Annual Report 2009 Talanx AG

Talanx AG at a glance

	2009	2008	2007	2006	2005
Figures in EUR thousand					
Income from participating interests	397,564	471,613	431,789	286,317	392,130
Net interest income	–66,029	–59,807	–48,510	–109,550	–28,154
Other operating income	18,660	22,760	161,507	95,983	76,262
Other operating expenses and write-downs	80,522	107,265	96,101	35,239	28,354
Profit or loss on ordinary activities before tax	269,673	327,301	448,685	237,511	411,884
Extraordinary profit or loss	—	—	4,908	–42,561	–3,000
Tax expenditure	57,020	–41,899	210,569	38,739	30,724
Profit or loss for the financial year	212,654	369,200	243,024	156,211	378,160
Allocation to other retained earnings	106,327	—	—	—	189,080
Profit carried forward from the previous year	184,600	—	—	—	—
Disposable profit	290,927	369,200	243,024	156,211	189,080
Financial assets	5,752,932	5,736,944	5,439,715	4,623,900	2,979,164
Capital and reserves					
Subscribed capital	260,000	260,000	260,000	260,000	260,000
Capital reserve	629,529	629,529	629,529	629,529	629,529
Retained earnings	2,986,528	2,695,601	2,452,576	2,296,366	2,107,286
Disposable profit	290,927	369,200	243,024	156,211	189,080
Total	4,166,984	3,954,330	3,585,129	3,342,106	3,185,895
Borrowed funds with a term in excess of 1 year	1,600,438	1,714,116	1,717,440	1,072,182	967,151

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

Contents

Report of the Supervisory Board

In the 2009 financial year the Supervisory Board performed its functions and duties at all times in accordance with statutory requirements, the Articles of Association and the Rules of Procedure. We considered at length the economic situation, risk position and strategic development of Talanx AG and its major subsidiaries. We advised the Board of Management on the direction of the company, monitored the management of business and were directly involved in decisions of fundamental importance.

In the year under review we came together for four ordinary meetings, one extraordinary meeting 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 one of these meetings. The Finance and Audit Committee of the Supervisory Board met four times and the Personnel Committee met on six occasions. The Mediation Committee formed in accordance with the requirements of the Co-Determination Act again had no reason to meet in 2009. The full Supervisory Board was briefed on the work of the various committees. In addition, we received quarterly written reports from the Board of Management on the course of business and the position of the company and the Group. At no point in the year under review did we consider it necessary to conduct audit measures pursuant to § 111 Para. 2 Sentence 1 German Stock Corporation Act (AktG). Insofar as transactions requiring approval arose between meetings, the Board of Management submitted these to us for a written resolution. The Chairman of the Supervisory Board also remained in constant contact with the Chairman of the Board of Management and was regularly advised of all important business transactions within the company and the Talanx Group. All in all, within the scope of our statutory responsibilities and those prescribed by the Articles of Association we assured ourselves of the lawfulness, expediency, regularity and efficiency of the actions of the Board of Management.

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

Key areas of discussion for the full Supervisory Board

The business development of the company and the individual Group segments, the reorientation of the Group and optimization of its structures as well as the planning for 2010 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 risk management within the Group. We also received an explanation of the basics of value-based management and dealt with a number of acquisition and cooperation projects which the Board of Management submitted to us for consideration and, as appropriate, adoption of a resolution. Specific reference may be made here to the acquisition of the US life reinsurance portfolio of the Dutch financial group ING by Hannover Life Re, the launch of a cooperation with Swiss Life, the purchase of a company in Mexico and the entry into a joint venture in India. In addition, we discussed the strategic orientation of the Talanx Group, its investment strategy and the possible Initial Public Offering.

With an eye to § 87 Para. 1 Stock Corporation Act (AktG) as amended by the Act on the Adequacy of Management Board Remuneration (VorstAG), the full Supervisory Board considered for the first time – using an up-to-date example – the provisions contained in the service contracts of the Board of Management and undertook a review of the fixed emoluments of individual members of the Board of Management; in this context it drew inter alia on horizontal and vertical remuneration aspects and concepts as a means of comparison and orientation.

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.

Work of the Committees

Along with preparations for discussion and adoption of resolutions in the full Supervisory Board, the Finance and Audit Committee of the Supervisory Board considered at length the company's quarterly financial statements compiled on a voluntary basis. Furthermore, the Finance and Audit Committee discussed the findings of an actuarial audit of the net loss reserves for non-life insurance business within the Talanx Group as well as the profitability trend at the individual Group companies as at 31 December 2008.

Along with preparations for discussion and adoption of resolutions in the full Supervisory Board, the Personnel Committee, which was enlarged to include an additional member in September 2009, took the opportunity at several meetings to examine issues connected with the future structure of the Board of Management and a revised allocation of Board responsibilities; at the recommendation of the Committee the latter was approved by the full Supervisory Board on 25 November 2009. What is more, recommendations were made to the full Supervisory Board in the context of the review of the fixed emoluments of members of the Board of Management.

Corporate Governance

The Supervisory Board again devoted special attention to the issue of Corporate Governance. In accordance with the requirements of the Act on the Modernization of Accounting Law (BilMoG) and the Act on the Adequacy of Management Board Remuneration (VorstAG), the Rules of Procedure for the Supervisory Board were updated.

Audit of the annual and consolidated financial statements

The annual financial statements of Talanx AG submitted by the Board of Management, the financial statements of the Talanx Group – drawn up in accordance with International Financial Reporting Standards (IFRS) – as well as the corresponding management reports and the bookkeeping system were audited by KPMG AG, Wirtschafts¬prüfungsgesellschaft, Hannover. The General Meeting appointed the auditors; the Finance and Audit Committee awarded the concrete audit mandate. In addition to the usual audit tasks, the audit focused particularly on the examination of the book and fair values of the affiliated companies and participating interests and the deferred taxes in the case of the annual financial statements as well as – in the case of the consolidated financial statements – the examination of the segment reporting pursuant to IFRS 8 and the review of the process of intercompany reconciliation within the scope of consolidation. The auditors also subjected the Internal Control System and the risk reporting to scrutiny as part of their audit procedures.

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

The financial statements and the audit reports of KPMG were distributed to all the members of the Supervisory Board in due time. They were examined in detail at a meeting of the Finance and Audit Committee on 27 May 2010 and at a meeting of the Supervisory Board on 28 May 2010. The auditor took part in the deliberations of the Finance and Audit Committee and of the full Supervisory Board regarding the annual and consolidated financial statements, reported on the conduct of the audits and was available to provide the Supervisory Board with additional information. In accordance with the final outcome of our own examination of the annual financial statements, the consolidated financial statements, the corresponding management reports and the audit reports, we concurred with the opinion of the auditors and approved the annual and consolidated financial statements drawn up by the Board of Management.

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

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

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

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

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

Changes on the Supervisory Board and Board of Management

The mandates of Ms. Schulze, Mr. Faßhauer and Mr. Funck on the company's Supervisory Board ended with the General Meeting of the company on 17 June 2009. The Supervisory Board expressed its gratitude and recognition for their responsible and valuable contributions. Ms. Jutta Mück and Ms. Katja Sachtleben-Reimann – as employee delegates – and Mr. Karsten Faber – as a representative of the senior executives – were elected as new members of the Supervisory Board. The other existing employee representatives were re-elected to the Supervisory Board.

Dr. Voscherau resigned his seat on the company's Supervisory Board at the close of 22 July 2009. The Supervisory Board expressed its gratitude and recognition for his many years of dedicated service. Mr. Werner Wenning was elected as a new member of the Supervisory Board with effect from 1 October 2009.

As had already been reported in the previous year, the Supervisory Board elected Mr. Wallin on 22 January 2009 with immediate effect as a member of the Executive Board of Talanx AG with responsibility for the Reinsurance Division. Mr. Wallin thus succeeded – as was also the case effective 1 July 2009 at the reinsurance companies Hannover Rückversicherung AG and E+S Rückversicherung AG – Mr. Wilhelm Zeller, who left the Board of Management of Talanx AG on 22 January 2009.

The mandate of Dr. Hans Löffler on the company's Board of Management ended by mutual agreement with effect from 31 December 2009. Dr. Heinz-Peter Roß had already been appointed to the Board of Management as his successor with effect from 1 July 2009; he will assume responsibility for the newly formed division of Retail Germany effective 1 June 2010. The Supervisory Board of Talanx AG expressed its special appreciation to Mr. Zeller and Dr. Löffler for their many years of successful work on the Board of Management of Talanx AG and within the Talanx Group.

With effect from 25 November 2009 the Supervisory Board appointed Dr. Hinsch as the Deputy Chairman of the company's Board of Management; from mid-2010 onwards he will concentrate on the expansion of industrial insurance business worldwide. The Supervisory Board additionally appointed Dr. Hinsch as Labor Director pursuant to § 33 Co-Determination Act (MitbestG) with effect from 1 January 2010. In this regard he succeeds Mr. Haas, who relinquished this function with effect from 31 December 2009.

Word of thanks to the Board of Management and staff

The Supervisory Board thanks the members of the Board of Management and all the staff of the Talanx Group for their considerable personal dedication in the financial year just-ended.

Hannover, 28 May 2010

For the Supervisory Board

Wolf-Dieter Baumgartl
(Chairman)

Boards and officers

Supervisory Board

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

Johannes Funck
Deputy Chairman
(until 17.06.2009)
Employee, HDI Direkt Versicherung AG, Mühlheim

Ralf Rieger
(from 17.06.2009)
Deputy Chairman
Employee, HDI-Gerling Vertrieb Firmen und Privat AG, Raesfeld

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

Karsten Faber
(from 17.06.2009)
Managing Director, Hannover Rückversicherung AG, E+S Rückversicherung AG, Hannover

Reinhard Faßhauer
(until 17.06.2009)
Senior executive, HDI-Gerling Sach Serviceholding AG, Langenhagen

Hans-Ulrich Hanke
Employee, HDI-Gerling Leben Betriebsservice GmbH, Brühl

Gerald Herrmann
Trade union secretary, Norderstedt

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

Jutta Mück
(from 17.06.2009)
Employee, HDI-Gerling Industrie Versicherung AG, Oberhausen

Otto Müller
Employee, Hannover Rückversicherung AG, Hannover

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

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

Katja Sachtleben-Reimann
(from 17.06.2009)
Employee, HDI-Gerling Sach Serviceholding AG, Hannover

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

Barbara Schulze
(until 17.06.2009)
Employee, HDI-Gerling Industrie Versicherung AG, Bochum

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

Dr. Eggert Voscherau
(until 22.07.2009)
Chairman of the Supervisory Board of BASF SE, Ludwigshafen

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

Werner Wenning
(from 01.10.2009)
Chairman of the Board of Management of Bayer AG, Leverkusen

Supervisory Board Committees
Composition as at 31.12.2009

Audit Committee

Wolf-Dieter Baumgartl
Chairman

Dr. Thomas Lindner

Ralf Rieger

Prof. Dr. Eckhard Rohkamm

Dr. Erhard Schipporeit

Personnel Committee

Wolf-Dieter Baumgartl
Chairman

Prof. Dr. Eckhard Rohkamm

Dr. Michael Rogowski

Prof. Dr. Ulrike Wendeling-Schröder

Mediation Committee

Wolf-Dieter Baumgartl
Chairman

Ralf Rieger

Prof. Dr. Eckhard Rohkamm

Katja Sachtleben-Reimann

Nomination Committee

Wolf-Dieter Baumgartl
Chairman

Dr. Thomas Lindner

Dr. Michael Rogowski

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

Tasks of the committees

Audit Committee

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

Personnel Committee

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

Mediation Committee

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

Nomination Committee

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

Board of Management

		Responsible on the Talanx Board for
Herbert K. Haas *Chairman*	Chairman of the Board of Management HDI Haftpflichtverband der Deutschen Industrie V.a.G., Hannover	*Investor Relations* *Public Relations* *Legal Affairs/Executive Staff Functions/Compliance* *Internal Auditing* *Corporate Development*
Dr. Christian Hinsch *from 25.11.2009: Deputy Chairman*	Deputy Chairman of the Board of Management HDI Haftpflichtverband der Deutschen Industrie V.a.G. Chairman of the Executive Board HDI-Gerling Sach Serviceholding AG, Hannover	*Domestic and Foreign Property/Casualty Primary Insurance Division* *Human Resources* *Reinsurance Purchasing*
Norbert Kox	Chairman of the Executive Board, Proactiv Holding AG, Hilden	*Domestic and Foreign Bancassurance Division*
Dr. Hans Löffler (until 31.07.2009)	Chairman of the Executive Board HDI-Gerling Leben Serviceholding AG, Cologne	*Domestic and Foreign Life Insurance Division*
Dr. Thomas Noth	Member of the Executive Board HDI-Gerling Sach Serviceholding AG, Hannover	*Information Services* *Business Organization*
Dr. Immo Querner	Member of the Board of Management HDI Haftpflichtverband der Deutschen Industrie V.a.G., Hannover	*Financial Services Division* *Finance/Participating Interests/Real Estate* *Investments* *Controlling* *Risk Management* *Accounting/Taxes*
Dr. Heinz-Peter Roß (from 01.08.2009)	Member of the Executive Board HDI-Gerling Leben Serviceholding AG, Cologne	*Domestic and Foreign Life Insurance Division*
Ulrich Wallin (from 22.01.2009)	Chairman of the Executive Board Hannover Rückversicherung AG, Hannover	*Reinsurance Division*
Wilhelm Zeller (until 22.01.2009)	Chairman of the Executive Board Hannover Rückversicherung AG, Hannover	*Reinsurance Division*

Management report.
Business overview and general environment

In its function as the financial and management holding company of the Talanx Group, Talanx AG is represented by its own companies or branches in 40 countries around the world. The Group is active in altogether 150 countries through cooperation arrangements. The vast majority of Group companies transact primary insurance and reinsurance: some subsidiaries – principally in Germany – operate in the financial services sector.

