding companies			9,094		8,055
ii. Other invested assets	11		3,857		3,239
				71,318	**69,627**
C. Investments for the account and risk of holders of life insurance policies				3,371	4,314
D. Reinsurance recoverables on technical provisions				6,989	7,552
E. Accounts receivable on insurance business	13			4,438	3,758
F. Deferred acquisition costs	14			3,509	3,278
G. Cash				1,408	2,038
H. Deferred tax assets	27			295	236
I. Other assets	15			1,736	1,450
J. Assets of disposal groups classified as held for sale				43	—
Total assets				**96,045**	**95,395**

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

Liabilities	Note			31.12.2008	31.12.2007 [1)]
Figures in EUR million					
A. Shareholders' equity	16				
a. Common shares		260			260
b. Reserves		3,354			3,472
Total shareholders' equity excluding minorities			**3,614**		**3,732**
c. Minority interests			2,104		2,431
Total shareholders' equity				**5,718**	**6,163**
B. Subordinated liabilities	17		2,074		2,168
C. Technical provisions					
a. Unearned premium reserve	18	4,894			4,755
b. Benefit reserve	19	36,386			35,987
c. Loss and loss adjustment expense reserve	20	27,161			26,651
d. Provision for premium refunds	21	973			1,403
e. Other technical provisions		198			226
			69,612		**69,022**
D. Technical provisions in the area of life insurance insofar as the investment risk is borne by policyholders			3,371		4,314
E. Other provisions					
a. Provision for pensions	22	1,272			1,251
b. Provision for taxes	23	619			725
c. Sundry provisions	24	525			582
			2,416		**2,558**
F. Liabilities					
a. Notes payable and loans	25	602			600
b. Funds held under reinsurance treaties		5,974			4,733
c. Other liabilities	26	4,901			4,682
			11,477		**10,015**
G. Provision for deferred taxes	27		1,377		1,155
Total liabilities/provisions				**90,327**	**89,232**
H. Debts of disposal groups classified as held for sale				—	—
Total liabilities				**96,045**	**95,395**

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

Consolidated statement of income
for the 2008 financial year

	Note			2008	2007 1)
Figures in EUR million					
1. Gross written premium including premium from unit-linked life and annuity insurance				19,005	19,130
2. Savings elements of premium from unit-linked life and annuity insurance				1,081	944
3. Ceded written premium				2,711	3,278
4. Change in gross unearned premium				–184	181
5. Change in ceded unearned premium				114	194
Net premium earned	28			**14,915**	**14,895**
6. Investment income	29				
a. Income from investments			4,347		3,385
b. Expenses for investments			2,737		683
				1,610	2,702
thereof profit/loss from investments in associated companies			3		11
7. Other income	32			998	1,204
Total income				**17,523**	**18,801**
8. Claims and claims expenses (gross)	30	13,607			14,855
Reinsurers' share		1,781			2,725
Claims and claims expenses (net)			**11,826**		**12,130**
9. Acquisition costs and administrative expenses (gross)	31	4,102			4,194
Reinsurers' share		545			760
Acquisition costs and administrative expenses (net)			**3,557**		**3,434**
10. Other expenses	32		1,401		1,597
Total expenses				**16,784**	**17,161**
Profit before amortization of insurance-related intangible assets and goodwill impairments				**739**	**1,640**
11. Amortization of insurance-related intangible assets and goodwill impairments	33			121	178
Operating profit/loss (EBIT)				**618**	**1,462**
12. Financing costs				156	134
13. Taxes on income	34			341	329
Net income				**121**	**999**
thereof minority interest in profit or loss				–66	522
thereof Group net income				187	477

1) *Adjusted on the basis of IAS 8*

Consolidated statement of changes in shareholders' equity

	Common shares	Additional paid-in capital	Retained earnings	Cumulative other comprehensive income (other reserves)			Minority interests	Share-holders' equity
				Unrealized gains/ losses on investments	Gains/ losses from currency translation	Other changes in sharehold-ers' equity		
Figures in EUR million								
Balance as at 01.01.2007	**260**	**630**	**2,390**	**197**	**–45**	**63**	**1,987**	**5,482**
Adjustments pursuant to IAS 8	—	—	–49	–19	—	—	50	–18
Adjusted balance as at 01.01.2007	**260**	**630**	**2,341**	**178**	**–45**	**63**	**2,037**	**5,464**
Changes in proportionate holding	—	—	—	—	—	–131	40	–91
Deferred taxes on profit components recognized directly in equity	—	—	—	10	1	–2	–10	–1
Changes without effect on income	—	—	—	–21	–68	20	–38	–107
Net income	—	—	477	—	—	—	522	999
Dividends paid	—	—	—	—	—	—	–122	–122
Balance as at 31.12.2007	**260**	**630**	**2,818**	**167**	**–112**	**–50**	**2,429**	**6,142**
Adjustments pursuant to IAS 8	—	—	–19	21	–15	32	2	21
Adjusted balance as at 01.01.2008	**260**	**630**	**2,799**	**188**	**–127**	**–18**	**2,431**	**6,163**
Changes in proportionate holding	—	—	–5	—	—	—	–8	–13
Deferred taxes on profit components recognized directly in equity	—	—	—	–5	–4	11	–34	–32
Changes without effect on income	—	—	—	–164	–96	–42	–6	–308
Net income	—	—	187	—	—	—	–66	121
Dividends paid	—	—	—	—	—	—	–213	–213
Balance as at 31.12.2008	**260**	**630**	**2,981**	**19**	**–227**	**–49**	**2,104**	**5,718**

Cash flow statement
for the 2008 financial year

Figures in EUR million	2008	2007 [1)]
I. 1. Net income	121	999
I. 2. Changes in technical provisions	1,834	1,893
I. 3. Changes in deferred acquisition costs	–322	–228
I. 4. Changes in funds held and in accounts receivable and payable	–2,772	–867
I. 5. Net changes in contract deposits	1,924	207
I. 6. Changes in other receivables and liabilities	9	414
I. 7. Changes in financial instruments held for trading	–234	29
I. 8. Net gains and losses on investments	–148	–242
I. 9. Changes in other balance sheet items	–81	–109
I. 10. Other non-cash expenses and income as well as adjustments to net income	632	1,448
I. Cash flows from operating activities	**963**	**3,544**
II. 1. Cash inflow from the sale of consolidated companies	–7	384
II. 2. Cash outflow from the purchase of consolidated companies	–21	–527
II. 3. Cash inflow from the sale of real estate	29	756
II. 4. Cash outflow from the purchase of real estate	–102	–53
II. 5. Cash inflow from the sale and maturity of financial instruments	21,169	14,868
II. 6. Cash outflow from the purchase of financial instruments	–23,055	–17,632
II. 7. Changes in investments for the account and risk of holders of life insurance policies	946	–704
II. 8. Changes in other invested assets	–76	–535
II. Cash flows from investing activities	**–1,117**	**–3,443**
III. 1. Dividends paid	–213	–122
III. 2. Net changes from other financing activities	–247	408
III. Cash flows from financing activities	**–460**	**286**
Change in cash and cash equivalents (I.+II.+III.)	**–614**	**387**
Cash and cash equivalents at the beginning of the financial year	**2,038**	**1,670**
Cash and cash equivalents – exchange rate differences on cash	**–12**	**–19**
Cash and cash equivalents of companies no longer included in the consolidated financial statements	**4**	**—**
Cash and cash equivalents at the end of the financial year	**1,408**	**2,038**

Additional information

	2008	2007
Taxes paid	201	103
Interest paid	284	237

[1)] Adjusted on the basis of IAS 8

Notes on the cash flow statement

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

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

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

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

Through the acquisitions of two insurance companies (HDI Strakhuvannya and HDI Seguros S.A.) in the third quarter as well as the purchase of Proactiv IT Servicegesellschaft mbH in October 2008 (in this regard see also our remarks in the section entitled "Business combinations in the reporting period", page 132 et seq.), the Talanx Group assumed the following assets and liabilities:

Figures in EUR million	
Intangible assets	2
Investments	9
Reinsurance recoverables on technical provisions	3
Accounts receivable on insurance business	12
Deferred tax assets	1
Other assets	7
Total assets	**34**
Technical provisions	14
Other provisions	3
Liabilities	6
Provision for deferred taxes	1
Total liabilities	**24**

The total purchase price for all companies, which we paid in cash and netted with the cash and cash equivalents, amounted to altogether EUR 22 million. The acquired cash assets of the companies totaled EUR 1 million.

In the context of the sale of Gerling Service Nederland N.V. as at 31 December 2008 other provisions of EUR 2 million were deducted. The cash assets of the company amounted to EUR 7 million.

Segment report

The segment reporting of the Talanx Group is based on IAS 14 “Segment Reporting” and on the principles set out in German Accounting Standard No. 3 “Segment Reporting” (DRS 3) of the German Standards Council, supplemented by the requirements of DRS 3-20 “Segment Reporting of Insurance Enterprises”.

The breakdown of the overall activities into the segments of the primary reporting format is based upon the areas of responsibility within the Group’s Board of Management, i.e. the allocation of business activities to segments is crucially determined by their affiliation with the areas of responsibility defined within the Board of Management of the Group’s holding company (Talanx AG).

In 2008 we allocated Euro International Reinsurance S.A., Luxembourg, to the Non-Life Reinsurance segment; it had previously been allocated to the Property/Casualty Primary Insurance segment. The figures for the previous year have been adjusted accordingly. For further information please see the section entitled “Changes in accounting policies”, page 102 et seq.

The Talanx Group’s operational segments are structured as follows for the purposes of primary segmentation:

- Primary Insurance
  a) Property/Casualty
  b) Life
- Reinsurance
  a) Non-Life
  b) Life/Health
- Financial Services

The various business segments are shown in the segment report after consolidation of internal transactions within individual segments. Consolidation effects across segments are reported in the “Consolidation” column. Transactions between Group companies were effected in accordance with arm’s length principles.

Segment report. Balance sheet as at 31 December 2008

Assets	Property/Casualty Primary Insurance 31.12.2008	Property/Casualty Primary Insurance 31.12.2007 [1)]	Life Primary Insurance 31.12.2008	Life Primary Insurance 31.12.2007 [1)]
Figures in EUR million				
A. Intangible assets				
a. Goodwill	194	211	415	414
b. Other intangible assets	134	215	2,118	2,231
	328	**426**	**2,533**	**2,645**
B. Investments				
a. Real estate used by third parties	107	101	456	498
b. Investments in affiliated companies and participating interests	10	14	14	3
c. Investments in associated companies	25	26	9	8
d. Loans and receivables	5,406	5,868	22,989	22,044
e. Other financial instruments				
i. Held to maturity	219	300	250	256
ii. Available for sale	4,047	4,505	6,263	6,880
iii. At fair value through profit or loss	132	286	359	400
iv. Trading	175	1	248	17
	4,573	5,092	7,120	7,553
f. Other investments				
i. Funds held by ceding companies	56	93	60	55
ii. Other invested assets	779	661	1,458	1,052
	10,956	**11,855**	**32,106**	**31,213**
C. Investments for the account and risk of holders of life insurance policies	18	18	3,353	4,296
D. Reinsurance recoverables on technical provisions	4,827	4,638	2,711	3,063
E. Accounts receivable on insurance business	1,668	1,398	340	265
F. Deferred acquisition costs	185	189	1,256	1,050
G. Cash	372	355	572	1,285
H. Deferred tax assets	101	74	56	78
I. Other assets	872	708	621	655
J. Assets of disposal groups classified as held for sale	—	—	43	—
Total assets	**19,327**	**19,661**	**43,591**	**44,550**

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

	Non-Life Reinsurance		Life/Health Reinsurance		Financial Services		Consolidation		Total	
	31.12.2008	31.12.2007 [1)]	31.12.2008	31.12.2007 [1)]	31.12.2008	31.12.2007 [1)]	31.12.2008	31.12.2007 [1)]	31.12.2008	31.12.2007 [1)]
	8	8	—	—	3	3	1	1	621	637
	51	46	13	10	2	2	–1	1	2,317	2,505
	59	**54**	**13**	**10**	**5**	**5**	**—**	**2**	**2,938**	**3,142**
	20	16	1	1	—	—	—	—	584	616
	7	4	—	—	7	—	28	38	66	59
	87	137	12	2	—	—	2	5	135	178
	1,636	1,479	148	154	1	1	–57	–303	30,123	29,243
	1,453	1,463	43	52	—	—	–587	–594	1,378	1,477
	11,863	11,990	2,647	2,496	4	5	41	1	24,865	25,877
	247	144	55	35	—	—	—	—	793	865
	—	—	—	—	—	—	—	—	423	18
	13,563	13,597	2,745	2,583	4	5	–546	–593	27,459	28,237
	817	907	9,277	8,358	—	—	–1,116	–1,358	9,094	8,055
	1,404	1,381	148	147	31	46	37	–48	3,857	3,239
	17,534	**17,521**	**12,331**	**11,245**	**43**	**52**	**–1,652**	**–2,259**	**71,318**	**69,627**
	—	—	—	—	—	—	—	—	3,371	4,314
	2,009	2,472	269	366	—	—	–2,827	–2,987	6,989	7,552
	1,977	1,313	826	1,148	—	—	–373	–366	4,438	3,758
	319	280	1,559	1,545	—	—	190	214	3,509	3,278
	330	246	95	86	35	48	4	18	1,408	2,038
	43	50	8	4	5	—	82	30	295	236
	905	890	38	41	46	37	–746	–881	1,736	1,450
	—	—	—	—	—	—	—	—	43	—
	23,176	**22,826**	**15,139**	**14,445**	**134**	**142**	**–5,322**	**–6,229**	**96,045**	**95,395**

Segment report. Balance sheet as at 31 December 2008

Liabilities	Property/Casualty Primary Insurance 31.12.2008	Property/Casualty Primary Insurance 31.12.2007 1)	Life Primary Insurance 31.12.2008	Life Primary Insurance 31.12.2007 1)
Figures in EUR million				
B. Subordinated liabilities	302	306	116	171
C. Technical provisions				
a. Unearned premium reserve	1,509	1,614	2,098	2,020
b. Benefit reserve	1,155	1,187	29,951	29,287
c. Loss and loss adjustment expense reserve	10,687	10,568	760	619
d. Provision for premium refunds	7	39	966	1,364
e. Other technical provisions	42	42	2	2
	13,400	**13,450**	**33,777**	**33,292**
D. Technical provisions in the area of life insurance insofar as the investment risk is borne by policyholders	18	18	3,353	4,296
E. Other provisions				
a. Provision for pensions	440	429	121	117
b. Provision for taxes	218	226	60	73
c. Sundry provisions	272	312	176	180
	930	**967**	**357**	**370**
F. Liabilities				
a. Notes payable and loans	640	667	—	—
b. Funds held under reinsurance treaties	87	109	2,012	2,352
c. Other liabilities	1,667	1,688	2,439	2,447
	2,394	**2,464**	**4,451**	**4,799**
G. Provision for deferred taxes	197	87	254	264
Total liabilities/provisions	**17,241**	**17,292**	**42,308**	**43,192**
H. Debts of disposal groups classified as held for sale	—	—	—	—

	Non-Life Reinsurance		Life/Health Reinsurance		Financial Services		Consolidation		Total	
	31.12.2008	31.12.2007 1)	31.12.2008	31.12.2007 1)	31.12.2008	31.12.2007 1)	31.12.2008	31.12.2007 1)	31.12.2008	31.12.2007 1)
	1,377	1,373	18	40	—	—	261	278	2,074	2,168
	1,252	1,153	83	38	—	—	–48	–70	4,894	4,755
	—	—	5,913	6,143	—	—	–633	–630	36,386	35,987
	15,412	15,170	1,556	1,441	—	—	–1,254	–1,147	27,161	26,651
	—	—	—	—	—	—	—	—	973	1,403
	123	147	34	37	—	—	–3	–2	198	226
	16,787	**16,470**	**7,586**	**7,659**	**—**	**—**	**–1,938**	**–1,849**	**69,612**	**69,022**
	—	—	—	—	—	—	—	—	3,371	4,314
	57	53	16	14	12	11	626	627	1,272	1,251
	189	161	16	42	2	5	134	218	619	725
	49	58	9	9	19	17	—	6	525	582
	295	**272**	**41**	**65**	**33**	**33**	**760**	**851**	**2,416**	**2,558**
	43	47	40	—	7	—	–128	–114	602	600
	262	344	5,453	4,284	—	—	–1,840	–2,356	5,974	4,733
	1,072	556	1,096	1,482	63	82	–1,436	–1,573	4,901	4,682
	1,377	**947**	**6,589**	**5,766**	**70**	**82**	**–3,404**	**–4,043**	**11,477**	**10,015**
	738	618	184	199	—	3	4	–16	1,377	1,155
	20,574	**19,680**	**14,418**	**13,729**	**103**	**118**	**–4,317**	**–4,779**	**90,327**	**89,232**
	—	—	—	—	—	—	—	—	—	—

Shareholders' equity 2)	**5,718**	**6,163**
Total liabilities	**96,045**	**95,395**

1) *Adjusted on the basis of IAS 8*

2) *Group shareholder's equity incl. minority interests*

Segment report. Statement of income for the 2008 financial year

	Property/Casualty Primary Insurance		Life Primary Insurance	
	2008	2007 1)	2008	2007 1)
Figures in EUR million				
1. Gross written premium including premium from unit-linked life and annuity insurance	5,896	5,984	5,691	5,354
thereof with other segments	17	7	—	—
thereof with outside third parties	5,879	5,977	5,691	5,354
2. Savings elements of premium from unit-linked life and annuity insurance	—	—	1,081	944
3. Ceded written premium	1,966	2,322	559	576
4. Change in gross unearned premium	15	53	–64	–99
5. Change in ceded unearned premium	81	33	9	–68
Net premium earned	**3,864**	**3,683**	**3,978**	**3,803**
6. Investment income				
a. Income from investments	897	574	1,917	1,469
b. Expenses for investments	555	93	932	371
	342	481	985	1,098
thereof profit/loss from investments in associated companies	—	1	—	—
7. Other income	349	629	275	263
Total income	**4,555**	**4,793**	**5,238**	**5,164**
8. Claims and claims expenses (gross)	4,210	4,682	4,150	4,149
Reinsurers' share	1,477	1,897	187	219
Claims and claims expenses (net)	**2,733**	**2,785**	**3,963**	**3,930**
9. Acquisition costs and administrative expenses (gross)	1,288	1,301	1,081	831
Reinsurers' share	351	409	349	208
Acquisition costs and administrative expenses (net)	**937**	**892**	**732**	**623**
10. Other expenses	562	846	331	334
Total expenses	**4,232**	**4,523**	**5,026**	**4,887**
Profit before amortization of insurance-related intangible assets and goodwill impairments	**323**	**270**	**212**	**277**
11. Amortization of insurance-related intangible assets and goodwill impairments	65	35	56	143
Operating profit/loss (EBIT)	**258**	**235**	**156**	**134**
12. Financing costs	54	51	22	22
13. Taxes on income	47	122	68	44
Net income	**157**	**62**	**66**	**68**

Non-Life Reinsurance		Life/Health Reinsurance		Financial Services		Consolidation		Total	
2008	2007 [1)]	2008	2007 [1)]	2008	2007 [1)]	2008	2007 [1)]	2008	2007 [1)]
4,997	5,611	3,135	3,083	—	—	–714	–903	19,005	19,130
363	520	334	376	—	—	–714	–903	—	—
4,634	5,091	2,801	2,707	—	—	—	—	19,005	19,130
—	—	—	—	—	—	—	—	1,081	944
551	997	335	285	—	—	–700	–902	2,711	3,278
–98	223	–16	—	—	—	–21	4	–184	181
61	206	–1	3	—	—	–36	20	114	194
4,287	**4,631**	**2,785**	**2,795**	**—**	**—**	**1**	**–16**	**14,915**	**14,895**
1,105	1,055	481	345	2	3	–55	–61	4,347	3,385
1,058	192	110	32	93	70	–11	–75	2,737	683
47	863	371	313	–91	–67	–44	14	1,610	2,702
3	9	—	2	—	—	–1	—	3	11
226	349	36	83	144	144	–32	–264	998	1,204
4,560	**5,843**	**3,192**	**3,191**	**53**	**77**	**–75**	**–266**	**17,523**	**18,801**
3,374	4,187	2,302	2,285	—	—	–429	–448	13,607	14,855
343	789	206	215	—	—	–432	–395	1,781	2,725
3,031	**3,398**	**2,096**	**2,070**	**—**	**—**	**3**	**–53**	**11,826**	**12,130**
1,153	1,535	897	906	—	—	–317	–379	4,102	4,194
90	328	93	74	—	—	–338	–259	545	760
1,063	**1,207**	**804**	**832**	**—**	**—**	**21**	**–120**	**3,557**	**3,434**
345	336	172	58	14	17	–23	6	1,401	1,597
4,439	**4,941**	**3,072**	**2,960**	**14**	**17**	**1**	**–167**	**16,784**	**17,161**
121	**902**	**120**	**231**	**39**	**60**	**–76**	**–99**	**739**	**1,640**
—	—	—	—	—	—	—	—	121	178
121	**902**	**120**	**231**	**39**	**60**	**–76**	**–99**	**618**	**1,462**
77	80	1	2	—	—	2	–21	156	134
200	145	36	–2	8	25	–18	–5	341	329
–156	**677**	**83**	**231**	**31**	**35**	**–60**	**–73**	**121**	**999**
				thereof minority interest in profit or loss				**–66**	**522**
				thereof Group net income				**187**	**477**

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

Segment reporting. Secondary segmentation

The secondary segmentation is based upon the regional origin of business:

Investments excluding funds held by ceding companies	31.12.2008	31.12.2007
Figures in EUR million		
Germany	38,478	41,687
United Kingdom	1,853	1,690
Rest of Europe	12,746	9,370
United States	6,431	6,329
Rest of North America	777	629
Asia and Australia	1,185	1,135
Rest of the world	754	732
Total	**62,224**	**61,572**

Gross written premium	2008	2007
Figures in EUR million		
Germany	9,010	8,800
United Kingdom	1,650	1,714
Rest of Europe	3,882	3,876
United States	1,819	2,421
Rest of North America	360	394
Asia and Australia	1,191	1,059
Rest of the world	1,093	866
Total	**19,005**	**19,130**

Notes

General information

As a financial and management holding company Talanx AG heads Germany's third-largest insurance group, with premium income of EUR 19.0 (19.1) billion in 2008. Talanx transacts business worldwide in more than 150 countries in the areas of property/casualty insurance, non-life reinsurance, life insurance, life/health reinsurance and financial services.

Talanx operates extremely successfully on international markets in promising sectors of the financial services industry with a variety of brands. These include first and foremost the HDI-Gerling insurers, with their core fields of non-life insurance for industrial and private clients as well as life insurance, Hannover Re, one of the world's leading reinsurance groups, the bancassurance specialists Neue Leben, CiV, PB and PBV Lebensversicherung, Aspecta, which markets its insurance products through brokers and multiple agents, and the investment fund provider and asset manager AmpegaGerling.

At the end of 2008 the companies belonging to the Talanx Group employed a total global workforce* of 16,541 (15,996). Talanx AG is a joint-stock company and has its registered office in Hannover, Germany. It is entered in the commercial register of Hannover County Court under the number HR Hannover B 52546 with the address "Riethorst 2, 30659 Hannover".

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

Talanx AG is a wholly-owned subsidiary of HDI Haftpflichtverband der Deutschen Industrie V. a. G. (HDI V. a. G.). In accordance with §§ 341 i ff. of the German Commercial Code (HGB) HDI V. a. G. is obliged to prepare consolidated annual accounts that include the annual financial statements of Talanx AG and its subsidiaries. The consolidated annual accounts of the parent company are published in the Electronic Federal Gazette. Pursuant to the exemption rule of § 291 of the German Commercial Code (HGB) Talanx AG has drawn up the present consolidated financial statement on a voluntary basis.

Pursuant to § 315 a of the German Commercial Code (HGB) in conjunction with EU Regulation (EC) No. 1606/2002, the consolidated financial statement has been drawn up in accordance with International Financial Reporting Standards and International Accounting Standards (IFRS, IAS) in the form adopted for use under European law.

Since 2002 the standards adopted by the International Accounting Standards Board (IASB) have been referred to as "International Financial Reporting Standards" (IFRS); the standards dating from earlier years still bear the name "International Accounting Standards" (IAS). Standards are cited in our Notes accordingly; in cases where the Notes do not make explicit reference to a particular standard, the term IFRS is used.

All IFRS, application of which was required for the financial year, were observed in the preparation of the consolidated financial statement. In addition, the German Accounting Standards (DRS) adopted by the German Accounting Standards Committee (DRSC) have been observed insofar as they do not conflict with currently applicable IFRS standards.

**Full-time equivalents as at 31 December*

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

Newly adopted standards

In November 2006 the IFRIC (International Financial Reporting Interpretation Commitee) published IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions". The interpretation provides guidance on the application of IFRS 2 "Share-based Payment" to share-based payments involving an entity's own equity instruments or rights to such equity instruments granted within the group. IFRIC 11 is mandatory for financial years beginning on or after 1 March 2007. Application of the interpretation had no implications for the consolidated financial statement.

In March 2007 the IASB published changes to IAS 23 "Borrowing Costs". The major change compared to the version currently in force is the abolition of the option of immediately expensing borrowing costs directly attributable to a qualifying asset. The revised standard is to be applied to financial years beginning on or after 1 January 2008. The change has no significant implications for the assets, financial position or net income or the presentation of segments of the Talanx Group.

In July 2007 the IFRIC published IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction". The interpretation provides general guidance inter alia for determining the limit on the amount of a surplus in a pension plan that may be recognized as an asset pursuant to IAS 19. IFRIC 14 is to be applied to financial years beginning on or after 1 July 2008. The change has no significant implications for the assets, financial position or net income or the presentation of segments of the Talanx Group.

In October 2008, in response to the turmoil on international financial markets, the IASB published amendments to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures". The amendments permit, in particular circumstances, reclassifications of (1.) non-derivative financial assets out of the fair value through profit or loss category and (2.) financial assets classified in the available-for-sale category to the loans and receivables category, and provide for additional disclosures in this regard. The Talanx Group did not avail itself of these facilities.

Standards or changes in standards that have not yet entered into force

Application of IFRS 8 "Operating Segments", which was endorsed in European law at the end of November 2007 and replaces IAS 14 "Segment Reporting", is mandatory for financial years beginning on or after 1 January 2009. It contains new rules governing segment reporting and in particular requires adoption of the "management approach" for reporting on the economic development of segments. We are not applying IFRS 8 earlier than required. In our assessment, the successive adjustments made to the segment definitions within the Talanx Group in 2006 and 2007 are already in conformity with the requirements of IFRS 8, and first-time application of the new standard to the segment reporting will not therefore give rise to any significant need for further adjustment with respect to the operating segments.

In June 2007 the IFRIC published IFRIC 13 “Customer Loyalty Programmes”. The interpretation addresses the accounting of customer loyalty award schemes run by the providers of goods or services themselves or by third parties. IFRIC 13 is to be applied to financial years beginning on or after 1 July 2008. The change is not expected to have any significant effect on the assets, financial position or net income of the Talanx Group.

The IASB published an amendment of IAS 1 “Presentation of Financial Statements” in September 2007. The revised standard contains new requirements regarding the consolidated statement of changes in shareholder’s equity. In addition, it grants the option of presenting income and expense items and the components of comprehensive income either in one statement with a subtotal or in two separate statements. The revised standard is to be applied to financial years beginning on or after 1 January 2009. In this connection we are currently drawing up the amended presentation of the consolidated statement of income and consolidated statement of changes in shareholders’ equity.

In January 2008 the IASB published revised versions of IFRS 3 “Business Combinations” and IAS 27 “Consolidated and Separate Financial Statements”. The new provisions primarily cover the recognition of minority interests, measurement issues in connection with successive acquisition, changes in a participating interest with or without a loss of control and adjustments to acquisition costs depending upon future events and their effects on goodwill. The revised standards are mandatory for financial years beginning on or after 1 July 2009. Neither of the revised standards had been ratified by the European Union as at the balance sheet date.

The amendment of IFRS 2 “Share-based Payment” published by the IASB in January 2008 principally clarifies the treatment of vesting conditions. The amendment is applicable to financial years beginning on or after 1 January 2009. We are currently exploring the implications of application of the revised standard for the consolidated financial statement.

In February 2008 the IASB published amendments to IAS 32 “Financial Instruments: Disclosure and Presentation” and IAS 1 “Presentation of Financial Statements” with regard to so-called “puttable instruments and obligations arising on liquidation”. The revised version will permit the balance sheet classification of puttable financial instruments as equity in the future under certain conditions. The changes are applicable to financial years beginning on or after 1 January 2009. We do not expect the amendments of IAS 32 and IAS 1 to have any implications for the consolidated financial statement.

In July 2008 the IFRIC published IFRIC 16 “Hedges of a Net Investment in a Foreign Operation”. This interpretation provides guidance on possible hedges of a net investment in a foreign operation and on the accounting thereof in an entity’s consolidated financial statements. Application of IFRIC 16 is mandatory for financial years beginning on or after 1 October 2008. We do not expect application of the interpretation to have any effect on the consolidated financial statement.

No other amended or new IFRS or IFRIC of material relevance to the Talanx Group needed to be taken into consideration.

Summary of major accounting policies

Changes in accounting policies

In the 2008 financial year we adjusted the previous year's figures with respect to the following circumstances retrospectively and directly in equity in accordance with the requirements of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors":

a) In the second quarter of 2008 we correctly recognized an investment in the Group segment of Property/Casualty Primary Insurance previously classified as such on the basis of IAS 39 as an associated company due to the existence of a significant influence pursuant to IAS 28.7. The previous year's figures for 2006 were adjusted directly in equity in an amount of EUR 18 million. Shareholders' equity in the comparative period consequently increased by EUR 3 million as at 31 December 2007.

b) A total amount of EUR 50 million was reclassified from shareholders' equity excluding minorities to minority interests with implications for previous years. This booking is connected with the sale of interests in E+S Rückversicherung AG by HDI V.a.G. to Hannover Re in 1995. In the subsequent year Hannover Re was included in the predecessor company of Talanx AG. The consolidated financial statements of the subsequent Talanx AG were not drawn up as subgroup accounts (accounts of entities under common control). The reallocation within shareholders' equity brings uniformity to the principles used in preparing the accounts of all entities under the common control of the parent company HDI V.a.G.

c) In the second quarter of 2008 we modified the recognition of internal loan receivables and liabilities within the Group. In the previous year we had eliminated intra-group loans to other Group segments from the segment reporting pursuant to IAS 14.16. Contrary to this approach, from the second quarter of 2008 onwards we are no longer eliminating these loans, but are instead consolidating them. The current approach also reflects the requirements of IFRS 8, which are to be applied with effect from 1 January 2009 onwards. The effects of this change are only visible in the segmental balance sheet as at the balance sheet date; we have adjusted the comparative figures as at 31 December 2007.

d) With effect from 31 December 2008 we have recognized all interest expenses for other capital borrowed for financing purposes separately from the operating profit (EBIT) – previously only the interest on hybrid capital had been separated. This did not have any effects on the balance sheet or Group net income. In our assessment, the modified presentation represents the operating profit (EBIT) more accurately.

e) In the context of the implementation of our new consolidation system in the third quarter of 2008, the reconciliation of equity items led to reallocations within the Group reserves and minority interests in shareholders' equity. As a result, the Group reserves were reduced by EUR 2 million, while minority interests in shareholders' equity increased by the same amount.

f) In the year under review we also continued to implement the definition of segments according to areas of responsibility on the Board of Management of the Group holding company Talanx AG. In this regard, Euro International Reinsurance S.A., Luxembourg, was allocated to the Non-Life Reinsurance segment (previously: Property/Casualty Primary Insurance segment). This reallocation between the two Group segments only had implications at the level of the segmental balance sheet and the segmental statement of income. The figures for the previous year were adjusted accordingly.

g) In the context of uniform Group accounting, we adjusted the present value of future profits (PVFP) on acquired insurance portfolios with respect to a Group company in the Life Primary Insurance segment. This retrospective change – standardization of the calculation of amortization and of the treatment of the tax portion of the PVFP attributable to the shareholder – gave rise to an increase of EUR 15 million in total assets and liabilities for the previous year (items: "Other intangible assets" and "Provision for premium refunds"). There were no effects on the statement of income.

The adjustments made in the 2008 financial year pursuant to IAS 8 have the following effects on the Group balance sheets as at 31 December 2006 and 2007. Reflecting the explanatory remarks provided above, the specific circumstances are labeled with the letters a), b), d), e) and g):

Consolidated balance sheet		31.12.2006 as reported	Changes from adjustments pursuant to IAS 8 in 2006		31.12.2006
Figures in EUR million			Re a)	Re b)	
Assets					
B. c.	Investments in associated companies	148	26	—	174
B. f. ii.	Other invested assets	2,786	–45	—	2,741
H.	Deferred tax assets	577	1	—	578
Liabilities					
A. b.	Reserves	3,238	–18	–50	3,170
A. d.	Minority interests	1,990	—	50	2,040

Consolidated balance sheet		31.12.2007 as reported	Changes from adjustments pursuant to IAS 8 in 2006	Changes from adjustments pursuant to IAS 8 in 2007			31.12.2007
Figures in EUR million				Re a)	Re e)	Re g)	
Assets							
A. b.	Other intangible assets	2,490	—	—	—	15	2,505
B. c.	Investments in associated companies	152	26	—	—	—	178
B. f. ii.	Other invested assets	3,261	–45	23	—	—	3,239
H.	Deferred tax assets	237	1	–2	—	—	236
Liabilities							
A. b.	Reserves	3,521	–68	21	–2	—	3,472
A. d.	Minority interests	2,379	50	—	2	—	2,431
C. d.	Provision for premium refunds	1,388	—	—	—	15	1,403

The effects on the consolidated statement of income for the 2007 financial year were as follows:

Consolidated statement of income	31.12.2007 as reported	Changes from adjustments pursuant to IAS 8	31.12.2007
Figures in EUR million		Re d)	
10. Other expenses	1,608	–11	1,597
12. Financing costs (previously: Interest on hybrid capital)	123	11	134

Recognition of insurance contracts

Since 2005 the accounting of insurance contracts has been governed by IFRS 4 "Insurance Contracts" for a transitional period (Phase 1) until the IASB is able to definitively regulate the recognition and measurement of insurance contracts. IFRS 4 requires that all contracts written by insurance companies be classified either as insurance contracts or investment contracts. An insurance contract exists if one party (the insurer) assumes a significant insurance risk from another party (the policyholder) by agreeing to pay the policyholder compensation if a defined uncertain future event detrimentally impacts the policyholder.