The primary task of Talanx AG is to lead and steer the Group. Its Board of Management defines the Group strategy and decides on the Group's business-policy objectives. Goal accomplishment is monitored by Talanx AG and steered by means of capital allocation, set targets, performance measurement and appropriate incentive schemes. At the same time Talanx AG bears responsibility for optimizing equity and debt capital in the interests of 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 – and in compliance with Corporate Governance guidelines. Thanks to this organizational structure, which accords individual business units a very high level of entrepreneurial freedom and profit responsibility, the various units are best able to act on their growth and profit opportunities.

Macroeconomic environment and industry-specific conditions

Macroeconomic developments

The 2009 financial year can be split into two phases: in the first half-year the adverse repercussions of the financial crisis were also manifested with the utmost severity in the so-called real economy. The slump in the real economy that could already be observed in 2008 was sustained at an enormous pace and resulted in the sharpest downturn since the Second World War. Industrial output in the developed countries collapsed on a hitherto unprecedented scale; consumer and sentiment indices repeatedly plumbed new all-time depths. In Germany alone ten years' growth in industrial output was destroyed. The effects of the concerted rescue and support measures for the financial sector undertaken by governments and central banks around the globe served to curb the systemic risks and hence heralded a trend reversal and the onset of the second phase. The global downturn was stemmed by the combination of large-scale economic stimulus programs and the extremely expansive monetary policy pursued by central banks. The sentiment and leading indicators first began to turn around in the middle of the year and hinted at stabilization in the economy. Over the final months of the year they were increasingly reinforced by „hard" data from the real economy. A revival in foreign trade went hand in hand with rising industrial output in Germany and the United States. Towards the end of the year there were growing signs that the labor market – at least in the US – was close to bottoming out.

Officially, the economy in the United States was in recession from the final quarter of 2007 onwards. The first positive quarterly growth rate – with an annualized figure of 2.2% – was reported for the third quarter of 2009. Compared to the previous year the economy contracted by a further 2.6%. Consumer prices in the United States displayed a falling tendency from the outset of the year, prompting temporary concerns about deflation. This trend was, however, a consequence of the sharp rise in commodity prices in the previous year, as evidenced by stable positive core inflation. Towards the end of the year inflation rates moved back into positive territory year-on-year, standing most recently at +1.8%. Unemployment in the US climbed to its highest level since the 1980s, standing at 10% at year-end.

The Eurozone similarly surged back into positive growth figures in the third quarter, after Germany had already surprised market watchers with modest growth in the second quarter. In Europe, as in the US, unemployment soared into the double digits at 10%. Although Germany was a positive exception at 8.1%, allowance must be made for distortions associated with short-time working. Inflation rates in Europe similarly slipped initially into negative territory in 2009, although by year-end here, too, stabilization and a return to positive rates of change had set in.

Movements in the exchange rate between the euro and the US dollar can also be split in two: at the beginning of the year the dollar initially appreciated to EUR 1.25, but this trend then turned around in March 2009. Against a backdrop of increased willingness to take risks, the euro rose steadily against the US dollar and recorded a new record high of USD 1.51 in December. Similarly, the pound sterling also rose against the euro early in the year, only to fall back from 0.98 to 0.84 in June 2009. Towards year-end the exchange rate was moving sideways, closing at 0.89.

Capital markets

Central banks pursued a policy of virtually zero interest rates: the US Federal Reserve slashed key interest rates to a range of 0% to 0.25% for fear of a second Great Depression, while the ECB too cut prime rates to 1.00% – the lowest level in its history. In some cases discussions even turned to a possible need for negative interest rates. Government rescue programs brought significantly greater availability of government bonds, which for the most part were bought up by central banks – hence leading to a significant expansion of central bank balance sheets. The unconventional steps taken by central banks bore fruit – money markets and capital markets eased as the year progressed.

The financial market crisis initiated a flight to low-risk investments among market players, a move from which government bonds benefited. The risk aversion prevailing among market participants caused yields on 10-year US treasuries and Eurozone government bonds to drop several times to levels of around 2.0% and 2.8% respectively in the period between January and March 2009. In a parallel development, risk and illiquidity premiums for financial bonds increased considerably in the period until mid-March – especially for subordinated capital but also for senior and covered bonds. The support given to the markets by governments and central banks partially offset the increased risk aversion, ultimately causing yields to pick up again slightly.

On the back of this stabilization, a price rally of unprecedented intensity set in from mid-March onwards across all risk-exposed asset classes. By year-end investment-grade fixed-income securities had seen unusual price increases sometimes in excess of 20%.

Insurance industry

The German insurance industry boosted its premium income by more than 4% in 2009 and thereby slightly accelerated its growth year-on-year. It was thus able to successfully divorce itself from the recessionary macroeconomic trend in Germany. Compared to the sometimes abrupt slumps seen in other business sectors, demand for insurance protection held broadly stable. While the insurance industry was not spared the repercussions of the global financial and economic crisis, it nevertheless impressively underscored its position as a professional institution for the reliable assumption of risk and as a safe harbor for the assets of customers and investors alike – even against the backdrop of difficult framework conditions.

The environment for German **property/casualty insurance** tended to become even bleaker in 2009, as a consequence of which stagnation or at best only minimal premium growth can be anticipated. The proportion of total German direct business attributable to property and casualty insurance consequently declined slightly to around 32%. While demand in private customer business largely held up on account of the relatively stable economic state of private households, a tendency towards further cost savings was observed in the industrial and commercial segment. Additional pressure on the premium trend, however, derived from the fact that pricing is generally based on turnover – as reflected in lower premiums on the back of diminishing sales. What is more, motor insurance has been suffering under particularly fierce price competition – exacerbated by moderate claims experiences – for several years now; in 2009 this was reflected in further premium erosion in what is the largest single line of business with a volume of around EUR 20.1 billion. Another reason for the relatively slight scope available for growth is the high degree of market penetration, which limits growth in the quantity structure, e.g. in motor business. The challenging economic climate led to a sharply higher burden of losses in some lines, most notably credit, marine and legal protection insurance; this can be attributed in part to the sharp rise in the risk of insolvency and the number of legal protection claims. Based on the currently available figures, the combined ratio in total property/casualty insurance must therefore be expected to increase.

The prevailing trends seen on the German **life insurance market** for a number of years now remained very largely intact in 2009. They include, in the first place, the growing significance of annuity insurance relative to endowment insurance, which was the main product in past years. In this case, product design and the development of the market are evidently following the demographic trend, which is characterized by – among other effects – increasing life expectancy and an associated need for provision. Secondly, 2009 was notable for a very steep rise in new contracts with a single premium, while new business in terms of policy numbers and regular premiums contracted year-on-year. The trend towards unit-linked life insurance which had been evident prior to the financial crisis was, however, abruptly curtailed by the greater unwillingness of customers to take risks. The gross premium written by German life insurers (excluding providers of occupational retirement provision in the form of Pensionskassen and Pensionsfonds) grew by altogether 7% in 2009 to EUR 81.4 billion.

The **reinsurance** environment was notable overall for a below-average burden of catastrophe losses in the year under review, in part thanks to an unremarkable hurricane season. Despite a series of devastating natural disasters, the repercussions on the reinsurance industry were mostly slight. The largest single events in 2009 were the bush fires in Australia, winter storm "Klaus" and the crash of the Air France Airbus.

In common with most insurance undertakings, reinsurers have also withstood the crisis relatively well to date. The focus in the year under review was on prices commensurate with the risks. In the aftermath of the crisis the credit quality of market players has taken on even greater importance – and this is especially true of the reinsurance sector.

Overview of the business development

The after-effects of the financial and economic crisis make themselves felt at Talanx AG after a time lag: while the Group as a whole recovered from the investment-related setback of the previous year to post a result on the level of the years before the crisis, the Group holding company Talanx AG reported a lower result than in 2008. The reinsurance subsidiary Hannover Re did not pay a dividend owing to its poor performance in the 2008 financial year, while the profit transfer from the life insurance sector was also smaller. Thanks to increased profit transfers from the Property & Casualty Insurance Group and the bancassurance companies, however, the overall decline remained rather moderate.

The reduced profit for the year does not, however, mean that the 2009 financial year passed off unsuccessfully: the company continues to enjoy very robust financial strength. In addition to organic growth – which in some areas was very significant – the Group also made further advances in foreign business in 2009 with its entry into the Indian market and the Mexican private customer market. The cooperation with Swiss Life also progressed in line with expectations.

Net assets, financial position and results of operations

Results of operations

The profit on ordinary activities fell by 17% to EUR 270 (327) million. One of the primary reasons for this decline was the sharply lower income from participating interests (decrease of EUR 109 million to EUR 38 million), driven principally by omission of the dividend paid – as in past years – on a phase-delayed basis by Hannover Re for the preceding year. In 2008 a total distribution of EUR 139 million had been paid out by Hannover Re for 2007 (dividend of EUR 1.80 plus a bonus of EUR 0.50 per share). This contrasted with higher distributions made by some companies with which a profit transfer agreement does not exist. Increases were recorded in the distributions paid out by, among others, Talanx Finanz (Luxemburg) S.A. (+EUR 16 million), HNG Hannover Nationale Grundstücksverwaltung GmbH & KG (+EUR 9 million) and Talanx Beteiligungs-GmbH & Co. KG (+EUR 3 million).

Income from profit transfer agreements, on the other hand, grew to EUR 360 (329) million despite the continuing financial crisis in 2009. The development of the profit transfers in the individual primary insurance segments varied: the amount transferred from HDI-Gerling Sach Serviceholding, for example, climbed to EUR 216 (180) million. This increase was made possible by the favorable loss experiences at the operating subsidiaries HDI-Gerling Industrie Versicherung AG, HDI Direkt Versicherung AG and HDI-Gerling Firmen und Privat Versicherung AG, which resulted in lower claims expenditure and hence facilitated partial releases of equalization reserves. In addition, the investment result of these companies included some extraordinary income from disposals, which served to offset the reduced ordinary investment income associated with the low level of interest rates.

On the basis of its bancassurance business Proactiv Holding AG was also able to almost double its profit transfer to EUR 101 (52) million. In contrast to this gratifying development, however, HDI-Gerling Leben Serviceholding AG transferred an amount of just EUR 0.4 million for 2009 – compared with the EUR 25 million that had been booked in the previous year. The diminished earnings power of this division was crucially influenced by the adverse business environment, especially as it affected insurers offering unit-linked products.

AmpegaGerling Asset Management GmbH boosted the profit transferred to Talanx by 10% to EUR 30 million. An amount of EUR 12 (13) million was collected from Protection Reinsurance Intermediaries AG.

The balance of interest income and expenses remained roughly stable on balance at –EUR 60 (–66) million. While income from other long-term securities and loans climbed by EUR 4 million to EUR 41 million, other interest and similar income fell by EUR 29 million to EUR 20 million. The latter decrease can be attributed above all to the sharply lower interest rate level for fixed deposits and overnight money as well as the drop in variable interest income from a swap transaction that is similarly associated with these low interest rates. Interest expenditure, on the other hand, also decreased to EUR 127 (146) million on account of correspondingly lower interest expenses in connection with floating-rate liabilities. In contrast to the previous year, it was gratifying to note that the result was not impacted by write-downs on financial asserts and short-term investments.

After tax income of EUR 42 million had been booked in 2008 due to adjustments in the tax calculated for previous years, a tax expense of EUR 57 million was incurred in 2009 – which unlike previous years was free of significant non-recurring effects. All in all, the profit for the year in 2009 fell by almost 42% year-on-year to EUR 213 (369) million. After allowance for the profit carried forward from the previous year of EUR 184 million and an allocation to other retained earnings of EUR 106 million, the disposable profit amounted to EUR 291 (369) million.

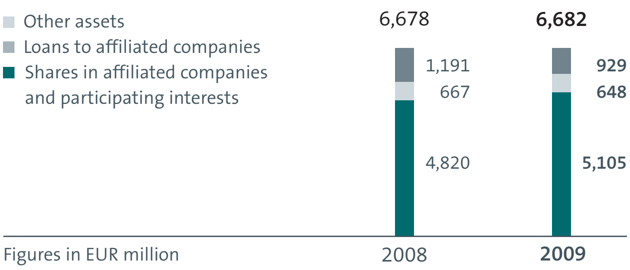
Financial position

The liquidity needed to meet current payment obligations is ensured by means of ongoing cash planning. This cash planning is performed at least once a month, and at shorter intervals if required. The inflow of funds to Talanx AG derives principally from profit transfer agreements with affiliated companies, dividend income and interest income on loans. As part of the cash planning, the anticipated cash flows from profit transfers are regularly reconciled with Group Controlling within the scope of constantly updated budget accounting. The company has to spend funds principally to service interest payments and repayment of principal in connection with liabilities. On account of its status as a holding company, activities relating to the acquisition or disposal of undertakings may give rise to short-term cash flows in the form of outflows or inflows. If required, the company is able to call at short notice on a line of credit that has already been firmly agreed with a broad consortium of banks. When selecting the providers of the line of credit, the company pays close attention – as it always has in the past – to their long-term reliability and capital strength. As a consequence of the financial crisis and credit crunch, several major banks slipped into insolvency, merged or received various forms of state aid in 2008/2009. Constant monitoring of the capital strength of the line of credit providers – a task performed centrally by AmpegaGerling Asset Management GmbH – is therefore especially relevant at the present time.

Net assets

As in past years, the balance sheet of Talanx AG continues to be shaped by its function as a holding company and – on the assets side – in particular by the interests held in intermediate holding companies. Total assets remained virtually unchanged at just under EUR 6.7 billion, although the book value of the shares in affiliated companies increased by 6% to almost EUR 5.1 billion. The most significant addition among the affiliated companies was Talanx Beteiligungs-GmbH & Co. KG – established in 2009 – with a book value of EUR 146 million. It manages the Group's various long-term investments. Altogether, then, the proportion of total assets attributable to shares in affiliated companies rose to 76 (72)%. On the other hand, significant declines were recorded on balance for securities classified as fixed assets (decrease of EUR 250 million), securities classified as current assets (decrease of EUR 23 million) and capitalized corporation tax assets receivable from revenue authorities (decrease of EUR 115 million). The level of cash at banks climbed to EUR 330 (276) million.

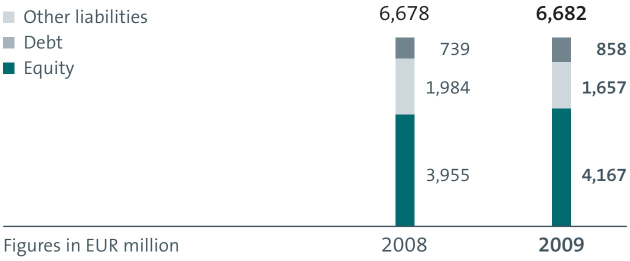
Assets



On the liabilities side of the balance sheet the tranche of the line of credit in an amount of EUR 250 million that had been called in the previous year was repaid; this meant that as at the 2009 balance sheet date an amount of just EUR 550 million was drawn on the line of credit of altogether EUR 1.5 billion.

The equity ratio increased again to 62.4 (59.2)%.

Liabilities



Report on relations with affiliated companies

The report on relations with affiliated companies that is to be drawn up by the Board of Management in accordance with § 312 of the Stock Corporation Act states that our company received an adequate consideration for all transactions with affiliated companies according to the circumstances of which it was aware at the time when the transactions were effected. No measures as defined by § 312 of the Stock Corporation Act were taken or omitted.

The company did not incur any losses that required offsetting within the meaning of § 311 (1) of the Stock Corporation Act.

Proposal for the distribution of profits

The Board of Management and Supervisory Board intend to propose to the General Meeting that the disposable profit of EUR 291 million reported as at 31 December 2009 should be carried forward to new account.

Group Structure

Group segments

- Property/ Casuality Primary Insurance
- Life Primary Insurance
- Division Bancassurance
- Division Life Insurance
- Non-life Reinsurance
- Life and Health Reinsurance
- Corporate Operations

Major participations only, simplified representation

Valid: 22.02.2010

Development of the major participations

The following section describes the development and 2009 business experience of the most important companies grouped together under Talanx AG. This mode of presentation was chosen in view of the fact that the performance of Talanx AG – as a holding company – is crucially determined by income from participating interests and profit/loss transfers from the individual companies. The key figures of the companies are determined in accordance with the German Commercial Code (HGB); HDI-Gerling International Holding presents its foreign subsidiaries in accordance with International Financial Reporting Standards (IFRS) in order to ensure that they can be compared with one another. Most domestic companies are linked with Talanx AG via control and profit transfer agreements; these are listed in the Notes under "Other information/Major agreements".

In the course of 2010 the Group segments in primary insurance are to be restructured within the Talanx Group; this will have implications for the allocation of individual companies.

Property/Casualty Primary Insurance

The areas of concentration within this segment are worldwide industrial insurance as well as property and casualty business with private and commercial customers in Germany and Europe as a whole. The principal distribution channels are direct sales, independent agents and our own field organization. This business segment is dominated first and foremost by the following companies, which are grouped together under HDI-Gerling Sach Serviceholding AG and the development of which is described below: HDI-Gerling Industrie Versicherung AG, HDI-Gerling Firmen und Privat Versicherung AG, HDI Direkt Versicherung AG as well as the foreign insurance companies grouped together under HDI-Gerling International Holding AG. The segment also includes HDI-Gerling Rechtsschutz Versicherung AG and the foreign subsidiaries of HDI-Gerling Industrie.

HDI-Gerling Sach Serviceholding AG

A wholly owned subsidiary of Talanx AG, HDI-Gerling Sach Serviceholding AG serves as the intermediate holding company for the undertakings belonging to the HDI-Gerling Property & Casualty Insurance Group. Its major participating interests include HDI-Gerling Industrie Versicherung AG, HDI-Gerling Firmen und Privat Versicherung AG, HDI Direkt Versicherung AG and HDI-Gerling International Holding AG, in each of which the company owns all shares. The company also brings together central functions such as accounting and human resources that have no direct bearing on the insurance business. The company does not itself transact any operating insurance business.

Having assumed responsibility for service functions for the domestic companies of the Property & Casualty Insurance Group in the previous year, the focus of attention for HDI-Gerling Sach Serviceholding AG in the year under review was the continued shifting of functions to the central headquarters in Hannover. For example, the closure of Gerling's former collections/disbursements department in Cologne and the consolidation of the Property & Casualty Insurance Group's central collections/disbursements function in Hannover were completed as planned in 2009.

The sales revenues of HDI-Gerling Sach Serviceholding grew to EUR 353 (247) million in the 2009 financial year. The company assumed the following profits under profit and loss transfer agreements: EUR 154 (150) million from HDI-Gerling Industrie Versicherung AG, EUR 74 (71) million from HDI Direkt Versicherung AG, EUR 14 (29) million from HDI-Gerling International Holding AG and EUR 20 (13) million from HDI-Gerling Firmen und Privat Versicherung AG. A loss of EUR 4 (8) million was assumed from HDI-Gerling Vertrieb Firmen und Privat Versicherung AG. The profit for the 2009 financial year of EUR 216 (180) million was transferred to Talanx AG on the basis of the existing profit transfer agreement.

Having successfully completed the integration of the former Gerling companies in 2008 and drawn up new joint corporate guidelines for management and cooperation in the year under review, the order of the day for 2010 is to effectively implement these policies. A further key issue in 2010 for HDI-

Gerling Sach Serviceholding is the restructuring of the Talanx Group, which will have major repercussions for the company. Since its functions will henceforth be handled by other organizational units within the Group, it is important to prepare for the personnel and organizational transitions during the current financial year.

HDI-Gerling Industrie Versicherung AG

HDI-Gerling Industrie Versicherung AG transacts insurance business for commercial and industrial clients through eleven German branches as well as branches in major cities of Europe, South-East Asia and the Pacific Rim. Via the subsidiaries of HDI-Gerling Welt Service AG and the affiliate HDI-Gerling International Holding AG 26 of the company's own international units are available to clients worldwide for fronting business – 22 of which also write local industrial business. The independently operating sectors of "Industrial", "Corporate groups" and "International" ensure that the respective target groups enjoy continuous support and service.

Industrial insurance in 2009 was still affected by the aftereffects of the economic crisis and ongoing fierce competition, especially in motor business.

Despite the rather muted outlook, the business development of HDI-Gerling Industrie Versicherung AG – which was influenced by special effects in the year under review – was favorable. The gross premium income written by the company grew by a modest 1.5% to EUR 2.5 (2.5) billion despite the intensely competitive climate. This can be attributed to expansion of 23% in the premium volume ceded to the company under international programs, which rose to EUR 612 (471) million. In addition, considerably more retroceded business was assumed from the subsidiary HDI-Gerling Welt Service AG. Both effects reflect the desired growth in foreign markets and were sufficient to slightly offset the appreciable decline of 6% in direct written – predominantly domestic – business to EUR 1.9 (2.0) billion.

The claims experience in the year under review passed off without any notable new major loss events or catastrophe losses that affected the overall result. The result in non-underwriting business amounted to EUR 266 (96) million. The investment result, which in the previous year had still been heavily overshadowed by the repercussions of the financial market crisis, rallied to EUR 235 (191) million. Other income was also considerably more positive than in the previous year. All in all, HDI-Gerling Industrie Versicherung AG recorded a pre-tax business result of EUR 170 (177) million.

HDI-Gerling Industrie Versicherung AG again successfully asserted itself as a leading industrial insurer in the European market.

The extension of its successful market position in 2010 will be made more difficult by the economic climate. Even though the consequences of the economic crisis cannot yet be entirely foreseen, the company anticipates – based on the scale of business in 2009 – a gross premium volume just slightly below that of the year under review. HDI-Gerling Industrie Versicherung AG will, however, acquire the companies of HDI-Gerling International Holding AG – which write predominantly industrial business – as well as the industrial portfolio of HDI-Gerling Rechtsschutz Versicherung AG in 2010.

HDI-Gerling Firmen und Privat Versicherung AG

HDI-Gerling Firmen und Privat Versicherung AG offers insurance protection for private individuals, sole proprietors and self-employed professionals as well as small and mid-sized enterprises in the liability, accident, property and motor insurance segments. The company is present in the market with its own field service and cooperates with selected insurance brokers. Through its field organization the company pursues a holistic counseling approach for its clients.

HDI-Gerling Firmen und Privat Versicherung AG was again faced with fierce cut-throat competition in 2009, the effects of which were especially pronounced in motor insurance. The company suffered an appreciable decline in premium income in motor business.

In the other private customer lines HDI-Gerling Firmen und Privat Versicherung AG saw policy numbers fall across the various segments. Gratifying new business production contrasted here with the better – but still unsatisfactory – lapse situation year-on-year. In property and liability business with commercial clients the company suffered erosion in both policy numbers and premium volume; key factors here were competitive pressure and steps taken to restore the portfolios to profitability. The fire, engineering and marine insurance segments were especially hard hit. The gross premium income booked by the company consequently fell by 5% in the 2009 financial year to EUR 725 (761) million.

Across all segments 2009 was a very good year on the claims side. This can be attributed above all to the absence of sizeable natural hazards losses from windstorm or hail events as well as the pleasing trend as regards loss events in the mid-million range. The underwriting result after reinsurance and allocations to the equalization reserves stood at –EUR 44 (–6) million.

The profit from non-underwriting business of EUR 65 (23) million improved significantly on the previous year. The investment result rose particularly sharply year-on-year by EUR 30 million to EUR 70 (40) million. Other income also developed very favorably. The previous year's deficit of EUR 16 million was cut to EUR 5 million in the year under review. Overall, HDI-Gerling Firmen und Privat Versicherung AG improved its pre-tax business result to EUR 21 (18) million.

HDI-Gerling Firmen und Privat Versicherung AG is optimizing its product range at the start of 2010. With a view to offering its customers products that are better than the market average, numerous innovations and coverage extensions will be launched in the personal liability, accident and property insurance lines affecting both pricing and conditions. In addition, there are plans for active management of liability, accident and property claims as well as a stepping up of customer satisfaction surveys. Private customer business in the coming years will be shaped by the development of motor insurance, since further premium declines are to be anticipated industry-wide as a consequence of the fierce competition.

Cooperation business will also be realigned in 2010 in order to optimize the recruitment of new cooperation partners.

HDI Direkt Versicherung AG

HDI Direkt Versicherung AG offers private customers a comprehensive portfolio of insurance products ranging from personal liability through motor insurance to accident, householders' and homeowners' policies. HDI Direkt Versicherung AG sells its products inter alia through almost 100 business offices and customer service points nationwide as well as through selected cooperation partners. The company is the German market leader in employee affinity business. Through its subsidiary HDI Direkt Service GmbH it serves a variety of distribution channels, including telephone sales and – under the HDI24 brand – online sales.

In the 2009 financial year HDI Direkt Versicherung AG was again confronted with fierce competition in all lines – and especially in motor insurance, where the competitive climate continues to shape the market. Thanks to its good tariff positioning, however, the company was able to share disproportionately strongly in the boom in new vehicle registrations in the small car segment triggered by Germany's equivalent of the US "cash for clunkers" scheme.

In the other lines, too, the repercussions of the financial and economic crisis could still be felt – most strikingly in lines considered dispensable in times of shrinking household incomes. The total premium income booked by HDI Direkt Versicherung AG consequently fell 4% short of the previous year at EUR 557 (582) million.

Claims expenditure decreased owing to the absence of significant natural hazards events in the year under review and considerable profits were booked from the run-off of losses in prior years; however, the reinsurers shared disproportionately heavily in these run-off profits, and a net loss of EUR 21 million before withdrawals from the equalization reserve was therefore recognized. After withdrawals of EUR 31 million from the equalization reserve, the underwriting result closed in positive territory at EUR 10 (43) million.

The result generated on non-underwriting business by HDI Direkt Versicherung AG improved significantly on the previous year to EUR 64 (28) million. Most strikingly, the investment result surged by EUR 31 million to EUR 75 (44) million. Other income, on the other hand, did not see any significant changes. Below the line, therefore, HDI Direkt Versicherung AG increased its pre-tax business result to EUR 74 (71) million in 2009.

While the direct marketing channel of "Direkt Service" and here especially online sales – with the HDI24 brand – enjoyed gratifying portfolio growth in the 2009 financial year, the company is seeking to additionally expand its sales in employee affinity business and with cooperation partners in 2010. What is more, it has given notice of its intention to step up sales efforts in the liability, accident and property insurance lines. This sales drive too will be based on the new modular product generation successfully launched in the previous year.

HDI-Gerling International Holding Gruppe

HDI-Gerling International Holding AG is responsible for steering the foreign-based legally independent HDI-Gerling and HDI insurance companies transacting property/casualty business within the HDI-Gerling Property & Casualty Insurance Group. It assumes a pivotal role when it comes to assessing new markets and identifying strategic options on the international level. As a holding company, it holds interests of between 94 and 100% in the companies concerned and it is itself a wholly owned subsidiary of HDI-Gerling Sach Serviceholding AG. The following corporate key figures and ratios for HDI-Gerling International Holding AG include the results of HDI Mexico only on a pro-rata basis.