For the purposes of recognizing insurance contracts within the meaning of IFRS 4, insurance companies are permitted to retain their previously used accounting practice for insurance contracts for the duration of the currently applicable project stage (Phase 1). Underwriting items in the consolidated financial statement of Talanx AG are therefore recognized in accordance with US GAAP (United States Generally Accepted Accounting Principles).

All contracts without a significant underwriting risk are treated as investment contracts pursuant to IFRS 4. Investment contracts that carry a discretionary surplus participation are also recognized in accordance with US GAAP. Investment contracts that do not have a discretionary surplus participation are treated as financial instruments pursuant to IAS 39.

The following special features should be noted with respect to the accounting of life insurance contracts:

Shadow accounting

IFRS 4.30 allows unrealized, but recognized profits and losses (these derive predominantly from changes in the fair value of assets classified as "available for sale") reported in equity (Other Comprehensive Income, OCI) to be included in the measurement of technical items. This may affect the following items: deferred acquisition costs, present values of future profits (PVFPs), provisions for maturity bonuses of policyholders, provisions for deferred costs and the provision for premium refunds. The aforementioned assets and liabilities items and their corresponding amortization schemes are determined on the basis of the estimated gross profits (EGPs). The latter are modified accordingly following subsequent recognition of unrealized profits and losses. The resulting adjustments are carried as so-called "shadow adjustments" to the affected items. The contra item in equity (OCI) is reported analogously to the underlying changes in value.

Categorization of life insurance products

Life insurance products must be divided into the following categories for accounting purposes:

- Insurance products with a "natural" surplus distribution that share in the actual profit generated by the life insurance enterprise inasmuch as they receive surplus distributions in accordance with their share in the total result. Such insurance products are to be recognized in accordance with FAS 120 (Financial Accounting Standards) in conjunction with SOP 95-1 (Statements of Principles).
- Short-term contracts with no surplus distribution that are to be recognized in accordance with FAS 60.
- Insurance products with a separate account to which the premium payments less expenses and plus interest are credited (unit-linked life insurance). These products are accounted pursuant to FAS 97.

Coinsurance contracts in life insurance business

Under coinsurance contracts the amounts carried over from the lead companies in the balance sheet and statement of income are allocated – according to their economic status – to the corresponding items in the individual financial statements for the portions attributable to the life insurers belonging to the Talanx Group.

Types of surplus distribution in life insurance

The German life insurance companies belonging to the Talanx Group enable insureds to share in the profits generated. Depending upon the extent to which surpluses arise in the portfolio groups, accounting series and tariff groups, the following regular profit shares can in principle be allowed in addition to the actuarial interest rate:

- Interest profit shares, with which our insureds share in the surpluses from investments. These arise out of the higher income generated by our investments compared to the guaranteed actuarial interest rate.
- Risk profit shares, which reflect the profits or losses arising out of a comparison of the estimated risk experience with the actual risk experience.
- Cost and basic profit shares, which reflect profits or losses arising out of a comparison of the estimated cost trend with the actual cost trend. Tariffs in life insurance are not adjusted during the policy period in light of changes in the cost situation. Since the tariffs are based on different cost calculations, profits or losses may arise out of a comparison of the estimated and current operating costs.

This is recognized by way of a profit equalization, which increases or reduces the profit shares for the year. In addition, maturity bonuses may be defined that result from surpluses which cannot be directly allocated. The maturity bonuses are payable together with the insurance benefit in accordance with the terms and conditions of the insurance. A reduced maturity bonus is due in the event of death or cancellation – as appropriate, after expiry of a waiting period.

Surplus distribution in life reinsurance

Generally speaking, Hannover Life Re does not participate in surpluses distributed by ceding companies to their policyholders. The only exceptions are Italian "rivalutabile" business and a very small proportion of German business in which the distribution practice is defined by the cedant. As a general principle, the companies belonging to the Hannover Re Group are not obliged to allow their cedants to share in the surpluses generated by reinsurance contracts. The extent of the actual profit commission is instead determined on a contract-by-contract basis.

Funds held and contracts without sufficient technical risk

Insurance contracts that transfer a significant technical risk from the ceding company to the reinsurer are to be differentiated from contracts under which the risk transfer is of merely subordinate importance. In connection with insurance contracts that satisfy the requirements of both IFRS 4 and SFAS 113, we show the cash and securities deposits that we furnished to our cedants under funds held by ceding companies. The funds held under reinsurance treaties represent the cash and securities deposits furnished to us by our retrocessionaires. Neither of these items triggers any cash flows and the funds cannot be used without the consent of the other party.

Insurance contracts that satisfy the test of a significant risk transfer to the reinsurer as required by IFRS 4 but fail to meet the risk transfer required by US GAAP are recognized using the "deposit accounting" method and eliminated from the technical account. The compensation elements for risk assumption booked to income under these contracts are netted under other income/expenses. The balances are shown as contract deposits on the assets and liabilities sides of the balance sheet, the fair values of which correspond approximately to their book values.

Major discretionary decisions and estimates

The preparation of the consolidated financial statement in accordance with IFRS to some extent necessitates discretionary decisions and estimates which affect the disclosure, recognition and measurement of some items in the balance sheet and statement of income as well as the information on contingent claims and liabilities as at the balance sheet date. This is especially true of the establishment and amortization of insurance-related intangible assets, the provisions which are calculated on the basis of biometric assumptions or assumptions regarding the loss incidence in the future (technical provisions, provisions for pensions and other post-employment benefit obligations), the calculation of fair values and impairment losses on financial instruments which are not based on publicly accessible prices of an active market, the categorization of financial assets as held to maturity, the calculation of goodwill and the assessment of the realizability of deferred tax assets.

Insofar as estimates played a major role, these are described in the accounting policies and in the Notes (cf. inter alia information in the Notes on technical provisions, provisions for pensions and the description of the impairment test pursuant to IAS 36). The actual amounts may diverge from the estimated amounts.

Currency translation

The euro (EUR) is the reporting currency in which the consolidated financial statement of Talanx AG is prepared. The financial statements of subsidiaries included in the consolidated financial statement of Talanx AG are drawn up in the respective national currencies, which therefore constitute the functional currencies. The annual financial statements of subsidiaries whose functional currency is not the euro were converted into the reporting currency in accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates".

The conversion of foreign currency items in the balance sheets of the individual companies and the transfer of these items to the consolidated financial statement are effected at the mean rates of exchange on the balance sheet date. Foreign currency items in the individual companies' statements of income are converted into the respective functional national currency at the average rates of exchange. The statements of income of these individual companies prepared in the national currencies are converted into euro at the average rates of exchange and transferred to the consolidated financial statement.

Translation differences, also to the extent that they arise out of the capital consolidation, are netted with shareholders' equity outside the statement of income. Exchange differences from the translation of monetary assets and liabilities are recognized directly under other income/expenses in the statement of income of the individual companies.

Currency translation differences from the translation of non-monetary assets measured at fair value via the statement of income are recognized as profit or loss from fair value measurement changes under other income/expenses. Other exchange differences from non-monetary items are recognized under other comprehensive income (other reserves).

The exchange rates for the Talanx Group's key foreign currencies were as follows:

		Balance sheet (balance sheet date)		Statement of income (average)	
Exchange rates		**31.12.2008**	**31.12.2007**	**2008**	**2007**
1 EUR corresponds to:					
AUD	Australia	2.0257	1.6775	1.7437	1.6385
BHD	Bahrain	0.5312	0.5530	0.5563	0.5176
BRL	Brazil	3.2843	2.6205	2.6829	2.6722
CAD	Canada	1.7160	1.4440	1.5561	1.4700
CLP	Chile	900.4000	—	774.4462	—
CNY	China	9.6090	10.7400	10.2693	10.4308
GBP	United Kingdom	0.96000	0.7346	0.7985	0.6861
HKD	Hong Kong	10.8323	11.4760	11.4733	10.7171
HUF	Hungary	264.5050	252.3250	251.0727	251.3804
KRW	South Korea	1,775.0000	1,377.0000	1,602.6923	1,274.6923
MYR	Malaysia	4.8700	4.8652	4.9064	4.7131
PLN	Poland	4.1823	3.5928	3.5425	3.7879
SEK	Sweden	10.9150	9.4350	9.6662	9.2458
UAH	Ukraine	10.8000	—	7.7981	—
USD	United States	1.3977	1.4716	1.4739	1.3743
ZAR	South Africa	13.1698	10.030	11.9514	9.6499

Assets

Intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment – with the exception of goodwill and insurance-related intangible assets – are recognized at amortized costs less accumulated scheduled straight-line depreciation and impairment losses. A useful life was established for all intangible assets with the exception of goodwill.

The following useful lives were taken as a basis:

Software (self-developed or purchased)	3–10 years
Own-use real estate	50 years
Insurance-related intangible assets (subject to the underlying insurance contracts)	Until approx. 2056
Furniture and office equipment	2–10 years

Write-downs of intangible assets in connection with insurance portfolios are spread over the period of the corresponding insurance portfolios.

Goodwill

The goodwill arising out of corporate acquisitions is the difference between the cost of acquisition and the pro-rata fair value of identified assets, liabilities and contingent liabilities. In accordance with IFRS 3 "Business Combinations" scheduled depreciation is not taken on goodwill; instead, goodwill is tested for impairment at least annually and an impairment loss is taken where necessary.

For the purposes of the impairment test, goodwill is allocated pursuant to IAS 36 "Impairment of Assets" to so-called "cash generating units" (CGUs).

In order to determine a possible impairment the recoverable amount – defined as the higher of the value in use or the fair value less costs to sell – of a CGU is established and compared with its carrying value in the Group before capital consolidation including goodwill. If the carrying value including allocated goodwill exceeds the recoverable amount, an impairment expense is recognized. The amount of the impairment loss is netted, first, with goodwill allocated to the CGU and then pro rata with the relevant carrying amounts of the other assets of the CGU subject to IAS 36. Goodwill impairments are not reversed in the event of a subsequent revaluation uplift.

The recoverable amount of the Property/Casualty Primary Insurance and Financial Services segments, which each represent one CGU, is determined on the basis of the value in use (VIU) using the calculation of the present value of future cash flows. The point of departure for establishing the value in use consists of the financial budgets of the individual companies, which are aggregated to arrive at a consolidated overall budget on the segment level. The planning figures (after factoring out special effects where appropriate) for the two financial years subsequent to the year under review are used. The third planning period, which in the calculation assumes the function of a result that is presumed to be sustainably recoverable, constitutes the mean of five (as envisaged according to IAS 36) planning years.

The value in use is arrived at by discounting the planned future cash flows using a capitalization rate that allows for both the time value of the money and a suitable risk deduction:

	Property/Casualty Primary Insurance	Financial Services
Risk-free discount rate	4.75	4.75
Risk loading	6.1	6.1
Capitalization rate	10.85	10.85

The capitalization rate used to perform the impairment test of the Property/Casualty Primary Insurance and Financial Services CGUs as at the 2008 balance sheet date remained unchanged from the previous year since a sufficiently valid forecast of the longer-term implications of the turmoil on capital markets is not yet available. In addition, a second calculation was performed for the Property/Casualty Primary Insurance segment, allowing for a risk loading of 9%. This expresses an increased risk to the accomplishment of targets with respect to the underlying earnings forecasts. The risk-free discount rate was not changed. The capitalization rate for this calculation thus amounted to altogether 13.75% before taxes. In this scenario, too, there would have been no need to take impairments.

The Life Primary Insurance segment is divided into two CGUs:

- the group of companies combined under HDI-Gerling Leben Serviceholding AG, comprised of HDI-Gerling Lebensversicherung AG and its subsidiaries as well as the Aspecta Group
- the bancassurance group, composed of the PB, PBV and CiV insurers as well as the Neue Leben Group. Due to the similarity of its distribution structure, the Neue Leben Group was allocated to the bancassurance CGU in the year under review; it had previously been treated as a separate CGU.

The CGUs in the Life Primary Insurance segment are tested for impairment using a step-by-step method. The embedded value (EV) is used as the impairment threshold for the fair value of a life insurance enterprise. Companies belonging to the individual CGUs that do not transact insurance business are recognized at the present value of future cash flows or (for reasons of simplicity) at book value. If the sum total of embedded values and present values of future cash flows/book values is higher than the tested book value of the CGU, the impairment test is complete. In a second step, an indicative fair value of the life insurance enterprises can be calculated and recognized using an externally or internally determined multiplier for the EVs. Alternatively, an indicative fair value can be determined by extrapolating an existing present value of future profits (PVFP). In this case, the shareholders' portion of the PVFP is extrapolated over the planning periods permitted by IAS 36, making allowance for the planned amortizations and a factor derived from the company's data that reflects the new business presumed to be sustainably recoverable.

For the reinsurance segments of Non-Life Reinsurance and Life/Health Reinsurance, which together correspond largely to the Hannover Re Group, reference is made to the market price of the Hannover Re share as the first step for the purposes of the impairment test. The stock market value of Hannover Re is divided between the two segments on the basis of the average net return on premium over the past three years. The recoverable amount determined in this way is compared with the carrying value including the goodwill allocated to the segment in question. Alternatively, should the stock market price of the Hannover Re share be significantly adversely affected on a balance sheet date by factors that do not reflect the sustainable profit potential of the Hannover Re Group, a method based on the present value of future cash flows (as described above for the Property/Casualty Primary Insurance and Financial Services CGUs) may be used. If this second step also indicates the need to take an impairment, the lower difference between book value and either fair value (fair value less costs to sell) or value in use is recognized as an impairment expense.

Insurance-related intangible assets

The present value of future profits (PVFP) refers to the present value of the expected future net cash flows from life insurance contracts existing at the time of acquisition. It consists of a shareholders' portion, on which deferred taxes are established, and a policyholders' portion. Amortization is taken according to the assumed experience of the insurance contracts underlying the PVFP. A test is conducted once a year to review the variables used in the calculation of the PVFP and to determine the amount of amortization. The amortization of the shareholders' portion is taken as a charge against future earnings. A provision for deferred premium refunds is established for the policyholders' portion.

Intangible assets established pursuant to IFRS 4.31 as part of the acquisition of primary insurance companies constitute the difference between the fair value of the acquired technical obligations and the carrying amounts in the original balance sheets. The subsequent measurement of the intangible assets is carried out in harmony with the measurement of the corresponding liabilities. Amortization is taken according to the discounted cash flows which are assumed on the basis of actuarial measurements from which the capitalization is derived. The assumptions made in this connection (interest rates, claims experiences) are reviewed annually. Amortization is therefore taking according to the experience of the corresponding portfolios.

Software

Software consists of purchased and self-developed software. Intangible assets acquired for a consideration are recognized at amortized costs. Self-developed software is carried at production cost. Scheduled straight-line depreciation is taken on software according to the useful life. Service and maintenance costs are expensed immediately; expenditures incurred for extending the useful life are capitalized. In the case of the insurance companies depreciation on software is allocated to the functional units; insofar as allocation to functional units is not possible, it is recognized under other expenses. If there are indications that no longer support the expected benefit, write-downs are taken. In addition, an impairment test is performed once a year pursuant to IAS 38.111 in conjunction with IAS 36.

Investments including income and expenses

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

In addition to **real estate used** entirely **by third parties**, the portion of third-party use attributable to a mixed-use property is recognized here. Investment property is measured at cost less scheduled depreciation and impairment. Scheduled depreciation is taken on a straight-line basis over a useful life of 50 years. An impairment expense is taken if the market value (recoverable amount) determined using recognized valuation methods is less than the carrying amount.

For a large portion of the centrally managed portfolio a qualified external opinion is drawn up for each object at least every five years on the basis of the discounted cash flow method (calculation of the discounted cash flows from rents etc. that can be generated from an object). Expert opinions are obtained at shorter intervals if special facts or circumstances exist that may affect the value. In addition, internal assessments are drawn up per object on each balance sheet date in order to review the fair value. Qualified external opinions are obtained for the portfolio that is not centrally managed, usually at shorter rotating intervals (normally every two years). Along with the discounted cash flow method it is possible to use alternative methods – especially for properties that are not rented out – that take into account various factors such as age and state of modernization of the buildings, location and prices obtained for comparable properties that were sold recently.

Maintenance costs and repairs are expensed in investment income; value-enhancing expenditures are capitalized if they extend the useful life.

All **financial assets including all derivative financial instruments** are carried in the balance sheet in accordance with IAS 39. They are recognized as at the settlement date. Investments held in special funds are recognized as at the trading date. Financial instruments are measured at fair value on the date on which they are added to the portfolio. Depending on their categorization, the transaction costs directly connected with the acquisition may be recognized. Subsequent measurement of financial instruments depends on the categories pursuant to IAS 39 to which they were allocated at the time of acquisition.

Subsequent measurement of financial instruments is carried out either at amortized costs or at fair value. The amortized costs are determined from the historical costs after allowance for amounts repayable, premiums or discounts deducted or added within the statement of income using the effective interest rate method and any unscheduled depreciation due to impairment. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair value of financial instruments is established on the basis of market prices or observable market data on the balance sheet date and recognized valuation models. Priority attaches to market prices realized on organized markets. A precondition in this regard is that the financial instruments are traded with adequate liquidity on active markets. Financial assets are measured at bid prices, while financial liabilities are measured at asked prices. If these conditions are not satisfied, reference is made to models of mathematical finance, the measurement basis of which consists of observable market data on the balance sheet date. The Talanx Group uses a number of different valuation models:

Financial instrument	Price	Parameter	Pricing model
OTC equity (index) options	Theoretical price	Listing of the underlying Implicit volatilities Money-market interest rate Dividend yield	Black-Scholes
Insurance derivatives	Theoretical price	Fair values of the cat bonds	Present-value method
Credit default swaps	Theoretical price	Credit spreads Recovery rates Interest-rate curve	Present-value method

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

The item **“Investments in affiliated companies and participating interests”** consists of investments in companies that are not consolidated because of their subordinate importance for the financial position, assets and net income of the Talanx Group. Investments in listed enterprises are recognized at fair value on the balance sheet date; other investments are recognized at cost, as appropriate less unscheduled depreciation.

Investments in associated companies are valued at equity on the basis of the proportionate shareholders’ equity attributable to the Group. The portion of an associated company’s year-end result relating to the Group is included in the net investment income and shown separately. As a general rule, the shareholders’ equity and year-end result are taken from the associated company’s latest available annual financial statement.

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

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

Financial assets at fair value through profit or loss consist of financial assets categorized as measured at fair value through profit or loss since acquisition. This refers principally to unsecured debt instruments issued by corporate issuers and derivative financial instruments. Structured products are also recognized in this category subject to application of the fair value option provided in IAS 39. Structured financial instruments requiring separation from the host contract – the fair value of which can be reliably established – that would have had to have been broken down into their constituent components (host contract and one or more embedded derivatives) had they been allocated to another category are also recognized in this category. All unrealized gains or losses from this valuation are recognized in net investment income.

Securities held for trading encompass all fixed-income and variable-yield securities that the Talanx Group acquired for trading purposes and with the aim of generating short-term gains. In addition, derivative financial instruments that do not satisfy the requirements for recognition under hedge accounting are carried here. We use derivative financial instruments to a carefully judged extent in order to hedge parts of our portfolio against interest rate and market price risks, optimize returns or realize intentions to buy/sell. Talanx invests in structured asset products so as to realize yield advantages. In this context we take special care to limit the risks, select first-class counterparties and rigorously monitor the standards defined by investment guidelines. If the underlying transaction and the derivative are not carried as one unit, the derivative is recognized under "Securities held for trading" or under the "Other liabilities".

Securities held for trading are carried at their fair value on the balance sheet date. If stock market prices are not available for use as fair values, the carrying values are determined using generally acknowledged measurement methods. All unrealized gains or losses from this valuation are recognized in net investment income.

Financial assets classified as **available for sale** are financial assets that Talanx does not immediately intend to sell and that cannot be allocated to any other category. We include them in our available-for-sale portfolio. These securities are carried at fair value. Premiums and discounts are spread over the maturity period so as to achieve a constant effective interest rate. Unrealized gains and losses arising out of changes in the fair value of securities held as available for sale are recognized – with the exception of currency valuation differences on monetary items – in shareholder's equity after deduction of deferred taxes.

At each balance sheet date we review our financial assets – with the exception of financial assets at fair value through profit or loss including the trading portfolio – with an eye to objective, substantial indications of impairment. Permanent impairments on all these financial assets are charged to the statement of income. IAS 39.59 contains a list of objective, substantial indications for impairment of a financial asset. In addition, IAS 39.61 states that a further objective indication of impairment exists if there is a significant or prolonged decrease in the fair value below acquisition cost. A decrease in the fair value is deemed to be significant if it falls by more than 20% below acquisition cost; a prolonged decrease exists if the fair value falls consistently below cost for a period of nine months or more.

In principle, we take as a basis for fixed-income securities the same indicators as for securities with the character of equity. In addition, qualitative case-by-case analysis is also carried out. Reference is made, first and foremost, to the rating of the instrument, the rating of the issuer/borrower as well as the individual market assessment in order to establish whether impairment exists. What is more, when instruments measured at amortized cost are tested for impairment, we examine whether material items – looked at on their own – are impaired. When it comes to assessing whether securities with the character of equity are impaired, reference is made to the quantitative thresholds described above for the existence of a significant or prolonged decrease in fair value.

Impairments on investments are recognized directly on the assets side – without using an adjustment account – separately from the relevant items.

Reversals on debt instruments are recognized in income up to the level of the amortized costs. Any further amount is recognized directly in equity. Reversals on securities with the character of equity, on the other hand, are recognized directly in equity.

Funds held are receivables due to reinsurers from their clients in the amount of their contractually withheld cash deposits; they are recognized at acquisition cost (nominal amount). Appropriate allowance is made for credit risks.

Other invested assets consist predominantly of short-term investments (especially overnight money, time deposits and money market securities). These financial assets are recognized at amortized costs, which for the most part are equivalent to nominal value. Insofar as equity instruments also recognized here are not listed on public markets (e.g. participating interests in private equity firms), they are carried at the latest available “net asset value” as an approximation of fair value.

Investments for the account and risk of holders of life insurance policies

This item refers principally to policyholders' investments under unit-linked life insurance policies. The insurance benefits under these insurance contracts are linked to the unit prices of investment funds or a portfolio of separate financial assets. The assets are kept and invested separately from other invested assets. They are recognized at fair value. The unrealized gains or losses are opposed by changes in the corresponding technical provisions in the same amount. Policyholders are entitled to the profits and income generated; they are likewise liable for the incurred losses.

Reinsurance recoverables on technical provisions

The reinsurers' portions of the technical provisions are calculated according to the contractual conditions of the underlying reinsurance treaties using a simplified method; the reader is referred to the explanatory notes on the corresponding liabilities-side items. Appropriate allowance is made for credit risks.

Deferred acquisition costs

Deferred acquisition costs are variable costs which are related primarily to the acquisition or renewal of insurance contracts, i.e. there is no other functional area to which the bulk of the costs can be allocated. The definition of deferred acquisition costs encompasses both direct costs (e.g. commissions, costs of medical examinations) and indirect costs (e.g. costs associated with marketing support).

Insofar as the two requirements of variability and the primary correlation are cumulatively satisfied, the acquisition costs are to be capitalized and amortized over the period of the underlying contracts. Marketing-related payments are recognized using the same method and same assumptions. Deferred acquisition costs are regularly tested for impairment using an adequacy test.

In the case of property/casualty primary insurance and non-life reinsurance, acquisition costs are normally deferred pro rata for the unearned portion of the premiums. In property/casualty primary insurance and non-life reinsurance they are amortized at a constant rate over the average contract period. In life primary insurance and life/health reinsurance, the deferred acquisition costs under life and annuity policies with regular premium payments are determined in light of the period of the contracts, the expected surrenders, the lapse expectancies and the anticipated interest income. The amount of amortization depends on the gross margins of the contracts calculated for the corresponding year of the contract period. Depending on the type of contract, amortization is taken either in proportion to the premium income or in proportion to the expected profit margins.

In the case of life reinsurance treaties classified as “universal life-type contracts”, the deferred acquisition costs are amortized on the basis of the expected profit margins from the reinsurance treaties, making allowance for the period of the insurance contracts. A discount rate based on the interest rate for medium-term government bonds was applied to such contracts. In the case of annuity policies with a single premium payment, these values refer to the expected policy period or period of annuity payment. In other reinsurance lines and in property/casualty primary insurance the deferred acquisition costs are amortized on a straight-line basis across the average contract period.

Deferred tax assets

IAS 12 “Income Taxes” requires that assets-side deferred taxes be established if asset items are to be recognized in a lower amount or debit items in a higher amount in the consolidated balance sheet than in the tax balance sheet of the relevant group company and if these differences will lead to reduced tax burdens in the future. In principle, such valuation differences may arise between the tax balance sheets drawn up in accordance with national standards and the IFRS balance sheets of the companies included in the consolidated financial statement drawn up in accordance with uniform group standards. Deferred tax assets are also recognized for tax credits and on tax loss carry-forwards. The assessment as to whether deferred tax claims from tax loss carry-forwards can be used, i.e. are not impaired, is guided by the results planning of the company and concretely realizable tax strategies. Value adjustments are taken on impaired deferred tax assets.

Insofar as deferred taxes refer to items carried directly in shareholders’ equity, the resulting deferred taxes are also recognized outside the statement of income.

Deferred taxes are based on the current country-specific tax rates. In the event of a change in the tax rates on which the calculation of the deferred taxes is based, appropriate allowance is made in the year in which the change in the tax rate is adopted in law. Deferred taxes at the Group level are booked using the Group tax rate of 31.6%, unless they can be allocated to specific companies.

Other assets

Other assets are carried at amortized cost. This means that property, plant and equipment are recognized at cost of acquisition less accumulated scheduled depreciation spread across the expected useful life and impairment expenses. Own-use real estate recognized under other assets is treated in the same way as investment property.

Disposal groups pursuant to IFRS 5

Pursuant to IFRS 5 assets and liabilities of a disposal group classified as held for sale must be carried in separate (unoffset) amounts on the face of the balance sheet. A breakdown of the major items is provided in the Notes. In addition, cumulative income and expenses recognized in shareholders' equity in connection with the disposal group are to be carried separately. At the date of classification as a disposal group a revaluation shall initially be made in accordance with the pertinent IFRS.

The assets or the disposal group held for sale are measured at the lower of carrying amount and fair value less costs to sell. If the fair value is lower than the carrying amount, impairment is taken in the amount of the difference. If hidden reserves are disclosed within the scope of the revaluation, a write-up can be taken that is not in excess of the cumulative, previously recognized impairment losses under an impairment test pursuant to IAS 36. Regular depreciation for the assets within the disposal group that fall under the measurement provisions of IFRS 5 is suspended until sale. Subsequent revaluation increases of the fair value less costs to sell are recognized to the extent to which impairment losses were previously recognized as part of a revaluation pursuant to IFRS 5 or impairment test pursuant to IAS 36.

At the time of retirement of the assets (and liabilities) the original reclassifications to the balance sheet items "Assets of disposal groups classified as held for sale" (and "Debts of disposal groups classified as held for sale") are reversed with their continued carrying amounts. Retirement is recognized via the changes "Disposals" or negatively as a "Change in the scope of consolidation".

More detailed information on the assets and disposal groups held for sale is contained in the section "Disposal groups".

Liabilities

Shareholders' equity

The common shares, reserves (additional paid-in capital, retained earnings) and cumulative other comprehensive income are recognized in equity. The common shares and additional paid-in capital are comprised of the amounts paid in by the shareholders of Talanx AG on its shares. The retained earnings consist of profits generated and reinvested by Group companies and special investment funds since they have belonged to the Group. In addition, in the event of a retrospective change of accounting policies, the adjustment for previous periods not included in the financial statement is recognized in the opening balance sheet value of the retained earnings and comparable items of the earliest reported period. Unrealized gains and losses from changes in the fair value of financial assets held as available for sale are carried in cumulative other comprehensive income; translation differences resulting from the currency translation of separate financial statements of foreign subsidiaries are also recognized under the "other reserves". In addition, write-ups on available-for-sale non-monetary securities are recognized under this item of shareholders' equity. In the year under review interest rate swaps were used as hedge instruments under a cash flow hedge. The fluctuations in value are recognized in a separate reserve item in equity.

Minority interests are shown in the consolidated statement of income following the net income. Minority interests in shareholders' equity are consequently recognized as a component of shareholders' equity. They refer to the shares held by companies outside the Group in the shareholders' equity of subsidiaries.

Technical provisions (gross)

The technical provisions are shown for gross account in the balance sheet, i.e. before deduction of the portion attributable to reinsurers; the reader is referred here to the explanatory notes on the corresponding asset items. The reinsurers' portions of the technical provisions are calculated and recognized on the basis of the individual reinsurance treaties.

Unearned premiums correspond to already collected premiums that are apportionable to future risk periods. These premiums are deferred by specific dates for insurance contracts (predominantly in primary insurance); in reinsurance business global methods are sometimes used if the accounting data required from prior insurers for a calculation pro rata temporis is unavailable. Unearned premiums occur principally in connection with short-term insurance contracts (e.g. property/casualty policies).

Benefit reserves are calculated and recognized in life insurance business using actuarial methods for commitments arising out of guaranteed claims of policyholders in life insurance and of ceding companies in life/health reinsurance. They are calculated as the difference between the present value of future expected payments to policyholders/cedants and the present value of future expected net premium still to be collected from policyholders/cedants.

The method involves the use of assumptions regarding the best estimate of investment income, life expectancy and the disability risk. These assumptions are based on customer and industry data.

The **loss and loss adjustment expense reserves** are constituted for payment obligations from insurance claims that have occurred but have not yet been settled. They relate to payment obligations under insurance and reinsurance contracts in respect of which the amount of the insurance benefit or the due date of payment is still uncertain. The loss and loss adjustment expense reserves are subdivided into reserves for claims reported by the balance sheet date and reserves for claims that have already been incurred but not yet reported (IBNR) by the balance sheet date.

Reserves for claims reported by the balance sheet date are based on recognized actuarial methods used to estimate future claims expenditure including expenses associated with loss adjustment.

In order to measure the "ultimate liability" the expected ultimate loss ratios are calculated for all lines of non-life business with the aid of actuarial methods such as the "chain ladder" method. The development of a claim until completion of the run-off is projected on the basis of statistical triangles. In this context it is assumed that the future rate of inflation of the loss run-off will be analogous to the average rate of the past inflation contained in the data. The more recent underwriting years in actuarial projections are subject to greater uncertainty, although this is reduced with the aid of a variety of additional information.

Particularly in reinsurance business, it is the case that the estimation of the loss and loss adjustment expense reserves entails elements of uncertainty and the actual amounts payable may therefore prove to be higher or lower. A considerable period of time may elapse between the occurrence of an insured loss, notification by the insurer and pro-rata payment of the loss by the reinsurer. The realistically estimated future settlement amount, calculated in principle on the basis of the information provided by ceding companies, is brought to account. This estimate draws on past experience and assessments of the future development, taking account of market information. The amount of the reserves and their allocation to occurrence years are determined using established forecasting methods of non-life actuarial science. A case-by-case approach is also used for special loss events in connection with major claims, primarily in public liability and industrial fire business.

Reserves are constituted for claims that have occurred but not yet been notified by the balance sheet date in order to make allowance for the estimated costs associated with claims already incurred but not yet reported (IBNR) to the risk-carrying entities of the Talanx Group. These reserves are established – like the reserves for already reported claims – in order to take account of the estimated expenditure and loss adjustment expenses required until final claim settlement.

Since no information is available as yet about the occurrence of such claims, the Talanx Group draws on empirical values adjusted according to current trends and other relevant factors. These reserves are constituted using actuarial and statistical models of the expected costs for final settlement and administration of claims. The analyses are based upon currently known facts and circumstances, projections of future events, estimates of the future inflationary trend as well as other social and economic factors. The latest trends observed in claim notifications, the extent of losses, increases in risk and future inflation are all factors considered for the calculation of IBNR reserves. The reserves are reviewed and revised on a regular basis.

The procedure used to estimate reserves for claims known by the balance sheet date and for claims that have occurred but not yet been reported by the balance sheet date is of course imprecise, since the final loss amounts are influenced by a large number of variables. The Talanx Group strives to reduce the uncertainties associated with the estimation of reserves by drawing upon a variety of actuarial methods for calculating the reserves and by performing various analyses of the assumptions on which these methods are based.

Sufficient statistical data is not yet available for major losses. In these instances appropriate reserves are established after analysis of the portfolio subject to such risks and, as appropriate, after individual scrutiny. These reserves represent the best estimates of the Talanx Group.

With the exception of a few reserves, the loss and loss adjustment expense reserves are not discounted. The reserves assumed for insurance contracts taken over in the context of the acquisition of the Gerling companies are measured pursuant to IFRS 4.31 in accordance with the general accounting policies of the Talanx Group and an intangible asset reflecting the difference between the carrying amount of these reserves and their fair value is recognized.

The **provision for premium refunds** consists of amounts allocated to policyholders in accordance with national regulations or contractual provisions and amounts resulting from temporary differences between the IFRS consolidated financial statement and the local annual financial statements (provision for deferred premium refunds, shadow provision for premium refunds) that will have a bearing on future calculations of the surplus distribution.