In the course of the year under review the Slovakian operation HDI-Gerling Poistovna Slovensko A.S. was transformed from a joint-stock company into a branch of HDI/A and hence the portfolio was transferred to the branch. The Austrian company is thus active with branches in the Czech Republic, Hungary and Slovakia. In addition, the private customer business of the Spanish company was sold to the insurer UAS (Universal Asistencia de Seguros y Reaseguros S.A.), which is owned by the Spanish automobile club RACC. Going forward, then, the company will write exclusively industrial business.

The goal of HDI-Gerling International Holding is to generate value-based, profit-oriented growth with its portfolio of participating interests. Thanks to its strategy geared to long-term success, the company is well prepared to handle the challenges of dramatically changing markets. Its focus in this context is on clearly defined target countries and markets: Southern, Central and Eastern Europe as well as Latin America have been defined as primary strategic target markets. In the medium term, selected markets in the Asia-Pacific region are also of interest. The company's strategic orientation towards international commercial and private customer business in the primary target markets was strengthened in the year under review through the acquisition in Mexico effective 1 October 2009.

The acquisition of HDI Seguros S.A. (formerly Genworth Seguros México, S.A. de C.V.) marks the entry into the Mexican private customer market. HDI-Gerling International has thus taken another major step forward as part of its growth strategy in the Latin American insurance market and is seeking to build on the company's structure, resilience and solidity. With a workforce of altogether 428 and in excess of 1,800 independent insurance agents with their own offices in 25 cities, the company is already adequately represented across the entire country. It generated a gross premium volume of EUR 16 million and an operating profit (EBIT) of EUR 0.8 million in the 2009 financial year. With investment holdings of EUR 63 million and shareholders' equity of EUR 13 million, HDI Seguros manages a portfolio of some 147,000 policies. The company thus ranks as number 27 on the Mexican insurance market overall, and fourteenth in the motor sector.

The HDI-Gerling International Group took another giant stride towards entering a highly promising market with the signing of a joint venture agreement with the Indian financial services company Magma Fincorp Limited aimed at selling insurance products to the Indian market. The financial services provider finances capital and consumer goods for commercial and private customers. Its primary emphasis is on the financing of vehicles and agricultural equipment as well as on lending to small and mid-sized enterprises. The joint venture – registered under the name Magma HDI General Insurance Company Limited – is currently still in the process of obtaining a license. It is envisaged that the company's head office will be in Kolkata, hence facilitating market access in the Indian Subcontinent. With over 150 offices in rural districts and in medium-sized cities, Magma Fincorp Limited is equipped with a powerful distribution and sales network for the Indian market. Combined with the extensive experience gained by the HDI-Gerling International Group in other emerging markets of Eastern Europe and Latin America, the strong anchoring of Magma Fincorp Limited provides a good platform with superb growth prospects for the further expansion of business in regions of the Indian market that have hitherto been inadequately served with insurance offerings.

Along with the entry into the Mexican and Indian markets and despite the sale of the portfolio of private customer business in Spain, the HDI-Gerling International Group continued to grow organically. With an increase of 2% (unadjusted for exchange rate effects), the overall gross premium volume climbed to EUR 2.1 (2.1) billion in the 2009 financial year. Having surpassed the EUR 2 billion threshold for the first time in the previous year, the premium level was thus sustained despite special effects. Nevertheless, the repercussions of the financial crisis could be clearly felt in the course of the year under review, especially in the muted customer demand as well as in the turnover-based lines of industrial business.

The low level of interest rates and considerable volatility on capital markets posed special challenges for the entire industry – and hence also the HDI-Gerling International Group. The investment result rose by an appreciable 70% to EUR 125 (74) million. Compared to the heavy write-downs and losses on disposals taken in the previous year as a consequence of the financial crisis, appreciably lower value adjustments were necessary in the 2009 financial year. What is more, it was possible to reverse a considerable volume of impairment losses in the year under review. The Group's cumulative operating profit (EBIT) totaled EUR 41 (54) million. The net loss ratio in non-life business for the 2009 financial year was 70.5 (70.2)%. The combined ratio stood at 99.2 (96.2)%.

HDI Seguros S.A. in Brazil continues to enjoy particularly pleasing success: it further expanded its network in 2009 and as a leading motor insurer – ranking among the top three providers in some states – extended its presence to include São Paulo. The company now insures more than 1 million vehicles. The Austrian company HDI Versicherung AG, which was again crowned as the country's best motor insurer in 2009, has proven particularly successful in recent years in terms of both growth and profitability.

HDI-Gerling International Holding AG generated income of altogether EUR 31 (36) million, principally from dividend payments received from participating interests. On the basis of the existing control and profit transfer agreement, its profit of EUR 14 (29) million was transferred to HDI-Gerling Sach Serviceholding AG.

For the 2010 financial year private customer business in foreign markets will continue to pursue a clear expansionary strategy geared to growth combined with commensurate profitability.

Life Primary Insurance

The focus of this business segment is on products that contribute to comprehensive individual and occupational retirement provision. The distribution channels served consist of independent agents, direct sales, tied agents as well as cooperations with banks and postal service partners (bancassurance). The two divisions of life insurance and bancassurance are each led by an intermediate holding company.

Life Insurance Division: HDI-Gerling Leben Serviceholding AG and subsidiaries

As an intermediate holding company, **HDI-Gerling Leben Serviceholding AG** (HG-LSH), Cologne, holds participating interests in domestic and foreign insurance companies and other enterprises. The core function of HG-LSH is to continually refine and successfully coordinate the life insurance activities of the HDI-Gerling and ASPECTA brands at home and abroad under uniform management. The company generated sales revenues of EUR 14 (14) million from services rendered for the HDI-Gerling Life Group. Further income derived inter alia from participating interests in an amount of EUR 104 (31) million; the increase resulted principally from gains on disposals in connection with subsidiaries that were transferred to an intermediate holding company as a preparatory measure for the restructuring planned in the context of Project Focus.

This was opposed not only by operating expenses and expenses from loss transfers, but also and most significantly by write-downs of EUR 74 million which were attributable almost entirely to an impairment taken on the book value of a participating interest in a subsidiary. The remaining profit of EUR 0.4 (25) million was transferred to Talanx AG.

In addition to an orientation towards customer groups that spans the various lines of business, the planned restructuring of the Talanx Group is geared to efficiency enhancement through streamlining of the organization, reduction of complexity and greater concentration of central Group functions. Implementation of the envisaged changes may also have significant implications for HG-LSH.

HDI-Gerling Lebensversicherung AG (HG-LV) boosted its new business premiums in the year under review by 2% to EUR 292 million despite the difficult market environment. In common with the industry as a whole, this was attributable to growth in single premiums, which climbed by 24% to EUR 156 million. This development is especially noteworthy in view of the fact that the company declined to sell short-term, so-called capitalization products in the interests of its existing customers. Regular premiums in new business fell by 15% to EUR 135 million. This decrease should be viewed against the backdrop of the final Riester step increase in 2008, which had played a considerable part in the new business booked in the previous year. Adjusted for this special effect, regular premiums in new business were maintained virtually on a par with the previous year.

Whereas in past years unit-linked endowment and annuity insurance policies had been the driver of new business, the year under review witnessed stronger demand for conventional provision products as the financial crisis pushed the security needs of customers to the forefront. New business premiums in this product segment soared by 13% to EUR 159 million. Yet new business with unit-linked provision products was also maintained on a relatively stable level in a difficult market climate thanks to the successful expansion of the "TwoTrust" product family. With new business premiums of EUR 115 million, the decline of 11% was far less marked than in the industry as a whole, which saw a drop of 23%.

Gross written premiums fell by 3% year-on-year to EUR 1.9 billion. The principal factors here were the weaker growth of regular premiums as well as the rise in lapse rates, which impacted unit-linked policies particularly heavily.

With a net interest return of 4% the generated investment result improved substantially on the previous year. On this basis HG-LV achieved a profit for the year of EUR 35 million, as in the previous year.

Looked at from a long-term perspective, the life insurance industry will be able to emerge stronger from the financial crisis and continue to evolve. Traditional products and hybrid offerings featuring guarantee components lend themselves particularly well to meeting the challenges of demographic change for a more security-conscious clientele. Thanks to its innovative and flexible products, HG-LV is very well positioned to profit from this development. With its "TwoTrust" product family it satisfies exactly those requirements to which customers attach special importance: above-average potential returns and a high level of security.

The development of new business at **ASPECTA Lebensversicherung AG** (A-LV) was again overshadowed in the year under review by a market environment that was especially difficult for the company on account of its distribution- and product-side orientation. The progressive concentration among intermediaries continued to have a detrimental impact on the new business results of the company, which concentrates on this distribution channel. As a further factor, the uncertainty among customers triggered by the financial crisis in relation to unit-linked life and annuity insurance – for years now the dominant product group in the new business written by A-LV – was a drag on the sales performance.

Both effects brought about a sharp contraction in new business. New business premiums reached EUR 32 million in the year under review, a decline of 29% relative to the previous year. With new premiums of EUR 29 million, unit-linked policies still accounted for the bulk of new business. Reflecting the development of the portfolio – characterized by reduced new business and higher lapse rates –, gross written premiums contracted by 9% to EUR 471 (519) million. Showing a net interest return of 4 (4)%, the investment result was slightly better than in the previous year. Overall, then, the company generated a breakeven result as in the previous year.

Within the scope of the dual-brand strategy pursued by the HDI-Gerling Life Group, A-LV specializes in performance-oriented unit-linked products. Bearing in mind the clear focus of many customers on the need for security, the market environment for the company will remain difficult for the time being. In light of the present market changes and the effects of the financial crisis, the company's current positioning can only be an intermediate step along the path towards further measures, which have still to be evaluated in the context of the ongoing Group projects.

Bancassurance Division: Proactiv Holding AG and subsidiaries

Proactiv Holding AG – Bancassurance by Talanx concentrates the activities of the division for the Group. The holding company has three national and three international cooperations. The local insurance companies are predominantly active in the areas of life, annuity and personal accident. The holding company assumes tasks relating to strategic development and positioning as well as central and cross-sectional functions for these individual insurance companies.

In 2009 the division contributed around EUR 2.8 billion to the premium income booked by the Talanx Group. In accordance with its status as a holding company, the profit for the year recorded by Proactive Holding AG was crucially shaped by income from participating interests. The income received from subsidiaries under profit transfer agreements totaled EUR 21 million, while the dividend claims capitalized in phase from distributing participations stood at EUR 75 million in 2009. The dividend receivables due from Neue Leben Holding AG in 2009 are capitalized in phase. The 2008 dividend also accrued in the year under review in an amount of EUR 10 million after a phase delay, as a consequence of which Proactiv Holding AG booked a total of EUR 106 million from the subsidiaries.

The profit of Targo Lebensversicherung AG (formerly: CiV Lebensversicherung AG) was transferred directly to Talanx AG in the previous year and therefore did not pass through the books of Proactiv Holding AG. In 2009 the dividend paid by Targo Lebensversicherung was capitalized in phase at Proactiv Holding AG.

The holding company closed the 2009 financial year with a profit on ordinary activities of EUR 102 (52) million, which was transferred in full to Talanx AG on the basis of the existing profit transfer agreement.

The **Neue Leben Group** positions itself as the provision specialist and expert partner for Sparkasse savings institutions; with an entire system of high-quality products, flexible provision solutions and concepts tailored to specific customer groups it has established itself with its Sparkasse partners as an innovator in the field of individual and occupational retirement provision.

Neue Leben Holding AG is the parent company of Neue Leben Lebensversicherung AG and Neue Leben Unfallversicherung AG, in which it holds all shares. It holds a participating interest of 49% in Neue Leben Pensionsverwaltung AG, which in turn is the sole owner of Neue Leben Pensionskasse AG. The majority shareholder of Neue Leben Holding AG is Proaktiv Holding AG with a stake of 67.5%; additional interests are held indirectly and directly by seven Sparkasse savings institutions.

The profit for the year reported by Neue Leben Holding AG grew by EUR 1.7 million in 2009 to EUR 17 (15) million. The improvement derived principally from the increased distribution paid by Neue Leben Lebensversicherung AG. Neue Leben Lebensversicherung AG generated a profit for the year of EUR 14 (13) million, which was paid out to Neue Leben Holding AG in the full amount. Neue Leben Pensionsverwaltung closed the financial year with a profit, but it was unable to pay a dividend to Neue Leben Holding AG due to the loss carry-forward from the previous year. After the allocation to retained earnings Neue Leben Holding AG reported a disposable profit of EUR 17 million in the year under review.

All in all, the companies belonging to the Neue Leben Group were able to strengthen their competitive position in 2009 despite the challenging market climate. Neue Leben Lebensversicherung AG, for example, held its administrative expense ratio at a market-leading low level of 1.1 (1.1)%. Based on a sustainable and safety-conscious investment policy, Neue Leben Lebensversicherung AG generated a net interest return of 4.5%. With a total return of 5.5% for endowment and annuity policies, Neue Leben Lebensversicherung AG is therefore again able to offer its customers an above-average surplus participation for 2010.

Given that economic growth will still be muted in the current financial year, Neue Leben Versicherungen expects to face a challenging sales environment. Neue Leben is strengthening its local presence through a nationwide roll-out of regional support. The aim is to further improve the service and assistance given to its Sparkasse partners in the areas of retirement provision and risk protection, to intensify cooperation with the existing partners and to bring new Sparkasse partners on board. For the 2010 financial year Neue Leben Holding AG anticipates a good year-end result.

As the exclusive insurance partner of TARGOBANK (formerly Citibank), CiV Lebensversicherung AG has adapted to the bank's new name. Since 22 February 2010 it has been trading as Targo Lebensversicherung AG, thereby underscoring the continuing close ties with its bank partner.