Technical provisions in the area of life insurance insofar as the investment risk is borne by policyholders

In the case of life insurance products under which policyholders carry the investment risk themselves (e.g. in unit-linked life insurance), the benefit reserves and other technical provisions reflect the fair value of the corresponding investments; these provisions are recognized separately under the item specified in the title above. We would refer the reader to the explanatory notes on the assets-side item “Investments for the account and risk of holders of life insurance policies”.

Other provisions

This item includes inter alia the **provisions for pensions and other post-employment benefit obligations**. The companies belonging to the Talanx Group normally grant their employees pension commitments based on defined contributions or defined benefits. The type and amount of the commitments depends on the pension plans in force at the time when the commitment was given. They are based principally on an employee’s length of service and salary level.

In addition, since the mid-1990s various German companies have offered the opportunity to obtain pension commitments through deferred compensation. The employee-funded commitments included in the provisions for accrued pension rights are protected by insurance contracts with HDI-Gerling Lebensversicherung AG, Cologne, and Neue Leben Lebensversicherung AG, Hamburg.

Furthermore, Group employees have the opportunity to accumulate additional old-age provision by way of deferred compensation through contributions to special insurance companies known as “Pensionskassen”. The benefits are guaranteed for their members and surviving dependants and comprise traditional pension plans with bonus increases as well as unit-linked hybrid annuities.

In addition to these pension plans, executive staff and Board members, in particular, enjoy individual commitments as well as commitments given under the benefits plan of the Bochumer Verband. Additional similar obligations based upon length of service exist at some Group companies.

In the case of pensions commitments based on defined contributions the companies pay a fixed amount to an insurer or pension fund. The commitment given by the company is finally discharged upon payment of the contribution. Under pension commitments based on defined benefits the employee receives a specific pension commitment from the company or a pension fund. The contributions payable by the company to fund the commitment are not fixed in advance.

If the pension commitments are balanced against assets of a legally independent entity (e.g. a fund) that may be used solely to cover the pension assurances given and cannot be seized by any creditors, the pension commitments are to be recognized less the assets.

Pension commitments under defined benefit plans are measured in accordance with IAS 19 “Employee Benefits” using the projected unit credit method. Not only are the benefit entitlements and current annuities existing as at the balance sheet date measured, but allowance is also made for their future development. The interest rate used for discounting the pension commitments is based upon the rates applicable to first-rate fixed-income corporate bonds in accordance with the currency and duration of the pension commitments.

The amounts payable under defined contribution plans are expensed when they become due.

Actuarial gains or losses from pension commitments and plan assets derive from divergences between the estimated risk experience and the actual risk experience (irregularities in the risk experience, effects of changes in the calculation parameters and unexpected gains or losses on plan assets). They are determined using the “corridor method” defined in IAS 19. In this context actuarial gains or losses are only recognized in profit or loss to the extent that they exceed the higher of the following amounts at the commencement of the financial year: 10% of the present value of the earned pension entitlements or 10% of the fair value of any plan assets.

Other provisions are established on the basis of best estimates in the amount that is likely to be used. The provisions are discounted if the interest rate effect of is material significance. The carrying amount of the provisions is reviewed as at each balance sheet date. Provisions in foreign currencies are translated at the exchange rate on the balance sheet date.

Liabilities and subordinated liabilities

Financial liabilities including subordinated liabilities, insofar as they do not involve funds held under reinsurance treaties or liabilities from derivatives, are reported at amortized costs. Funds held under reinsurance treaties are carried at nominal value and liabilities from derivatives are recognized at fair value. Interest rate swaps used as hedge instruments under a cash flow hedge are shown under the liabilities. These are measured at fair value.

Deferred tax liabilities

Deferred tax liabilities must be recognized in accordance with IAS 12 “Income Taxes” if assets are to be recognized in a higher amount or liabilities in a lower amount in the consolidated balance sheet than in the tax balance sheet of the group company in question and if this – as a temporary difference – will lead to additional tax loads in the future; cf. the explanatory notes on deferred tax assets.

Consolidation

Consolidation principles

The consolidated financial statement was drawn up in accordance with uniform Group accounting policies. As a general rule, the subsidiaries included in the consolidated financial statement prepare an annual financial statement as at 31 December. Certain special funds and private equity companies have diverging financial years; they are consolidated on the basis of interim financial statements as at 31 December.

The capital consolidation is compiled in accordance with the requirements of IAS 27 "Consolidated and Separate Financial Statements". Subsidiaries are consolidated as soon as Talanx AG acquires a majority voting interest or de facto controlling influence. The same is true of the inclusion of special purpose entities.

Shares in subsidiaries not included in the consolidated financial statement because of their subordinate importance – in relation to assets, financial position and net income – are recognized at fair value or, if this cannot be reliably established, at amortized cost under the investments.

The capital consolidation of the subsidiaries and special funds is based on the revaluation method. All assets and liabilities of the subsidiary are recognized at fair value at the time of acquisition or at the time when a controlling interest is obtained. A difference arising out the netting of the acquisition costs with the fair value of the assets and liabilities is recognized as goodwill under intangible assets. Immaterial and negative goodwill are recognized in the statement of income in the year of their occurrence – scheduled amortization is not taken. The book value of goodwill is tested for impairment annually, or within the year if there are indications of possible impairment. Unscheduled amortization is taken if a goodwill impairment is established.

Minority interests in shareholders' equity or in the net income of majority-owned subsidiaries of Talanx AG are shown separately in equity in the item "Minority interests" or in the statement of income in the item "Minority interest in profit or loss".

All intra-group receivables and liabilities as well as income, expenses, and profits and losses resulting from intra-group transactions were eliminated within the scope of the debt and earnings consolidation.

Associated companies are included in the consolidated financial statement at equity. If a company recognized at equity applies different accounting policies, appropriate adjustments to comply with the Group's IFRS requirements are made in an auxiliary calculation. Income from shares in associated companies is recognized separately in the consolidated statement of income in accordance with IAS 1.81 (c).

Consolidation of special purpose entities

Investments

Within the scope of asset management activities our subsidiary Hannover Re has participated in numerous special purpose entities since 1988, which for their part transact certain types of equity and debt capital investments. On the basis of our analysis of the relations with these entities we concluded that the Group does not bear the majority of the economic benefits or risks arising out of this activity and a consolidation requirement therefore does not exist.

Hannover Re participates in a number of special purpose entities for the securitization of catastrophe risks by taking up certain capital market securities known as disaster bonds (or “cat bonds”). Based on economic consideration in light of Interpretation 12 of the Standing Interpretation Committee (SIC 12), Hannover Re does not exercise a controlling influence in any of these transactions either and hence there is no consolidation requirement.

With the aim of transferring peak exposures deriving from natural disasters to the capital market, Hannover Re issued a catastrophe bond in 2006 that can be traded on a secondary market – the first time it had used such a tool. The cat bond with a volume of USD 150 million was placed with institutional investors by Eurus Ltd., a special purpose entity domiciled in the Cayman Islands. Hannover Re does not bear the majority of the opportunities or risks arising out of this transaction.

Securitization of reinsurance risks

The securitization of settlement and reinsurance risks is largely structured through the use of special purpose entities. The existence of a consolidation requirement in respect of such entities is to be examined in accordance with SIC-12 “Consolidation – Special Purpose Entities”. In cases where IFRS do not currently contain any specific standards, Talanx’s analysis – in application of IAS 8.12 “Accounting Policies, Changes in Accounting Estimates and Errors” – again falls back on the relevant standards of US GAAP.

Since November 2000 Hannover Re had held voting equity interests of 33.3% in the special purpose entity Mediterranean Re PLC for the securitization of reinsurance risks in France and Monaco. The securitization ended as per the contractual agreement on 18 November 2005. The bonds issued as security were repaid in full to investors and the additional paid-in capital was repaid to the partners. The special purpose entity was liquidated effective 5 February 2008.

Under a transaction designated “K5” Hannover Re uses the capital market to securitize reinsurance risks. The transaction was increased to USD 540 million in January 2008 and had a volume of EUR 386 (360) million as at the balance sheet date. The securitization was placed with institutional investors in North America, Europe and Asia. The portfolio assembled for the securitization consists of non-proportional reinsurance treaties in the natural catastrophe, aviation and marine lines, including offshore business. Kaith Re Ltd., a special purpose entity domiciled in Bermuda, is used for the transaction. The planned term of the transaction runs until 31 December 2008. In accordance with SIC 12 Kaith Re Ltd. is included in the consolidated financial statement.

In the previous year Hannover Re placed on the capital market a protection cover on its worldwide natural catastrophe business in an amount of USD 200 million with a term of two years. It provides the company with aggregate excess of loss coverage. The special purpose entity Kepler Re, a separate cell within Kaith Re Ltd., was used for the transaction. The volume as at the balance sheet date totaled EUR 143 (136) million. The underlying portfolio consists of the natural catastrophe business retained under the existing K5 securitization. The cover attaches upon occurrence of an aggregated 83-year-event for K5 and is fully utilized upon occurrence of a 250-year accumulation. Within this spread the outside investors in this and the K5 transaction combined assume 90% of the K5 losses, while the remaining 10% remain with Hannover Re. Kepler Re is not included in the consolidated financial statement.

In 2007 Hannover Re also transferred risks from reinsurance recoverables to the capital market. By way of this securitization in a nominal amount of EUR 95 million, which has a term of five years, Hannover Re reduces the default risk associated with reinsurance recoverables. The portfolio of recoverables underlying the transaction has a nominal value of EUR 1 (1) billion and is comprised of exposures to retrocessionaires. The securities serving as collateral are issued through the special purpose entity Merlin CDO I B.V. A payment to Hannover Re is triggered by the insolvency of one or more retrocessionaires as soon as Hannover Re's contractually defined cumulative deductible of EUR 60 (60) million over the term of the contract is exceeded. In the months of May and November 2008 Hannover Re purchased securitizations issued by Merlin with a nominal value of altogether EUR 10 million on the secondary market, which it holds in its asset portfolio. The special purpose entity is not included in the consolidated financial statement.

In June 2008 Hannover Re completed the first transaction as part of its extended Insurance-Linked Securities (ILS) activities. Property catastrophe risks of a number of US cedants were pooled and transferred to the capital market in several tranches. A special purpose entity named Globe Re was established in Bermuda for this transaction; it is capitalized at USD 133 million. Globe Re is funded through the issue of an equity tranche of USD 33 million and a further USD 100 million in bonds split into various rating categories. The term of the transaction is one year. Hannover Re has a stake of USD 5 million – or 15.2% – in the equity tranche. Globe Re is not included in the consolidated financial statement.

Consolidated companies

Talanx AG is the parent company of the Group. In accordance with IAS 27 "Consolidated and Separate Financial Statements" the consolidated financial statement includes Talanx AG (as the parent company) and all major domestic and foreign Group companies in which Talanx AG indirectly or directly holds a majority voting interest or de facto power of control (subsidiaries). In addition, the consolidated group includes seven companies that are valued at equity as associated companies. They are of subordinate importance for the Group's net assets, financial position and results. The consolidated financial statement does not include 34 subsidiaries, the overall influence of which on the Group's net assets, financial position and results is considered minimal.

Consolidated subsidiaries (fully consolidated)	Individual companies Germany	Individual companies Abroad	Subgroups Abroad	Total
31.12.2007	92	61	3	156
Correction to included companies [1)]	—	1	—	1
31.12.2007 revised	92	62	3	157
Additions	5	4	—	9
Disposals	24	12	—	36
31.12.2008	73	54	3	130

[1)] *On 31 December 2007 one company was erroneously indicated as not included in the scope of consolidation, even though it formed part of the consolidated financial statement.*

The nine additions consist of the first-time inclusion of six new establishments and three acquisitions. The 36 withdrawals result from 21 deconsolidations, nine mergers, five dissolutions/liquidations and one sale.

Specifically, the scope of consolidation of the Talanx Group has changed as follows since 31 December 2007:

Establishments

In the first quarter of 2008 the Hannover-based Hannover Insurance-Linked Securities GmbH & Co. KG, which was established at the end of November 2007, was included in the consolidated financial statement for the first time.

On 9 April 2008 the Cologne-based Hannover Re Euro PE Holdings GmbH & Co. KG commenced business operations. The company's business object is to build, hold and manage a portfolio of assets. Hannover Re and E+S Rück hold interests of 75% and 25% respectively as general partners in the company. The limited partner's share of Ampega-Gerling Asset Management GmbH was paid in the second quarter.

Effective 29 May 2008 Hannover Re participated as the first investor in Secquaero ILS Fund Ltd., which is domiciled in the Cayman Islands. The fund in question is a so-called "Seed Money Fund", the business object of which is to underwrite, hold and sell insurance-linked securitizations (natural catastrophe bonds). As at the balance sheet date Hannover Re had invested altogether USD 50 million in this fund. The fund will be consolidated until such time as other investors hold the majority stake in the fund.

On 13 June 2008 DTPVO Deutsche Privatvorsorge AG, Darmstadt, was established as a marketing company by HDI-Gerling Leben Serviceholding AG. It has been included in the consolidated financial statement since the second quarter of 2008.

On 11 August 2008 PAS Service GmbH, a new company established in Hilden by Proactiv Holding AG, was entered in the commercial register. The company has been trading as Proactiv Servicegesellschaft mbH, Hilden, since 20 February 2009.

The company Inversiones HDI Limitada, Santiago (Chile), was established on 19 August 2008. The shareholders are HDI-Gerling International Holding AG (99.999%) and HDI Seguros S.A., São Paolo, Brazil (0.001%). It was included in the consolidated financial statement of Talanx in the fourth quarter following commencement of business operations.

Acquisitions

Due to the acquisition of 94.5% of the shares of HDI Strakhuvannya, Kiev (Ukraine) – previously Alcona – and 99.1% of the shares of HDI Seguros S.A., Santiago (Chile) – previously ISE Chile Compañía de Seguros Generales S.A. – the scope of consolidation of the present consolidated financial statement was enlarged in foreign markets. The companies were consolidated for the first time as at 1 July 2008. The Group's stake in HDI Strakhuvannya increased to 96.47% following a capital increase by HDI-Gerling International Holding AG and acquisition of the shares of small minority stockholders. HDI-Gerling International Holding AG also implemented a capital increase at HDI Seguros S.A., Santiago (Chile), in the fourth quarter of 2008, thereby boosting the Group's stake to 99.4%.

Effective 1 October 2008 Proactiv Holding AG acquired from BRAIN FORCE Software GmbH all shares in the IT service provider BRAIN FORCE Hamburg GmbH, Munich, which has since been renamed Proactiv IT Servicegesellschaft mbH.

Dissolutions and liquidations

Effective 1 January 2008 Hannover Re and E+S Rück, which were equal partners in GbR Hannover Rückversicherung AG/E+S Rückversicherung AG-Grundstücksgesellschaft, liquidated the company. The partnership assets of GbR were divided equally between the former partners by way of de facto splitting.

The company Société Civile Immobilière HANNOVER International France, Paris, was liquidated in the second quarter of 2008.

Siton GmbH withdrew effective 31 December 2008 as the personally liable partner of Siton Beteiligungs GmbH & Co. Vermietungs KG; the company was dissolved at the close of 31 December 2008.

In Italy HDI Finanziaria S.p.A., which was wholly owned by HDI Assicurazioni S.p.A., was liquidated and removed from the Italian register with effect from 17 December 2008.

After Hannover Re had already paid out the paid-in capital of WRH Offshore High Yield Partners L.P. in the 2007 financial year and during the third quarter of 2008 by way of two distribution resolutions, the company's application for cancellation was filed on 17 December 2008.

Disposals/deconsolidations

The company Gerling Service Nederland N.V., Amsterdam, was sold effective 31 December 2008.

On 30 September 2008 21 companies whose assets and net income are of subordinate importance for the Talanx Group were deconsolidated. The companies are as follows:

- Bureau für Versicherungswesen Robert Gerling & Co. GmbH,
- CiV Immobilien GmbH,
- GERLING Sustainable Development Project-GmbH,
- HDI Direkt Service GmbH,
- HDI-Gerling Autohaus Service GmbH,
- HDI-Gerling Beschäftigungs- und Qualifizierungsgesellschaft mbH,
- HDI-Gerling Sicherheitstechnik GmbH,
- Kommanditgesellschaft Trans Leben Grundstücksverwaltungs-GmbH & Co.,
- Paetau Sports Versicherungsmakler GmbH,
- Shamrock Marine-Insurance Agency GmbH,
- SSV Schadenschutzverband GmbH,
- THS Services Versicherungsvermittlungs GmbH,
- THV Versicherungsmakler GmbH,
- VES Gesellschaft für Mathematik, Verwaltung und EDV mbH,
- Gerling Norge A/S,
- Gerling-Konzern Belgique S.A.,
- Gerling-Konzern Panamericana Ltda.,
- H.J.Roelofs Assuradeuren B.V.,
- Hannover Risk Consultants B.V.,
- HDI-Gerling Versicherungs-Service AG and
- Scandinavian Marine Agency AS.

Mergers

AmpegaGerling Financial Services GmbH was merged into AmpegaGerling Investment GmbH effective 1 January 2008.

The following mergers also took place effective 1 January 2008: Gerling GI Verwaltungs GmbH into Gerling GIS Verwaltungs-GmbH, Gerling GIS Verwaltungs-GmbH into Gerling GFP Verwaltungs-AG as well as the companies Gerling GFP Verwaltungs-AG, Gerling GKZ Verwaltungs-GmbH and Gerling GKI Verwaltungs-GmbH into GERLING Beteiligungs-GmbH.

HDI-Gerling Sicherheitstechnik GmbH was merged into Gerling Consulting Gruppe GmbH with retroactive effect from 1 January 2008. The merged company was renamed back to HDI-Gerling Sicherheitstechnik GmbH with registered office in Hannover.

Effective 30 June 2008 the Polish life insurer Aspecta Zycie Towarzystwo Ubezpieczen Spolka Akcyjna, Warsaw (Poland), was merged into Gerling Polska Towarzystwo Ubezpieczen na Zycie S.A. The company was subsequently renamed HDI-Gerling Zycie Towarzystwo Ubezpieczen S.A., also with registered office in Warsaw.

With effect from 1 October 2008 HDI-Gerling Zentrale Verwaltung GmbH was merged into HDI-Gerling Sach Serviceholding AG.

Further corporate changes

Effective 3 March 2008 Hannover Rück Beteiligung Verwaltungs-GmbH (HRBV), which is wholly owned by Hannover Re, reached agreement with a third party outside the Group on the sale of 1% of its stake in E+S Rück – by way of a share reduction without a change of control status – in order to intensify the business relations. HRBV has held 62.8% of the shares in E+S Rück since the closing of the transaction.

In the 2007 financial year Hannover Re acquired the remaining 50% stake in Hannover Life Re of Australasia Ltd., Sydney, from E+S Rück and thus held all shares in the company; full allowance was made for transaction costs. All intercompany profits arising out of this transaction were eliminated. Effective 31 March 2008 Hannover Re transferred its shares in the company at book value by way of a capital increase for a non-cash contribution to the former Zweite Hannover Rück Beteiligung Verwaltungs-GmbH, all shares of which were held by Hannover Re. Effective 1 July 2008 Zweite Hannover Rück Beteiligung Verwaltungs-GmbH was converted to Hannover Life Re AG, the registered office of which is in Hannover. The change in corporate form came into effect upon entry in the commercial register on 7 August 2008.

On 19 May 2008 the Shanghai-based Hannover Rückversicherung AG Shanghai Branch commenced business operations as a permanent establishment of Hannover Re. The business object of the branch is the writing of life and health reinsurance business.

On 23 May 2008 the Seoul-based Hannover Rückversicherung AG Korea Branch commenced business operations as a permanent establishment of Hannover Re. The business object of the branch is the writing of life and health reinsurance business.

In the second quarter our Italian subsidiary HDI Assicurazioni S.p.A. sold 23% of the shares in InLinea S.p.A., Rome (Italy), to a third party outside the Group. The sale of this interest has no implications for the status of control over the company.

In the fourth quarter of 2008 HDI Informations-Systeme Gesellschaft für Anwendungsentwicklung mbH, Hannover, was renamed HDI-Gerling Rechtsschutz Schadenregulierungs-GmbH, Hannover. The company now settles claims arising out of legal protection insurance contracts for the HDI-Gerling insurers.

Effective 31 December 2008 Hannover Re sold its shares in ITAS Assicurazioni S.p.A., which had previously been included in the consolidated financial statement as an associated company. In the context of the sale Hannover Re acquired from the purchaser 1.41% of the shares in E+S Rück, an interest which was transferred to Hannover Rück Beteiligung Verwaltungs-GmbH (HRBV) on 30 December 2008 by way of a capital increase for a non-cash contribution. As at the end of 2008 HRBV held 64.2% of the shares in E+S Rück (proportionate holding of the Group: 32.2%). The acquisition of this interest has no implications for the status of control over the company.

In addition to Talanx AG as the parent company, the following major companies are included in the consolidated financial statement:

Name and registered office of the company	Participation		Capital and reserves		Result for the last financial year
Figures in currency units of 1,000	%		EUR [1)]		EUR [1)]
Property/Casualty Primary Insurance					
HDI Asekuracja Towarzystwo Ubezpieczen S.A., Warsaw/Poland	100.00	PLN	251,006	PLN	31,200
HDI Assicurazioni S.p.A., Rome/Italy	100.00		124,580		–27,015
HDI Direkt Versicherung AG, Hannover	100.00		162,000		70,685
HDI HANNOVER International España, Cía de Seguros y Reaseguros S.A., Madrid/Spain	100.00		39,338		5,608
HDI Seguros S.A., São Paolo/Brazil	99.99	BRL	440,234	BRL	28,694
HDI Versicherung AG (formerly: HDI Hannover Versicherung AG), Vienna/Austria	100.00		34,410		7,153
HDI-Gerling Firmen und Privat Versicherung AG, Hannover	100.00		174,906		17,424
HDI-Gerling Industrie Versicherung AG, Hannover	100.00		287,493		150,094
HDI-Gerling Rechtsschutz Versicherung AG, Hannover	100.00		18,951		645
HDI-Gerling Sach Serviceholding AG, Hannover	100.00		1,056,000		180,073
HDI-Gerling Verzekeringen N.V., Rotterdam/Netherlands	100.00		61,124		15,249
Life Primary Insurance					
ASPECTA Assurance International Luxembourg S.A., Luxembourg/Luxembourg	100.00		10,508		–595
ASPECTA Lebensversicherung AG, Cologne	100.00		42,243		—
CiV Lebensversicherung AG, Hilden	100.00		33,515		31,796
CiV Versicherung AG, Hilden	100.00		6,342		15,900
HDI-Gerling Leben Serviceholding AG, Cologne	100.00		955,965		25,145
HDI-Gerling Lebensversicherung AG, Cologne	100.00		208,339		35,000
HDI-Gerling Pensionskasse AG, Cologne	100.00		27,737		1,000
Neue Leben Lebensversicherung AG, Hamburg	67.50		58,581		13,200
Neue Leben Unfallversicherung AG, Hamburg	67.50		3,596		2,872
PB Lebensversicherung AG, Hilden	100.00		24,786		8,839
PB Versicherung AG, Hilden	100.00		9,790		3,320
PBV Lebensversicherung AG (formerly: BHW Lebensversicherung AG), Hamelin	100.00		51,819		8,405
Proactiv Holding AG, Hilden	100.00		934,484		51,723
Non-Life Reinsurance					
E+S Rückversicherung AG, Hannover	32.23		542,281		52,000
Hannover Re (Bermuda) Ltd., Hamilton/Bermuda	50.22		930,790		86,339
Hannover Reinsurance (Ireland) Ltd., Dublin/Ireland	50.22		430,704		18,395
Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg/South Africa	50.22	ZAR	156,133	ZAR	33,712
Hannover Rückversicherung AG, Hannover	50.22		1,376,816		–209,627
International Insurance Company of Hannover Ltd., Bracknell/United Kingdom	50.22	GBP	104,621	GBP	1,916

Name and registered office of the company	Participation		Capital and reserves		Result for the last financial year
Figures in currency units of 1,000	%		EUR [1]		EUR [1]
Life/Health Reinsurance					
Hannover Life Re of Australasia Ltd, Sydney/Australia	50.22	AUD	191,844	AUD	39,337
Hannover Life Reassurance (Ireland) Ltd., Dublin/Ireland	50.22		291,689		–3,030
Hannover Life Reassurance (UK) Ltd., Virginia Water/United Kingdom	50.22	GBP	43,958	GBP	–4,275
Hannover Life Reassurance Bermuda Ltd., Hamilton/Bermuda	50.22		131,355		9,214
Hannover Life Reassurance Company of America, Orlando/USA	50.22	USD	128,073	USD	–11,357
Financial Services					
AmpegaGerling Asset Management GmbH, Cologne	100.00		83,600		27,256
AmpegaGerling Investment GmbH, Cologne	100.00		16,936		3,912
Protection Reinsurance Intermediaries AG, Hannover	100.00		287		12,572

[1] *Differing currencies are specified*

The companies included in the consolidated financial statement of Talanx AG form part of the complete list of shareholdings, which is published in connection with the consolidated financial statement of HDI Haftpflichtverband der Deutschen Industrie V.a.G. in the Electronic Federal Gazette.

Business combinations in the reporting period

Under a purchase agreement reached at the end of January 2008 HDI-Gerling International Holding AG acquired a stake of 94.5% in the Ukrainian property/casualty insurer Alcona – now trading as HDI Strakhuvannya, Kiev (Ukraine). Following approval from the Ukrainian supervisory authority the purchase agreement came into effect on 1 July 2008 (date of acquisition). The Ukrainian primary insurer transacts principally private and routine business in property/casualty (first and foremost motor products) and accident insurance.

In addition, under a contract dated 29 May 2008 HDI-Gerling International Holding AG acquired 99.1% of the shares in the Chilean insurer ISE Chile Compania de Seguros Generales S.A. – renamed HDI Seguros S.A., Santiago (Chile) effective 1 January 2009. The agreement was closed (date of acquisition) on 1 July 2008. The focus of this company's business activities is on private and routine business in property and casualty insurance lines. The cost of acquisition, including transaction costs, amounted to altogether EUR 11 million.

On 25 August 2008 – with execution date 30 September/1 October 2008 – Proactiv Holding AG acquired all shares of BRAIN FORCE Hamburg GmbH, Munich – renamed Proactiv IT Servicegesellschaft mbH in December 2008 – from BRAIN FORCE Software GmbH for a purchase price of EUR 0.3 million. The company, which conducts applications development for PBV Lebensversicherung, was included for the first time in the Talanx consolidated financial statement on 1 October 2008. The additional disclosures required pursuant to IFRS 3 "Business combinations" have been omitted after weighing up cost/benefit considerations.

The following disclosures refer to the first-time recognition of the two insurance companies HDI Strakhuvannya and HDI Seguros S.A. acquired in 2008:

Both acquisitions meet the required criteria of a business combination as defined by IFRS 3. As part of the preparation of the acquisition balance sheets (in each case as at 1 July 2008), the assets and liabilities of the two acquired companies were revalued and recognized at fair values (purchase price allocation). In so doing, the IFRS values as at 1 July 2008 (date of transfer of control) were established from the local financial statements as at 30 June 2008 in one step. Additional preparation of an IFRS financial statement at the point in time directly prior to acquisition would have entailed a disproportionately high effort and was therefore omitted. To this extent, the disclosures provided in accordance with IFRS 3.67 (f) are not complete.

Altogether, the opening balance sheets of the two insurance companies include the following IFRS values as at the date of acquisition: intangible assets EUR 2 million, investments EUR 9 million, reinsurance recoverables on technical provisions EUR 3 million, accounts receivable on insurance business EUR 12 million, deferred tax assets EUR 1 million, other assets EUR 6 million, technical provisions EUR 14 million, other provisions EUR 3 million, liabilities EUR 5 million, deferred tax liabilities EUR 1 million. In the acquisition balance of HDI Seguros S.A. we capitalized a PVFP of EUR 1 million.

The two transactions gave rise to goodwill of altogether EUR 12 million, divided as follows between the companies:

Acquired units

Figures in EUR million	
HDI Strakhuvannya	8
HDI Seguros S.A.	4
Total goodwill	**12**

The goodwill reflects our expectations in relation to the profitability and growth potential of the acquired companies, which are associated with the entry into the dynamically growing insurance markets of Ukraine and South America.

The expenses and income of the two companies have been included in this consolidated financial statement since their initial consolidation as at 1 July 2008. The following table shows the premium volume of the acquired units since the date of initial consolidation. The “as if” presentation refers to the gross premium income recognized at the beginning of the year under review in accordance with local accounting principles. The profit contributions since 1 January 2008 are not presented on an “as if” basis on account of the unreasonably high effort that would have been needed to determine them.

Gross premium, profit contribution

Figures in EUR million		
Gross premium from 01.07.2008		16
Gross premium on as if basis from 01.01.2008		
HDI Strakhuvannya (“as if” under local GAAP)	2	
HDI Seguros S.A. (“as if” under local GAAP)	13	
As if from 01.01.2008 total		**31**
Profit contribution from 01.07.2008		1

Disposal groups

Under the item "Assets of disposal groups classified as held for sale" a book amount of EUR 43 million was shown in the Life Primary Insurance segment as at 31 December 2008.

This amount refers primarily to real estate held for sale by Neue Leben Lebensversicherung AG (EUR 27 million) and HDI-Gerling Lebensversicherung AG (EUR 14 million).

The carrying amount of a real estate portfolio – consisting of 16 mixed properties (residential properties, commercial use) in Northern Germany – held by Neue Leben Lebensversicherung AG, which was combined into a disposal group in the fourth quarter of 2008, was written down by EUR 3 million as at the balance sheet date. This real estate, the sale of which has been initiated for 2009, was carried with a book value of EUR 27 million as at 31 December 2008 and classified as "held for sale".

Under a purchase agreement dated 4 December 2008 HDI-Gerling Lebensversicherung sold land with an office building in Hamburg. The purchase price of EUR 19 million for the property is payable in two installments, the first of which was paid in the first quarter of 2009 in an amount of roughly EUR 4 million. The transfer of beneficial ownership is to take place no later than 31 October 2009 upon payment of the second installment of the purchase price in an amount of EUR 15 million, although the buyer may bring forward the date of payment – and hence also the date of transfer. The transaction is being effected with an eye to the strategic objective of reducing the real estate assets.

Nature of risks associated with insurance contracts and financial instruments

The disclosures provided below complement the risk reporting in the management report and reflect the requirements of German Accounting Standard DRS 5-20, IFRS 4 and IFRS 7. For fundamental qualitative statements, e.g. regarding the organization of our risk management or the assessment of the risk situation, please see the risk report in the management report.

Classes of financial instruments

IFRS 7 "Financial Instruments: Disclosures" sets out all the disclosures required for financial instruments. Some disclosure duties are to be met by establishing classes of financial instruments. The grouping made in this context must facilitate a minimum distinction between financial instruments measured at fair value and those measured at amortized cost. The establishment of classes need not necessarily be identical to the categorization of financial instruments pursuant to IAS 39.45-46 for purposes of subsequent measurement. The classes established for our financial instruments were guided by the needs of our portfolio and our balance sheet structure.

Essentially, the following classes of financial instruments were established:

- Financial instruments from insurance contracts
  - Accounts receivable on insurance business
  - Reinsurance recoverables on technical provisions
  - Funds held by ceding companies
  - Funds held under reinsurance treaties

- Financial instruments from investments
  - Investments in affiliated companies
  - Participating interests
  - Loans and receivables
  - Financial instruments held to maturity
  - Financial instruments available for sale
  - Financial instruments at fair value through profit or loss
  - Financial instruments held for trading
  - Other invested assets, insofar as they are financial instruments

- Other financial instruments
  - Other assets, insofar as they are financial instruments
  - Subordinated liabilities
  - Notes payable and loans
  - Other liabilities, insofar as they are financial instruments

The focus of the Talanx Group's business activities is on the sale and administration of insurance products in all standard lines of property/casualty and life insurance in both primary and reinsurance business.

General risk management

Risk capital as part of our value-based management approach is a key parameter used to steer business operations within the Talanx Group. It is calculated using our internal Talanx risk model. This facilitates the analysis and measurement of individual risks as well as the overall risk position of an insurance undertaking. The purpose of the risk quantification is to calculate the risk capital on the basis of a 99.5% Value at Risk. The time horizon considered under the model is one calendar year (single periodicity). For further details of the structure and refinement of the risk model please see the description provided in the risk report.

For the purposes of the Talanx risk capital model an insurance undertaking is adequately capitalized if the available capital is greater than the calculated risk capital. The establishment of the risk capital as at 31 December 2008 shows that the Talanx Group is adequately capitalized despite the considerable fall in market interest rates.

Risks from insurance contracts

Risks from insurance contracts consist principally of insurance risks, default risks, liquidity risks and market risks. Insurance risks in property/casualty insurance are considered separately from those in life insurance because of the significant differences between them.

Management of technical risks in property/casualty insurance

Insurance risks in non-life business (primary insurance and reinsurance) derive primarily from the premium/loss risk and the reserving risk.

Insurance business is based upon the assumption of individual risks from policyholders (in primary insurance) or cedants (in reinsurance) and the equalization of these risks in the community of (re)insureds and over time. For the insurer, the fundamental risk lies in providing insurance benefits, the amount and due date of which are unknown, from premiums calculated in advance that cannot be changed. The reserving risk arises out of the potentially insufficient establishment of reserves in the balance sheet and the resulting strain on the technical result.

We counter the assumed premium/loss risk inter alia through appropriate reinsurance protection. The volume of reinsurance protection relative to the gross written premium can be measured according to the level of retained premium; shown below broken down by segments, this indicates the proportion of written risks retained for our risk.