Targo Lebensversicherung AG can look back on 25 years of successful cooperation with TARGOBANK – a partnership that today ranks among the most successful bancassurance cooperations in Germany. Working together with TARGOBANK, **Targo Lebensversicherung AG** develops tailored provision products that are fully integrated into the partner bank's Corporate Design and product portfolio. The insurance products marketed by Targo Lebensversicherung AG thus form an integral part of TARGOBANK's range of offerings.

After the bank partner, Citibank Privatkunden AG & Co. KGaA, was acquired by the French cooperative bank Banque Fédérative du Crédit Mutuel from the former parent company Citigroup on 6 December 2008, the necessary rebranding took place on 22 February 2010. Since that date Citibank has traded under the name TARGOBANK AG & Co. KGaA. CiV Versicherungen similarly adapted to the new name of the bank partner and has been trading as Targo Versicherung AG (formerly CiV Versicherung AG) and Targo Lebensversicherung AG (formerly CiV Lebensversicherung AG) with effect from 22 February 2010. The profile of Targo Versicherungen has been aligned with the new bank partner's brand. As part of an extensive rebranding campaign, the branches of TARGOBANK were remodeled, the product names of Targo Versicherungen were revamped, sales documents and marketing materials were appropriately adjusted and the website was redesigned.

The new business generated by Targo Lebensversicherung AG produced total premiums paid of EUR 2.2 billion, while gross written premium in the 2009 financial year totaled EUR 832 million. The net return on investments of 4.6% was significantly better than in the previous year (1.5%).

With a return (excluding terminal bonuses) of 4.8% paid on the credit balances of policyholders under life and annuity products, Targo Lebensversicherung AG is comfortably better than the market average of 4.2%. Targo Lebensversicherung AG generated a profit for the year of EUR 39 (32) million.

For 2010 Targo Lebensversicherung AG believes that it is well poised for profitable growth. Its successful course is to be continued with the new owner Crédit Mutuel – as highlighted by the rebranding and alignment with the new partner.

PBV Lebensversicherung AG is a wholly owned subsidiary of Proactiv Holding AG based in Hilden. The company also has a branch in Hamelin. PBV Lebensversicherung AG operates on the market in concert with PB Lebensversicherung AG, PB Versicherung AG, PB Pensionsfonds AG and PB Pensionskasse AG under the uniform brand "PB insurers – partners of Postbank". The individual companies have specialized in the following products:

- PBV Lebensversicherung AG: Specialist insurer for retirement provision products
- PB Lebensversicherung AG: Specialist insurer for payment protection
- PB Versicherung AG: Specialist insurer for personal accident insurance
- PB Pensionsfonds AG/PB Pensionskasse AG: Specialists for occupational retirement provision products

Working together with its partner Deutsche Postbank AG, PBV Lebensversicherung AG offers insurance products that are optimally attuned to the needs of Postbank customers. All products are developed exclusively for the seven distribution channels of Deutsche Postbank AG. The cooperation combines the selling power of Postbank with the insurance know-how of Talanx.

Gross written premium increased to EUR 496 (454) million, a gain of 9%. This favorable development was driven by the rise in single premiums, which climbed 53% to EUR 129 (84) million. Net premium earned grew by 4.3% to EUR 471 million and thereby surpassed the level of the previous year. Individual policies accounted for EUR 436 (390) million – equivalent to 88 (86)% – of written premiums.

Altogether, new business was brokered in 2009 with a sum insured of EUR 1.9 (2.4) billion or a volume of EUR 52 (66) million in relation to regular premiums for one year. In individual business the sum insured of new business amounted to EUR 1.6 (2.0) billion. The net investment result of PBV Lebensversicherung AG reached EUR 98 million. The current average return on investments stood at 4.6%, while the net interest return of 5.3 (3.0)% improved appreciably on the previous year.

PBV Lebensversicherung AG has maintained this unusually high level enjoyed by its customers for 2010. With a surplus participation of 4.5% plus a terminal bonus of 0.7%, insureds can normally share in the unchanged high surplus participation of 5.2%. In the 2009 financial year PBV Lebensversicherung AG generated a profit for the year of EUR 15 million. Allowing for the profit carried forward from the previous year of EUR 4 million, the disposable profit came in at EUR 19 million.

In the interests of value-based management PBV Lebensversicherung AG will continue to focus on increasing the embedded value through further improvement of the cost situation and the investment result. On this basis we see opportunities to gain market advantages and further strengthen the competitive position of PBV Lebensversicherung AG as a specialist insurer for individual retirement provision products.

PB Lebensversicherung AG is also a wholly owned subsidiary of Proactiv Holding AG and is integrated into the "PB insurers" (PB Versicherungen). The head office of PB Lebensversicherung AG is in Hilden. Since 2008 the company has concentrated exclusively on credit life insurance in new business. It also continues to manage the "old portfolio" of individual life policies acquired in the years up to 2008.

Gross written premium in credit life business was boosted in the 2009 financial year by EUR 2 million to altogether EUR 39 million. Total single premiums also increased by 8% from EUR 55 million in the previous year to EUR 59 million in 2009. A key factor here is the rise in Riester subsidies. Owing to the shift in strategy – since 2008 new individual life business has been assumed by PBV Lebensversicherung AG –, the total gross premium written by PB Lebensversicherung AG contracted by EUR 8 million from EUR 201 million to EUR 193 million.

The net investment result of PB Lebensversicherung AG improved substantially on 2008 to reach EUR 37 (28) million. The net return on investments stood at 4.5%, a good level that also corresponds to the current average return. The life insurance customers of PB Lebensversicherung AG are generally able to share in an unchanged high surplus participation of 4.7%. The profit for the year was boosted to EUR 9.2 (8.8) million in the 2009 financial year.

Reinsurance

The Reinsurance segment of the Talanx Group, which combines non-life and life/health reinsurance, is comprised primarily of the Hannover Re Group, one of the world's pre-eminent reinsurance groups. Talanx AG holds a stake of 50.2% in Hannover Rückversicherung AG (Hannover Re), while the remaining shares of this listed company are held by institutional and private investors. Hannover Re writes the Group's active reinsurance solely in foreign markets; its subsidiary E+S Rückversicherung AG (E+S Rück) bears responsibility for German business. Hannover Re participates in the German reinsurance market and, conversely, international developments are reflected in the business result of E+S Rück through internal group retrocessions between the companies.

Hannover Rückversicherung AG

Reinsurance business developed highly satisfactorily in the year under review. The financial market crisis and the associated shortage of capital among primary insurers had a stimulating effect on Hannover Re's operating business in the year under review. Reinsurance continued to grow in appeal for clients as a capital management tool – especially in capital-intensive segments of non-life reinsurance. While rates in the previous year had still been notable for softening tendencies, Hannover Re was able to obtain stable prices – and in some cases even increases – in the treaty renewals as at 1 January 2009, the time of year when roughly two-thirds of the portfolio is renegotiated. In some markets and lines the increases even ran into double-digit percentages.

In property business it was still possible to obtain appreciable rate increases in the first half-year, although the extent of the gains flattened off as the year under review progressed. The absence of catastrophe losses put an end to any further price rises. Rates in casualty business were broadly inadequate in 2009. Although price increases were possible in US workers' compensation reinsurance, they were not sufficient; in the general liability lines and in professional indemnity business rates merely held stable.

The burden of catastrophe losses remained below average in the year under review, in part thanks to a rather unremarkable hurricane season. Despite a series of devastating natural disasters, the repercussions on the reinsurance industry were mostly slight. The largest single event in 2009 for Hannover Re was the severe bush fires in Australia, followed by winter storm "Klaus" and the crash of the Air France Airbus. Total net expenditure on catastrophe losses and major claims in 2009 amounted to EUR 104 (212) million. The combined ratio stood at 101.3 (98.5)% in the year under review.

The already existing license to transact life and health reinsurance in China was extended in 2009 by the China Insurance Regulatory Commission (CIRC) to include non-life reinsurance. Moving forward, both business groups will be operated directly out of the Shanghai office. This strengthened presence enables clients to access all services from a concentrated source. At the same time, it provides an optimal platform to further expand the position in China. As far as new business developments are concerned, Hannover Re is now also participating in the area of micro-insurance. In Pakistan an initial project has been launched in cooperation with a locally based insurer: low-income individuals are now able to obtain insurance protection. Hannover Re is active in this sector as a reinsurance partner and also provides support, especially with its know-how. Micro-insurance products will continue to grow in importance going forward, and hence further cooperative ventures will follow. Retakaful business, i.e. reinsurance transacted according to Sharia-compliant principles, is also developed very satisfactorily.

In life reinsurance, too, the development of business was highly gratifying in the year under review. Given the significantly weaker solvency position of life insurers, the need for reinsurance solutions continued to grow; demand thus increased for risk- and financially oriented products. In this area Hannover Re was able to close several mid-sized transactions in the United States, United Kingdom, Germany, South Africa and China (including Hong Kong) in the year under review.

The development of Hannover Re's overall portfolio was very pleasing. The gross written premium in total business climbed by 14% in the year under review to EUR 8.3 (7.3) billion. The retention increased from 75% to 78%. Net premium earned grew by 17% to EUR 6.4 (5.4) billion. A profit for the year of EUR 259 (–210) million was generated.

Bearing in mind the favorable market conditions described above in non-life and life/health reinsurance as well as its strategic orientation, Hannover Re is looking forward to another good financial year in 2010. Hannover Re anticipates net premium growth in the original currencies of around 4% for non-life reinsurance and roughly 10% for life and health reinsurance. A return on investment of 3.5% is also targeted.

E+S Rückversicherung AG

As the dedicated reinsurer for the German market, E+S Rück has for many decades been a sought-after partner thanks to its excellent financial standing, highly developed customer orientation and the continuity of its business relationships. E+S Rück continues to rank second among reinsurers in Germany, the second-largest non-life reinsurance market in the world.

Intense competition continued to be the hallmark of the property/casualty insurance market in 2009, above all in Germany – both in industrial lines and private customer insurance; in the latter case this was especially true of motor business, an important line for the company. The climate on the reinsurance side, however, was more favorable, as a result of which rates and conditions were broadly adequate. The gross written premium in non-life reinsurance climbed by EUR 197 million in 2009 to EUR 1.5 billion. The gratifying volume growth derived in particular from the casualty, fire, accident, motor and aviation lines.

The premium volume in life and health reinsurance remained virtually unchanged year-on-year. The minimal contraction in life business was almost offset by growth in health reinsurance. Gross written premium in the two lines fell by 0.4% in 2009 to EUR 1.1 billion.

The burden of catastrophe losses was below average in the year under review, in part thanks to an unremarkable hurricane season. Despite a series of devastating natural disasters, the repercussions on the reinsurance industry were mostly slight. The largest single event in 2009 for E+S Rück was the flooding in Manila in the Philippines at the end of September with a net strain of EUR 11 million, followed by the crash of the Air France Airbus at the start of June (EUR 7 million). The total net expenditure from catastrophe losses and major claims amounted to a mere EUR 35 (113) million in 2009.

Net expenses for incurred claims climbed by EUR 233 million in the year under review to EUR 1.5 billion, principally due to increased expenditures in the casualty and life lines. The expense for the other net technical reserves, on the other hand, amounted to just EUR 28 (143) million in 2009. The expansion of business also pushed operating expenses higher than in 2008: they rose by EUR 92 million to EUR 469 million. Own administrative costs, on the other hand, increased only marginally. The administrative expense ratio – the ratio of administrative expenses to net premium earned – decreased from 1.7% to 1.6% in the year under review.

Altogether, the gross premium written by E+S Rück in 2009 climbed 8% to EUR 2.6 billion. The share of life and health reinsurance contracted to 42% owing to the sharp rise in non-life reinsurance. As a consequence of the slightly increased level of retained premium, net premium earned grew more vigorously by 10% to EUR 2.0 (1.8) billion.

Against the backdrop of progressive stabilization on international capital markets, E+S Rück again generated a satisfactory investment result of EUR 290 million in 2009. The previous year's figure of EUR 211 million had been impacted by losses realized on the disposal of equities. The expansion of business led to a considerable inflow of additional cash, the bulk of which was invested prudently in debentures in the year under review. The portfolio of assets under own management continued to grow to EUR 4.5 (4.3) billion.

Bearing in mind the favorable market conditions in non-life and life/health reinsurance and given its strategic orientation, E+S Rück anticipates another good financial year in 2010 and expects a profit for the year of a similar magnitude to that recorded in 2009. This is, however, subject to the proviso that the loss experience in natural catastrophe business stays within the expected bounds and that there are no fresh upheavals on international capital markets.

Corporate Operations

Operating under the "AmpegaGerling" brand, the Corporate Operations segment encompasses both the asset management activities of the Talanx Group and asset management as well as funds business conducted for third-party institutional and private clients. The Asset Management GmbH, Investment GmbH and Immobilien Management GmbH are grouped together under this brand. The Group's own reinsurance broker Protection Reinsurance Intermediaries AG also belongs to the Corporate Operations segment.

AmpegaGerling Asset Management GmbH

AmpegaGerling Asset Management GmbH (AMG) is an asset management firm that is not supervised by the Federal Financial Supervisory Authority (BaFin) as defined by § 2 Para. 6 No. 5 of the Banking Act (KWG). It renders its financial services exclusively within the scope of the intra-Group exemption, specifically for insurance and other undertakings within the Talanx Group.

In addition to performing asset management tasks for the Talanx Group companies, the business activities of AMG encompass the full range of administrative services such as investment accounting including taxes and HGB/IFRS reporting, performance measurement, investment/risk controlling, compliance, investment reporting as well as financial analysis and asset/liability management (ALM) in coordination with the insurance carriers.

The total volume of assets under management at the end of the financial year was EUR 59.8 billion. It therefore exceeded the previous year's level by EUR 5.9 billion, influenced primarily by market effects.

The profit on ordinary activities excluding income from profit transfer agreements increased in conjunction with the volume-driven rise in fees and commission income (+EUR 8.3 million) to EUR 23 (21) million. After adjustment for the supplementary allocations made to five special fund volumes of AmpegaGerling Investment GmbH in 2008 in an amount of EUR 9 million, personnel and material expenditures rose by EUR 11 million. This increase was due in particular to special project costs and consulting fees associated with the expansion and risk protection/quality assurance of process and performance structures in order to ensure the Talanx Group's IPO readiness as well as with certification by the Federal Financial Supervisory Authority (BaFin).

Along with managing the challenges posed by the special financial and capital market situation, the principal tasks in the 2010 financial year continue to be ensuring the IPO readiness of the Talanx Group as well as Solvency II certification of an internal model by the Federal Financial Supervisory Authority (BaFin) and SAS 70 (I) certification.

Given a decrease in operating expenses, driven primarily by a reduction of project costs and consulting fees, an operating profit of EUR 29 million (excluding income from profit transfer agreements) is anticipated in 2010, with the volume of assets under management set to come in on a roughly unchanged level.

AmpegaGerling Investment GmbH

AmpegaGerling Investment GmbH (AIG) is an investment company under German law pursuant to § 2 Para. 6 of the Investment Act (InvG). AIG is owned by AmpegaGerling Asset Management GmbH (AMG) with a stake of 94.9% and Alstertor Erste Beteiligungs- und Investitionssteuerungs-GmbH & Co. KG (Alstertor) with a share of 5.1%.

AIG manages separate funds, separate real estate funds, separate mixed funds and separate funds for retirement provision that are in conformity with the applicable directives, performs financial portfolio management tasks and conducts custodian business.

The company had 48 special funds and 82 public funds under management as at 31 December 2009 with a total volume of EUR 9.8 (9.1) billion. The launch of 13 new separate funds in the public funds segment and 6 in the special funds segment contrasted with the closing of 9 public funds and 6 special funds. Within the scope of financial portfolio management the company also administered 8 financial portfolios with a volume of EUR 3.4 (3.6) billion as at 31 December 2009. All in all, AmpegaGerling Investment GmbH had 129 portfolios under management with a total volume of EUR 13.2 (2.7) billion as at the balance sheet date.

In retail business, the strategic focus of its sales activities, AIG was able to boost the volume by EUR 440 million to EUR 2.2 billion thanks to significant net cash inflows as well as the positive performance trend on equity and bond markets. This was an increase of 24% relative to the starting level of 1.8 billion in December 2008 (after transfer of the fund baskets under unit-linked business from AIG to AMG). Contrary to the industry development as a whole, AmpegaGerling acquired a net cash inflow on the market of EUR 276 million (excluding Group investments in public funds). According to the association representing the German investment fund and asset management industry (BVI Bundesverband Investment und Asset Management e.V.), the industry as a whole showed a net cash outflow of EUR 781 million for public funds. AmpegaGerling thus successfully divorced itself from the development of the sector and grew against the trend. In comparison with rival investment companies of German insurers, the picture is also a positive one: AmpegaGerling generated the highest net cash inflow with respect to public funds.

The general industry situation stabilized in 2009 in comparison with 2008, even though the modest volume decline (–EUR 781 million) still does not point to a fundamental trend reversal in investor behavior. The picture in the individual asset classes varied widely: while money market funds (–EUR 3.9 billion) and bond funds (–EUR 600 million), in particular, experienced further outflows, equity funds (+EUR 1.5 billion) and mixed funds (+EUR 900 million) showed gains. This sales structure of the market as a whole was problematic for AmpegaGerling, since its own product concentration is inevitably on bond and money market funds owing to the company's profile as an investment company serving insurance clients. It is all the more gratifying that AIG achieved a breakeven sales performance in these asset classes and, what is more, that the increases in diversified asset management funds delivered significant growth. In terms of sales segments, unit-linked business (AIG funds within the Group's own unit-linked policies +EUR 46 million) as well as white label business (funds administration for third parties, +EUR 327 inflow) also proved to be durable success factors in 2009. Direct business conducted through the Group's own sales organization stabilized as the year progressed and showed only a comparatively modest outflow for 2009 (–EUR 31 million). In third-party business with external sales partners outside the Group the company achieved a virtually breakeven sales performance (–EUR 16 million) despite the product emphasis on annuity and money market funds.

In addition to retail business, the company engages in institutional business with third-party clients and – on the basis of its existing know-how profile – positions itself as an outsourcing partner for small and mid-sized primary insurers and as an administrator for non-Group asset managers. In 2009 it enlarged a master fund of an insurance undertaking outside the Group by EUR 160 million. This contrasted with return flows under reporting mandates, as a consequence of which the volume contracted on balance by EUR 334 million (–9%) in 2009 relative to the previous year. The volume of institutional business as at December 2009 thus stood at EUR 3.3 billion, hence accounting for 25% of the total volume of assets under management at AIG.

The asset portfolios managed for Talanx Group companies exceeded the previous year's volume (EUR 6.9 billion) at EUR 7.7 billion, especially after the transfer of a direct investment mandate managed by AmpegaGerling Asset Management until 2008.

Against the backdrop of the significant market downturn in 2008 – especially in retail business – and the transfer of financial portfolio mandates from AIG to AMG, fees and commission income of altogether EUR 23 (27) million were generated in the year under review. Personnel and material expenditures including cost allocation within the AmpegaGerling companies were slightly in excess of the previous year after adjustment for the fund allocations made in 2008. Overall, a profit on ordinary activities of EUR 7 (4) million was achieved in 2009.

AmpegaGerling Immobilien Management GmbH

In additional to commercial and technical functions associated with real estate management for the insurance carriers of the Talanx Group, the business activities of AmpegaGerling Immobilien Management GmbH (AIM) also encompass services in the areas of investment, client accounting and corporate real estate management as well as the handling of mortgage lending transactions, principally for HDI-Gerling Lebensversicherung AG.

The fair market value of the real estate under management at the end of the 2009 financial year was EUR 8 million higher than in the previous year at EUR 1.38 billion. The profit on ordinary activities amounted to EUR 0.2 (1.9) million. The operating profit generated in the year under review was slightly below that of the previous year; the decrease can be attributed inter alia to a reduction in other income.

In view of the commission agreements existing with investors from the Talanx Group, the company anticipates a breakeven operating result for 2010. Profit contributions from possible project consulting services cannot yet be estimated at the time of review. Against this backdrop, the business model and enterprise strategy of the company are to be subjected to scrutiny and optimization in 2010.

Protection Reinsurance Intermediaries AG

Protection Reinsurance Intermediaries AG (Protection Re) is also allocated to the Corporate Operations segment within the Talanx Group. The company is wholly owned by Talanx AG and serves as the professional reinsurance advisor and broker for reinsurance cessions (non-life business) of the Talanx Group.

The core business of Protection Re consists of providing primary insurers with comprehensive advice on all aspects of outward reinsurance. Protection Re handles the complete spectrum of the reinsurance business process for each Group cedant to the extent necessary in each particular case. From portfolio analysis and advising on the structuring of reinsurance programs to administration and run-off of the placed reinsurance arrangements, specialized teams develop and support viable solutions that help Group cedants to achieve their business objectives on a lasting basis.

In this key function Protection Re optimizes reinsurance for ceding companies within the Talanx Group worldwide. Treaty and facultative reinsurance capacities are built up and secured for the long term. The credit standards applied to reinsurers that assume Group business are centrally managed and constantly monitored. The know-how, long-standing experience and superb contacts of Protection Re's teams in the international reinsurance markets as well as the intensive personal cooperation with global partners safeguard reliable reinsurance capacities.

Particularly with a view to placing German cedants' business with reinsurance companies outside the European Union, a branch of Protection Re was opened in London in 2009. The reinsurance capacities required for all Group cedants served by Protection Re were thus again successfully obtained for 2010 on the world market.

With a placement volume handled in 2009 amounting to EUR 1.4 billion in ceded premium, the company ranks among Europe's major reinsurance brokers. The entire profit for the year of EUR 12 (13) million is transferred to Talanx AG on the basis of the existing profit transfer agreement. As things currently stand, it may be anticipated that the positive result achieved by Protection Re in 2009 can be generated again on this level in the 2010 financial year.

Events of special significance after the end of the financial year

The earthquakes in Haiti in the middle of January 2010 and in Chile at the end of February 2010 – measuring 7.0 and 8.8 respectively on the Richter scale – caused losses running into the billions. Based on early estimates, the Talanx Group has incurred net loss expenditure in the order of EUR 210 million.

According to initial estimates, an explosion at a power plant under construction in the United States on 7 February 2010 will result in loss expenditure of approximately EUR 10 million for our subsidiary Hannover Re.

The insured losses caused by winter storm "Xynthia", which swept across Europe at the end of February 2010, are estimated to be in excess of EUR 1.5 billion. We are impacted by this catastrophe loss through our insurance and reinsurance activities; based on the information currently available, we anticipate a net loss burden of around EUR 60 million.

The causes of the collapse of the Cologne City Archive are currently still under investigation. Companies belonging to the Talanx Group are among those involved in liability covers existing for potentially responsible parties.

On 19 January 2010 our subsidiary Proactiv Holding AG and RheinLand Versicherungsgruppe signed a cooperation agreement regarding the joint development of credit life business in Europe. The two contracting parties are together establishing the agency company "Credit Life International Services", a joint venture based in Neuss in which each partner holds a 50% interest. Both partners will concentrate their expertise and resources in this new company and they will operate on the European level as credit life providers under the umbrella brand "Credit Life International".

In a press release dated 27 January 2010 Hannover Re announced that it had increased the "K6" transaction launched in the year under review with effect from 1 January 2010 by the maximum targeted amount of EUR 106 million to a total volume of EUR 230 million. The new tranches were taken up by both new and existing investors.

In March 2010 our subsidiary Hannover Re concluded a USD 500 million long-term letter of credit facility with Deutsche Bank. The facility will enable Hannover Re to make the most of further attractive growth opportunities in the US reinsurance market.

Negotiations are currently taking place regarding the sale of our subsidiary Euro International Reinsurance S.A., Luxembourg, which is allocated to the Non-Life Reinsurance segment. The sale has been targeted for 2010. Disclosure of the relevant assets and liabilities as a disposal group was not provided because the conditions of IFRS 5 had not been fully satisfied as at the balance sheet date.

Risk report

As the holding company of an insurance and financial services group whose undertakings are active predominantly in the insurance industry, Talanx AG not only carries its own entrepreneurial risks but also shares in the risks of its subsidiaries. The assumption of risks against payment is the core of our business, and a marked level of risk awareness is crucial to our success since it constitutes the prerequisite for sustained participation in the available opportunities. Consequently, Talanx AG too uses its own specially tailored tools to monitor and manage risks.

The control mechanisms and decision-making processes of Talanx AG are embedded in the Group standards, which encompass most notably the preparation and auditing of the annual accounts, the internal control system and the controlling tools.

We use a value-based approach (Intrinsic Value Creation) to manage our business activities. One of the most important parameters within this process is the risk-based capital, i.e. the capital required to conduct our business activities. By taking the risk-based capital as a controlling parameter, we are able to optimize the allocation of capital within the Group.

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-based capital model enables us to adequately quantify the risks. 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 risk quantification is to calculate the risk-based 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 the effects of correlations between Group companies and risk categories. A stochastic, Solvency II-oriented risk-based capital model is currently under development that will facilitate the Talanx-wide use of internal models. The Federal Financial Supervisory Authority (BaFin) began to examine this model in 2008, and we are seeking to obtain regulatory approval for its adoption. 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 divisional risk managers in order to remain constantly updated on the risk situation at the subsidiaries. The divisional risk managers 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 continuously informed of risks and can intervene as necessary to take controlling action.

The Risk Committee of the Talanx Group, comprised in particular of the Chief Risk Officer and the Chief Financial Officer of Talanx AG as well as the risk managers from the individual divisions, monitors the capitalization and risk profile of the entire Group and ensures that the relationship between these two parameters is appropriate. The Risk Committee is also tasked with further enhancing risk controlling and 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 appropriate countermeasures in a timely manner. The plans drawn up by all Group companies and the Group as a whole are discussed and approved by the Board of Management and Supervisory Board of Talanx AG.

Risks of future development

We have combined the risks to which Talanx AG is exposed into risk groups and analyzed and evaluated them on the basis of the existing standards. The risk groups include:

- global risks
- participation risks
- functional risks

Global risks encompass risks associated with changes in the political environment, economic climate or provisions of tax law. They are discussed intensively by the Board of Management of Talanx AG and the corresponding bodies for the Group as a whole and are monitored, in particular, through Association activities, information databases and a constant dialog with local management.

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

As part of the group of functional risks, the risk of asset erosion on acquisitions and their inadequate profitability is kept as low as possible through detailed due diligence tests conducted in cooperation with independent professional consultants and auditors as well as intensive monitoring of the business development. Furthermore, Talanx pays close attention to risks deriving from the financing of acquisitions and 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 defining priorities for the application of funds. With respect to the financing and liquidity risks, too, Talanx AG is directly exposed to the risks of its subsidiaries through the profit transfer agreements and dividend payments. The leverage of Talanx AG is regularly reviewed. In 2009 the ratio of provisions and liabilities to total assets stood at 37.6 (40.7)%. A large proportion of the provisions relates to provisions set aside for pensions. Talanx counteracts the possibility of insufficient allocations to the pension provisions (e.g. through changes in mortality, inflation and the interest rate trend) by regularly reviewing the adequacy of the actuarial bases.

The tools and procedures described above for monitoring and controlling risks additionally include a planning component, thereby also enabling us to keep our sights firmly trained on the risks of future development.