Retention by segments	31.12.2008	31.12.2007 [2]	31.12.2006	31.12.2005 [1]	31.12.2004 [1]
%					
Property/Casualty Primary Insurance	66.7	61.2	61.6	62.0	42.3
Non-Life Reinsurance	89.0	82.2	82.0	76.1	83.9
Total Non-Life Insurance	76.9	71.4	73.0	71.5	64.3

[1] *Due to changes in segment allocation the years 2005 and 2004 are of only limited comparability*
[2] *Adjusted on the basis of IAS 8*

The sharp rise in the level of retained premium from 2007 to 2008 in the Property/Casualty Primary Insurance segment can be attributed principally to industrial business. It resulted principally from the single premium payment for a stop loss contract in US casualty business, altered reinsurance structures and a special effect in 2007. Modifications made to the segment definition in 2006, 2007 and 2008 were a further reason for the increase in the retention in this segment. In 2006 moves were initiated to align the segments with the responsibilities of the Talanx Board of Management. In the first instance, reallocations were made between the Property/Casualty Primary Insurance and Non-Life Reinsurance segments. In 2007 the implementation of the revised segment definition moved forward with the reallocation of the life insurance business of the Italian subsidiary HDI Assicurazioni to the Property/Casualty Primary Insurance segment. The life insurance business written by the Italian company traditionally has a higher retention than that carried by the non-life insurers. In 2008 Euro Re International was reallocated from the Property/Casualty Primary Insurance segment to the Non-Life Reinsurance segment. The immediately previous year was adjusted accordingly in each case.

The level of retained premium in non-life reinsurance increased sharply as a consequence of appreciable savings on the segment's own protection covers and reduced proportional cessions relative to the previous year.

The net loss ratio by segments developed as follows over the last five years:

Net loss ratios by segment	2008	2007 [2]	2006	2005 [1]	2004 [1]
%					
Property/Casualty Primary Insurance	69.1	73.5	73.7	69.4	77.2
Non-Life Reinsurance	70.5	73.6	71.3	82.4	76.3
Total Non-Life Insurance	69.9	73.6	72.2	78.8	76.6

[1] *Due to changes in segment allocation the years 2005 and 2004 are of only limited comparability*
[2] *Adjusted on the basis of IAS 8*

The moderate level of the loss ratios in past years reflects our prudent underwriting policy and successes in active claims management. In the Non-Life Reinsurance segment we were able to reduce the loss ratio despite a major loss situation overshadowed by a number of devastating natural disasters. In primary insurance business, on the other hand, the actuarially calculated loss ratio for the financial year was significantly better than in the previous year due to a below-average burden of major losses in 2008. As a further factor, following the experience of winter storm "Kyrill" in 2007 and the subsequent modification of the reinsurance structure, windstorm losses are subject to significantly higher participations on the part of reinsurers.

In order to ensure that the existing benefit commitments can be fulfilled at all times, corresponding provisions are established and their adequacy is continuously analyzed using actuarial methods. These also provide insights into the quality of the written risks, their spread across individual lines with differing risk exposures as well as the anticipated future claims payments. In addition, our portfolios are subject to active claims management. Analyses of the distribution of loss amounts and claim frequencies facilitate systematic management of the risks.

Loss reserves in the reinsurance sector are calculated using actuarial methods, principally on the basis of information provided by our cedants, supplemented where necessary by additional reserves that may seem appropriate in light of our own loss estimations. Especially in casualty business, IBNR (incurred but not reported) reserves – differentiated by risk classes and regions – are constituted in view of the long run-off of such claims.

The adequate measurement of loss reserves for asbestos-related claims and pollution damage is a highly complex matter, since in some cases several years or even decades may elapse between the causation of the loss or injury and its notification. The exposure of the Talanx Group to asbestos-related claims and pollution damage is, however, relatively slight. The adequacy of these reserves is normally measured using the so-called "survival ratio". This ratio expresses how many years the reserves would cover if the average level of paid claims over the past three years were to continue. At the end of the year under review our survival ratio in the reinsurance sector stood at 25.0 years; the reserves for asbestos-related claims and pollution damage amounted to EUR 150 million.

Run-off triangles are another tool used to verify our assumptions. Such triangles show the changes over time in the reserves as a consequence of paid claims and in the recalculation of the reserves that are to be established as at each balance sheet date. Adequacy is monitored using actuarial methods (see here also our explanatory remarks on the balance sheet item "(20) Loss and loss adjustment expense reserve").

We analyze extreme scenarios and accumulations that could lead to large losses. Based on the current and most recently calculated figures for the exposure of the Talanx Primary Group and the Hannover Re Group, the potential net loss burdens for the Talanx Group are as follows:

Accumulation scenarios	**2008**	**2007**
Figures in EUR million		
250-year loss US windstorm	628	537
250-year loss California earthquake	560	443
250-year loss European windstorm	582	318
250-year loss Tokyo earthquake	602	542
250-year loss Japanese windstorm	212	103
250-year loss Sydney earthquake	195	209

Peak exposures from accumulation risks are protected against through the use of carefully and individually selected reinsurance covers. In this way we are able to effectively limit – and hence render plannable – large individual losses and the impact of accumulation events.

In property/casualty insurance the reserving risk is monitored and managed through analysis of the loss reserves using actuarial methods. In the case of the annuity reserve – as part of the loss and loss adjustment expense reserve – we also monitor the interest rate trend. A lowering of interest rate assumptions results in a charge to income as a consequence of a contribution to the reserves. The annuity reserve is calculated using the latest annuity tables as an actuarial basis.

An increase of five percentage points in the net loss ratio in both these segments of non-life insurance would reduce the net profit after tax by EUR 268 (274) million.

Management of market risks in life insurance

Typical risks in life insurance (Life Primary Insurance and Life/Health Reinsurance) are associated with the fact that policies contain long-term benefit guarantees. Along with interest rate risks, biometric risks and lapse risks are therefore particularly relevant here. Biometric actuarial bases such as mortality, longevity and morbidity are established at the inception of a contract in order to calculate premiums and reserves and measure deferred acquisition costs. Over time, however, these assumptions may prove to be no longer accurate and may therefore necessitate additional expenditures. The adequacy of the biometric actuarial bases is therefore regularly reviewed.

In view of the aforementioned risks, the calculation bases and our expectations may prove inadequate. Our life insurers use a variety of tools to counter this possibility:

- In order to calculate premiums and technical provisions the Group companies use prudently quantified actuarial bases, the adequacy of which is regularly assured through a continuous reconciliation of the claims expected according to the withdrawal tables and the claims actually incurred. In addition, the actuarial bases make appropriate allowance for the risks of error, random fluctuation and change by means of commensurate safety loadings.
- Life insurance policies for the most part involve long-term contracts with a discretionary surplus distribution. Minor changes in the assumptions with respect to the biometric factors, interest rates and costs on which tariffs are based are absorbed by the safety loadings built into the actuarial bases. If these safety loadings are not required, they generate surpluses that are for the most part – in accordance with statutory requirements – passed on to policyholders. The impact on profitability in the event of a change in the risk, cost or interest rate expectations is thus limited by adjustment of the future surplus participation of policyholders.
- We regularly review the lapse pattern of our policyholders and the lapse trend of our in-force portfolio.
- Additional protection is obtained against certain risks by taking out reinsurance treaties.

The volume of reinsurance protection relative to the gross written premium can be measured according to the level of retained premium; shown below broken down by segments, this indicates the proportion of written risks retained for our risk:

Retention by segments	31.12.2008	31.12.2007	31.12.2006	31.12.2005	31.12.2004
%					
Life Primary Insurance	87.9	86.9	86.0	85.2	78.7
Life/Health Reinsurance	89.3	90.8	85.4	92.8	91.2
Total	**84.9**	**82.0**	**81.0**	**80.8**	**76.5**

We measure sensitivity to these risks using an embedded value analysis. The Market-Consistent Embedded Value (MCEV) is a key risk management tool. It refers to the present value of future shareholders' earnings plus the shareholders' equity less the cost of capital for the life insurance and life/health reinsurance portfolio after appropriate allowance for all risks underlying this business. The embedded value is market-consistent inasmuch as it is arrived at using a capital market valuation that meets certain requirements: free of arbitrage, risk-neutral, the modeling of the financial instruments provides the current market prices.

The New Business Value (NBV) is also taken into consideration. The MCEV and NBV denote the present value of future shareholders' earnings from business in life insurance and life/health reinsurance after appropriate allowance for all risks underlying the business in question.

The MCEV is calculated for our major life insurers as well as the life/health reinsurance business written by Hannover Re. Sensitivity analyses highlight the areas in which the Group's life insurers and hence the Group as a whole are exposed in the life sector, and they provide pointers to the areas which should be emphasized from a risk management standpoint. Sensitivities to mortalities, lapse rates, administrative expenses as well as interest rate and equity price levels are considered in the analyses.

Sensitivities to mortalities

The degree of exposure of the Group's life insurers varies according to the type of insurance product. Thus, a lower-than-expected mortality has a positive effect on products primarily involving a death and/or disability risk and a negative impact on products with a longevity risk – with corresponding implications for the MCEV.

Sensitivities to lapse rates

Under contracts with a right of surrender the recognized benefit reserve is at least as high as the corresponding surrender value, and hence the economic impact of the lapse pattern tends to be more influenced by the level of lapse discounts and other product characteristics. A higher-then-expected lapse rate would negatively affect the MCEV.

Sensitivities to administrative expenses

Higher-then-expected administrative expenses would result in a reduction of the MCEV.

Sensitivities to interest rate and equity price levels

The commitment to generate the minimum return for the contractually guaranteed benefits gives rise to a considerable interest guarantee risk. The fixed-income investments normally have a shorter duration than the obligations under the insurance contracts (durations mismatch). This creates a reinvestment risk for already accumulated credit balances and a new investment risk for future premiums. If the investment income generated across the remaining settlement period of the liabilities falls short of the interest due under the guarantees, this leads to a reduction in income and a decrease in the MCEV. A decline in the equity price level would also negatively impact the MCEV.

Derivatives embedded in life insurance contracts that are not recognized separately

Insurance products may include the following major options on the part of the policyholder, insofar as they were agreed upon when the contract was taken out:

- Possibility of surrender and premium waiver for the contract
- Increase in insured benefit without another medical examination – usually with the actuarial bases applicable at the time with respect to biometric risks and guaranteed interest rate (index-linked adjustment, supplementary insurance guarantees in the event of certain changes in living conditions)
- Possibility of a one-time payment of the insured benefit (lump-sum option) under deferred annuities instead of pension transition. This gives rise to a potential risk if an unexpectedly large number of policyholders were to exercise their option at an interest rate level significantly above the discount rate used to calculate the annuities. The adequacy test required by IFRS 4 makes allowance for this option.

Under unit-linked products the policyholder can opt for transfer of the relevant units upon maturity of the contract instead of payment of their equivalent value.

Management of credit risks from insurance contracts

Bad debts may arise on receivables due under insurance business. In order to limit this risk we take care to ensure the good credit quality of debtors, as measured on the basis of standard market rating categories. Accounts receivable from policyholders and insurance intermediaries are unsecured. The default risk on these receivables is subject to constant monitoring within the scope of our risk management. At stake here are a large number of receivables in relatively modest single amounts, which are due from a diversified array of debtors. Such accounts receivable are normally due from policyholders that do not have a rating. Only commercial clients in excess of certain dimensions are able to obtain external assessments of their credit status. The insurance intermediaries are either individual brokers or broker organizations, which similarly do not normally have a rating.

With a view to countering possible delays in or defaults on premium payment in collections directly from policyholders or from intermediaries, each of the Group companies operates an effective collections procedure intended to minimize outstandings. Intermediaries are also subject to credit checks.

Credit risks also arise in primary insurance business in connection with accounts receivable from reinsurers and in reinsurance business from recoverables due from retrocessionaires on account of the fact that the gross business written is not always fully retained, but instead portions are (retro)ceded as necessary. In passive reinsurance we pay close attention to a high level of financial soundness on the part of the reinsurer, especially in the case of long-tail accounts. Our reinsurance partners are carefully selected by Security Committees, their credit status is constantly monitored and – where necessary – appropriate measures are taken to secure receivables.

As the equivalent of the maximum exposure to default risks on the balance sheet date, the book value of financial assets deriving from the insurance business – irrespective of collateral or other agreements and debts provisions that serve to minimize the default risk – was as follows:

	31.12.2008 [1)]			
Statement of book values of financial assets deriving from insurance contracts	Property/Casualty Primary Insurance	Non-Life Reinsurance	Life Primary Insurance	Life/Health Reinsurance
Figures in EUR million				
Receivables				
Policy loans	2	—	205	14
Accounts receivable from policyholders	621	33	161	3
Accounts receivable from insurance intermediaries	275	217	117	—
Accounts receivable from reinsurance business	616	1,596	6	792
Other assets				
Reinsurance recoverables on technical provisions	3,603	1,951	1,165	269
Total	**5,117**	**3,797**	**1,654**	**1,078**

[1)] *Presentation after elimination of intra-Group relations between two segments*

	31.12.2007 [1)]			
Statement of book values of financial assets deriving from insurance contracts	Property/Casualty Primary Insurance	Non-Life Reinsurance	Life Primary Insurance	Life/Health Reinsurance
Figures in EUR million				
Receivables				
Policy loans	2	—	194	14
Accounts receivable from policyholders	509	—	171	—
Accounts receivable from insurance intermediaries	304	231	62	—
Accounts receivable from reinsurance business	442	902	20	1,117
Other assets				
Reinsurance recoverables on technical provisions	3,504	2,430	1,252	365
Total	**4,761**	**3,563**	**1,699**	**1,496**

[1)] *Presentation after elimination of intra-Group relations between two segments; Adjusted on the basis of IAS 8*

With respect to business ceded, we reduce the default risk on accounts receivable from reinsurers by carefully selecting reinsurers through our Group's internal reinsurance broker Protection Reinsurance Intermediaries AG and reviewing their credit status on the basis of opinions from internationally respected rating agencies.

In the two primary insurance segments the claims arising out of passive reinsurance, i.e. the cession of our assumed risks – the reinsurance recoverables on unpaid claims – amounted to altogether EUR 4.8 (4.8) billion. The accounts receivable from reinsurers under primary insurance business totaled EUR 421 (489) million.

The ratings of the counterparties for the reinsurance recoverables on unpaid claims were as follows:

	AAA	AA	A	BBB	< BBB	No rating
%						
Reinsurance recoverables on technical provisions	13 (13)	38 (42)	33 (32)	0 (2)	1 (1)	15 (10)

84 (87)% of our reinsurers are rated A or better. In addition, many of our reinsurance recoverables are secured by deposits or letters of credit.

In the two reinsurance segments the claims due from retrocessions amounted to EUR 2.1 (2.5) billion as at the balance sheet date. Altogether 96% of retrocessionaires have an investment grade rating. Of these, more than 95% are rated A or better. The large proportion of reinsurers with top ratings reflects our policy of avoiding default risks in this area wherever possible.

The accounts receivable from insurance business that were overdue but not impaired at the balance sheet date can be broken down as follows:

	31.12.2008		31.12.2007	
Analysis of overdue but not individually impaired financial assets deriving from insurance contracts	> 3 months < 1 year	> 1 year	> 3 months < 1 year	> 1 year
Figures in EUR million				
Accounts receivable from policyholders	62	2	44	5
Accounts receivable from insurance intermediaries	5	—	73	—
Accounts receivable from reinsurance business	215	119	125	176
Total	**282**	**121**	**242**	**181**

The overdue receivables from insurance business are composed of accounts receivable that had not been paid by the due date and were still outstanding as at the balance sheet date. The presentation dispenses with the short duration range of "1 day to 3 months" in view of the different processes used throughout the Group in this regard. Responsibility for receivables management in the Talanx Group is borne locally by the individual subsidiaries. The receivables management process – reflecting the underlying business risks – consequently varies (inter alia differing treatment of receivables at risk of default (derecognition or value adjustment); differing points in time when receivables management is activated and differing tools used in receivables management). Only once a receivable is overdue by more than 90 days do the aforementioned reasons become insignificant, hence making Group-wide observations possible.

The primary insurers had accounts receivable from policyholders and insurance intermediaries in primary insurance business that were overdue by more than 90 days as at the balance sheet date totaling EUR 60 (105) million and EUR 5 (94) million respectively. These figures were equivalent to levels of 8 (15)% and <1 (24)% respectively. The combined average default rate over the past three years was 3%. The accounts receivable from passive reinsurance business with arrears of more than 90 days amounted to altogether EUR 143 (93) million, corresponding to a level of 23 (21)%. The average default rate over the past three years in this area was 1.3 (1.7)%.

Relative to the major companies of the Hannover Re Group, which make up the reinsurance segments of the Talanx Group, EUR 290 million – or 10% – of our accounts receivable from reinsurance business totaling EUR 2.8 billion were older than 90 days as at the balance sheet date. The average default rate over the past three years was less than 0.3%.

Of our total reinsurance recoverables, 30% were secured by deposits or letters of credit – a level virtually unchanged from the previous year. In the case of most of our retrocessionaires we also function as reinsurer, meaning that a potential normally exists for offsetting against our own liabilities.

Value adjustments were not taken insofar as the default risk associated with the assets is reduced by collateral (such as letters of credit, cash deposits, securities deposits).

The adjusted receivables can be broken down as follows:

	31.12.2008			31.12.2007		
Analysis of individually adjusted financial assets deriving from insurance contracts	Risk provision	Thereof 2008	Book value after risk provision	Risk provision	Thereof 2007	Book value after risk provision
Figures in EUR million						
Accounts receivable from policyholders	34	6	818	28	5	681
Accounts receivable from insurance intermediaries	77	21	609	56	12	596
Accounts receivable from reinsurance business	131	–55	3,011	196	36	2,481
Total	**242**	**–28**	**4,438**	**280**	**53**	**3,758**

In the year under review risk provision of EUR 80 million for accounts receivable from reinsurance business was released. This risk provision is no longer needed because in the previous year we significantly reduced the remaining credit risks through the securitization of default risks resulting from reinsurance recoverables.

The value adjustments on accounts receivable from insurance business that we recognize in separate adjustment accounts developed as follows in the year under review:

Development of value adjustments on accounts receivable from insurance business	2008	2007
Figures in EUR million		
Cumulative value adjustments as at 31.12. of the previous year	280	228
Change in consolidated group	—	4
Value adjustments in the financial year	60	52
Write-ups	27	19
Release	–90	24
Exchange-rate fluctuations	–1	–5
Other changes	20	–4
Cumulative value adjustments as at 31.12. of the year under review	**242**	**280**

The default risks on financial assets deriving from insurance contracts were determined on the basis of individual analyses. Any existing collateral was taken into account. The proportion of impaired receivables stood at 5 (7)%.

Specifically, the annual write-down rates were as follows:

Write-down rates	31.12.2008	31.12.2007	31.12.2006	31.12.2005
%				
Accounts receivable from policyholders	4.0	4.0	2.3	6.3
Accounts receivable from insurance intermediaries	11.2	8.6	7.0	9.9
Accounts receivable from reinsurance business	4.0	7.3	5.3	5.0

The annual default rates were as follows:

Default rates	31.12.2008	31.12.2007	31.12.2006	31.12.2005
%				
Accounts receivable from policyholders	4.2	2.1	3.9	9.3
Accounts receivable from insurance intermediaries	2.7	1.8	1.9	2.3
Accounts receivable from reinsurance business	0.1	0.3	0.1	0.3

The net gains/losses on financial instruments from insurance contracts were:

2008	Interest income	Interest expense	Value adjustment	Total
Figures in EUR million				
Loans and receivables	329	495	–57	–109
Reinsurance recoverables on technical provisions	—	—	29	–29
Total	**329**	**495**	**–28**	**–138**

2007	Interest income	Interest expense	Value adjustment	Total
Figures in EUR million				
Loans and receivables	250	80	9	161
Reinsurance recoverables on technical provisions	—	—	–26	26
Total	**250**	**80**	**–17**	**187**

Management of risks from investments

The structure of the asset portfolios is regularly examined in order to review the strategic asset allocation. The breakdown for the Talanx Group (excluding funds held by ceding companies) as at 31 December 2008 was as follows:

Weighting of major asset classes	Parameter as per investment guidelines	Position as at 31.12.2008	Position as at 31.12.2007
%			
Bonds (direct holdings and investment funds)	At least 50	85	80
Equities (direct holdings and investment funds)	At most 25	2	8
Real estate (direct holdings and investment funds)	At most 5	2	2

In this regard it is evident that the bonds, equities and real estate are within the defined Group limits. In accordance with the company's risk-carrying capacity and regulatory requirements, the investment goals of security, profitability, liquidity as well as mix and spread are given adequately balanced consideration under our holistic asset/liability management systems. The main opposing risks are market risks, default risks and liquidity risks.

Market risks

Market risks derive from the potential loss associated with adverse changes in market prices and may be attributable, in particular, to fluctuations in the prevailing interest rate level and equity prices.

The market risk consists primarily of the risk of changes in the market prices of fixed-income assets and equities as well as the exchange-rate risk associated with fluctuations in exchange rates if there is no matching cover. This may necessitate value adjustments or lead to the realization of losses in the event of disposal of financial assets. A decline in the interest rate level can also lead to reduced investment income.

The value at risk (VaR) is a vital tool used for managing market price risks. As part of these calculations the probability of losing a certain portion of the portfolio is determined. The calculation of this maximum loss potential is performed on the basis of a confidence level of 95% and a holding period of ten days. The current VaR as at year-end 2008 amounted to EUR 684 (458) million, a figure equivalent to 1 (< 1)% of the assets under consideration.

The daily updated holdings are fed into the calculation as input data. The scope of the market data history used for risk analysis is 180 weeks. On this basis, 180 weekly changes are calculated for each relevant market parameter, such as equity prices, exchange rates and interest rates, and these are then used to establish the Value at Risk. The risk model is recalibrated with the aid of the updated market data. The longer-term sampling period of the market parameters of 180 weeks assures a certain stability of the risk parameters over time.

Normal market scenarios are used to calculate the Value at Risk. In addition, stress tests are conducted in order to be able to map extreme scenarios. In this context, the loss potentials are simulated on the basis of already occurred or notional extreme events. Actual market developments may diverge from the model assumptions.

The range of management tools is complemented by stress tests and scenario analyses. In the case of interest-rate-sensitive products and equities, we calculate a possible change in fair value using a historic "worst case" scenario on a daily basis, estimating the potential loss under extreme market conditions. With the aid of scenarios we simulate changes in equity prices, exchange rates and yields on the basis of historical data. Interest rate risks refer to an unfavorable change in the value of financial assets held in the portfolio due to changes in the market interest rate level. Declining market yields lead to increases and rising market yields to decreases in the fair value of fixed-income securities portfolios. Share price risks derive from unfavorable changes in the value of equities and equity or index derivatives due, for example, to downward movements on particular stock indices. We spread these risks through systematic diversification across various sectors and regions. Currency risks are of considerable importance to an internationally operating reinsurance enterprise that writes a significant proportion of its business in foreign currencies.

Scenarios for changes in the fair value of assets held by the Group as at the balance sheet date:

Portfolio	Scenario		Portfolio change based on fair value
Figures in EUR million			
Equity securities	Share prices	+20%	+123
	Share prices	+10%	+60
	Share prices	–10%	–56
	Share prices	–20%	–107
Fixed-income securities	Yield increase	+200 basis points	–5,491
	Yield increase	+100 basis points	–2,950
	Yield decrease	–100 basis points	+2,875
	Yield decrease	–200 basis points	+6,071
Exchange-rate-sensitive investments	Change in exchange rates [1]	+10%	–1,331
	thereof USD		–858
	thereof GBP		–131
	thereof AUD		–80
	thereof other		–262
	Change in exchange rates [1]	–10%	+1,331
	thereof USD		+858
	thereof GBP		+131
	thereof AUD		+80
	thereof other		+262

[1] *Exchange-rate fluctuations of +/–10% against the euro based on balance sheet values*

The breakdown of our investments by currency was as follows:

Currency	31.12.2008	31.12.2007
%		
EUR	79	78
USD	14	13
GBP	2	2
AUD	1	1
Other	4	6
Total	**100**	**100**

We use short-call and long-put options as well as swaps to partially hedge portfolios, especially against price, exchange and interest rate risks. In the year under review we also used derivative financial instruments to optimize our portfolio in light of risk/return considerations. The contracts are concluded solely with first-class counterparties and compliance with the standards defined in the investment guidelines is strictly controlled in order to avoid risks – especially credit risks – associated with the use of such transactions.

Default risks

The risks of counterparty default requiring monitoring consist of counterparty credit risks and issuer's risks. Along with the lists of counterparties and issuers specified by the Chief Financial Officer, monitoring of the limits defined per rating category constitutes a vital precondition for investment decisions. We pay close attention to the good credit status of counterparties and debtors in order to avoid default risks. Key indicators here are the ratings assigned by external agencies such as S&P or Moody's. New investments are restricted to investment grade securities in order to limit the credit risk.

The maximum default risk exposure on the balance sheet date, exclusive of collateral or other agreements that serve to minimize the default risk, was as follows:

31.12.2008	Measured at cost or amortized cost	Measured at fair value	Total
Figures in EUR million			
Investments in affiliated companies and participating interests	66	—	66
Loans and receivables	30,123	—	30,123
Financial instruments held to maturity	1,378	—	1,378
Financial instruments available for sale	—	24,865	24,865
Financial instruments at fair value through profit or loss	—	793	793
Financial instruments held for trading	—	423	423
Other invested assets, insofar as they are financial instruments	2,249	1,608	3,857

31.12.2007 [1)]	Measured at cost or amortized cost	Measured at fair value	Total
Figures in EUR million			
Investments in affiliated companies and participating interests	59	—	59
Loans and receivables	29,243	—	29,243
Financial instruments held to maturity	1,477	—	1,477
Financial instruments available for sale	—	25,877	25,877
Financial instruments at fair value through profit or loss	—	865	865
Financial instruments held for trading	—	18	18
Other invested assets, insofar as they are financial instruments	2,001	1,238	3,239

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

As a general rule, the investments are not secured. The exceptions are mortgage loans secured by a charge over property. The contractual provisions envisage realization only in case of default on performance.

Investments are serviced regularly by the debtors. Only the mortgage loans show arrears – totaling EUR 18 (20) million. Since these receivables are adequately secured by charges over property, no value adjustment was taken. There were no investments that would have been overdue or impaired if their terms had not been renegotiated.

The fixed-income investments and loans (excluding other invested assets) are divided into the following debtor groups and corresponding ratings:

31.12.2008	Measured at cost or amortized cost	Measured at fair value	Total
Figures in EUR million			
EU member states	606	3,865	4,471
Foreign governments	359	2,550	2,909
Semi-governmental entities	8,922	4,875	13,797
Corporations	8,360	6,675	15,035
Covered bonds/asset-backed securities	10,937	536	11,473
Mortgage loans	1,607	—	1,607
Investment fund units	—	690	690
Other	1	323	324

31.12.2007	Measured at cost or amortized cost	Measured at fair value	Gesamt
Figures in EUR million			
EU member states	693	2,035	2,728
Foreign governments	344	2,084	2,428
Semi-governmental entities	8,726	4,043	12,769
Corporations	8,270	4,782	13,052
Covered bonds/asset-backed securities	10,221	3,898	14,119
Mortgage loans	1,668	—	1,668
Investment fund units	—	4,724	4,724
Other	798	423	1,221

The ratings of the fixed-income investments were as follows:

Rating	Government bonds		Securities issued by semi-governmental entities		Corporate bonds		Mortgage bonds/ asset-backed securities		Other	
	%	EUR million	%	EUR million	%	EUR million	%	EUR million	%	EUR million
AAA	82	6,062	32	4,356	4	524	72	11,693	21	322
AA	3	235	60	8,351	32	4,835	17	2,780	12	177
A	11	788	8	1,044	52	7,814	10	1,615	11	162
BBB	4	284	—	35	11	1,658	1	116	46	693
< BBB	—	13	—	10	1	205	—	91	10	157
Total	**100**	**7,381**	**100**	**13,797**	**100**	**15,036**	**100**	**16,295**	**100**	**1,511**

At the end of the reporting period the issuers of 99 (98)% of our investments in fixed-income securities had an investment grade rating (AAA to BBB), while 94 (92)% were rated A or better. Borrower's note loans and registered debentures are assigned an internal rating upon acquisition that is derived where possible from the issuer's rating.

Loans secured by a charge over property with a total volume of EUR 1,607 (1,668) million were granted to private individuals who do not have a rating. In addition, bank deposits and policy loans as well as equity papers are unrated.

Management of concentration risks

A broad mix and spread of individual asset classes is observed in order to minimize the portfolio risk. The concentration risk is limited by the investment guidelines and constantly monitored; overall, it is comparatively slight, even though bank mergers – in particular – result in appreciable increases in concentrations. What is more, the extent to which investments may be made in more heavily risk-exposed assets is restricted.

Management of liquidity risks

The liquidity risk is the risk of not being able to meet payment obligations – especially those arising out of insurance contracts – at all times. The liquid asset structure of our investments ensures that at all times Talanx will have sufficient funds available to meet its payment obligations. In addition, as part of our asset/liability management we take care to match the duration of investments used to cover payment obligations under insurance contracts. To this end, we compare first and foremost the modified durations on the assets and liabilities side of the balance sheet.

For a presentation of the major technical provisions (benefit reserve, loss and loss adjustment expense reserve, provision for premium refunds) and investments (broken down by their expected or contractual maturities) please see the notes on the corresponding balance sheet items.

Net gains/losses on financial instruments from investments

2008	Ordinary investment income	Amortization	Gain/loss on disposal	Unrealized gains and losses	Value adjustment	Total
Figures in EUR million						
Investments in affiliated companies and participating interests	5	—	17	—	—	22
Loans and receivables	1,201	59	1	—	17	1,278
Financial instruments held to maturity	65	6	—	—	—	71
Financial instruments available for sale	1,125	32	–315	—	–1,323	–481
Financial instruments at fair value through profit or loss	30	16	–1	–142	—	–97
Financial instruments held for trading	1	—	280	135	—	416
Other invested assets, insofar as they are financial assets	124	6	2	—	—	132
Total	**2,551**	**119**	**–16**	**–7**	**–1,306**	**1,341**

2007	Ordinary investment income	Amortization	Gain/loss on disposal	Unrealized gains and losses	Value adjustment	Total
Figures in EUR million						
Investments in affiliated companies and participating interests	3	—	2	—	—	5
Loans and receivables	1,089	23	–35	—	–18	1,059
Financial instruments held to maturity	69	6	—	—	—	75
Financial instruments available for sale	1,110	32	297	—	–182	1,257
Financial instruments at fair value through profit or loss	35	20	3	–20	—	38
Financial instruments held for trading	—	—	–29	–25	—	–54
Other invested assets, insofar as they are financial assets	87	3	—	—	—	90
Total	**2,393**	**84**	**238**	**–45**	**–200**	**2,470**

Net gains/losses on other financial instruments

The other financial instruments on the assets side encompass primarily receivables not connected with investments or the insurance business. They are predominantly short-term receivables that are unrated. Since the portfolio of accounts receivable is comprised of a relatively large number of debtors, we consider the default risk on these financial instruments to be slight.

The other financial instruments on the liabilities side consist of medium- and long-term commitments arising from subordinates liabilities and notes payable and loans as well as other liabilities not connected with investments or the insurance business. The other liabilities include inter alia interest rate swaps with a negative fair value of EUR 35 million (see the section entitled "Hedge accounting" on the following pages).

Net income from subordinated liabilities and notes payable and loans

2008	Interest expenses	Amortization	Total
Figures in EUR million			
Debts measured at cost or amortized cost	155	4	151

2007	Interest expenses	Amortization	Total
Figures in EUR million			
Debts measured at cost or amortized cost	127	1	126

The maturities of the subordinated liabilities and notes payable and loans, including the second tranche (EUR 250 million) of the line of credit of Talanx AG recognized under "Other liabilities", are as follows:

2008	3 months to 1 year	1 to 5 years	5 to 10 years	10 to 20 years	More than 20 years	No maturity
Figures in EUR million						
Debts measured at cost or amortized cost	265	579	8	1,327	152	595

2007	3 months to 1 year	1 to 5 years	5 to 10 years	10 to 20 years	More than 20 years	No maturity
Figures in EUR million						
Debts measured at cost or amortized cost	10	582	8	1,370	152	646

The Talanx Group has concluded a firm agreement with a broad consortium of banks regarding an available floating-rate line of credit that may be drawn upon as necessary. At the end of 2008 we had used two tranches amounting to altogether EUR 800 million. A tranche of EUR 250 million was paid back in April 2009.

In order to protect against possible future major losses Hannover Re took out a new credit line of EUR 500.0 million in 2004 in the form of an unsecured syndicated loan. The facility has a term of five years and ends in August 2009. It has not been used to date.

In addition, facilities exist with various financial institutions for letters of credit, including two unsecured syndicated guarantee facilities each in the amount of USD 2.0 billion. Half of the first of these lines matures in January 2010 and the other half in January 2012, while the second line matures in January 2013.

Hedge accounting

The Talanx Group uses interest rate swaps as part of a cash flow hedge in order to hedge the net profit or loss for the period against the interest rate risk associated with floating-rate commitments. The interest rate swaps serve to protect against rising interest rates. In 2007 we had taken out a floating-rate bank liability in an amount of EUR 550 million so as to finance the purchase price for the interests in BHW Lebensversicherung AG and BHW Pensionskasse AG as well as the remaining 50% stakes in Postbank Lebensversicherung AG and Postbank Versicherung AG. The floating rate tracks the three-month EURIBOR.

Four interest rate swaps were taken out with the same value date, also in a nominal amount of altogether EUR 550 million. We receive floating interest from these swaps in the same amount as we are required to pay on the basis of the liability, and in exchange we pay fixed interest. The selection of highly rated counterparties ensures that we avoid entering into a significant credit risk.

We adopted cash flow hedge accounting pursuant to IAS 39.86 (b) in the year under review. The interest rate swaps serve to hedge future cash flows. They are recognized at fair value under cash flow hedge accounting. The fair value (dirty value) of the four interest rate swaps amounted to altogether –EUR 35 (–6) million as at the balance sheet date; it included accrued interest of –EUR 8 (–6) million. The decrease in fair values can be attributed to movements in capital market interest rates. The fair values of the individual interest rate swaps were as follows:

Counterparty	Basis	31.12.2008	31.12.2007
Figures in EUR million			
LB Baden Württemberg	150	–11	–2
DZ Bank	150	–9	–2
Calyon	150	–9	–2
Morgan Stanley	100	–6	–1
Total	**550**	**–35**	**–7**

The fair value was calculated in the SimCorp Dimension investment management system used by AmpegaGerling Asset Management GmbH on the basis of the discounted cash flow method.

The fair value of the liabilities to banks corresponds to the book value and amounted to EUR 559 million.

The interest payments arising out of the bank liability and the interest rate swaps are made on 31 March, 30 June, 30 September and 31 December of each year. The amounts of the floating-rate interest payments coincide in this context. In economic terms, we are left only with the payments of the fixed interest amounts; to this extent, we have immunized ourselves against fluctuating interest expenses due to changes in capital market interest rates. The bank liability is to be paid back by 31 July 2012 at the latest.

Proof of the effectiveness of the cash flow hedge has been furnished.

Insofar as the hedging relationship is effective, the measurement gains or losses on the interest rate swaps are recognized directly in equity in a separate item (cash flow hedge reserve) after allowance for deferred taxes. The negative balance of the cash flow hedge reserve increased by EUR 26 million (before taxes) or EUR 18 million (after taxes) in the year under review.

The measurement gains or losses on the interest rate swaps are booked to income immediately in the amount of the ineffective part of the hedging relationship. In the year under review this gave rise to expenses of EUR 0.8 million, which were recognized under other income/expenses.

The current interest payments are recognized in other income/expenses after allowance for correct allocation to applicable accounting periods, since the hedged item constitutes an instrument used for corporate financing.

Since the liability carries floating-rate interest, changes in the interest rate level do not in principle affect the fair value of the liability. The situation is different as regards the interest rate swaps: the larger the spread between the fixed interest rate payable and the floating interest rate received, the higher the fair value amount of the interest rate swaps. The liability is repayable on 31 December 2012, and the interest rate swaps mature on the same date. Upon maturity the interest rate swaps have a fair value of EUR 0. All fluctuations in fair value are thus neutralized over the term of the swaps.

Securities lending

On 12 December 2008 Talanx AG concluded a securities lending transaction with WestLB. Shares were transferred with a value date of 18 December 2008 and returned on 15 January 2009. Cash collateral amounting to 105% of the market value of the shares was furnished by the borrower; the underlying market value of the share was EUR 13.44. Floating-rate interest was paid on the cash collateral at the EONIA O/N rate; the borrower additionally paid a loan fee.

Upon inception of the securities lending transaction Talanx AG booked a withdrawal of the designated shares from its securities portfolio. The subject matter of the agreement was the return of shares of the same type and quality, i.e. of the same issuer, on 15 January 2009, without agreement of compensatory payments for any losses of value. As the lender, Talanx AG therefore retained unchanged all opportunities and risks associated with the equity investment – especially the potential for or risk of changes in the value of the equities – on the basis of the firmly agreed return transfer.

The transaction was thus recognized as a secured lending transaction. Talanx AG continued to recognize the loaned 1,200,000 shares on 31 December 2008 with a book value of EUR 19 million. At the same time, we carried a loan liability with a book value of EUR 16 million for the cash collateral received.

Notes on the consolidated balance sheet – assets

(1) Goodwill

	2008	2007
Figures in EUR million		
Gross book value at 31.12. of the previous year	**689**	**423**
Currency translation at 01.01. of the year under review	–22	9
Gross book value after currency translation at 01.01. of the year under review	667	432
Change in consolidated group	1	—
Additions [1]	12	306
Disposals	—	49
Currency exchange rate differences	–3	—
Gross book value at 31.12. of the year under review	**677**	**689**
Accumulated depreciation and accumulated impairment losses at 31.12. of the previous year	52	2
Currency translation at 01.01. of the year under review	—	—
Accumulated depreciation and accumulated impairment losses after currency translation at 01.01. of the year under review	52	2
Impairments	4	50
Accumulated deprecation and accumulated impairment losses at 31.12. of the year under review	**56**	**52**
Balance at 31.12. of the previous year	637	421
Balance at 31.12. of the year under review	**621**	**637**

[1] *In the year under review the previous year's increase in the Group interests in the PB insurers and the acquisitions of BHW Lebensversicherung AG and BHW Pensionskasse AG (EUR 306 million) are correctly shown in the "Additions" item for 2007; in the previous year they were shown in "Change in consolidated group".*

The recognized goodwill derived mainly from the acquisition of HDI Seguros de Automóveis e Bens S.A. in 2005, the purchase of the former Gerling Group by Talanx AG in 2006, the increase of the interests held by the Group in the PB insurers to 100% in the previous year and the purchase of 100% stakes in BHW Lebensversicherung AG and BHW Pensionskasse AG (both also 2007).

The additions of EUR 12 million in the year under review stemmed from the acquired non-life insurers HDI Strakhuvannya and HDI Seguros S.A. (see here our remarks in the section "Business combinations in the reporting period").

The impairments of EUR 4 million were wholly attributable to the Property/Casualty Primary Insurance segment and are connected with the subsequent use of trade tax loss carry-forwards in the context of the acquisition of the Gerling Group in 2006. The impairments are opposed by income in the same amount from the recognition of deferred tax claims.

The annual goodwill impairment test did not identify any need to take impairments in the year under review (previous year: EUR 50 million). The impairment taken in 2007 was attributable exclusively to the Life Primary Insurance segment and related to the CGU "Neue Leben Group", the calculated fair value of which was below the corresponding book value. For further information on the impairment test please see our remarks in the section entitled "Summary of major accounting policies", page 102 et seq.

	Property/ Casualty Primary Insurance	Life Primary Insurance	Non-Life Reinsurance	Financial Services	Total [1)]
Figures in EUR million					
Balance at 31.12.2006	**203**	**161**	**54**	**3**	**421**
Currency translation at 01.01.2007	9	—	—	—	9
Balance after currency translation at 01.01.2007	212	161	54	3	430
Additions	—	306	—	—	306
Disposals	—	2	47	—	49
Impairments	—	50	—	—	50
Balance at 31.12.2007	**212**	**415**	**7**	**3**	**637**
Currency translation at 01.01.2008	–22	—	—	—	–22
Balance after currency translation at 01.01.2008	190	—	—	—	615
Change in consolidated group	—	1	—	—	1
Additions	12	—	—	—	12
Impairments	4	—	—	—	4
Currency exchange rate differences	–3	—	—	—	–3
Balance at 31.12.2008	**195**	**416**	**7**	**3**	**621**

[1)] *Presentation after elimination of intra-Group relations*

(2) Other intangible assets

	Insurance-related intangible assets	Software Purchased	Software Created	Other	2008	2007 1)
Figures in EUR million						
Gross book value at 31.12. of the previous year	**2,757**	**254**	**56**	**72**	**3,139**	**2,658**
Currency translation at 01.01. of the year under review	—	—	—	—	—	—
Gross book value after currency translation at 01.01. of the year under review	2,757	254	56	72	3,139	2,658
Change in consolidated group	1	—	–3	–1	–3	506
Additions	5	59	34	23	121	85
Disposals	34	25	2	29	90	110
Reclassification	—	15	8	–24	–1	—
Currency exchange rate differences	—	–3	—	–1	–4	–1
Gross book value at 31.12. of the year under review	**2,729**	**300**	**93**	**40**	**3,162**	**3,138**
Accumulated depreciation and accumulated impairment losses at 31.12. of the previous year	433	166	21	13	633	455
Currency translation at 01.01. of the year under review	—	—	—	—	—	—
Accumulated depreciation and accumulated impairment losses after currency translation at 01.01. of the year under review	433	166	21	13	633	455
Change in consolidated group	—	–1	–2	—	–3	—
Additions	—	11	11	—	22	—
Disposals	—	—	—	3	3	69
Depreciation/amortization						
Scheduled	128	26	11	3	168	239
Unscheduled	29	1	—	—	30	8
Reclassification	—	–1	—	1	—	—
Currency exchange rate differences	—	–2	—	—	–2	—
Accumulated depreciation and accumulated impairment losses at 31.12. of the year under review	**590**	**200**	**41**	**14**	**845**	**633**
Balance at 31.12. of the previous year	2,323	88	35	59	2,505	2,188
Balance at 31.12. of the year under review	**2,139**	**100**	**52**	**26**	**2,317**	**2,505**

1) *Adjusted on the basis of IAS 8*

In the previous year the gross amounts of the disposals as well as the accumulated depreciation and accumulated impairment losses (disposals) were adjusted for PVFPs – shareholders' portion – fully amortized in 2006 or prior years (EUR 67 million).

In 2007 we correctly recognized intangible assets of EUR 52 million, which had previously been carried under insurance-related intangible assets, under the other assets. The statement of changes in the book value of fixed assets and investments has been adjusted accordingly.

The “insurance-related intangible assets” derived largely from the insurance portfolios of the former Gerling Group acquired in 2006 (carrying value 2008: EUR 1.5 billion) as well as the portfolios of BHW Lebensversicherung AG (carrying value 2008: EUR 324 million) and PB Lebensversicherung AG (carrying value 2008: EUR 75 million) purchased in 2007.

A present value of future profits (PVFP) was capitalized in the amount of the expected future earnings of these assumed life portfolios. It is shown for gross account and consists of a shareholders’ portion – on which deferred taxes were established – and a policyholders’ portion.

PVFPs for life insurance companies	31.12.2008	31.12.2007
Figures in EUR million		
Shareholders’ portion	944	957
Policyholders’ portion	1,093	1,191
Balance	**2,037**	**2,148**

Of the “depreciation/amortization” on insurance-related intangible assets totaling EUR 157 (211) million, an amount of EUR 96 million was attributable to the amortization of PVFPs in the Life Primary Insurance segment. A further EUR 61 million resulted from write-downs taken on purchased insurance portfolios in the Group segment of Property/Casualty Primary Insurance, including special write-downs of EUR 29 million.

(3) Investment property

	2008	2007
Figures in EUR million		
Gross book value at 31.12. of the previous year	**927**	**1,069**
Currency translation at 01.01. of the year under review	—	—
Gross book value after currency translation at 01.01. of the year under review	927	1,069
Additions	43	17
Disposals	26	395
Disposal groups pursuant to IFRS 5	–35	361
Reclassification	–11	–124
Currency exchange rate differences	—	–1
Gross book value at 31.12. of the year under review	**898**	**927**
Accumulated depreciation and accumulated impairment losses at 31.12. of the previous year	311	287
Currency translation at 01.01. of the year under review	—	—
Accumulated depreciation and accumulated impairment losses after currency translation at 01.01. of the year under review	311	287
Disposals	—	6
Depreciation		
Scheduled	8	19
Unscheduled	3	—
Disposal groups pursuant to IFRS 5	–8	3
Reclassification	—	8
Accumulated depreciation and accumulated impairment losses at 31.12. of the year under review	**314**	**311**
Balance at 31.12. of the previous year	616	782
Balance at 31.12. of the year under review	**584**	**616**

The additions are divided mainly between the segments of Property/Casualty Primary Insurance (EUR 36 million) and Life/Health Reinsurance (EUR 7 million).

The changes in the area of disposals pursuant to IFRS 5 relate to investment property classified as "held for sale" (cf. here our remarks in the "Disposal groups" section on page 134).

The fair value of investment property amounted to EUR 622 (660) million as at the balance sheet date. The fair values were determined largely internally within the Group using discounted cash flow methods and in individual cases on the basis of external expert opinions.

Of the total investment property, EUR 428 (434) million was allocated to special cover funds. Restrictions on the disposal of assets and pledges as collateral existed in an amount of EUR 3 (3) million as at 31 December 2008.

(4) Investments in affiliated companies and participating interests

	2008	2007
Figures in EUR million		
Affiliated companies	12	2
Participating interests	54	57
Balance at 31.12. of the year under review	**66**	**59**

The increase in the book value recognized as at the balance sheet date resulted above all from the deconsolidation of 22 companies in the year under review, 21 of which were recognized as participating interests as at the balance sheet date. The interests in one company were sold prior to the balance sheet date.

(5) Investments in associated companies

	2008	2007 [1)]
Figures in EUR million		
Balance at 31.12. of the previous year	**178**	**174**
Disposals	33	—
Amortization	—	1
Adjustment recognized in income	–7	4
Adjustment recognized outside income	–3	1
Balance at 31.12. of the year under review	**135**	**178**

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

Public price listings are not available for the associated companies. The disposals recognized in 2008 were connected principally with the sale of ITAS Assicurazioni S.p.A., Trento, Italy (see here our remarks in the section entitled "Consolidation") on page 130.

The companies valued at equity include goodwill of EUR 20 (24) million.

(6) Loans and receivables

	Cost or amortized cost		Unrealized gains/losses		Fair value	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Figures in EUR million						
Mortgage loans	1,607	1,668	–19	–38	1,588	1,630
Loans and prepayments on insurance policies	211	209	—	—	211	209
Loans and receivables due from governmental or semi-governmental entities	8,995	8,885	245	–421	9,240	8,464
Corporate securities	8,119	7,913	147	–254	8,266	7,659
Covered bonds, asset-backed securities	10,693	9,979	401	–502	11,094	9,477
Participation rights	498	588	–19	–41	479	547
Other	—	1	—	—	—	1
Total	**30,123**	**29,243**	**755**	**–1,256**	**30,878**	**27,987**

Changes	**2008**	**2007**
Figures in EUR million		
Balance at 31.12. of the previous year	**29,243**	**25,644**
Change in consolidated group	—	699
Additions	2,508	4,697
Disposals	1,738	1,853
Amortization	59	23
Value adjustments	—	18
Write-ups	17	—
Changes in accrued interest	—	66
Other changes	24	11
Currency exchange rate differences	10	–26
Balance at 31.12. of the year under review	**30,123**	**29,243**

	Cost or amortized cost		Fair value	
Contractual maturity	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Figures in EUR million				
Due in one year	2,147	1,238	2,146	1,212
Due after one through two years	1,770	1,609	1,792	1,593
Due after two through three years	1,163	2,312	1,188	2,211
Due after three through four years	1,319	1,177	1,364	1,151
Due after four through five years	1,404	1,468	1,441	1,435
Due after five through ten years	12,146	11,248	12,333	10,785
Due after ten years	10,174	10,191	10,614	9,600
Total	**30,123**	**29,243**	**30,878**	**27,987**

Rating structure of loans and receivables	Cost or amortized cost 31.12.2008	31.12.2007
Figures in EUR million		
AAA	8,982	9,186
AA	12,022	13,072
A	6,604	4,385
BBB or lower	2,515	2,600
Total	**30,123**	**29,243**

(7) Financial assets held to maturity

	Cost or amortized cost		Unrealized gains/losses		Fair value	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Figures in EUR million						
Government debt securities of EU member states	92	98	4	–1	96	97
US Treasury Notes	345	325	64	21	409	346
Other foreign government debt securities	14	19	1	—	15	19
Debt securities issued by semi-governmental entities	441	436	21	7	462	443
Corporate securities	241	357	–13	–14	228	343
Mortgage bonds, asset-backed securities	245	242	—	–10	245	232
Total	**1,378**	**1,477**	**77**	**3**	**1,455**	**1,480**

Changes	2008	2007
Figures in EUR million		
Balance at 31.12. of the previous year	**1,477**	**1,571**
Change in consolidated group	2	—
Additions	9	40
Disposals	124	67
Amortization	6	6
Changes in accrued interest	–7	–3
Other changes	–4	—
Currency exchange rate differences	19	–70
Balance at 31.12. of the year under review	**1,378**	**1,477**

Contractual maturity	Cost or amortized cost 31.12.2008	Cost or amortized cost 31.12.2007	Fair value 31.12.2008	Fair value 31.12.2007
Figures in EUR million				
Due in one year	12	127	10	124
Due after one through two years	31	5	31	5
Due after two through three years	198	30	207	29
Due after three through four years	262	194	274	196
Due after four through five years	144	256	146	260
Due after five through ten years	695	824	750	825
Due after ten years	36	41	37	41
Total	**1,378**	**1,477**	**1,455**	**1,480**

Rating structure of fixed-income securities	Cost or amortized cost 31.12.2008	Cost or amortized cost 31.12.2007
Figures in EUR million		
AAA	726	709
AA	345	324
A	230	359
BBB or lower	77	85
Total	**1,378**	**1,477**

The rating categories are based on the classifications of leading international rating agencies.

(8) Financial assets available for sale

	Cost or amortized cost 31.12.2008	Cost or amortized cost 31.12.2007	Unrealized gains/losses 31.12.2008	Unrealized gains/losses 31.12.2007	Fair value 31.12.2008	Fair value 31.12.2007
Figures in EUR million						
Fixed-income securities						
Government debt securities of EU member states	3,772	2,036	84	–7	3,856	2,029
US Treasury Notes	1,856	1,560	137	46	1,993	1,606
Other foreign government debt securities	512	408	21	—	533	408
Debt securities issued by semi-governmental entities	4,621	3,938	158	–5	4,779	3,933
Corporate securities	6,660	4,656	–327	–121	6,333	4,535
Investment funds	742	4,786	–72	–125	670	4,661
Other securities	5,573	4,165	–129	–80	5,444	4,085
Total fixed-income securities	**23,736**	**21,549**	**–128**	**–292**	**23,608**	**21,257**
Variable-yield securities						
Equities	818	925	–31	76	787	1,001
Investment funds	460	3,264	–22	334	438	3,598
Other securities	32	21	—	—	32	21
Total variable-yield securities	**1,310**	**4,210**	**–53**	**410**	**1,257**	**4,620**
Total securities	**25,046**	**25,759**	**–181**	**118**	**24,865**	**25,877**

In the year under review the holdings in special funds are no longer recognized under “Investment funds” separately from direct holdings of securities; instead, they are shown together on the basis of the breakdown selected for the directly held portfolio. A corresponding adjustment of the comparative figures had to be omitted for technical reasons.

Changes	**2008**	**2007**
Figures in EUR million		
Balance at 31.12. of the previous year	**25,877**	**25,663**
Change in consolidated group [1)]	4	–610
Additions	20,141	12,092
Disposals	19,103	10,783
Amortization	32	32
Value adjustments	1,322	166
Changes in accrued interest	59	4
Change in unrealized gains/losses	–332	–131
Other changes	–255	–90
Disposal group pursuant to IFRS 5 [1)]	—	718
Currency exchange rate differences	–236	–852
Balance at 31.12. of the year under review	**24,865**	**25,877**

[1)] *The amount recognized under the disposal groups pursuant to IFRS 5 as at 31 December 2007 refers to the disposal of a partial portfolio of the disposal group classified as held for sale in 2006.*

	Fair value		**Cost or amortized cost**	
Contractual maturity of fixed-income securities	**31.12.2008**	**31.12.2007**	**31.12.2008**	**31.12.2007**
Figures in EUR million				
Due in one year	4,314	3,212	4,455	3,269
Due after one through two years	2,898	2,000	2,874	2,009
Due after two through three years	2,770	1,737	2,759	1,749
Due after three through four years	2,094	1,683	2,094	1,682
Due after four through five years	3,233	1,833	3,169	1,852
Due after five through ten years	6,594	5,241	6,625	5,316
Due after ten years	1,705	5,551	1,760	5,672
Total	**23,608**	**21,257**	**23,736**	**21,549**

	Fair value	
Rating structure of fixed-income securities	**31.12.2008**	**31.12.2007**
Figures in EUR million		
AAA	13,221	9,353
AA	3,852	4,309
A	4,361	3,013
BBB or lower	2,174	4,582
Total	**23,608**	**21,257**

The rating categories are based on the classifications of leading international rating agencies.

(9) Financial assets at fair value through profit or loss

	Fair value	
	31.12.2008	31.12.2007
Figures in EUR million		
Fixed-income securities		
Government debt securities of EU member states	8	4
Other foreign government debt securities	25	70
Debt securities issued by semi-governmental entities	96	110
Corporate securities	341	247
Covered bonds, asset-backed securities	196	199
Investment funds	20	63
Other securities	40	37
Total fixed-income securities	**726**	**730**
Variable-yield securities		
Equities	—	—
Investment funds	15	102
Other securities	7	12
Total variable-yield securities	**22**	**114**
Derivatives	**45**	**21**
Total securities	**793**	**865**

Changes	**2008**	**2007**
Figures in EUR million		
Balance at 31.12. of the previous year	**865**	**1,042**
Change in consolidated group	3	884
Additions	408	150
Disposals	476	1,247
Amortization	16	20
Changes in accrued interest	4	–1
Change in unrealized gains/losses	–87	–19
Other changes	78	38
Currency exchange rate differences	–18	–2
Balance at 31.12. of the year under review	**793**	**865**

Contractual maturity of fixed-income securities	Fair value 31.12.2008	Fair value 31.12.2007
Figures in EUR million		
Due in one year	101	117
Due after one through two years	30	51
Due after two through three years	270	42
Due after three through four years	15	238
Due after four through five years	75	42
Due after five through ten years	97	69
Due after ten years	138	171
Total	**726**	**730**

Rating structure of fixed-income securities	Fair value 31.12.2008	Fair value 31.12.2007
Figures in EUR million		
AAA	124	248
AA	170	234
A	232	121
BBB or lower	200	127
Total	**726**	**730**

The rating categories are based on the classifications of leading international rating agencies. With respect to a partial portfolio with a nominal value of EUR 67 million, which would otherwise be recognized under “Loans and receivables”, a decline in fair value of EUR 2 million attributable to a deterioration of the credit risk has been established since purchase of the securities or since their classification as “Financial instruments at fair value through profit or loss”. The deterioration in the credit risk was identified on the basis of a rating downgrade. The spread differences since purchase/classification were determined for the affected securities. The change in fair value was established with the aid of the modified duration and the change in the market interest rate.

The decline in fair values established in this way on the basis of deteriorations in the credit risk in the year under review amounted to EUR 428 thousand.

(10) Financial assets held for trading

	Fair value	
	31.12.2008	31.12.2007
Figures in EUR million		
Fixed-income securities		
Government debt securities of EU member states	2	2
Corporate securities	—	—
Total fixed-income securities	**2**	**2**
Variable-yield securities		
Investment funds	42	9
Total variable-yield securities	**42**	**9**
Derivatives	**379**	**7**
Total securities	**423**	**18**

The recognized derivatives refer primarily to derivative financial instruments used to hedge interest rate, exchange and other market price risks (see also the section entitled "Derivative financial instruments and structured products").

Changes	2008	2007
Figures in EUR million		
Balance at 31.12. of the previous year	**18**	**63**
Additions	515	6
Disposals	280	2
Changes in accrued interest	1	–1
Change in unrealized gains/losses	135	–25
Other changes	34	–24
Currency exchange rate differences	—	1
Balance at 31.12. of the year under review	**423**	**18**

	Fair value	
Contractual maturity of fixed-income securities	31.12.2008	31.12.2007
Figures in EUR million		
Due in one year	2	1
Due after four through five years	—	1
Total	**2**	**2**

	Fair value	
Rating structure of fixed-income securities	**31.12.2008**	**31.12.2007**
Figures in EUR million		
A	2	1
BBB or lower	—	1
Total	**2**	**2**

The rating categories are based on the classifications of leading international rating agencies.

(11) Other invested assets

The other invested assets of EUR 3.9 (3.2) billion are composed principally of participating interests in partnerships measured at fair value in an amount of EUR 860 (835) million and deposits at banks totaling EUR 1,861 (1,509) million. The amortized costs of these participating interests amounted to EUR 713 (623) million as at the balance sheet date; in addition, unrealized gains of EUR 173 (230) million and unrealized losses of EUR 26 (18) million were recognized from these investments. The fair values of the deposits at banks correspond largely to the book values, since their duration is for the most part less than one year.

(12) Derivative financial instruments and structured products

Derivatives

Derivative financial instruments are used within the Talanx Group to hedge against interest rate, exchange and other market price risks and to a limited extent also to optimize returns or realize intentions to buy/sell. In this context, the applicable regulatory requirements and the standards set out in the Group's internal investment guidelines are strictly observed and first-class counterparties are always selected.

The fair values of derivative financial instruments are determined on the basis of market prices and observable market data as at the balance sheet date and using recognized measurement models. Insofar as structured products – i.e. financial instruments composed of a host contract and one of more derivative financial instruments – require separation of the derivative component(s) from the underlying, the derivative is recognized under the balance sheet item "Financial instruments at fair value through profit or loss" or in the event of negative fair values under the "Other liabilities". Derivatives that are used within the scope of special accounting rules for hedging relationships in accordance with IAS 39 (hedge accounting) were shown either under the heading "At fair value through profit or loss" or in the "Other liabilities" depending on their fair values (further information on hedge accounting is provided in the corresponding section of the Notes).

The open positions from derivatives (fair values) as recognized in the balance sheet are as follows:

Balance sheet recognition of derivative financial instruments	Hedge instrument as per IAS 39	31.12.2008	31.12.2007
Figures in EUR million			
Balance sheet item			
Financial instruments at fair value through profit or loss	No	45	21
Financial instruments held for trading	No	379	7
Other liabilities	No	127	44
	Yes	35	6
Total		**586**	**78**

In the financial year just-ended the positions still open at the balance sheet date produced a profit of EUR 191 million; the positions closed in the year under review gave rise to a profit of EUR 422 million.

The fair values of our open positions are shown below differentiated according to risk types. Positive and negative fair values are netted in the table. Open positions from derivatives existed in an amount of EUR 586 (78) million at the balance sheet date, corresponding to 0.6 (0.1)% of the balance sheet total.

Maturities of derivative financial instruments	Due in 1 year	Due after 1 through 5 years	Due after 5 through 10 years	Due after 10 years	Other	31.12.2008
Figures in EUR million						
Equity and index risks	366	—	—	—	—	366
Derivatives embedded in insurance contracts	—	—	—	—	80	80
Credit risks	24	2	4	32	—	62
Interest rate risks	–206	232	22	—	—	48
Currency risks	27	—	—	—	—	27
Other risks	1	2	—	—	—	3
Total	**212**	**236**	**26**	**32**	**80**	**586**

Structured products

As at 31 December 2008 Group companies held structured products with a total value of EUR 5.2 (4.9) billion. A structured financial product denotes an investment product created through the combination of several underlying financial products, at least one of which must be a derivative. These investments are allocated to the asset classes of loans and receivables, financial instruments available for sale or financial instruments at fair value through profit or loss. In accordance with this categorization, the book values are based either on amortized costs (loans and receivables) or on fair values. Further details are provided in the accounting policies.

Within the Talanx Group financial instruments – i.e. structured products – composed of a host contract and one of more derivative financial instruments (embedded derivatives) that require separation of the derivative component(s) from the underlying are recognized as financial instruments at fair value through profit or loss in accordance with IAS 39.11A (fair value option on structured products), insofar as the embedded derivatives form an integral component of the contract that cannot be dealt with separately and separate measurement of the derivatives would not be reliable.

(13) Accounts receivable on insurance business

	31.12.2008	31.12.2007
Figures in EUR million		
Accounts receivable on direct written insurance business	1,427	1,277
thereof:		
From policyholders	818	681
From insurance intermediaries	609	596
Accounts receivable on reinsurance business	3,011	2,481
Total	**4,438**	**3,758**

(14) Deferred acquisition costs

	2008			2007		
	Gross business	Reinsurance recover-ables	Net business	Gross business	Reinsurance recover-ables	Net business
Figures in EUR million						
Balance at 31.12. of the previous year	**3,858**	**579**	**3,278**	**3,779**	**611**	**3,168**
Change in consolidated group [1]	—	–19	–19	–17	87	–104
Portfolio entries/withdrawals	11	—	11	–10	—	–10
Newly capitalized acquisition costs	791	105	686	881	64	817
Amortized acquisition costs	418	49	369	771	173	598
Disposal group pursuant to IFRS 5 [1]	—	—	—	97	—	97
Currency adjustments	–104	–7	–97	–96	–5	–91
Other changes	–1	19	19	–5	–4	–1
Balance at 31.12. of the year under review	**4,137**	**628**	**3,509**	**3,858**	**579**	**3,278**

[1] *Regarding the presentation of the sale of partial portfolios recognized as assets and liabilities of a disposal group classified as held for sale as at 31 December of the previous year, please see our remarks in the section entitled "Summary of major accounting policies", page 102 et seq.*

(15) Other assets

	31.12.2008	31.12.2007
Figures in EUR million		
Own-use real estate	572	577
Tax refund claims	370	145
Plant and equipment	122	116
Interest and rent due	22	25
Sundry assets	650	587
Total	**1,736**	**1,450**

Of the sharp rise in tax refund claims (+EUR 225 million), EUR 170 million was attributable to Talanx AG and related principally to trade tax refund claims due from the revenue authority for the years 2007 and 2008.

Development of own-use real estate	2008	2007
Figures in EUR million		
Gross book value at 31.12. of the previous year	**754**	**597**
Currency translation at 01.01. of the year under review	—	—
Gross book value after currency translation at 01.01. of the year under review	754	597
Change in consolidated group	–49	2
Additions	58	34
Disposals	1	5
Reclassification	11	126
Disposal group pursuant to IFRS 5	–14	—
Currency exchange rate differences	–2	—
Gross book value at 31.12. of the year under review	**757**	**754**
Accumulated depreciation and accumulated impairment losses at 31.12. of the previous year	**177**	**131**
Currency translation at 01.01. of the year under review	—	—
Accumulated depreciation and accumulated impairment losses after currency translation at 01.01. of the year under review	177	131
Change in consolidated group	–18	—
Depreciation		
Scheduled	19	41
Reclassification	7	5
Accumulated depreciation and accumulated impairment losses at 31.12. of the year under review	**185**	**177**
Balance at 31.12. of the previous year	577	466
Balance at 31.12. of the year under review	**572**	**577**

The fair value of the own-use real estate amounted to EUR 628 (630) million as at the balance sheet date. These fair values were calculated largely using the discounted cash flow method. The methods used to determine the book values are set out in the section entitled “Summary of major accounting policies”, page 102 et seq.

An amount of EUR 259 (289) million was allocated from the own-use real estate to special cover funds. Contractual commitments for the acquisition of property, plant and equipment totaled EUR 2 (—) million as at the balance sheet date.

Development of plant and equipment	2008	2007
Figures in EUR million		
Gross book value at 31.12. of the previous year	**335**	**316**
Currency translation at 01.01. of the year under review	—	—
Gross book value after currency translation at 01.01. of the year under review	335	316
Change in consolidated group	–2	–6
Additions	100	70
Disposals	70	44
Reclassification	–1	3
Other changes	–10	—
Currency exchange rate differences	–9	–4
Gross book value at 31.12. of the year under review	**343**	**335**
Accumulated depreciation and accumulated impairment losses at 31.12. of the previous year	**219**	**192**
Currency translation at 01.01. of the year under review	—	—
Accumulated depreciation and accumulated impairment losses after currency translation at 01.01. of the year under review	219	192
Change in consolidated group	–1	–3
Disposals	40	13
Depreciation		
Scheduled	60	43
Unscheduled	—	3
Reclassification	–1	—
Other changes	–10	—
Currency exchange rate differences	–6	–3
Accumulated depreciation and accumulated impairment losses at 31.12. of the year under review	**221**	**219**
Balance at 31.12. of the previous year	116	124
Balance at 31.12. of the year under review	**122**	**116**

Other assets	31.12.2008	31.12.2007
Figures in EUR million		
Trade accounts receivable	117	142
Receivables relating to investments	130	64
Receivables from non-group lead business	51	53
Other tangible assets	60	49
Claims under insurance for pension commitments	43	41
Prepaid insurance benefits	37	36
Surrender values	29	33
Other claims for recovery	16	—
Prepaid expenses	30	26
Receivables from the disposal of property, plant and equipment	7	1
Sundry assets	130	142
Total	**650**	**587**

Notes on the consolidated balance sheet – liabilities

(16) Shareholders' equity

Shareholders' equity is shown as a separate component of the consolidated financial statement in accordance with IAS 1 "Presentation of Financial Statements" and IAS 32 "Financial Instruments: Disclosure and Presentation" in conjunction with IAS 39 "Financial Instruments: Recognition and Measurement". The change in shareholders' equity comprises not only the net income deriving from the statement of income but also the changes in the value of asset and liability items not recognized in the statement of income.

The share capital of Talanx AG remains unchanged at EUR 260 million and is divided into 260,000 registered no-par shares. The share capital is fully paid up.

Minority interests are established in accordance with the shares held by companies outside the Group in the shareholders' equity of the subsidiaries.

The equity-affecting changes in the available-for-sale portfolio before allowance for policyholders, minority interests and deferred taxes were as follows.

	2008	2007 [1)]
Figures in EUR million		
Transfer of gains(–)/losses(+) from the fair value measurement of the available-for-sale portfolio to the result for the reporting period	–328	–77

Minority interests	2008	2007 [1)]
Figures in EUR million		
Unrealized gains and losses from investments	–62	140
Minority interest in net profit	–66	522
Other shareholder's equity	2,232	1,769
Total	**2,104**	**2,431**

1) *Adjusted on the basis of IAS 8*

Changes in shareholders' equity and minority interests

IAS 1 "Presentation of Financial Statements" requires detailed disclosures in the Notes that enable the readers of the financial statements to understand the objectives, methods and processes of capital management and provide supplementary information on changes in Group shareholders' equity.

In this context please see the following remarks as well as the information contained in the management report regarding capital and performance management as well as value-based management.