Within the scope of the planning process for Talanx AG, the plans of all major subsidiaries are submitted to the Board of Management and the corresponding Group bodies, intensively discussed in this framework, reviewed for plausibility and adopted. In this context the special features of the development of business at the individual companies are discussed in a nuanced manner. Talanx AG draws up its own profit projection on this basis. This planning process takes into account both future developments and the interdependencies between the subsidiaries' planning and that of Talanx AG. In the context of the Performance Management cycle the planning takes account of both operational and strategic aspects.

Summary assessment of the risk situation

No specific risks have as yet emerged that could jeopardize the continued existence of Talanx AG or significantly impair its assets, financial position or net income. Particularly with an eye to the further unfolding of the banking crisis, however, there is a considerable abstract degree of uncertainty. The same is true of ongoing developments in the legal framework governing our entrepreneurial activities.

Since the risk situation of Talanx AG is crucially shaped by the risks of the subsidiaries, their risks and risk management measures are described in greater detail below. The overall risk situation of the subsidiaries can be broken down into the following five risk categories:

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

A restructuring of the Talanx Group is planned in the context of the "Focus" project. The core of the new structure is a reconfiguration of the Group segments in primary insurance business. The new structure will be geared to our customer segments: in global industrial business, on the one hand, and – spanning the various lines of insurance – in German as well as foreign retail business, on the other. Possible implications for the opportunity/risk profile can only be analyzed once an adequately detailed implementation plan is available.

Effects of the banking crisis

The Talanx Group, in common with other industry players, was unable to escape the repercussions of the banking crisis entirely unscathed. After extensive write-downs had been taken on securities in 2008 owing to the adverse capital market climate, the situation eased appreciably in 2009. The market risk associated with stock investments was reduced by significantly scaling back the equity allocation in 2008 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 banking crisis on capital markets, the Talanx Group tightened up its previously applicable risk limits in key respects so as to further minimize risks.

Should the current low interest rate level be sustained or indeed should further interest rate cuts ensue, this would give rise to a considerable reinvestment risk for the life insurance companies offering traditional guarantee products since it would become increasingly difficult to generate the guaranteed return. The Group reduces this interest guarantee risk primarily by means of interest rate hedges (see under "Material underwriting risks").

The contraction in bank lending that has been observed in the market as part of the banking crisis and the associated potential difficulties raising cash are of only minor significance to the Talanx Group (compared to the banking industry) for reasons connected with the business model; this is because Talanx inherently has sufficient cash owing to the regular premium payments and interest income from invested assets as well as its liquidity-oriented investment policy. Extensive unused lines of credit are also available. Liquidity risks may, however, arise in particular as a consequence of illiquid capital markets and – in the life insurance sector – due to increased cancellations by policyholders, if this necessitates the liquidation of a large volume of additional investments at short notice. Overall, against a backdrop of declining interest rates, higher volatilities and increased risk spreads, we observed appreciable falls in the Market Consistent Embedded Value (MCEV) of the life insurers for 2008. The MCEV for 2009 will be calculated in the first half of 2010.

Furthermore, the banking crisis may have implications for the business models of the Talanx Group's individual segments/divisions, e.g. in the form of a possible softening of demand for insurance coverage.

Material underwriting risks

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 Talanx sets aside extra reserves on the basis of its own claims investigations in addition to the reserves for 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.

Typical risks in **life primary insurance** arise out of the fact that contracts provide long-term benefit guarantees: while the premiums for a defined benefit are fixed at the beginning of the contract for the entire 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 the 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.

The constant ability to fulfill these contracts is safeguarded by way of reserves calculated on the basis of assumptions regarding the development of biometric data such as mortality or disability. Specially trained life insurance actuaries ensure that the actuarial bases also make adequate allowance for risks of change through safety loadings.

Life insurance policies additionally 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 hold a sufficiently large asset portfolio in short-term investments. Furthermore, they 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 agents are therefore carefully selected. Cancellation may also create a cost risk if new business declines sharply and the fixed costs – unlike the variable costs – cannot be directly reduced. Cost controlling and a focus on variable sales costs through distribution channels such as brokers limit this risk.

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

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 vital 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. Value adjustments or write-downs on receivables would be the result.

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

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

Material investment risks

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

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

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

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

Within the scope of the Group guidelines, detailed investment guidelines are in force for the individual companies, compliance with which is constantly monitored. These investment guidelines are used to define the framework of the investment strategy. Monitoring of the quotas and limits set out in these guidelines is the responsibility of Group Risk Management and local risk management as well as the Chief Financial Officer of each company. Any material modification of the investment guidelines and/or investment policy must be approved by the Board of Management of the company concerned and brought to the attention of its Supervisory Board.

Risks in the investment sector consist most notably of market, credit and liquidity risks. 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. The credit risk refers to the possible fall in the value of an asset due to the failure of a debtor or a change in their ability to pay. The liquidity risk refers to the risk of being unable to convert investments and other assets into cash in order to meet our financial obligations when they become due. Thus, for example, it may not be possible to sell holdings (or to do so only with delays) or to close open positions (or to do so only with price markdowns) due to the illiquidity of the markets. In addition, particularly in the area of profit-participating loans, there is a risk of default on interest payments. This risk has been exacerbated by the banking crisis.

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

Legal risks may arise in connection with contractual agreements and the general legal environment, especially with respect to business-specific imponderables of commercial and tax law as they relate to an internationally operating life and property/casualty insurer as well as a life/health and non-life reinsurer. Insurers and reinsurers are also dependent on the political and economic framework conditions prevailing on their respective markets. These external risks are subject to intense monitoring by the Talanx Board of Management on behalf of the entire Group and as part of an ongoing exchange of information with local management. We view with some concern the extensions of government powers to intervene in banks if there is a danger of them falling below the ratios set by regulators. Particularly with respect to profit participation certificates (Genussscheine) and silent partners' contributions (stille Einlagen), there is a latent risk of state intervention to the detriment of consumers and institutional investors as well as the investing insurance industry. What is more, a bank levy is envisaged in the United States to at least partially cover the costs of bailing out the banking sector. In this connection there is a risk that such a levy to build up contingency funds will be introduced in Germany or the rest of Europe, too, not only for banks but also for insurers – and hence it could also impact the Talanx Group. The consequences of this indirect risk associated with the banking crisis are not currently clear to us. There are also legal disputes and court decisions, especially with respect to life insurance, that could have implications for the entire German insurance industry and hence also for the Talanx Group. What is more, contrary to a very clear opinion expressed by specialist attorneys, the revenue authority is of the view that not inconsiderable investment income generated by the Group's reinsurance subsidiaries domiciled in Ireland is subject to additional taxation at the parent companies in Germany on the basis of the provisions of the Foreign Transactions Tax Act. Insofar as tax assessments to this effect have already been received, appeals have been filed – also with respect to the amounts already recognized as a tax expense. Our opinion has been confirmed in full by the court of the first instance.

The Talanx Group – in common with the entire insurance industry – is also facing far-reaching changes against the backdrop of the impending and in some cases already implemented reform of regulatory requirements, especially in the context of IFRS, Solvency II and the Minimum Risk Requirements for Insurance Undertakings (MaRisk VA). We have identified 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.

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 Talanx. Since the global sharing of information increasingly takes place via electronic data transfer, this also creates a vulnerability to computer viruses. Systematic investment in the security and availability of information technology preserves and enhances the existing high level of security.

Operating risks may also arise in the area of human resources, for example due to a lack of the skilled experts and managers necessitated by an increasingly complex business with a strong customer orientation. Talanx 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.

The World Health Organization (WHO) raised the influenza pandemic alert to level 6 in June 2009 with respect to the new strain of the influenza A virus (H1N1), also known as "swine flu". The Group's crisis management team was convened in response and crisis management teams were also set up at the divisional level. The Group and local crisis management teams are in close contact with one another and have initiated measures to safeguard operating procedures. The Talanx Group continues to monitor the situation with an eye to the "swine flu" so as to be able to respond quickly and appropriately to the latest developments.

Non-financial performance indicators

Public relations and advertising

As a holding company that does not offer products under its own name, Talanx AG does not conduct any marketing activities of its own and it places traditional advertising only on a minor scale. The various subsidiaries and brands carry out marketing campaigns in various media that target their own specific clientele.

Since the Talanx brand is aimed at the financial community – analysts, banks and fund managers – and business journalists, print advertisements intended to enhance awareness are placed selectively in newspapers and magazines that are particularly widely read by this group of individuals. As a further measure, a two-part commercial is broadcast on every trading day before and after the market wrap "Börse im Ersten" spotlighting Talanx's role as sponsor of this television program.

Human resources

In total, an average of 91 (83) staff were employed by Talanx AG in the financial year just-ended. The number of staff as at year-end was 97 (85), corresponding to 91.9 (81.9) full-time equivalents.

The primary task of Talanx AG as a financial and management holding company is to lead and steer the Group. The central human resources unit therefore coordinates personnel matters of Group relevance. Along with industrial co-determination and occupational retirement provision for the Group's employees, this includes, most notably, the areas of university marketing, the positioning of the Group as a "top employer", skills enhancement of senior executives, identification of high potentials and personnel controlling.

The most significant development on the human resources side in the year under review was the establishment of the Talanx Corporate Academy for senior managers at all Group companies worldwide. Through cooperation in some areas with eminent European business schools, the Talanx Corporate Academy offers this target group a top-grade training program as a higher-level complement to the already existing offerings of the Group companies. The Corporate Academy serves in particular to convey Group-specific topics such as the Talanx strategy and Group management methods. Another important goal, however, is to enhance communication and links between the holding company and the divisions as well as between the various divisions. Professors from highly reputed business schools are joined by members of the Talanx AG Board of Management as guest speakers and discussants.

Yet personnel development is an important aspect of human resources management not only for senior management, but also for all the employees of Talanx AG. After all, we are only as good as our people. On the basis of the umbrella strategy of Talanx, which in terms of the Group's human resources policy pursues a goal of strategic personnel advancement and development, a range of (further) training activities was designed for the staff of Talanx AG. The offerings assembled by Group Human Resources cover Talanx-specific issues, most notably the areas of risk management/TERM, integrated management tools and mergers & acquisitions, as well as instruction in social and methodological skills and language/IT training.

In the context of university marketing activities and the placement of the Talanx Group as a "top employer", a comprehensive employer image campaign was launched; driven by the slogan "Talanx your career", it promises a high level of brand recognition. Talanx will also continue to attend the major university job fairs so as to establish contacts with suitable students and graduates as early as possible. A new apprentice affinity program rounds off the package of measures with a view to staying in touch with apprentices who perform particularly well.

Last but not least, Talanx AG set up the Talanx Foundation in 2009, the primary purpose of which is to offer financial assistance to particularly strong and deserving students. The foundation, which emphasizes cooperation with insurance-related disciplines at selected universities, awards up to ten scholarships per semester.

The Board of Management thanks all the members of staff at Talanx AG for their dedication and efforts in the financial year just-ended.

Forecast

Economic environment

In the course of 2010 the recovery in the real economy should be sustained. This will initially be supported by the effect of the ongoing economic stimulus programs, although these will gradually come to an end as the year progresses. The inventory and investment cycle will also provide a boost over the coming months. Capital spending, in particular, was so heavily curtailed of late that in the medium term expenditure on replacement equipment will at least be necessary in order to preserve the capital stock. Expansion-oriented capital expenditures, on the other hand, are not anticipated since capacities are heavily underutilized.

Economic growth is, however, likely to be hampered by public and private-sector debt. The urgently needed reduction of indebtedness will restrict the potential for consumption. The picture on the labor market is a mixed one: while the United States will probably have bottomed out soon, rising rates of unemployment are not expected in Germany until the current year when wage support payments come to an end. To this extent, time that was "bought" here is now slowly running out. All in all, it is our expectation that the recovery in the real economy is facing a rocky road which will cause repeated stumbles. The growth potential of the coming years will level off below that of the years prior to the economic slump, and the effects of the financial crisis will be felt for quite some time to come.

Inflation rates should rise moderately in 2010 and move back towards the target level set by the central banks. Given low capacity utilization and high unemployment, however, there should not be any sharp increase in cost pressure. The stronger recovery of the US economy – in relative terms – should have a positive effect on the movement of the greenback in 2010, which will likely tend to appreciate against the euro. The expected narrowing of the interest rate differential between the United States and the Eurozone should also prove a supporting factor if the Federal Reserve makes the first move on interest rates ahead of the ECB. The pound sterling may be squeezed by the more uncertain inflationary outlook in 2010. Weak economic growth is also acting as a drag on the UK currency. Since the recovery here has hitherto lagged behind the United States and the Eurozone, there is, however, the possibility of a race to catch up lost ground, which would tend to have a supportive effect on the currency. Yet this is opposed by the high fiscal deficit in the UK relative to the Eurozone, which in turn is likely to be an adverse factor.

Capital markets

For 2010 the expectation is that central banks will begin to claw back the surplus liquidity on the markets. As long as the liquidity fails to reach the real economy and the economic upturn remains weak, inflationary pressure will be moderate. For the Fed, therefore, the first interest rate increases are not being priced in until the third quarter of 2010. The ECB is expected to follow the Federal Reserve. Market players are expected to increasingly turn to higher-risk asset classes in 2010. The quest for returns, coupled with the high issue volume of government bonds forecast for 2010, will probably lead to rising 10-year yields on government bonds. Overall, in conjunction with the increases in the prime rate, we anticipate a flattening of the interest rate curve on a higher level. We continue to expect a stable development on the markets for corporate bonds, always allowing for news-driven short-term volatility.

The favorable development on stock markets seen in recent months should be sustained. Fundamental values are still significantly below the long-term average. A trend reversal in corporate profits has already been ushered in. Following the crash in company earnings in 2009, an appreciable surge in profitability can even be anticipated – albeit from a low level. From a historical perspective, the rally since the lowest point of March 2009 has been exceptionally strong. The pace of recovery should therefore slow somewhat.