Capital management

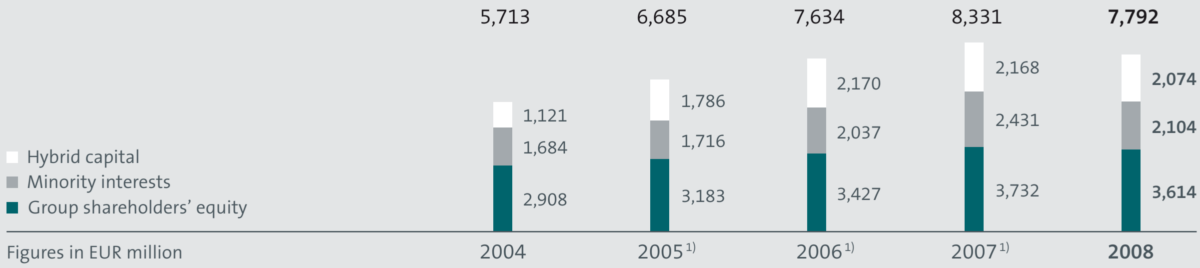
The preservation and consistent strengthening of its equity base is a key strategic objective for the Talanx Group. As part of its approach to capital management the Talanx Group considers the policyholders' surplus over and above the shareholders' equity reported in the balance sheet.

The policyholders' surplus is defined as the sum total of

- shareholders' equity excluding minority interests, composed of the common shares, additional paid-in capital, other comprehensive income and retained earnings,
- minority interests and
- hybrid capital used as an equity substitute, which encompasses our subordinated liabilities.

The policyholders' surplus totaled EUR 7.8 (8.3) billion as at the balance sheet date.

The chart below illustrates the growth of the policyholders' surplus over the last five reporting years.



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

The Talanx Group uses "Intrinsic Value Creation" (IVC) as its central value-based management indicator for measuring the value created by our Group companies and segments. This concept as well as the objectives and principles in accordance with which we conduct our enterprise governance and capital management is described in our remarks on capital and performance management in the correspondingly titled section of the management report.

The Talanx Group satisfies the capital expectations of the rating agencies that assess the Group's financial strength. Some Group companies are subject to additional national capital and solvency requirements. All Group companies met the applicable local minimum capital requirements in the year under review.

Within the scope of Group-wide capital management Talanx AG monitors the capital resources of its subsidiaries with the utmost diligence.

(17) Subordinated liabilities

In order to optimize the Group's capital structure and hence its cost of capital and to safeguard the liquidity (solvency) required (by regulators), Talanx AG and various Group companies have in the past taken out long-term liabilities that predominantly take the form of subordinated debt and are in some cases exchange-listed.

Specifically, the long-term subordinated debt is comprised of the following financial instruments:

		Book value	
		31.12.2008	31.12.2007
Figures in EUR million			
Hannover Finance Inc.	USD 20 million, floating rate, 1999/2029, (a; A) [1]	14	14
The debt was originally issued in an amount of USD 400 million. Group companies bought back portions in 2004 and 2005 totaling USD 380 million. The debt may be redeemed by the issuer no earlier than 2009.			
Hannover Finance (Luxembourg) S.A.	EUR 750 million, floating rate, 2004/2024, (a; A) [1]	746	746
The subordinated debt was placed on the European capital market. It may be redeemed in 2014 at the earliest and at each coupon date thereafter.			
Hannover Finance (Luxembourg) S.A.	EUR 500 million, 5%, 2005/no final maturity, (a–; A) [1]	479	476
Part of the volume of the subordinated debt was offered to the holders of the debt issued in 2001 by way of exchange. The debt may be called by the issuer on 01.06.2015 at the earliest.			
Hannover Finance (Luxembourg) S.A.	EUR 138 million, 6.25%, 2001/2031, (a; A) [1]	138	138
The debt was originally issued in an amount of EUR 350 million. The holders of this debt were offered the opportunity to exchange into the new debt issued in 2005. Nominal participation in the exchange was EUR 212 million. The debt may be called by the issuer in 2011 at the earliest.			
HDI-Gerling Industrie Versicherung AG	EUR 250 million, floating rate, 2004/2024, (bbb+; —) [1]	273	276
The subordinated Eurobond issue may be called by the issuer in 2014 at the earliest.			
HDI-Gerling Lebensversicherung AG	EUR 110 million, 6.75%, 2005/no final maturity, (—; A–) [1]	116	170
The subordinated debt is listed on the Luxembourg Stock Exchange. It may be called by the issuer in 2015 at the earliest. In 2008 Group companies acquired partial amounts of the debt in a nominal amount of EUR 50 million.			
Talanx Finanz	EUR 310 million, 4.5%, 2005/2025, (bbb–; BBB) [1]	308	348
The subordinated debt is listed on the Luxembourg Stock Exchange. In 2008 Group companies acquired partial amounts of the debt in a nominal amount of EUR 40 million.			
Total		**2,074**	**2,168**

[1] *(debt rating A.M.Best; debt rating S&P)*

The decrease in subordinated debt resulted primarily from the repurchase of partial amounts of individual issues by Group companies.

2008	Cost or amortized cost	Unrealized gains or losses	Accrued interest	Fair value
Figures in EUR million				
Debts measured at cost or amortized cost	2,074	–625	70	1,519

2007	Cost or amortized cost	Unrealized gains or losses	Accrued interest	Fair value
Figures in EUR million				
Debts measured at cost or amortized cost	2,168	2	71	2,241

The fair value of the extended subordinated loans is based on quoted, active market prices. If such price information was not available, fair value was determined on the basis of the recognized effective interest rate method or estimated using other financial assets with similar rating, duration and return characteristics. Under the effective interest rate method the current market interest rate levels in the relevant fixed-interest-rate periods are always taken as a basis.

The net result from subordinated liabilities in the year under review consisted of ordinary expenses in an amount of EUR 113 (120) million and income from amortization totaling EUR 4 (1) million.

(18) Unearned premium reserve

	2008			2007		
	Gross	Retro	Net	Gross	Retro	Net
Figures in EUR million						
Balance at 31.12. of the previous year	**4,755**	**537**	**4,218**	**5,092**	**516**	**4,576**
Change in the consolidated group [1]	11	3	8	–172	121	–293
Portfolio entries/withdrawals	35	—	35	–1	—	–1
Allocations	1,237	79	1,158	1,193	135	1,058
Releases	1,067	193	874	1,494	329	1,165
Other changes	–1	—	–1	–6	—	–6
Currency exchange rate differences	–76	–17	–59	–103	–12	–91
Disposal group pursuant to IFRS 5 [1]	—	—	—	246	106	140
Balance at 31.12. of the year under review	**4,894**	**409**	**4,485**	**4,755**	**537**	**4,218**

[1] *The amount shown under the disposal groups pursuant to IFRS 5 as at 31 December 2007 refers to the disposal of a partial portfolio recognized as assets and liabilities of a disposal group classified as held for sale in 2006.*

(19) Benefit reserve

	2008			2007		
	Gross	Retro	Net	Gross	Retro	Net
Figures in EUR million						
Balance at 31.12. of the previous year	**35,987**	**1,103**	**34,884**	**33,319**	**1,333**	**31,986**
Change in the consolidated group	—	—	—	2,227	3	2,224
Portfolio entries/withdrawals	–278	–140	–138	–514	–233	–281
Allocations	1,290	–22	1,312	2,798	2	2,796
Releases	57	1	56	1,497	–1	1,498
Other changes	–4	—	–4	1	—	1
Currency exchange rate differences	–552	–11	–541	–347	–3	–344
Balance at 31.12. of the year under review	**36,386**	**929**	**35,457**	**35,987**	**1,103**	**34,884**

	2008			2007		
Durations of the reserves	Gross	Retro	Net	Gross	Retro	Net
Figures in EUR million						
Less than one year	2,086	53	2,033	1,465	31	1,434
Between one and five years	7,379	199	7,180	9,459	268	9,191
Between five and ten years	7,302	182	7,120	8,304	269	8,035
Between ten and twenty years	8,354	225	8,129	7,795	238	7,557
After more than twenty years	7,454	152	7,302	5,002	98	4,904
Deposits	3,811	118	3,693	3,962	199	3,763
Total	**36,386**	**929**	**35,457**	**35,987**	**1,103**	**34,884**

(20) Loss and loss adjustment expense reserve (loss reserve)

	2008			2007		
	Gross	Retro	Net	Gross	Retro	Net
Figures in EUR million						
Balance at 31.12. of the previous year	**26,651**	**5,671**	**20,980**	**26,682**	**5,384**	**21,298**
Change in consolidated group [1]	10	16	–6	–249	162	–411
Portfolio entries/withdrawals	101	1	100	148	—	148
Plus incurred claims and claims expenses (net)						
Year under review	11,108	1,826	9,282	10,011	1,557	8,454
Previous years	922	–21	943	2,775	1,124	1,651
Total	12,030	1,805	10,225	12,786	2,681	10,105
Less claims and claims expenses paid (net)						
Year under review	5,607	879	4,728	5,131	621	4,510
Previous years	5,992	1,166	4,826	6,831	1,871	4,960
Total	11,599	2,045	9,554	11,962	2,492	9,470
Other changes	—	–29	29	2	26	–24
Currency exchange rate differences	–32	60	–92	–1,335	–359	–976
Disposal group pursuant to IFRS 5 [1]	—	—	—	579	269	310
Balance at 31.12. of the year under review	**27,161**	**5,479**	**21,682**	**26,651**	**5,671**	**20,980**

[1] *The amount shown under the disposal groups pursuant to IFRS 5 as at 31 December 2007 refers to the disposal of a partial portfolio recognized as assets and liabilities of a disposal group classified as held for sale in 2006.*

In the year under review we adjusted the presentation of the "run-off triangles" for the loss and loss adjustment expense reserves. The "run-off triangles" establish the correlation between the loss occurrence year and the loss run-off year. In line with previous years, we show the constituted loss reserves not by occurrence years but by the run-off of the reserve reported in the balance sheet. For the sake of improved understanding, from 2008 onwards we are splitting the disclosure into the two Group segments of Property/Casualty Primary Insurance and Non-Life Reinsurance, with only the corresponding net loss reserves being shown. The modified disclosure, which had no implications for the balance sheet and net income, is supplemented by a corresponding reconciliation with the Group figures for each segmental balance sheet.

The following two tables set out the net loss reserves for the years 1998 to 2008 split into the Group segments of Non-Life Reinsurance and Property/Casualty Primary Insurance. The tables show the changes made over time in the loss reserve established as at each balance sheet date due to payments rendered, supplementary premiums brought to account in years after they were written and revised estimates of outstanding payments. The difference between the original loss reserve and the current reserve is reflected in the net run-off result. This result is significantly influenced by movements in the euro against major foreign currencies.

Net loss reserve and its run-off in the Property/Casualty Primary Insurance segment

The chart shows the run-off of the net loss reserves established as at each balance sheet date in the Property/Casualty Primary Insurance segment, this reserve comprising the provisions constituted in each case for the current and preceding occurrence years. The run-off of the reserves for individual occurrence years is not shown.

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Figures in EUR million											
Loss and loss adjustment expense reserve	3,419	3,789	3,942	3,912	3,903	4,217	4,879	5,818	6,095	6,242	6,042
Cumulative payments for the year in question and previous years											
One year later	782	979	1,031	802	872	632	740	1,150	991	1,486	
Two years later	1,277	1,478	1,344	1,206	1,237	1,030	1,269	1,696	1,800		
Three years later	1,592	1,655	1,596	1,449	1,528	1,409	1,667	2,255			
Four years later	1,724	1,857	1,755	1,677	1,831	1,730	2,115				
Five years later	1,860	2,007	1,904	1,907	2,091	2,083					
Six years later	1,970	2,127	2,100	2,131	2,366						
Seven years later	2,044	2,282	2,278	2,363							
Eight years later	2,146	2,390	2,462								
Nine years later	2,220	2,519									
Ten years later	2,317										
Loss and loss adjustment expense reserve (net) for the year in question and previous years plus payments made to date on the original reserve											
One year later	3,282	3,587	3,696	3,426	3,824	3,863	4,493	5,077	5,205	5,659	
Two years later	3,170	3,400	3,337	3,276	3,628	3,806	4,387	5,011	5,161		
Three years later	3,058	3,214	3,198	3,334	3,671	3,895	4,381	5,089			
Four years later	2,943	3,096	3,234	3,319	3,802	3,941	4,536				
Five years later	2,803	3,139	3,196	3,505	3,842	4,065					
Six years later	2,749	3,135	3,321	3,507	3,912						
Seven years later	2,825	3,234	3,501	3,614							
Eight years later	2,918	3,299	3,492								
Nine years later	2,996	3,274									
Ten years later	2,905										
Run-off result of the loss reserve	**514**	**515**	**450**	**299**	**–10**	**152**	**343**	**729**	**933**	**583**	
Of which currency exchange rate differences	**–30**	**–40**	**25**	**89**	**108**	**49**	**–62**	**–89**	**–45**	**123**	
Run-off result excluding currency exchange rate differences	**544**	**555**	**425**	**209**	**–117**	**104**	**405**	**818**	**978**	**460**	
As percentage of original loss reserve	**16**	**15**	**11**	**5**	**–3**	**3**	**8**	**14**	**16**	**7**	
Reconciliation with segmental balance sheet:											
Consolidation											11
Other changes											16
Segment value for Property/Casualty Primary Insurance											**6,069**

Net loss reserve and its run-off in the Non-Life Reinsurance segment

The run-off triangles show the run-off of the net loss reserve established as at each balance sheet date in the Non-Life Reinsurance segment, this reserve comprising the provisions constituted in each case for the current and preceding occurrence years. The run-off of the reserve for individual occurrence years is not shown in this regard, but rather the run-off of the reserve constituted annually in the balance sheet as at the balance sheet date.

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Figures in EUR million											
Loss and loss adjustment expense reserve	5,913	7,012	8,482	12,183	12,863	13,462	13,121	14,296	13,280	12,718	13,354
Cumulative payments for the year in question and previous years											
One year later	1,448	1,583	2,108	2,242	2,118	3,623	4,496	3,051	2,665	2,476	
Two years later	2,231	2,498	3,112	3,775	5,024	7,322	6,611	5,072	4,390		
Three years later	2,712	3,226	4,174	6,032	7,765	8,780	7,590	6,205			
Four years later	3,187	3,898	5,745	8,589	8,910	9,519	8,356				
Five years later	3,561	5,120	7,581	9,400	9,467	10,102					
Six years later	4,341	6,146	8,114	9,786	9,897						
Seven years later	4,817	6,510	8,405	10,122							
Eight years later	5,123	6,785	8,611								
Nine years later	5,311	6,915									
Ten years later	5,410										
Loss and loss adjustment expense reserve (net) for the year in question and previous years plus payments made to date on the original reserve at the end of the year											
One year later	6,363	7,526	9,422	11,604	11,743	13,636	14,433	13,074	12,366	12,171	
Two years later	6,540	7,751	8,878	10,477	11,845	14,237	13,533	12,366	11,869		
Three years later	6,512	7,312	8,186	10,744	12,373	13,597	13,061	11,977			
Four years later	6,232	6,769	8,354	11,544	11,731	13,307	12,771				
Five years later	5,772	6,821	9,102	11,051	11,666	13,122					
Six years later	5,694	7,368	8,756	11,164	11,686						
Seven years later	6,036	7,142	8,864	11,219							
Eight years later	5,841	7,212	8,936								
Nine years later	5,861	7,268									
Ten years later	5,901										
Run-off result of the loss reserve	**–41**	**–55**	**–71**	**–55**	**–20**	**185**	**291**	**389**	**498**	**547**	
Of which currency exchange rate differences	**–13**	**–19**	**–17**	**28**	**31**	**10**	**–2**	**15**	**33**	**25**	
Run-off result excluding currency exchange rate differences	**–54**	**–75**	**–89**	**–27**	**11**	**195**	**289**	**404**	**531**	**571**	
As percentage of original loss reserve	**–1**	**–1**	**–1**	**–0,2**	**0,1**	**2**	**2**	**3**	**4**	**5**	
Reconciliation with the segmental balance sheet:											
Specific value adjustment for reinsurance recoverables on unpaid claims											47
Other changes											36
Segment value for Non-Life Reinsurance											**13,437**

The carrying amount of the **reinsurance recoverables** on unpaid claims of EUR 5.5 (5.7) billion includes cumulative specific value adjustments of EUR 47 (26) million. The total amount of the net reserves was EUR 21.7 (21.0) billion. The following breakdown of the durations refers to this amount.

	2008			2007		
Durations of the reserve	Gross	Re	Net	Gross	Re	Net
Figures in EUR million						
One year or less	8,429	2,102	6,327	7,811	1,896	5,915
Between one and five years	10,640	2,101	8,539	10,395	2,180	8,215
Between five and ten years	3,890	667	3,223	3,496	750	2,746
Between ten and twenty years	2,648	359	2,289	2,638	575	2,063
More than twenty years	972	116	856	1,606	116	1,490
Deposits	582	134	448	705	154	551
Total	**27,161**	**5,479**	**21,682**	**26,651**	**5,671**	**20,980**

(21) Provision for premium refunds

	2008			2007[1)]		
	Gross	Re	Net	Gross	Re	Net
Figures in EUR million						
Balance at 31.12. of the previous year	**1,403**	**2**	**1,401**	**1,319**	**2**	**1,317**
Change in the consolidated group	–2	—	–2	179	—	179
Portfolio entries/withdrawals	–89	—	–89	–51	—	–51
Allocations	51	—	51	86	—	86
Disposals						
Life insurance policies	256	—	256	207	—	207
Liability/personal accident policies with a premium refund	15	–1	14	2	—	1
Other changes	–118	—	–118	78	—	78
Currency exchange rate differences	–1	—	–1	1	—	—
Balance at 31.12. of the year under review	**973**	**1**	**972**	**1,403**	**2**	**1,401**

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

(22) Provision for pensions and other post-employment benefit obligations

The companies belonging to the Talanx Group normally award their employees pension commitments based on defined contribution or defined benefit plans. The type of pension commitment is given in accordance with the relevant pension plan and encompasses retirement, disability, widows' and orphans' benefits. The pension entitlement is dependent on length of service and salary. The vast majority of pension commitments are based on defined benefit pension plans.

Under defined benefit plans the pension beneficiary is promised a specific benefit; in contrast to defined contribution plans, the expenditures to be incurred by the company on the basis of the benefit commitments are not fixed from the outset. The commitments to employees in Germany predominantly comprise commitments funded by the company; no pension funds exist.

In addition, employees have an opportunity to accumulate further old-age provision by way of deferred compensation through membership of HDI-Gerling Pensionskasse AG. The benefits provided by HDI-Gerling Pensionskasse AG are guaranteed for its members and their surviving dependants and comprise traditional pension plans with bonus increases as well as unit-linked hybrid annuities. Employees of the former Gerling Group also have the option of obtaining pension commitments through deferred compensation with Gerling Versorgungskasse VVaG. In this case the employer companies meet the administrative expenses and assume responsibility for ensuring that the life insurance contracts can be fulfilled through their liability to make additional contributions.

Provisions for pensions are established in accordance with IAS 19 "Employee Benefits" using the Projected Unit Credit Method. They are established in accordance with actuarial principles and make allowance for the length of service and estimated rate of compensation increase of pension beneficiaries. The benefit entitlements are discounted using a single Group-wide blended rate of interest.

The major Group companies based the measurement of their pension commitments on the following assumptions:

	2008			2007		
Measurement parameters/assumptions	Germany	USA	Other	Germany	USA	Other
%						
Discount rate	6.00–6.40	6.20	4.17–7.00	4.95–5.50	6.20	4.70–6.20
Rate of compensation increase	3.00	—	2.50–4.50	3.00	3.50	3.00–5.30
Projected long-term yield on plan assets	4.25	7.50–8.50	4.50–7.00	4.25	7.50–8.50	5.70–7.50
Indexation	2.25	3.00	2.00–3.50	1.75	2.00–3.00	2.00–3.50

The change in the projected benefit obligation of the pension commitments for the various defined benefit plans of the Talanx Group was as follows:

Change in the projected benefit obligation	2008	2007
Figures in EUR million		
Projected benefit obligation at 01.01. of the year under review	1,359	1,353
Current service cost	20	16
Interest cost	69	61
Deferred compensation	1	1
Actuarial gain/loss	–132	–5
Currency translation	–8	–4
Benefits paid during the year	–61	–60
Past service cost	1	—
Business combinations, divestitures and other activities	–4	–1
Plan curtailments	1	–2
Projected benefit obligation at 31.12. of the year under review	**1,246**	**1,359**

The funded status of the defined benefit obligation is shown in the following table:

Change in the projected benefit obligation	2008	2007
Figures in EUR million		
Projected benefit obligation from unfunded plans	1,181	1,274
Projected benefit obligation from wholly or partially funded plans	65	85
Projected benefit obligation at 31.12. of the year under review	**1,246**	**1,359**
Fair value of plan assets	–57	–72
Funded status	**1,189**	**1,287**

The fair value of the plan assets developed as follows:

Change in plan assets	2008	2007
Figures in EUR million		
Fair value at 01.01. of the year under review	72	74
Expected return on plan assets	4	4
Actuarial gain/loss	–14	–4
Currency translation	–9	–4
Employer contributions	4	4
Benefits paid during the year	–1	–1
Business combinations, divestitures and other activities	1	–1
Fair value at 31.12. of the year under review	**57**	**72**

The structure of the asset portfolio underlying the plan assets was as follows:

Portfolio structure of plan assets	2008	2007
as %		
Fixed-income securities	53	56
Equities	21	22
Other	26	22
Total	**100**	**100**

The fair value of plan assets as at the balance sheet date included amounts totaling EUR 1 (1) million for own financial instruments.

The actual return on the plan assets amounted to –EUR 7 (2) million in the year under review.

The following table presents a reconciliation of the defined benefit obligations with the provisions for pensions recognized as at the balance sheet date:

Funded status of the defined benefit obligation	2008	2007
Figures in EUR million		
Defined benefit obligations at 31.12. of the year under review	1,246	1,359
Fair value of plan assets at 31.12. of the year under review	–57	–72
Funded status at 31.12. of the year under review	**1,189**	**1,287**
Unrealized actuarial gain/loss	83	–36
Net provisions for pensions at 31.12. of the year under review	**1,272**	**1,251**

The recognized provision for pensions developed as follows in the year under review:

Change in the provisions for pensions	2008	2007
Figures in EUR million		
Net provisions for pensions at 01.01. of the year under review	1,251	1,241
Currency translation	1	1
Change in consolidated group [1)]	–3	–5
Net periodic pension cost	87	70
Deferred compensation	1	1
Amounts paid during the year	–4	–13
Benefits paid during the year	–61	–51
Reclassification and other movements	—	6
Disposal groups pursuant to IFRS 5 [1)]	—	1
Net provisions for pensions at 31.12. of the year under review	**1,272**	**1,251**

[1)] *The amount shown under the disposal groups pursuant to IFRS 5 as at 31 December 2007 refers to the disposal of a partial portfolio recognized as assets and liabilities of a disposal group classified as held for sale in 2006.*

The components of the net periodic pension cost for defined benefit plans recognized in the statement of income of the Talanx Group were as follows:

Net periodic pension cost	2008	2007
Figures in EUR million		
Current service cost for the year under review	20	16
Interest cost	69	61
Expected return on plan assets	–4	–4
Recognized actuarial gain/loss	—	–1
Past service cost	2	—
Effect of plan curtailments	—	–2
Net periodic pension cost for the year under review	**87**	**70**

For the 2009 financial year the Talanx Group anticipates employer contributions of EUR 7 (7) million, which will be paid into the defined benefit plans shown here.

The net periodic pension cost was recognized in the consolidated statement of income in amounts of EUR 11 (14) million under acquisition costs and administrative expenses, EUR 75 (55) million under other expenses and EUR 1 (1) million under other investment expenses.

Defined contribution plans are funded via external pension funds or similar institutions. In this case fixed contributions (e.g. based on the relevant income) are paid to these institutions and the pension beneficiary's claim is against the said institution; in effect, the employer has no further obligation beyond payment of the contributions. The expense recognized for these obligations in the year under review amounted to EUR 3 (4) million, of which only a minimal amount was attributable to commitments to employees in key positions.

(23) Provisions for taxes

The provisions for taxes can be broken down as follows:

	2008	2007
Figures in EUR million		
Provision for income tax	494	585
Other tax provisions	125	140
Total	**619**	**725**

(24) Sundry provisions

The sundry provisions, which are measured by the likely amounts used, developed as follows:

Figures in EUR million	Restructuring/ Integration	Assumption of third-party pension commitments in return for payment	Bonuses and incentives	Early retirement/partial retirement arrangements	Other personnel expenses	Other	Total
Balance at 01.01.2007	**92**	**77**	**55**	**49**	**39**	**234**	**546**
Change in consolidated group	—	—	–6	—	—	25	19
Additions	23	—	47	33	28	166	297
Utilization	25	1	36	11	19	65	157
Release	4	—	—	1	3	83	91
Change in fair value of plan assets	—	—	—	–12	—	—	–12
Other changes	—	—	—	—	—	–28	–28
Currency exchange rate differences	—	—	–1	—	—	–2	–3
Disposal group pursuant to IFRS 5	—	—	6	—	—	5	11
Balance at 31.12.2007	**86**	**76**	**65**	**58**	**45**	**252**	**582**
Change in consolidated group	—	—	—	–1	–1	–2	–4
Additions	—	—	36	30	24	102	192
Utilization	37	1	42	6	16	83	191
Release	2	—	4	4	4	37	51
Change in fair value of plan assets	—	—	—	–6	—	—	–6
Other changes	—	—	—	—	—	6	6
Currency exchange rate differences	—	—	—	—	–1	–2	–3
Balance at 31.12.2008	**47**	**75**	**55**	**71**	**47**	**236**	**525**

The other sundry provisions include provisions for restructuring/integration expenses of EUR 47 (86) million. This relates primarily to hitherto unused partial amounts for restructuring provisions, employee-related provisions (e.g. relocation, termination payments) and provisions connected with the transfer of locations in the context of the reorganization of the Talanx Group as part of the integration of the companies belonging to the former Gerling Group into the Talanx Group and the associated measures in relation to business organization.

(25) Notes payable and loans

On 28 September 2007 Talanx AG took out a floating-rate bank liability in an amount of EUR 550 million under a line of credit for EUR 1.5 billion. It was used to finance the purchase price for the interests in BHW Lebensversicherung AG and BHW Pensionskasse AG as well as the remaining 50% stakes in PB Lebensversicherung AG and PB Versicherung AG and all the shares of PB Pensionsfonds AG. The floating rate of the loan tracks the 3-month EURIBOR. The loan is due for redemption on 31 December 2012.

Also on 28 September 2007, Talanx AG took out interest rate swaps to hedge the interest rate risk arising out of the loan. For further information on the interest rate swaps and their treatment in the balance sheet as a cash flow hedge please see the explanations provided in the section entitled "Hedge accounting".

(26) Other liabilities

	31.12.2008	31.12.2007
Figures in EUR million		
Liabilities under direct written insurance business	2,155	2,036
thereof to policyholders	1,651	1,643
thereof to insurance intermediaries	504	393
Reinsurance payable	1,703	1,801
Liabilities due to banks	329	75
Trade accounts payable	43	13
Liabilities relating to investments	172	120
Liabilities under non-group lead business	16	76
Liabilities from derivatives	162	50
thereof negative fair values from derivative hedge instruments	35	6
Deferred income	31	22
Interest	12	15
Liabilities due to social insurance institutions	10	11
Liabilities to trustees	—	8
Other liabilities	268	455
Total	**4,901**	**4,682**

The liabilities due to banks are attributable entirely to Talanx AG. The total amount does not include any liabilities with a maturity of more than five years. The loan of EUR 250 million taken up in the reporting period expired on 20 April 2009. This amount was invested with entirely matching maturities.

(27) Deferred taxes

The following table presents a breakdown of the deferred tax assets and liabilities into the balance sheet items from which they are derived.

	31.12.2008	31.12.2007 [1)]
Figures in EUR million		
Deferred tax assets		
Loss and loss adjustment expense reserves	255	444
Technical provisions	298	281
Loss carry-forwards	263	277
Benefit reserves	273	207
Provisions	144	141
Accounts receivable on insurance business	18	40
Investments	112	63
Contract deposits	4	36
Deferred acquisition costs	230	299
Premium refunds	1	—
Other invested assets	7	9
Value adjustment	–258	–271
Other	367	315
Total	**1,714**	**1,841**
Deferred tax liabilities		
Equalization reserve	999	978
Deferred acquisition costs	772	762
Contract deposits	4	18
Accounts receivable on insurance business	206	171
Present value of future profits (PVFP)	329	345
Benefit reserves	39	67
Technical provisions	148	129
Investments	121	111
Loss and loss adjustment expense reserves	39	19
Other invested assets	61	40
Debt consolidation	3	17
Premium refund	5	—
Provisions	5	12
Other	65	91
Total	**2,796**	**2,760**
Deferred tax liabilities (net)	**1,082**	**919**

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

The deferred tax assets and deferred tax liabilities were recognized as follows:

	31.12.2008	31.12.2007 [1)]
Figures in EUR million		
Deferred tax assets	295	236
Deferred tax liabilities	1,377	1,155
Deferred tax liabilities (net)	**1,082**	**919**

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

Notes on the consolidated statement of income

(28) Net premium earned

The gross written premium includes the savings elements of premiums under unit-linked life and annuity policies. These savings elements were eliminated from the net premium earned.

(29) Investment income

2008	Property/ Casualty Primary Insurance	Life Primary Insurance	Non-Life Reinsurance	Life/Health Reinsurance	Financial Services	Group function [1)]	Total
Figures in EUR million							
Real estate	6	59	2	—	—	—	67
Dividends	25	49	43	—	—	2	119
Ordinary investment income on fixed-income securities	418	1,231	565	150	2	15	2,381
Interest income on funds withheld and contract deposits	3	2	26	299	—	—	330
Other income	64	62	40	4	—	—	171
Ordinary investment income	**516**	**1,403**	**676**	**453**	**2**	**17**	**3,067**
Profit or loss on investments in associated companies	—	—	3	—	—	—	3
Income from write-ups	—	17	—	—	—	—	17
Realized gains on investments	259	397	368	11	—	—	1,035
Unrealized gains on investments	110	82	31	2	—	—	225
Investment income	**885**	**1,899**	**1,078**	**466**	**2**	**17**	**4,347**
Realized losses on investments	172	221	478	15	—	—	886
Unrealized losses on investments	40	107	75	80	—	1	303
Total	**212**	**328**	**553**	**95**	**—**	**1**	**1,189**
Impairments/depreciation on investment property							
Scheduled	2	7	—	—	—	—	9
Unscheduled	—	11	—	—	—	—	11
Impairments on equity securities	260	458	356	—	—	58	1,132
Impairments on fixed-income securities	50	44	86	11	—	—	191
Impairments on participating interests	5	13	25	—	—	—	43
Expenses for the administration of investments	7	14	4	1	89	—	115
Other expenses	9	24	14	—	—	—	47
Other investment expenses/impairments	**333**	**571**	**485**	**12**	**89**	**58**	**1,548**
Investment expenses	**545**	**899**	**1,038**	**107**	**89**	**59**	**2,737**
Net investment income	**340**	**1,000**	**40**	**359**	**–87**	**–42**	**1,610**

[1)] *Presentation after elimination of intra-Group relations between two segments.*

2007	Property/ Casualty Primary Insurance	Life Primary Insurance	Non-Life Reinsurance	Life/Health Reinsurance	Financial Services	Group function [1]	Total
Figures in EUR million							
Real estate	6	62	2	—	—	—	70
Dividends	21	63	40	—	—	—	124
Ordinary investment income on fixed-income securities	412	1,098	617	137	2	7	2,273
Interest income on funds withheld and contract deposits	3	2	60	186	—	—	251
Other income	65	14	55	1	—	—	135
Ordinary investment income	**507**	**1,239**	**774**	**324**	**2**	**7**	**2,853**
Profit or loss on investments in associated companies	—	—	8	2	—	—	10
Realized gains on investments	57	193	236	9	1	—	496
Unrealized gains on investments	4	12	10	—	—	—	26
Investment income	**568**	**1,444**	**1,028**	**335**	**3**	**7**	**3,385**
Realized losses on investments	32	150	65	6	—	—	253
Unrealized losses on investments	4	56	8	22	—	—	90
Total	**36**	**206**	**73**	**28**	**—**	**—**	**343**
Impairments/depreciation on investment property							
Scheduled	2	17	1	—	—	—	20
Unscheduled	—	—	—	—	—	—	—
Impairments on equity securities	19	84	34	—	—	—	137
Impairments on fixed-income securities	—	19	26	—	—	—	45
Impairments on participating interests	2	4	10	—	—	—	16
Expenses for the administration of investments	12	5	4	—	69	—	90
Other expenses	10	4	16	1	1	—	32
Other investment expenses/impairments	**45**	**133**	**91**	**1**	**70**	**—**	**340**
Investment expenses	**81**	**339**	**164**	**29**	**70**	**—**	**683**
Net investment income	**487**	**1,105**	**864**	**306**	**–67**	**7**	**2,702**

[1] *Presentation after elimination of intra-Group relations between two segments.*

The net gains and losses on the disposal of investments can be broken down as follows:

	2008		2007	
	Gains	Losses	Gains	Losses
Figures in EUR million				
Gains/losses on the disposal of				
Loans and receivables	5	4	1	36
Equities				
Available for sale	170	611	159	32
At fair value through profit or loss	1	2	2	4
Fixed-income securities				
Available for sale	163	83	30	52
At fair value through profit or loss	3	3	6	1
Investment fund units	106	16	217	63
Other investments	587	167	81	65
Total	**1,035**	**886**	**496**	**253**

The other investments are composed almost exclusively of derivatives held for hedging purposes in respect of which hedge accounting was not used.

The unrealized gains and losses on investments can be broken down as follows:

	2008		2007	
	Gains	Losses	Gains	Losses
Figures in EUR million				
Equities				
At fair value through profit or loss	—	50	1	3
Trading	1	2	—	1
Fixed-income securities				
At fair value through profit or loss	12	104	6	24
Derivative financial instruments	212	147	19	62
Total	**225**	**303**	**26**	**90**

The derivative financial instruments encompass derivatives held for hedging purposes in respect of which hedge accounting was not used and derivatives in connection with insurance contracts that are to be recognized separately.

The following value adjustments were taken in the year under review:

Value adjustments	2008	2007
Figures in EUR million		
Investment property	11	—
Loans and receivables	—	—
Financial assets – available for sale		
Fixed-income securities	191	45
Equity securities	1,132	137
Participating interests	43	16
Total	**1,377**	**198**

The write-ups on fixed-income securities available for sale amounted to EUR 17 (—) million.

Interest income on investments	2008	2007
Figures in EUR million		
Loans and receivables	1,201	1,089
Financial assets – held to maturity	65	69
Financial assets – available for sale	926	935
Financial assets – at fair value through profit or loss	30	35
Other	106	129
Total	**2,328**	**2,257**

(30) Claims and claims expenses

2008 [1]	Property/ Casualty Primary Insurance	Life Primary Insurance	Non-Life Reinsurance	Life/Health Reinsurance	Total
Figures in EUR million					
Gross					
Claims and claims expenses paid	4,019	2,938	3,052	1,590	11,599
Change in loss and loss adjustment expense reserve	173	29	27	179	408
Change in benefit reserve	–32	818	—	446	1,232
Expenses for premium refunds	3	365	—	—	368
Total	**4,163**	**4,150**	**3,079**	**2,215**	**13,607**
Reinsurers' share					
Claims and claims expenses paid	949	154	781	162	2,046
Change in loss and loss adjustment expense reserve	203	–2	–454	11	–242
Change in benefit reserve	—	–56	—	33	–23
Expenses for premium refunds	—	—	—	—	—
Total	**1,152**	**96**	**327**	**206**	**1,781**
Net					
Claims and claims expenses paid	3,070	2,784	2,271	1,428	9,553
Change in loss and loss adjustment expense reserve	–30	31	481	168	650
Change in benefit reserve	–32	874	—	413	1,255
Expenses for premium refunds	3	365	—	—	368
Total	**3,011**	**4,054**	**2,752**	**2,009**	**11,826**

[1] *Presentation after elimination of intra-Group relations between two segments.*

2007 [1]	Property/ Casualty Primary Insurance	Life Primary Insurance	Non-Life Reinsurance	Life/Health Reinsurance	Total
Figures in EUR million					
Gross					
Claims and claims expenses paid	3,819	2,575	3,862	1,570	11,826
Change in loss and loss adjustment expense reserve	701	54	13	191	959
Change in benefit reserve	130	1,069	—	390	1,589
Expenses for premium refunds	29	452	—	—	481
Total	**4,679**	**4,150**	**3,875**	**2,151**	**14,855**
Reinsurers' share					
Claims and claims expenses paid	1,126	150	1,063	185	2,524
Change in loss and loss adjustment expense reserve	491	4	–290	–8	197
Change in benefit reserve	1	–37	—	39	3
Expenses for premium refunds	1	—	—	—	1
Total	**1,619**	**117**	**773**	**216**	**2,725**
Net					
Claims and claims expenses paid	2,693	2,425	2,799	1,385	9,302
Change in loss and loss adjustment expense reserve	210	50	303	199	762
Change in benefit reserve	129	1,106	—	351	1,586
Expenses for premium refunds	28	452	—	—	480
Total	**3,060**	**4,033**	**3,102**	**1,935**	**12,130**

[1] *Presentation after elimination of intra-Group relations between two segments.*

(31) Acquisition costs and administrative expenses

	2008	2007
Figures in EUR million		
Gross		
Acquisition costs		
Payments	3,581	3,551
Change in deferred acquisition costs	–366	–147
Total acquisition costs	**3,215**	**3,404**
Administrative expenses	887	790
Total	**4,102**	**4,194**
Reinsurers' share		
Acquisition costs		
Payments	604	651
Change in deferred acquisition costs	–59	109
Total	**545**	**760**
Net		
Acquisition costs		
Payments	2,977	2,900
Change in deferred acquisition costs	–307	–256
Total acquisition costs	**2,670**	**2,644**
Administrative expenses	887	790
Total	**3,557**	**3,434**

(32) Other income/expenses

	2008	2007 [1]
Figures in EUR million		
Other income		
Other technical income	36	23
Exchange gains	151	376
Income from the disposal of affiliated companies	—	179
Income from services [2]	120	158
Reversals of impairments on receivables	123	76
Income from contracts recognized in accordance with the deposit accounting method	26	75
Profits from the disposal of own-use real estate	9	72
Income from the release of other non-technical provisions	51	57
Interest income	59	47
Commission income	84	37
Rental income	41	12
Income from reimbursement of a purchase price	16	—
Income from the settlement of surety insurances	25	—
Income from the repurchase of own securities	24	—
Sundry income	233	92
Total	**998**	**1,204**
Other expenses		
Other technical expenses	105	97
Exchange losses	233	327
Other interest expenses	291	250
Depreciation and impairments	251	246
Expenses for the company as a whole	254	213
Expenses for services	120	168
Other taxes	17	34
Losses from the disposal of own-use real estate	1	22
Sundry expenses	129	240
Total	**1,401**	**1,597**
Other income/expenses	**–403**	**–393**

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

[2] *The amounts carried in the previous year under sales revenues were recognized in the item "Income from services" in the year under review. The previous year was adjusted accordingly.*

The balance of other technical income and expenses amounts to –EUR 69 (–74) million.

(33) Amortization of insurance-related intangible assets and goodwill impairments

Further information is provided under the items "(1) Goodwill", page 154 et seq., and "(2) Other intangible assets", page 156 et seq.

(34) Taxes on income

This item includes domestic income tax as well as comparable taxes on income incurred by foreign subsidiaries. The determination of the income tax includes the calculation of deferred taxes. The principles used to recognize deferred taxes are set out in the section entitled "Summary of major accounting policies". Deferred taxes are established on retained earnings of major affiliated companies in cases where a distribution is concretely planned.

The actual and deferred taxes on income can be broken down as follows:

Income tax	2008	2007
Figures in EUR million		
Actual tax for the year under review	299	613
Actual tax for other periods	–99	128
Deferred taxes due to temporary differences	145	–196
Deferred taxes from loss carry-forwards	–3	14
Change in deferred taxes due to changes in tax rates	–1	–230
Recognized tax expenditure	**341**	**329**

The deferred tax income from the change in tax rates stood at EUR 1 (230) million. The high income in the previous year was due above all to the cut in tax rates in Germany as part of the 2008 reform of business taxes; of this amount, EUR 112 million was attributable to minority interests.

Domestic/foreign breakdown of recognized tax expenditure/income	2008	2007
Figures in EUR million		
Current taxes	200	743
Germany	124	579
Outside Germany	76	164
Deferred taxes	141	–414
Germany	147	–461
Outside Germany	–6	47
Total	**341**	**329**

Contrary to a very clear opinion expressed by specialized attorneys, the revenue authority takes the view that investment income generated by the Ireland-based reinsurance subsidiaries of some Group companies are subject to additional taxation at the parent companies in Germany on the basis of the provisions of the Foreign Transactions Tax Act. Insofar as the relevant assessment notices have already been received, an appeal has been lodged – also with respect to the amounts already recognized as tax expenditure.

The actual and deferred taxes recognized directly in equity in the financial year – resulting from items directly charged or credited to equity – amounted to –EUR 32 (–1) million.

The following table presents a reconciliation of the expected expense for income taxes that would be incurred upon application of the German income tax rate to the pre-tax profit with the actual expense for taxes.

Reconciliation of the expected expense for income taxes with the recognized tax expenditure	**2008**	**2007**
Figures in EUR million		
Profit before income taxes	462	1.328
Expected tax rate	31.6%	40.0%
Expected expense for income taxes	146	531
Change in deferred rates of taxation	–1	–230
Taxation differences affecting foreign subsidiaries	–51	–122
Non-deductible expenses	222	86
Tax-exempt income	–7	–160
Value adjustment	–11	73
Tax expense not attributable to the reporting period	20	128
Other	23	23
Recognized expense for income taxes	**341**	**329**

The calculation of the expected expense for income taxes is based on the German income tax rate, which was reduced from 40.0% in the previous year to the current level of 31.6%. This tax rate is made up of corporate income tax including the German reunification charge and a mixed trade tax rate.

The tax ratio stood at 73.8% (previous year: 24.8%; excluding the non-recurring income from the change in tax rates, the tax ratio in 2007 amounted to 42.1%). The tax rate corresponds to the average income tax load borne by all Group companies. Given the expected domestic tax rate, the expense for income taxes would amount to EUR 146 million – a figure EUR 195 million lower than the actual expense for income taxes. The divergences are connected principally with the adverse trend on capital markets, since impairments/losses on our equity holdings – especially in the Non-Life Reinsurance segment – are not deductible under German tax law.

Availability of capitalized loss carry-forwards

No deferred taxes were established on loss carry-forwards of EUR 624 (680) million because their realization is not sufficiently certain. In addition, tax credits of EUR 20 (17) million that had not been capitalized were available.

Availability of loss carry-forwards and tax credits that have not been capitalized:

Figures in EUR million	1–5 years	6–10 years	> 10 years	Unlimited	Total
Loss carry-forwards	12	6	153	453	624
Tax credits	—	—	—	20	20
Total	**12**	**6**	**153**	**473**	**644**

Loss carry-forwards not recognized in previous years reduced the actual expense for taxes by EUR 37 million and the deferred expense for taxes by EUR 11 million in the year under review. The devaluation of deferred tax claims recognized in previous years led to a deferred tax expense of EUR 11 million in the 2008 financial year.

Other information

Staff

The average number of staff employed throughout the year can be broken down as follows:

	2008	2007
Primary insurance companies	15,183	14,902
Reinsurance companies	1,790	1,922
Financial services companies	313	245
Other	97	109
Total	**17,383**	**17,178**

During the reporting period 21 companies with altogether 297 employees were deconsolidated as at 30 September; they are not included in the number of staff for the fourth quarter. If these employees had been included, the number of staff at the primary insurance companies would have been 74 higher.

Expenditures on personnel	2008	2007
Figures in EUR million		
Wages and salaries		
Expenditures on insurance business	791	800
Expenditures on the administration of investments	50	36
	841	**836**
Social security contributions and expenditure on provisions and assistance		
Social security contributions	133	129
Expenditures for pension provision	46	41
Expenditures for assistance	11	8
	190	**178**
Total	**1,031**	**1,014**

The personnel expenditures of the 21 deconsolidated companies were recognized until 30 September of the reporting period.

Transactions with related parties

IAS 24 "Related Party Disclosures" defines related parties inter alia as parent companies and subsidiaries, subsidiaries of a common parent company, associated companies, legal entities under the influence of management and the management of the company itself.

The related entities within the Talanx Group are comprised of HDI Haftpflichtverband der Deutschen Industrie V. a. G. (HDI V. a. G.), which directly holds all shares of Talanx, as well as all unconsolidated subsidiaries – which essentially encompasses the subsidiaries not included in the consolidated financial statement due their insignificant status – and the associated companies recognized at equity. In addition, there are the provident funds that pay benefits in favor of employees of Talanx or one of its related parties after termination of the employment relationship.

The related persons are the members of the Boards of Management and Supervisory Boards of Talanx AG and HDI V. a. G. Transactions between Talanx and its subsidiaries or between subsidiaries of Talanx AG are eliminated through consolidation and hence not discussed in the Notes. Business relations existing with unconsolidated companies or with associated companies are of minor importance overall.

Within the scope of their operating activities a contractual relationship exists between Group companies and DFA Capital Management regarding the purchase and implementation/modification of a software solution for dynamic financial management. This gave rise to capitalizations in past financial years and will result in further capitalizations in future financial years. The contractual payment arrangements provide for the considerations to be rendered on a largely synchronized and equivalent basis.

For details of the remuneration received by the members of the Board of Management and Supervisory Board of Talanx AG please see the remarks on the compensation of the management boards of the parent company.

Share-based payment

With effect from 1 January 2000 the Executive Board of Hannover Re, with the consent of the Supervisory Board, introduced a virtual stock option plan that provides for the granting of stock appreciation rights to certain managerial staff. The content of the stock option plan is based solely on the Conditions for the Granting of Stock Appreciation Rights. All the members of the Group's senior management are eligible for the award of stock appreciation rights. Exercise of the stock appreciation rights does not give rise to any entitlement to the delivery of Hannover Re stock, but merely to payment of a cash amount linked to the performance of the Hannover Re share. Recognition of transactions involving stock appreciation rights with cash settlement is governed by the requirements of IFRS 2 "Share-based Payment".

Stock appreciation rights were first granted for the 2000 financial year and are awarded separately for each subsequent financial year (allocation year), provided the performance criteria defined in the Conditions for the Granting of Stock Appreciation Rights are satisfied.

The internal performance criterion is achievement of the target performance defined by the Supervisory Board, which is expressed in terms of the diluted earnings per share (EPS) calculated in accordance with IAS 33 “Earnings per Share”. If the target EPS is surpassed or undershot, the provisional basic number of stock appreciation rights initially granted is increased or reduced accordingly to produce the EPS basic number. The external performance criterion is the development of the share price in the allocation year. The benchmark used in this regard is the (weighted) ABN Amro Rothschild Global Reinsurance Index. This index encompasses the performance of listed reinsurers worldwide. Depending upon the outperformance or underperformance of this index, the EPS basic number is increased – albeit by at most 400% of the EPS basic number – or reduced – although by no more than 50% of the EPS basic number.

The maximum period of the stock appreciation rights is ten years, commencing at the end of the year in which they are awarded. Stock appreciation rights which are not exercised by the end of the 10-year period lapse. Stock appreciation rights may only be exercised after a waiting period and then only within four exercise periods each year. For 40% of the stock appreciation rights (first tranche of each allocation year) the waiting period is two years, for each additional 20% (tranches two to four of each allocation year) of the stock appreciation rights the waiting period is extended by one year. Each exercise period lasts for ten trading days, in each case commencing on the sixth trading day after the date of publication of the quarterly report of Hannover Rückversicherung AG.

Upon exercise of a stock appreciation right the amount paid out to the entitled party is the difference between the basic price and the current market price of the Hannover Re share at the time of exercise. In this context, the basic price corresponds to the arithmetical mean of the closing prices of the Hannover Re share on all trading days of the first full calendar month of the allocation year in question. The current market price of the Hannover Re share at the time when stock appreciation rights are exercised is determined by the arithmetical mean of the closing prices of the Hannover Re share on the last twenty trading days prior to the first day of the relevant exercise period.

The amount paid out is limited to a maximum calculated as a quotient of the total volume of compensation to be granted in the allocation year and the total number of stock appreciation rights awarded in the year in question.

In the event of cancellation of the employment relationship or termination of the employment relationship as a consequence of a termination agreement or a set time limit, a holder of stock appreciation rights is entitled to exercise all such rights in the first exercise period thereafter. Stock appreciation rights not exercised in this period and those in respect of which the waiting period has not yet expired shall lapse. Retirement, disability or death of the member of management shall not be deemed to be termination of the employment relationship for the purpose of exercising stock appreciation rights.

The allocations for the years 2000, 2002 to 2004, 2006 and 2007 gave rise to the following commitments in the 2008 financial year. No allocations were made for 2001 or 2005.

	Allocation year					
Stock appreciation rights of Hannover Re	**2007**	**2006**	**2004**	**2003**	**2002**	**2000**
Award date	28.03.2008	13.03.2007	24.03.2005	25.03.2004	11.04.2003	21.06.2001
Period	10 years	10 years	10 years	10 years	10 years	10 years
Waiting period	2 years	2 years	2 years	2 years	2 years	2 years
Basic price (in EUR)	34.97	30.89	27.49	24.00	23.74	25.50
Participants in year of issue	110	106	109	110	113	95
Number of rights granted	926,565	817,788	211,171	904,234	710,429	1,138,005
Fair value at 31.12.2008 (in EUR)	2.45	2.86	4.48	3.62	3.43	1.73
Maximum value (in EUR)	10.79	10.32	24.62	8.99	8.79	5.49
Number of rights existing at 31.12.2008	926,565	805,931	161,146	135,159	10,607	8,028
Provisions at 31.12.2008 (in EUR million)	0.79	1.63	0.69	0.50	0.04	0.01
Amounts paid out in the 2008 financial year (in EUR million)	—	—	0.01	1.06	0.82	—
Expense in the 2008 financial year (in EUR million)	0.79	–0.06	–0.77	–0.13	0.04	–0.03 [1)]

1) Participants did not exercise all stock appreciation rights although the maximum amount was reached

In the 2008 financial year the waiting period expired for 100% of the stock appreciation rights awarded in 2000 and 2002, 80% of those awarded in 2003 and 60% of those awarded in 2004. 93,747 stock appreciation rights from the 2002 allocation year, 121,117 stock appreciation rights from the 2003 allocation year and 1,699 stock appreciation rights from the 2004 allocation year were exercised. The total amounts paid out stood at EUR 1.89 million.

The stock appreciation rights of Hannover Re have developed as follows:

Development of the stock appreciation rights of Hannover Re	Allocation year 2007	2006	2004	2003	2002	2000
Granted in 2001	—	—	—	—	—	1,138,005
Exercised in 2001	—	—	—	—	—	—
Lapsed in 2001	—	—	—	—	—	—
Number of options at 31.12.2001	**—**	**—**	**—**	**—**	**—**	**1,138,005**
Granted in 2002	—	—	—	—	—	—
Exercised in 2002	—	—	—	—	—	—
Lapsed in 2002	—	—	—	—	—	40,770
Number of options at 31.12.2002	**—**	**—**	**—**	**—**	**—**	**1,097,235**
Granted in 2003	—	—	—	—	710,429	—
Exercised in 2003	—	—	—	—	—	—
Lapsed in 2003	—	—	—	—	23,765	110,400
Number of options at 31.12.2003	**—**	**—**	**—**	**—**	**686,664**	**986,835**
Granted in 2004	—	—	—	904,234	—	—
Exercised in 2004	—	—	—	—	—	80,137
Lapsed in 2004	—	—	—	59,961	59,836	57,516
Number of options at 31.12.2004	**—**	**—**	**—**	**844,273**	**626,828**	**849,182**
Granted in 2005	—	—	211,171	—	—	—
Exercised in 2005	—	—	—	—	193,572	647,081
Lapsed in 2005	—	—	6,397	59,834	23,421	25,974
Number of options at 31.12.2005	**—**	**—**	**204,774**	**784,439**	**409,835**	**176,127**
Granted in 2006	—	—	—	—	—	—
Exercised in 2006	—	—	—	278,257	160,824	153,879
Lapsed in 2006	—	—	14,511	53,578	22,896	10,467
Number of options at 31.12.2006	**—**	**—**	**190,263**	**452,604**	**226,115**	**11,781**
Granted in 2007	—	817,788	—	—	—	—
Exercised in 2007	—	—	12,956	155,840	110,426	3,753
Lapsed in 2007	—	8,754	13,019	38,326	10,391	—
Number of options at 31.12.2007	**—**	**809,034**	**164,288**	**258,438**	**105,298**	**8,028**
Granted in 2008	926,565	—	—	—	—	—
Exercised in 2008	—	—	1,699	121,117	93,747	—
Lapsed in 2008	—	3,103	1,443	2,162	944	—
Number of options at 31.12.2008	**926,565**	**805,931**	**161,146**	**135,159**	**10,607**	**8,028**
Exercisable at 31.12.2008	—	—	93,991	10,574	10,607	8,028

The existing stock appreciation rights are valued on the basis of the Black/Scholes option pricing model.

The calculations were based on the price of the Hannover Re share of EUR 21.91 as at 19 December 2008, expected volatility of 34.54% (historical volatility on a five-year basis), a dividend yield of 0.00% and risk-free interest rates of 1.96% for the 2000 allocation year, 2.37% for the 2002 allocation year, 2.56% for the 2003 allocation year, 2.74% for the 2004 allocation year, 3.06% for the 2006 allocation year and 3.20% for the 2007 allocation year.

The average fair value of each stock appreciation right was EUR 1.73 for the 2000 allocation year, EUR 3.43 for the 2002 allocation year, EUR 3.62 for the 2003 allocation year, EUR 4.48 for the 2004 allocation year, EUR 2.86 for the 2006 allocation year and EUR 2.45 for the 2007 allocation year.

On this basis the aggregate provisions for the year under review amounted to EUR 3.7 (5.7) million.

Mortgages and loans

Employees who are not members of the Board of Management or Supervisory Board were granted mortgages and mortgage loans to finance residential property. These loans are all secured by a first charge on property. Bad debt losses did not exist and are not anticipated.

Contingent liabilities and other financial commitments

Hannover Re has secured by subordinated guarantee a subordinated debt in the amount of USD 400 million issued in the 1999 financial year by Hannover Finance, Inc., Wilmington (USA). In February 2004 and May 2005 Hannover Re bought back portions of the subordinated debt in an amount of altogether USD 380 million, leaving USD 20 million still secured by the guarantee. Effective 4 June 2007, the date of payment, the issuer repurchased the debt in an amount of USD 380 million from Hannover Re for the purpose of cancellation. This portion of the debt was cancelled as at 17 July 2007 and has not been traded on the capital market since that date. The remaining portions of the debt totaling USD 20 million are held by investors outside the Group.

Hannover Re has placed three subordinated debts on the European capital markets through its subsidiary Hannover Finance (Luxembourg) S.A. Hannover Re has secured by subordinated guarantee both the debt issued in 2001, the volume of which now stands at EUR 138 million, and the debts from financial years 2004 and 2005 in amounts of EUR 750 million and EUR 500 million respectively.

The guarantees given by Hannover Re for the subordinated debts attach if the issuer in question fails to render payments due under the bonds. The guarantees cover the relevant bond volumes as well as interest due until the repayment dates. Given the fact that interest on the bonds is partly dependent on the capital market rates applicable at the interest payment dates (floating rates), the maximum undiscounted amounts that can be called cannot be estimated with sufficient accuracy. Hannover Re does not have any rights of recourse outside the Group with respect to the guarantee payments.

As security for technical liabilities to US clients, Hannover Re has established a master trust in the United States. As at the balance sheet date this master trust amounted to EUR 2,353 (2,088) million. The securities held in the master trust are shown as available-for-sale investments. In addition, Hannover Re extended further collateral to its cedants in an amount of EUR 269 (329) million through so-called "single trust funds". HDI-Gerling Industrie Versicherung AG has blocked holdings of EUR 47 (72) million. The securities held in the master trust are shown as available-for-sale investments.

As part of its business activities Hannover Re holds collateral available outside the United States in various blocked custody accounts and trust accounts, the total amount of which in relation to the major companies of the Hannover Re Group was EUR 1,389 (1,235) million as at the balance sheet date.

Outstanding capital commitments with respect to certain special investments exist in the amount of EUR 319 (270) million. The commitments exist at various Group companies. They primarily involve private equity funds and venture capital firms in the form of private limited companies.

As security for technical liabilities, various financial institutions have furnished sureties for us in the form of letters of credit. The total amount of the letters of credit was EUR 2,827 million as at the balance sheet date.

For liabilities in connection with participating interests in real estate companies and real estate transactions Hannover Re Real Estate Holdings has furnished the usual collateral under such transactions to various banks, the amount of which totaled EUR 85 million as at the balance sheet date.

Within the scope of a novation agreement regarding a life insurance contract Hannover Re assumed contingent reinsurance commitments with respect to due date and amount. Hannover Re decided to exercise its right of novation early and assume the contract as at 31 December 2008. The payment of EUR 28 million due as a consequence of exercise of the right of novation encompasses both the repurchase of the estimated reinsurance commitment amounting to EUR 10 million and EUR 18 million in expected discounted repayments plus interest for the years 2009 to 2011.

At some Group companies potential financial obligations relating to investments existed at the end of the financial year in the amount of altogether EUR 592 million in connection with structured securities through issuers' rights to take delivery. The potential amounts that could be drawn upon totaled EUR 168 million for 2009, EUR 257 million for 2010, EUR 157 million for 2011 and EUR 10 million for 2012.

In addition, other financial commitments existed as at 31 December 2008 for investment volumes taken up but not yet paid out in an amount of EUR 365 million. Building loans to policyholders that had been awarded but not yet disbursed totaled EUR 59 million.

Commitments for contractually agreed future services in connection with an IT outsourcing contract amounted to altogether EUR 177 (234) million as at 31 December 2008.

As guarantor institutions for Gerling Versorgungskasse VVaG, various Group companies are liable pro rata for any deficits that may be incurred by Gerling Versorgungskasse.

Assets of Group companies totaling EUR 47 million have been assigned as security or encumbered with charges over property.

The Group's life insurance companies are members of the Security Fund for Life Insurers pursuant to §§ 124 ff. Insurance Supervision Act (VAG). On the basis of the Security Fund Financing Ordinance (Life), the Security Fund collects annual contributions of at most 0.2 per mille of the total net technical provisions until security funds of 1 per mille of the total net technical provisions have been accumulated. In addition, the Security Fund may collect special contributions in an amount of a further 1 per mille of the total net technical provisions. Furthermore, the companies have undertaken to make financial resources available to the Security Fund or alternatively to Protektor Lebensversicherung AG, Berlin, insofar as the resources of the Security Fund are not sufficient if a company has to be rehabilitated. The commitment amounts to 1% of the total net technical provisions (German Commercial Code) after allowance for the contributions already made to the Security Fund at this point in time. When the aforementioned payment commitments from the contributions payable to the Security Fund are taken into account, the total commitment of the companies stands at EUR 348 million.

Group companies of the Talanx Group are participating in a counter-guarantee given by the insurance industry for the guarantee put up by the Federal Republic of Germany as part of a rescue package for Hypo Real Estate Holding AG, Munich, and its subsidiaries (HRE Group). In this connection the Federal Republic of Germany guarantees repayment of capital and interest to the German Bundesbank, which has extended a loan to the HRE Group, as well as to the holders of debentures, through the issue of which further funds have been made available to the HRE Group. With an eye to its interest in stabilizing HRE and the German financial system, the insurance industry, among others, is participating in the sum guaranteed by the federal government under the leadership of the German Insurance Association (GDV) and with extensive involvement of the Federal Financial Supervisory Authority (BaFin) through the aforementioned counter-guarantee to the tune of EUR 1.4 billion. The share of the Talanx Group companies is limited to a capital sum of EUR 108 million.

Several Group companies are members of the association for the reinsurance of pharmaceutical risks, the association for the insurance of German nuclear reactors and the traffic accident pool Verkehrsopferhilfe e.V. In the event of one of the other pool members failing to meets its liabilities, an obligation exists to take over such other member's share within the framework of the quota participation.

Rents and leasing

Summary of rental and leasing commitments in future years

	2009	2010	2011	2012	2013	Subsequent years
Figures in EUR million						
	29	18	15	13	11	15

Rental and leasing contracts produced expenditures of EUR 27 million in the 2008 financial year. Subsidiaries of Hannover Re in Africa have concluded multi-year lease contracts. Further commitments refer to lease contracts entered into by primary insurance companies in Germany.

Remuneration of the management boards of the parent company

Total remuneration of EUR 9,377 (5,507) thousand was paid to the Board of Management, including an amount of EUR 933 (77) thousand relating to the previous year.

The total remuneration paid to the Supervisory Board amounted to EUR 888 (890) thousand.

Former members of the Board of Management and their surviving dependants received total remuneration of EUR 244 (39) thousand. An amount of EUR 1,692 (566) thousand was set aside to cover projected benefit obligations due to former members of the Board of Management and their surviving dependants.

No advances or loans were extended to members of the management boards in the year under review.

IAS 24 provides for detailed presentation of the remuneration components received by members of Management in key positions. Specifically, this group of persons encompasses the members of the Board of Management and Supervisory Board of Talanx AG. The aforementioned group of persons received the following remuneration components:

	2008	2007
Figures in EUR thousand		
Salaries and other remuneration due in the short term	10,265	6,397
Expenses for retirement provision	–93	285
Granting of equities and other equity-based remuneration	117	115
Total	**10,289**	**6,798**

Fee paid to the auditor

In the 2008 financial year fees of EUR 7.4 (8.9) million were paid to the appointed auditor of the consolidated financial statement as defined by § 318 German Commercial Code (HGB). The amount includes a fee of EUR 5.7 (6.3) million for the auditing of the financial statement, EUR 0.1 (0.1) million for other appraisals and valuations, EUR 0.1 (0.2) million for tax consultancy services and EUR 1.5 (2.3) million for consultancy and other services performed for the parent or subsidiary companies.

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

On 5 November 2008 the Executive Board and Supervisory Board of our listed subsidiary Hannover Rückversicherung AG (Hannover Re) submitted the declaration of conformity regarding the recommendations made by the Government Commission on the German Corporate Governance Code that is required pursuant to § 161 German Stock Corporation Act (AktG) and made this declaration available to the shareholders by publishing it in its annual report.

Events after the balance sheet date

In January 2009 our subsidiary Hannover Re reached agreement with Scottish Re Group Limited on the acquisition of a large individual life portfolio under a reinsurance and asset purchase transaction. In addition to assuming the reinsurance portfolio, Hannover Re is acquiring from Scottish Re significant parts of the infrastructure for the life reinsurance business in North America and a portion of the workforce. In 2009 this business is estimated to generate a premium volume of around USD 1.2 billion. Hannover Re does not require any additional capital for the transaction, which was closed in February 2009.

Winter storm "Klaus", which moved across France and Spain at the end of January, caused losses and damage well in excess of EUR 1 billion. Through our insurance and reinsurance activities in this region we were impacted by this major loss event, which is expected to produce a net burden of losses appreciably lower than EUR 100 million.

As part of its growth strategy on the Latin American insurance market our subsidiary HDI-Gerling International Holding AG has announced the acquisition of Genworth Seguros México, S.A. de C.V. It encompasses the following lines of business: motor, property and liability insurance as well as life and personal accident insurance, with policies being sold through independent, self-employed insurance agents. The acquisition is expected to be completed in the second half of 2009.

In March 2009 Talanx reached agreement with Swiss Life on a strategic partnership. Talanx is to acquire a permanent equity stake of up to 9.9% in Swiss Life in order to reinforce the cooperation. The companies will cooperate, inter alia, in the area of AWD sales, in international business involving life insurance solutions, in life reinsurance, in subsectors relating to the administration and settlement of selected products and in the reciprocal use of public funds. By way of this cooperation Talanx is seeking to further bolster its market position in domestic and foreign private customer business and to extend the already existing business relationships with AWD. What is more, the Talanx Group has since acquired an additional interest of 8.4% in MLP from Swiss Life.

On 31 March 2009 our Spanish subsidiary HDI International (España) Cía de Seguros y Reaseguros S.A. (HDI-E) reached an agreement with the Barcelona-based Spanish insurer UNIVERSAL ASISTENCIA DE SEGUROS Y REASEGUROS S.A. (UAS) for the purpose of transferring the private insurance portfolio of HDI-E to UAS effective 1 April 2009. Completion of the portfolio transfer is subject to approval by the Spanish insurance regulator. The transaction is expected to be closed prior to 1 July 2009.

Hannover, 18 May 2009

Board of Management

Haas	Dr. Hinsch	Kox	Dr. Löffler
Dr. Noth	Dr. Querner	Wallin	

Auditors' report

We have audited the consolidated financial statements prepared by Talanx Aktiengesellschaft, Hannover, comprising the balance sheet, income statement, statement of changes in equity, cash flow statement and notes to the consolidated financial statements, together with the group management report for the business year from 1 January to 31 December 2008. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315 a Para 1 HGB and supplementary provisions of the Articles of Incorporation are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315 a Para. 1 HGB and the supplementary provisions of the Articles of Incorporation and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and appropriately presents the opportunities and risks of future development.

Hannover, 25 May 2009

KPMG AG
Wirtschaftsprüfungsgesellschaft

(formerly: KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft)

Dr. Ellenbürger	Husch
(German Public Auditor)	(German Public Auditor)

Our locations

Australia

Hannover Life Re of Australasia Ltd
Level 7
70 Phillip Street
Sydney NSW 2000
Telephone +61 2 9251-6911
Fax +61 2 9251-6862

Hannover Rückversicherung AG
Australian Branch – Chief Agency
The Re Centre, Level 21
Australia Square
264 George Street
Sydney NSW 2000
Telephone +61 2 9274-3000
Fax +61 2 9274-3033

HDI-Gerling Australia Insurance
Company Pty Limited
44 Pitt Street, Level 4
Sydney NSW 2000
Telephone +61 2 8274-4200
Fax +61 2 9247-1711

Austria

- Aspecta Lebensversicherung AG
- HDI-Gerling Financial Services GmbH

Galaxy 21
Praterstr. 31
1020 Vienna
Telephone +43 120 709-0
Fax +43 120 709-900

HDI Versicherung AG
Edelsinnstr. 7–11
1120 Vienna
Telephone +43 50 905-5010
Fax +43 50 905-5020

Bahrain

- Hannover ReTakaful B.S.C. (c)
- Hannover Rückversicherung AG

Bahrain Branch
Al Zamil Tower
17th floor
Government Avenue
Manama Center 305
Manama
Telephone +973 17 214-766
Fax +973 17 214-667

Belgium

HDI-Gerling Verzekeringen N.V./
HDI-Gerling Assurances S.A.
Avenue de Tervuren 273
1150 Brussels
Telephone +32 2 7766711
Fax +32 2 77625463

Bermuda

Hannover Life Re (Bermuda) Ltd.
Victoria Place, 2nd floor,
31 Victoria Street
Hamilton, HM 10
Telephone +1 441 532-6032
Fax +1 441 293-1402

Hannover Re (Bermuda) Ltd.
Victoria Place, 2nd floor,
31 Victoria Street
Hamilton, HM 10
Telephone +1 441 29431-10/11
Fax +1 441 296-7568

Brazil

Hannover Re Escritório de
Representação no Brasil Ltda.
Praça Floriano, 19/1701
CEP 20 031 050
Rio de Janeiro
Telephone +55 21 2217 9500
Fax +55 21 2217 9545

HDI Seguros S.A.
Avenida Eng. Luís Carlos Berrini
901–5° andar
04571-010-São Paulo-SP
Telephone +55 11 5508 1301
Fax +55 11 5505 1511

Bulgaria

HDI ZAD
G.S. Rakovski No 99
1000 Sofia
Telephone +359 2 930-9050
Fax +359 2 987-9167

Canada

Hannover Rückversicherung AG
Canadian Branch – Chief Agency
3650 Victoria Park Avenue, Suite 201
Toronto, Ontario M2H 3P7
Telephone +1 416 496-1148
Fax +1 416 496-1089

Hannover Rückversicherung AG
Canadian Branch – Facultative Office
150 York Street, Suite 1008
Toronto, Ontario M5H 3S5
Telephone +1 416 867-9712
Fax +1 416 867-9728

Chile

HDI Seguros S.A.
Encomenderos N° 113-Piso 10
Las Condes/Santiago
Telephone +562 422 9100
Fax +562 422 9400

China

Hannover Rückversicherung AG
Hong Kong Branch
2008 Sun Hung Kai Centre
30 Harbour Road
Wanchai, Hong Kong
Telephone +852 25 193208
Fax +852 25 881136

Hannover Rückversicherung AG
Shanghai Branch
Suite 1708, United Plaza
1468 Nan Jing Xi Lu
200040 Shanghai
Telephone +86 21 6289-5959
Fax +86 21 6289-8766

Hannover Rückversicherung AG
Shanghai Representative Office
Suite 1707, United Plaza
1468 Nan Jing Xi Lu
200040 Shanghai
Telephone +86 21 6289-9578
Fax +86 21 6289-9579

HDI-Gerling Industrie Versicherung AG
Hong Kong Branch
Room 5202, Central Plaza
18 Harbour Road
Wanchai, Hong Kong
Telephone +852 2598-8338
Fax +852 2598-8839

Colombia

Hannover Rückversicherung AG
Bogotá Representative Office
Calle 98 No. 21–50
Office Number 901
Centro Empresarial 98
Bogotá
Telephone +57 1 6420-066
Fax +57 1 6420-273

Czech Republic

HDI Versicherung AG
Czech Branch
Jugoslávská 620/29
120 00 Praha 2
Telephone +420 2 2019 0210
Fax +420 2 2019 0298

Denmark

HDI-Gerling Industrie Versicherung AG
Denmark Branch
Rådhuspladsen 4
1550 Kopenhagen V
Telephone +45 3391-2828
Fax +45 3391-0914

France

Hannover Rückversicherung AG
Succursale Française
(Visitors: 52 avenue de Champs Elysées)
109 rue de la Boétie
75008 Paris
Telephone +33 1 4561 73-40
Fax +33 1 4561 73-60

HDI-Gerling Industrie Versicherung AG
French Branch
Tour Opus 12 – La Défence 9
77 Esplanade de Générale de Gaulle
92914 Paris La Défense
Telephone +33 1 440 556-00
Fax +33 1 440 556-95

Germany

- AmpegaGerling Asset Management GmbH
- AmpegaGerling Immobilien Management GmbH
- AmpegaGerling Investment GmbH

Hohenzollernring 72
50672 Cologne
Telephone +49 221 790799-0
Fax +49 221 790799-999

Aspecta Lebensversicherung AG
Gereonshof
50670 Cologne
Telephone +49 221 144-66000
Fax +49 221 144-6066000

CiV Versicherungen
Proactiv-Platz 1
40721 Hilden
Telephone +49 2103 34-7100
Fax +49 2103 34-7109

E+S Rückversicherung AG
Karl-Wiechert-Allee 50
30625 Hannover
Telephone +49 511 5604-0
Fax +49 511 5604-1188

Hannover Rückversicherung AG
Karl-Wiechert-Allee 50
30625 Hannover
Telephone +49 511 5604-0
Fax +49 511 5604-1188

- HDI Direkt Versicherung AG
- HDI-Gerling Firmen und Privat Versicherung AG
- HDI-Gerling Industrie Versicherung AG

Riethorst 2
30659 Hannover
Telephone +49 511 645-0
Fax +49 511 645-4545

HDI-Gerling Autohaus Service GmbH
Riethorst 2
30659 Hannover
Telephone +49 180 2000 942
Fax +49 180 2000 943

HDI-Gerling International Holding AG
Riethorst 2
30659 Hannover
Telephone +49 511 645-3839
Fax +49 511 645-3860

- HDI-Gerling Lebensversicherung AG
- HDI-Gerling Pensionskasse AG

Gereonshof
50670 Cologne
Telephone +49 221 144-0
Fax +49 221 144-3833

HDI-Gerling Pensionsmanagement AG
Hohenzollernring 72
50672 Cologne
Telephone +49 221 144-69200
Fax +49 221 144-6069200

HDI-Gerling Rechtsschutz Versicherung AG
Günther-Wagner-Allee 14
30177 Hannover
Telephone +49 511 3902-0
Fax +49 511 3902-379

HDI-Gerling Sicherheitstechnik GmbH
Riethorst 2
30659 Hannover
Telephone +49 511 645-4338
Fax +49 511 645-4545

HDI Informationssysteme Gesellschaft für Anwendungsentwicklung mbH
Walderseestr. 11
30177 Hannover
Telephone +49 511 3975-0
Fax +49 511 3975-250

- Neue Leben Holding AG
- Neue Leben Lebensversicherung AG
- Neue Leben Unfallversicherung AG

Sachsenkamp 5
20097 Hamburg
Telephone +49 40 23891-0
Fax +49 40 23891-333

Partner Office AG
Gereonshof
50670 Cologne
Telephone +49 221 144-4331
Fax +49 221 144-4332

PB Versicherungen
Proactiv-Platz 1
40721 Hilden
Telephone +49 2103 34-5100
Fax +49 2103 34-5109

Protection Reinsurance Intermediaries AG
Karl-Wiechert-Allee 57
30625 Hannover
Telephone +49 511 54223-0
Fax +49 511 54223-200

Talanx AG
Riethorst 2
30659 Hannover
Telephone +49 511 3747-0
Fax +49 511 3747-2525

Greece

HDI-Gerling Industrie Versicherung AG
Hellas Branch
11 Omirou & 1 Vissarionos Street
10672 Athens
Telephone +30 210 7259-181
Fax +30 210 7259-177

Hungary

HDI Versicherung AG
Hungary Branch
Bathyany u. 65
1118 Budapest
Telephone +36 1 2482-824
Fax +36 1 2482-829

- Magyar Posta Életbiztosító Zrt.
- Magyar Posta Biztosító Zrt.

Bégutca 3-5
1022 Budapest
Telephone +36 1 4234-200
Fax +36 1 4234-210

India

Hannover Re
Consulting Services India Private Limited
Executive Centre
Level 2, Kalpataru Synergy
Opposite Grand Hyatt
Santacruz (East)
Mumbai 400055
Telephone +91 22 3953-7150
Fax +91 22 3953-7200

Ireland

Hannover Life Reassurance (Ireland) Limited
No. 4 Custom House Plaza, IFSC
Dublin 1
Telephone +353 1 612-5718
Fax +353 1 673-6917

Hannover Reinsurance (Ireland) Ltd.
No. 2 Custom House Plaza, IFSC
Dublin 1
Telephone +353 1 612-5715
Fax +353 1 829-1400

Italy

Aspecta Assurance International
Luxembourg S.A.
Piazza della Repubblica 32
20124 Milan
Telephone +39 02 36 569 250
Fax +39 02 36 569 264

Hannover Re Services Italy S.r.l.
Via Mazzini, 12
20123 Milan
Telephone +39 02 806813-11
Fax +39 02 806813-49

HDI Assicurazioni S.p.A.
Via Abruzzi 10 b
00187 Rome
Telephone +39 06 42103601
Fax +39 06 42103-500

HDI-Gerling Industrie Versicherung AG
Rappresentanza Generale per l'Italia
Via Pavia 6
20136 Milan
Telephone +39 02 83113-400
Fax +39 02 83113-202

Japan

Hannover Re Services Japan KK
7th floor, Hakuyo Building
3–10 Nibancho Chiyoda-ku
Tokyo 102-0084
Telephone +81 3 5214-1101
Fax +81 3 5214-1105

HDI-Gerling Industrie Versicherung AG
Japan Branch
Sanbancho KS Building 7F
2 Banchi, Sanbancho Chiyoda-ku
Tokyo 102-0075
Telephone +81 3 5214-1361
Fax +81 3 5214-1365

Korea

Hannover Rückversicherung AG
Korea Branch
Room 414, 4th floor
Gwanghwamoon Officia B/D
163, Shinmunro-1ga, Jongro-gu
Seoul 110-999
Telephone +82 2 3700-0600
Fax +82 2 3700-0699

Liechtenstein

Aspecta Assurance International AG
Landstrasse 124/PF 101
9490 Vaduz
Telephone +42 3239-3030
Fax +42 3239-3033

Luxembourg

Aspecta Assurance International
Luxembourg S.A.
Goldbell 1/5
5, Rue Eugène Ruppert
2453 Luxembourg
Telephone +35 226-4981
Fax +35 226-498200

Euro International Reinsurance S.A.
43, Boulevard du Prince Henri
1724 Luxembourg
Telephone +35 224-1842
Fax +35 224-1853

Talanx Finanz (Luxemburg) S.A.
43, Boulevard du Prince Henri
1724 Luxembourg
Telephone +35 224-1842
Fax +35 224-1853

Malaysia

Hannover Rückversicherung AG
Malaysian Branch
Suite 31–1, 31st floor
Wisma UOA II
No. 21 Jalan Pinang
50450 Kuala Lumpur
Telephone +60 3 21645122
Fax +60 3 21646129

Mexico

Hannover Services (México) S.A. de C.V.
German Centre, Oficina 4-4-28
Av. Santa Fé No. 170
Col. Lomas de Santa Fé
C.P. 01210 Mexico City, D.F.
Telephone +52 55 91400-800
Fax +52 55 91400-815

HDI-Gerling de México Seguros S.A.
Av. Paseo de las Palmas N. 239–104
Col. Lomas de Chapultepec
11000 Mexico City, D.F.
Telephone +52 55 5202-7534
Fax +52 55 5202-9679

Netherlands

HDI-Gerling Verzekeringen N.V.
Westblaak 14
3012 KL Rotterdam
Telephone +31 10 403-6100
Fax +31 10 403-6275

Norway

HDI-Gerling Industrie Versicherung AG
Norwegian Branch
C.J. Hambros plass 2D
0164 Oslo
Telephone +47 232 136-50
Fax +47 232 136-51

Poland

HDI Asekuracja TU S.A.
ul. Plocka 11/13
01-231 Warsaw
Telephone +48 22 534-4000
Fax +48 22 534-4001

- HDI-Gerling Polska TU S.A.
- HDI-Gerling Życie TU S.A.

ul. Hrubieszowska 2
01-209 Warsaw
Telephone +48 22 537-2000
Fax +48 22 537-2001

Russia

OOO Strakhovaya Kompaniya "CiV Life"
30/1 Obrucheva street
Moscow, 117485
Telephone +7 495 967 9 257
Fax +7 495 967 9260

Slovak Republic

HDI Versicherung AG
Slovakia Branch
Štúrova 11
811 02 Bratislava
Telephone +421 2 5 710 8611
Fax +421 2 5 710 8618

South Africa

Compass Insurance Company Limited
P.O. Box 37226
Birnam Park 2015
Johannesburg
Telephone +27 11 745-8333
Fax +27 11 745-8344

- Hannover Life Reassurance Africa Limited
- Hannover Reinsurance Africa Ltd.

P.O. Box 10842
Johannesburg 2000
Telephone +27 11 4816-500
Fax +27 11 48433-30 or -32

HDI-Gerling Insurance of South Africa Ltd.
P. O. Box
Saxonworld
2132 South Africa
Telephone +27 11 340-0100
Fax +27 11 447-4981

Spain

Aspecta Assurance International
Luxembourg S.A.
Spain Branch
c/Emilio Vargas, 1–2°
Edificio Fiteni II
28043 Madrid
Telephone +34 91 7441-280
Fax +34 91 4162-457

HDI Hannover International España
Cía de Seguros y Reaseguros S.A.
c/Luchana, 23–6°
28010 Madrid
Telephone +34 91 444-2000
Fax +34 91 444-2019

HDI Hannover International España
Cía de Seguros y Reaseguros S.A.
c/Rosellón, 216–11°
08008 Barcelona
Telephone +34 93 272-0575
Fax +34 93 487-4371

HR Hannover Re
Correduría de Reaseguros, S.A.
Paseo del General Martínez Campos, 46
28010 Madrid
Telephone +34 91 319-0049
Fax +34 91 319-9378

Sweden

- Hannover Rückversicherung AG, Tyskland filial
- International Insurance Company of Hannover Ltd., England filial

Hantverkargatan 25
P.O. Box 22085
10422 Stockholm
Telephone +46 8 6175-400
Fax +46 8 6175-599 or -590

Switzerland

HDI-Gerling Industrie Versicherung AG
Swiss Branch
Dufourstraße 46/48
8008 Zurich
Telephone +41 44 265-4747
Fax +41 44 265-4748

Taiwan

Hannover Rückversicherung AG
Taipei Representative Office
8F No. 122, Tun Hwa North Road
Taipeh 105, Taiwan
Telephone +886 2 8770-7792
Fax +886 2 8770-7735

Turkey

CiV Hayat Sigorta A.Ş.
İnkılap Mah. Ö. Faik Atakan Caddesi
Yılmaz Plaza No: 3
34768 Ümraniye, İstanbul
Telephone +90 216 633-1700
Fax +90 216 633-1709

HDI Sigorta A.Ş.
Büyükdere Caddesi
C.E.M. Iş Merkezi No: 23 Kat: 7-8-9
34361 Şişli/Istanbul
Telephone +90 212 368-6000
Fax +90 212 368-6010

Ukraine

HDI Strakhuvannya
102, Chervonoarmiyska Str.
Kiev, 03150
Telephone +38 44 247 4477
Fax +38 44 529 83 42

United Kingdom

- Hannover Life Reassurance (UK) Limited
- Hannover Services (UK) Ltd.

Hannover House
Virginia Water
Surrey GU25 4AA
Telephone +44 1344 845-282
Fax +44 1344 845-383

HDI-Gerling Industrial Insurance Company
UK Branch
1 Great Tower Street
London EC3R 5AA
Telephone +44 20 7696-8099
Fax +44 20 7696-8444

International Insurance Company of
Hannover Ltd.
1st floor
L' Avenir, Opladen Way
Bracknell
Berkshire RG12 0PE
Telephone +44 1344 3976-00
Fax +44 1344 3976-01

London office:
4th floor
60 Fenchurch Street
London EC3M 4AD
Telephone +44 20 748-07300
Fax +44 20 748-13845

USA

Clarendon Insurance Group, Inc.
Suite 1900
466 Lexington Avenue
New York, NY 10017
Telephone +1 212 790-9700
Fax +1 212 790-9801

Hannover Life Reassurance Company
of America
800 N. Magnolia Avenue, Suite 1400
Orlando, FL 32803-3268
Telephone +1 407 649-8411
Fax +1 407 649-8322

Hannover Re Services USA, Inc.
500 Park Blvd., Suite 1360
Itasca, IL 60143
Telephone +1 630 250-5517
Fax +1 630 250-5583

HDI-Gerling America Insurance Company
150 North Wacker Drive, 29th floor
Chicago, IL 60606
Telephone +1 312 580-1900
Fax +1 312 580-0700

Glossary. A–C

Accumulation risk
Underwriting risk that a single trigger event (e.g. an earthquake or hurricane) can lead to an accumulation of claims within a > portfolio.

Acquisition costs
Costs incurred by an insurance company when insurance policies are taken out or renewed (e.g. new business commission, costs of proposal assessment or underwriting).

Actuary
Mathematician who deals with questions relating to insurance, investments and retirement provision.

Administrative expenses
Costs of current administration connected with the production of insurance coverage.

Asset-backed securities – ABS
Financial securities (debt securities) collateralized by a portfolio of receivables.

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

Bancassurance
Partnership between a bank/postal service partner and an insurance company for the purpose of selling insurance products through the banking/postal service partner's branches.

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

Black/Scholes option pricing model
Analytical model used to calculate theoretical option prices. It makes allowance for the current price of the underlying stock, the risk-free interest rate, the remaining time until option expiration, the > volatility and possible dividend payments within the remaining period.

Book-yield note
Hedge instrument securitized in a security. It is used to hedge the reinvestment interest rate if the 5-year mean of the market rate reaches a previously defined level, and approximates the real income of the portfolio.

Capital, reserves and underwriting provisions
An insurer's shareholders' equity plus the provisions committed to underwriting business and the (claims) equalization reserve. Total maximum funds available to offset liabilities.

Cash flow statement
Statement on the origin and utilization of cash and cash equivalents during the accounting period. It shows the changes in liquid funds separated into cash flows from operating, investing and financing activities.

Catastrophe bond
Short: cat bond. Transfers catastrophe risks of a (re)insurer to the capital market.

Cedant (also: ceding company)
Primary insurer or reinsurer that passes on shares of its insured risks to a reinsurer in exchange for a premium.

Claims equalization reserve
> equalization reserve

Combined ratio
Sum total of > loss ratio and > expense ratio; ratio of net technical expenses including other technical income/expenses (net) and amortization of the shareholders' PVFP, but excluding any consolidation differences, to net premium earned. When calculating the adjusted combined ratio, the claims and claims expenses in the non-life reinsurance segment are adjusted so as to eliminate the effect of interest income on funds withheld and contract deposits.

Commission
Remuneration paid by a primary insurer to agents, brokers and other professional intermediaries.

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

Composite insurer
Insurance undertaking that transacts multiple lines of insurance.

Confidence level
Defines the probability with which a defined risk amount will not be exceeded.

Consolidation
In the context of a consolidated financial statement: combining of the individual financial statements of several companies belonging to one group into a consolidated financial statement.

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

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

D–L

Deferred taxes
Term denoting the difference between the taxes calculated on the profit reported in the commercial balance sheet and those carried in the tax balance sheet, which then evens out in subsequent months. Deferred taxes are recognized in order to offset this difference in those cases where it is evident that it will be eliminated over time.

Deposit accounting
An accounting method originating in US accounting principles for the recognition of short-term and multi-year insurance and reinsurance contracts with no significant underwriting risk transfer.

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

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

Duration
Ratio in investment mathematics that represents the average commitment period of the cash value of a financial instrument. The duration can thus also be considered a measure of the interest rate risk associated with a financial instrument.

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

Earnings retention
Non-distribution of a company's profits, leading to a different tax treatment than that applied to distributed profits.

EBIT
Earnings before interest and tax. > operating profit

Embedded value
Benchmark used to measure the performance of life insurance enterprises. It is composed of the sum total of free assets (net asset value) plus the present value of the projected stream of future after-tax profits on the in-force insurance portfolio.

Equalization reserve
Provision constituted to offset significant fluctuations in the loss experience of individual lines over a number of years.

Expense ratio
Administrative expenses for the insurance business in relation to the (gross or net) premiums earned.

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

Facultative reinsurance
Participation on the part of the reinsurer in a particular individual risk assumed by the primary insurer.

Fair value
Amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

Funds held by ceding companies/funds held under reinsurance treaties
Collateral provided to cover insurance liabilities which an insurer retains from the liquid funds which it is to pay to a reinsurer under a reinsurance treaty. In this case, the insurer shows funds held under a reinsurance treaty, while the reinsurer shows funds held by a ceding company.

Goodwill
The amount that a purchaser is prepared to pay – in light of future profit expectations – above and beyond the value of all tangible and intangible assets after deduction of liabilities.

Gross
In insurance: before deduction of reinsurance.

Hard market
Market phase during which premium levels are typically high. Opposite: > soft market.

Hedge funds
Funds that are subject to virtually no investment restrictions and are free to pursue a highly diverse range of investment strategies.

Hybrid capital
Capital in the form of subordinated debt and surplus debenture that exhibits a hybrid character of equity and debt.

IFRS
International Financial Reporting Standards; used by Talanx since 2004.

Impairment
Unscheduled write-down of an asset if the recoverable amount falls below the carrying amount.

Investment grade
Rating of BBB or better awarded to an enterprise on account of its low risk profile.

Issuer
Public entity or private enterprise that issues securities, e.g. the federal government in the case of German Treasury Bonds or a joint-stock corporation in the case of shares.

Leader
If several (re)insurers participate in a contract, one company assumes the role of leader and normally carries a higher percentage of the risk for own account. The policyholder deals exclusively with this company.

L–R

Letter of credit
Bank guarantee. In the United States, for example, a common way of furnishing collateral in reinsurance business.

Life/health insurance
Lines of business concerned with the insurance of persons, i.e. life, annuity, health and personal accident.

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

Loss ratio
Percentage ratio of claims expenditure to earned premiums, calculated gross or net.

Major claim (also: major loss)
Claim that reaches an exceptional amount compared to the average claim for the risk group in question and exceeds a defined claims amount.

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

Net
In insurance: used primarily to mean after deduction of reinsurance.

Obligatory reinsurance
Reinsurance treaty under which the reinsurer participates in a total, precisely defined insurance portfolio of a > cedant. Opposite: > facultative reinsurance.

Operating profit (EBIT)
Sum of the result of non-underwriting business and the underwriting result before the change (allocation or withdrawal) in the (claims) equalization reserve.

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

Personal lines
> Life/health insurance

Policyholders’ surplus
Total amount of shareholders’ equity excluding minority interests, which is comprised of the common shares, additional paid-in capital, retained earnings and cumulative other comprehensive income, as well as the minority interests in shareholders’ equity and so-called hybrid capital, as equity-replacing debt capital that encompasses the subordinated liabilities.

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

Premiums
Agreed compensation for the risks accepted by the insurer.

Present value of future profits
Intangible asset primarily arising from the purchase of life and health insurance companies or individual portfolios. The present value of expected future profits from the portfolio assumed is capitalized and amortized according to schedule.

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

Private equity
Investment capital raised by private investors in contrast to public equity, i.e. capital raised on the stock exchange.

Projected benefit obligation
The present value of the earned portion of commitments from a defined benefit obligation.

Property/casualty insurance
All insurance lines with the exception of life insurance and health insurance.

Protection cover
Protection of an insurance undertaking’s portfolio segments against catastrophe losses (per risk/per event).

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

Purchase cost, amortized
Cost of acquiring an asset item including all ancillary and incidental purchasing costs; in the case of wasting assets less scheduled and/or special amortization.

PVFP
> Present value of future profits

Rating
Systematic evaluation of companies by a rating agency or bank with respect to their > credit status.

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

Renewal
Contractual relationships between insurers and reinsurers are maintained over long periods of time. The treaty terms and conditions are normally modified annually in so-called renewal negotiations, and the treaties are renewed accordingly.

R–Z

Retail business
Business involving investment funds that are designed for private, non-institutional investors, although such funds are also open for investments of group companies.

Retention
The part of the accepted risks which an insurer/reinsurer does not reinsure, i.e. shows as > net. The larger the insured portfolio, the higher the retention can be.

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

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

Run-off
Fulfillment of liabilities for which reserves have been constituted.

Segment reporting
Presentation of asset and income data broken down into business segments and regions.

Shareholders' equity
Funds provided by the owners of an enterprise for its financing or left within the company as earned profit. The capital providers are entitled to a share of the profit, e.g. in the form of a dividend, in return for making the shareholders' equity available.

Soft capital
Capital components that are economically available but not yet recognized in the balance sheet: the loss reserve discount and the present value of future profits in life business that has not been capitalized, and on the company level the excess loss reserves.

Soft market
Market phase with oversupply of insurance, resulting in premiums that are not commensurate with the risk; this is in contrast to > hard market.

Solvency
Level of available unencumbered capital and reserves required to ensure that contracts can be fulfilled at all times.

Solvency II
Project of the European Commission to reform and harmonize European insurance regulations.

Specialty insurance
Specialty insurance refers to niche business such as special automobile covers, fine arts insurance etc.

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

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

Swaption
Option contract which enables the buyer to enter into an interest rate swap on or until a specific point in time in return for payment of a once-only premium. It facilitates hedging against rising interest rates without forfeiting the opportunity to obtain funding more reasonably if interest rates fall.

Technical result
Balance of income and expenditure allocated to the insurance business and recognized in the technical statement of income.

Underlying
Underlying instrument of a forward transaction, futures contract or option contract that serves as the basis for settlement and measurement of the contract.

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

Unearned premium reserve
Premiums written in a financial year which are to be allocated to the following period on an accrual basis.

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

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

Volatility
Degree of fluctuation in equity prices, exchange rates and interest rates, and also in insurance lines that can have a highly fluctuating claims experience.

Index of key terms

Contact information

Talanx AG
Riethorst 2
30659 Hannover
Germany
Telephone +49 511 3747-0
Fax +49 511 3747-2525
E-mail info@talanx.com
www.talanx.com

Financial Statements
Hartmut Fischer
Telephone +49 511 3747-2170
Fax +49 511 3747-2512
E-mail hartmut.fischer@talanx.com

Corporate Communications
Thomas von Mallinckrodt
Telephone +49 511 3747-2020
Fax +49 511 3747-2025
E-mail thomas.mallinckrodt@talanx.com

This publication went to press on 18 May 2009.

A printed version of the Talanx Group's annual report is also available in German.

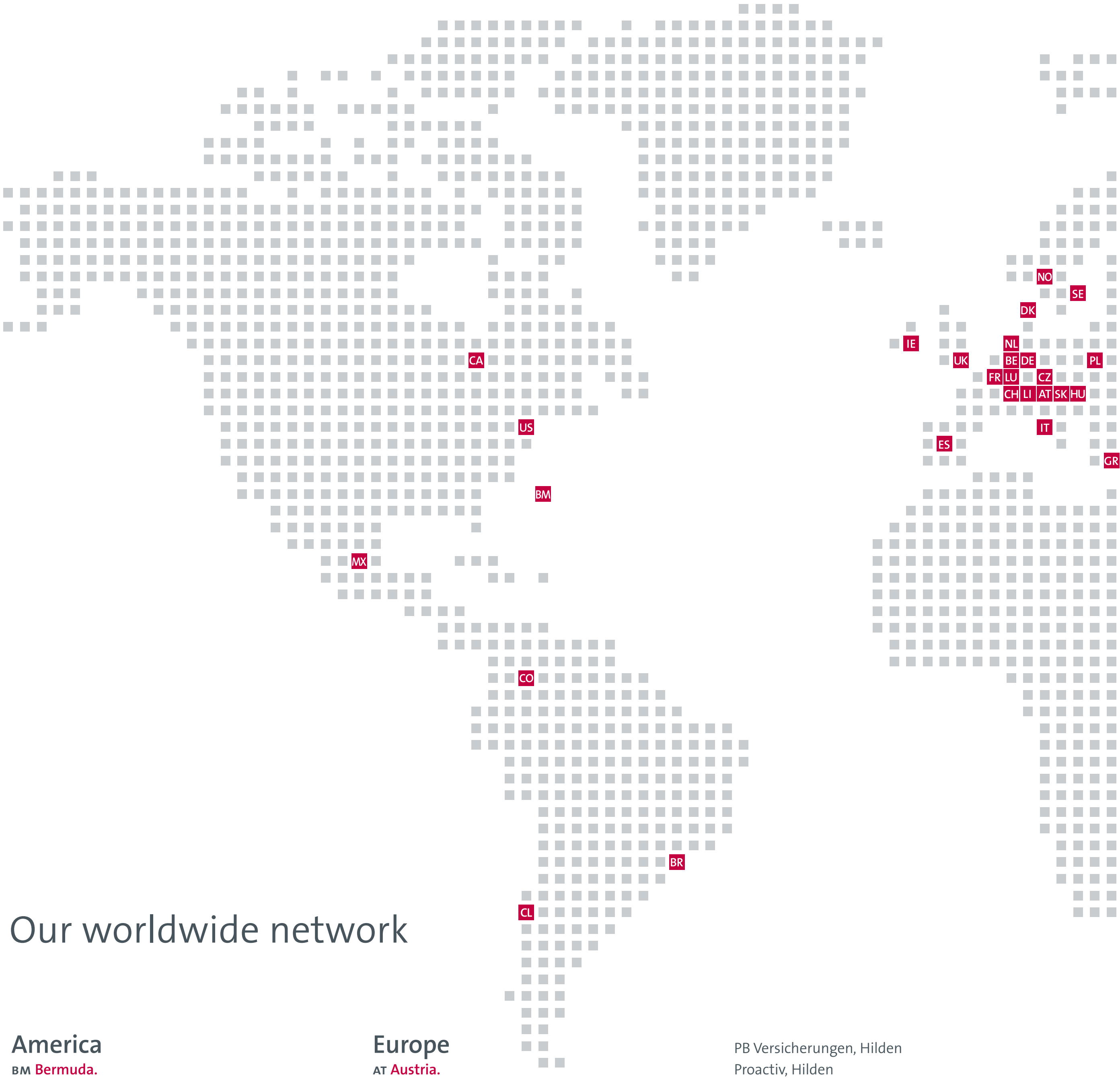
This is a translation of the original German text; the German version shall be authoritative in case of any discrepancies in the translation.

Upon request we will also be pleased to provide you with a copy of the annual report of Talanx AG.

Group structure

Major participations only, simplified representation

Valid: May 2009



Our worldwide network

America

BM Bermuda.
Hannover Life Re (Bermuda), Hamilton
Hannover Re (Bermuda), Hamilton

BR Brazil.
Hannover Re, Rio de Janeiro Representative Office
HDI Seguros, São Paulo

CA Canada.
Hannover Re, Canadian Branch, Toronto

CL Chile.
HDI Seguros, Santiago

CO Colombia.
Hannover Re, Bogotá Representative Office

MX Mexico.
Genworth Seguros México, León*
Hannover Services (México), Mexico City
HDI-Gerling de México Seguros, Mexico City

US USA.
Clarendon Insurance Group, New York
Hannover Life Re America, Orlando
Hannover Re Services USA, Itasca/Chicago
HDI-Gerling America Insurance Company, Chicago

Europe

AT Austria.
Aspecta Lebensversicherung, Vienna
HDI-Gerling, Vienna
HDI Versicherung, Vienna

BE Belgium.
HDI-Gerling Assurances/Verzekeringen, Brussels

BG Bulgaria.
HDI ZAD, Sophia

CH Switzerland.
HDI-Gerling, Swiss Branch, Zurich

CZ Czech Republic.
HDI Versicherung, Prague

DE Germany.
AmpegaGerling, Cologne
Aspecta, Cologne
CiV Versicherungen, Hilden
E+S Re, Hannover
Hannover Re, Hannover
HDI Direkt, Hannover
HDI-Gerling Leben-Gruppe, Cologne
HDI-Gerling Sach-Gruppe, Hannover
Neue Leben, Hamburg
Partner Office, Cologne
PB Versicherungen, Hilden
Proactiv, Hilden
Protection Reinsurance Intermediaries, Hannover
Talanx, Hannover

DK Denmark.
HDI-Gerling, Denmark Branch, Copenhagen

ES Spain.
Aspecta Assurance International, Madrid
HDI Seguros, Madrid/Barcelona
HR Hannover Re, Madrid

FR France.
Hannover Rück, Succursale Française, Paris
HDI-Gerling, French Branch, Paris

GR Greece.
HDI-Gerling, Hellas Branch, Athens

HU Hungary.
HDI Versicherung, Budapest
Magyar Posta Biztosító, Budapest
Magyar Posta Életbiztosító, Budapest

IE Ireland.
Hannover Life Re (Ireland), Dublin
Hannover Re (Ireland), Dublin

* Subject to regulatory approval

17,700
staff

5
continents

11
brands

IT Italy.
Aspecta Assurance International, Milan
Hannover Re Services Italy, Milan
HDI Assicurazioni, Rome
HDI-Gerling, Rappresentanza Generale, Milan

LI Liechtenstein.
Aspecta Assurance International, Vaduz

LU Luxembourg.
Aspecta Assurance International Luxembourg
Euro International Reinsurance, Luxembourg
Hannover Finance (Luxembourg)
Talanx Finanz, Luxembourg

NL Netherlands.
HDI-Gerling Verzekeringen, Rotterdam

NO Norway.
HDI-Gerling, Norwegian Branch, Oslo

PL Poland.
HDI Asekuracja, Warsaw
HDI-Gerling Polska, Warsaw
HDI-Gerling Życie, Warsaw

SE Sweden.
Hannover Re, Stockholm Branch
International Insurance Company of Hannover, Stockholm

SK Slovakia.
HDI Versicherung, Bratislava

TR Turkey.
CiV Hayat Sigorta, Istanbul
HDI Sigorta, Istanbul

UA Ukraine.
HDI Strakhuvannya, Kiev

UK United Kingdom.
Hannover Life Re (UK), Virginia Water
Hannover Services (UK), Virginia Water
HDI-Gerling, UK Branch, London
International Insurance Company of Hannover, Bracknell/London

Africa

ZA South Africa.
Compass Insurance Company, Johannesburg
Hannover Life Re Africa, Johannesburg
Hannover Re Africa, Johannesburg
HDI-Gerling Insurance of South Africa, Johannesburg

Australia

AU Australia.
Hannover Life Re Australasia, Sydney
Hannover Rück, Australian Branch, Sydney
HDI-Gerling Australia Insurance Company, Sydney

Asia/Pazific

BH Bahrain.
Hannover ReTakaful, Manama
Hannover Rück, Bahrain Branch, Manama

CN China.
Hannover Re, Hong Kong Branch
Hannover Re, Shanghai Branch
Hannover Re, Shanghai Representative Office
HDI-Gerling, Hong Kong Branch

IN India.
Hannover Re Consulting Services, Mumbai

JP Japan.
Hannover Re Services Japan, Tokyo
HDI-Gerling, Japan Branch, Tokyo

KR Korea.
Hannover Re, Korea Branch, Seoul

MY Malaysia.
Hannover Re, Malaysian Branch, Kuala Lumpur

RU Russia.
CiV Life, Moscow

TW Taiwan.
Hannover Re, Taipei Representative Office

Valid: May 2009

Talanx AG
Riethorst 2
30659 Hannover
Telephone +49 511 3747-0
Fax +49 511 3747-2525
E-mail info@talanx.com
www.talanx.com