Future state of the industry

In common with virtually all industries – and especially the financial sector – the insurance industry was unable to divorce itself from the repercussions of the international financial and economic crisis, even though it was impacted considerably less severely than the banking sector by the direct effects of the crisis. As a significant economic factor and capital market player, it assumes a vital key function in the financial and economic system. Despite the crisis, the insurers' business model has proven robust. Against the backdrop of an emerging economic recovery – that is, however, in no way free from the risk of fresh setbacks –, the 2010 and 2011 financial years are expected to deliver crucial stimuli and map out the directions for future development.

For the German **life insurance** sector, we anticipate a moderate business development – relative to the economic auspices – which in our assessment will be accompanied by rather muted growth in premiums and new business. It is our expectation that premium growth will likely be flat or will decline somewhat. A reliable forecast is made more difficult by the fact that several trends are currently superimposed: in the first place, the purchasing restraint exhibited by large sections of the population on account of the continuing economic uncertainty is likely to curb demand. In this regard, the hope remains that the need for provision – which undoubtedly exists, especially in relation to individual retirement provision – will be reflected in rising policy numbers again in life business over the short or long term. Secondly, growth stimuli – particularly for traditional life insurance – can also be identified inasmuch as the financial crisis has considerably elevated the appeal of security considerations in the eyes of potential customers relative to a one-sided focus on returns. On the other hand, the caution towards unit-linked insurance products is likely to persist – at least until stock markets show a sustained recovery. It is comparatively difficult to assess the future development of single-premium business, the pace of growth of which is particularly dependent on capital market conditions and the supply of competing products. While the trend towards increased single premiums is essentially likely to continue – assuming the economy normalizes – two contrary effects can probably be anticipated if the current period of low interest rates is sustained: a growing significance of short-term capitalization products and at the same time a softening in the long-term savings propensity, which could be reflected in a decline in single premiums due to the cessation of new business by established providers, e.g. with respect to immediate annuities.

Similarly, the influencing factors on **property and casualty insurance** deriving from the macroeconomic environment are still heavily shaped by the repercussions of the international financial and economic crisis. The financial latitude open to both retail customers and commercial / industrial clients has contracted owing to the crisis. While the economic position of retail customers and private households is broadly stable overall, the plight of businesses is comparatively strained as a consequence of the recession-triggered slump in sales and the higher cost of capital. Given possible premium losses in commercial/industrial business owing to declining turnover volumes – which have a bearing on the premium calculation – premium income in this segment must therefore be expected to hold stable overall or decline somewhat. In motor insurance there are growing indications that price competition is abating. Despite incipient market hardening, however, it will probably not yet be possible to turn the premium erosion of recent years around into growth, since sales of new vehicles and hence demand for insurance coverage in 2010 are likely to be overshadowed by the pull-forward effects induced by the German government's car scrappage scheme. Premium declines are also expected in industrial property insurance and marine insurance in 2010 owing to economic factors, reduced output and cost pressure. All in all, it may be anticipated that the growth stimuli in property and casualty insurance will be limited, not least on account of the business climate, the moderate claims experience of recent years and market saturation. The expectation of below-average to slightly negative premium growth goes hand-in-hand with sustained pressure on expense ratios despite the cost-saving programs that have been initiated across the board. A protracted period of low returns on investments will also serve to ratchet up the pressure on the underwriting result and combined ratio if a commensurate return on equity is to be achieved.

Orientation of the company over the next two financial years

The orientation of Talanx AG in 2010 and 2011 will be shaped by the Group restructuring that was launched in September 2009; this is aimed at making the Group more competitive for the future, boosting process efficiency and meeting growth and profitability targets on a sustained basis. The far-reaching restructuring program extends to the primary insurance sector as well as the holding company and service functions.

Going forward, market cultivation is to be conducted with a new divisional structure geared to customer groups that will be segmented according to industrial business worldwide, German retail business and foreign retail business. The previous split into life and property/casualty insurance segments will be eliminated. While industrial insurance and foreign retail business are tasked with pursuing a clear expansionary strategy, the first priority in German retail business is to reclaim a competitive cost position. Further objectives are greater concentration of management functions within the Group and reduction of the existing complexity. With its new configuration Talanx will orient itself systematically towards its customers' needs, streamline the Group structure and put in place the organizational platform for targeted and efficient market cultivation. At the same time, the reconfigured structure also better satisfies the requirements of the capital market. Talanx intends to stand by its tried and tested, successful multi-brand strategy without reservation.

Another special area of concentration will be the further modernizing and restructuring of our Group-wide information technology systems.

Anticipated profitability and financial position of the company

Profit trend

Based on our current planning and expectations, we expect income from participating interests and profit transfers to Talanx AG to come in at just under EUR 380 million in 2010, a figure somewhat lower than the corresponding earnings of EUR 398 million in the previous year. This decrease will be driven by two main factors: the first major factor is the resumption of the dividend payment by Hannover Re – in which Talanx AG holds an unchanged majority interest of 50.2% – for the successful 2009 financial year with a cash distribution of EUR 2.10 per share. The second consideration has to do with the opposing fact that the profit transfer from HDI-Gerling Sach Serviceholding in 2009 was significantly higher than the amount envisaged in the 2010 planning owing to exceptional effects. Allowing for the other operating income and the interest income, Talanx AG plans a profit for the year in the order of EUR 200 million for 2010.

For 2011 we are looking to significantly increase the profit transfers from the operating primary insurance companies. On the back of this development we expect the profit for the year to come in around EUR 40 million higher than in 2010.

Financial position

It should be possible to use the liquidity surplus that will arise in all probability for 2010 to reduce by an appreciable partial amount the existing line of credit facility taken out by Talanx AG with a consortium of banks. Repayment will serve to reduce the debt financing and interest charges of Talanx AG.

Opportunities

Opportunities associated with the development of the general business environment

Insurance demand: Trust in banks and bank-related products was battered by the financial crisis, as a consequence of which the security of products has taken on renewed importance. Particularly among buyers of provision solutions who value security, traditional endowment insurance may enjoy a renaissance. The Talanx life insurance companies could profit from this development disproportionately strongly thanks to their innovative products.

Demographic change: In view of the prevailing demographic trend, two markets offering considerable growth potential have been the focus of attention of late: in the first place, the market for senior citizens, and secondly, the market for young customers who need to take out additional provision at their own responsibility as a consequence of the decreasing benefits afforded by social insurance schemes. Senior citizens are calling for more and more services – and they have a considerable willingness and capacity to pay for them. What is more, they are becoming increasingly active and – in view of this profile – are also exposing themselves more to risks against which they need protection. For providers, then, it is not simply a matter of supplementing existing products with assistance benefits; rather, innovatively designed products must be offered to cover these newly emerging needs.

By way of example, we may cite here products for secondary residences, extensive foreign travel, sporting pursuits or the handing down of assets to children. With an eye to the reinvestment of maturing endowment policies in (life) annuity insurances, single-premium products are also assuming greater importance among this target clientele on account of assets regrouping.

At the same time, young people, too, are becoming increasingly aware of the issue of financial security in old age. This potential can be tapped into through a broad range of individual provision products and attractive employer offerings for occupational retirement provision. For this customer group we expect, in particular, a stronger demand trend for retirement provision products with flexible saving and dissaving phases. Based on their comprehensive range of products tailored to customer groups and their sales positioning, the Talanx life insurance companies are well placed for the "seniors' market" and the "young customers' market".

Opportunities created by the company

Transparency through reform of the Insurance Contract Act (VVG): The reform enables insurance customers to better compare providers and products. Companies with low competitive expense ratios are particularly well placed to profit from this development.

Favorable claims experience on account of the economic crisis: The Property & Casualty Insurance Group still expects the economic crisis to be reflected in a more favorable claims experience, most strikingly in industrial fire insurance. One reason for this is the reduced utilization of production capacities and the resulting improved situation as regards safety and equipment maintenance that is typically associated with temporary economic slowdowns. The positive claims experience that can currently be observed is also attributable to the lower incidence of natural catastrophe accumulations, e.g. due to hail or windstorm events.

Bancassurance distribution channel: In comparison with other distribution channels, the proportion of life insurance business in Germany deriving from bancassurance is expected to rise from the current level of around 26% to roughly 31% in 2012. Talanx has long been operating successfully in its Bancassurance Division with a variety of cooperation partners.

Broker distribution channel: Talanx has agreed upon a strategic partnership with Swiss Life and acquired a long-term equity stake of almost 10% in order to cement this cooperation. As part of the cooperation it is envisaged that Talanx will become a major product partner of AWD. In addition, Talanx has acquired an interest of just under 10% in MLP. Both MLP and the AWD Group are significant sales partners of the Life Group. The extension of Talanx's involvement also presents an opportunity not only to maintain the business relationships with the brokers in question on a stable level but also to further expand them.

Balance sheet as at 31 December 2009

Assets		31.12.2009		31.12.2008
Figures in EUR thousand				
A. Fixed assets				
I. Intangible assets				
1. Franchises, trademarks, patents, licenses and similar rights	1,351		547	
2. Advances paid on intangible assets	—		—	
		1,351		**547**
II. Property, plant and equipment				
1. Other equipment, fixtures, fittings and equipment	838		832	
2. Advance payments and plant and machinery in process of construction	18		—	
		856		**832**
III. Financial assets				
1. Shares in affiliated companies	5,068,785		4,780,929	
2. Loans to affiliated companies	647,828		666,520	
3. Participating interests	36,319		39,495	
4. Long-term investments	—		250,000	
		5,752,932		**5,736,944**
B. Current assets				
I. Receivables and other assets				
1. Receivables from affiliated companies – thereof with a remaining term of more than one year: EUR 2,183,000 (previous year: EUR 2,253,000)	421,037		348,555	
2. Other assets – thereof with a remaining term of more than one year: EUR 14,321,000 (previous year: EUR 16,781,000)	74,202		208,014	
		495,239		**556,569**
II. Marketable securities				
Other marketable securities		**15,457**		**38,840**
III. Cash in banks		**330,277**		**275,856**
C. Prepayments and accrued income		**2,515**		**4,252**
D. Probable tax relief in subsequent financial years in accordance with § 274 Para. 2 of the Commercial Code (HGB)		**83,769**		**63,738**
Total assets		**6,682,396**		**6,677,578**

Liabilities		31.12.2009		31.12.2008
Figures in EUR thousand				
A. Capital and reserves				
I. Subscribed capital	260,000		260,000	
II. Capital reserve	629,529		629,529	
III. Retained earnings	2,986,528		2,695,601	
IV. Disposable profit	290,927		369,200	
		4,166,984		**3,954,330**
B. Provisions				
1. Provisions for pensions and similar obligations	461,177		454,448	
2. Provisions for taxation	182,847		130,601	
3. Other provisions	92,259		15,531	
		736,283		**600,580**
C. Liabilities				
1. Debenture loans – thereof convertible: EUR — (previous year: EUR —) – thereof with a remaining term of up to one year: EUR — (previous year: EUR —)	9,000		9,000	
2. Liabilities to banks – thereof with a remaining term of up to one year: EUR 56,651,000 (previous year: EUR 273,306,000)	606,651		879,011	
3. Trade accounts payable – thereof with a remaining term of up to one year: EUR 324,000 (previous year: EUR —)	324		–	
4. Accounts due to affiliated companies – thereof with a remaining term of up to one year: EUR 107,132,000 (previous year: EUR 121,085,000)	1,148,570		1,217,085	
5. Other liabilities – thereof for taxes: EUR 23,000 (previous year: EUR 2,859,000) – thereof for social security: EUR 2,558,000 (previous year: EUR 1,150,000) – thereof with a remaining term of up to one year: EUR 9,289,000 (previous year: EUR 13,443,000)	11,372		13,443	
		1,775,917		**2,118,539**
D. Deferred charges		**3,212**		**4,129**
Total liabilities		**6,682,396**		**6,677,578**

Profit and loss account
for the 2009 financial year

Figures in EUR thousand	2009	2008
1. Income from participating interests – thereof from affiliated companies: EUR 37,298,000 (previous year: EUR 146,537,000)	37,900	146,969
2. Other operating income	18,660	22,760
3. Personnel expenses		
a. Wages and salaries	10,198	12,201
b. Social security, pensions and other benefit costs – thereof for pensions: EUR 9,618,000 (previous year: EUR 1,111,000)	10,492	1,949
4. Depreciation and amortization costs and other write-offs on intangible assets and plant and equipment	502	321
5. Other operating expenses	59,330	35,262
6. Income from other long-term securities and loans – thereof from affiliated companies: EUR 37,487,000 (previous year: EUR 34,741,000)	40,915	36,919
7. Other interest and similar income – thereof from affiliated companies: EUR 5,418,000 (previous year: EUR 5,641,000)	20,410	48,992
8. Write-downs on financial assets and short-term investments	—	57,532
9. Interest and similar expenses – thereof to affiliated companies: EUR 54,577,000 (previous year: EUR 55,604,000)	127,354	145,718
10. Income from profit transfer agreements	359,665	328,852
11. Expenses from loss transfers	1	4,208
12. Profit or loss on ordinary activities before tax	**269,673**	**327,301**
13. Taxes on profit and income	57,017	–41,903
14. Other taxes	3	4
15. Profit for the financial year	212,654	369,200
16. Profit carried forward from the previous year	184,600	—
17. Allocation to other retained earnings	106,327	—
18. Disposable profit	**290,927**	**369,200**

Notes

General information

The annual accounts for the 2009 financial year were compiled in accordance with the provisions of the German Commercial Code (HGB) and the German Stock Corporation Act (AktG).

Information on accounting and valuation

Valuation of assets

Intangible assets were valued at acquisition cost less scheduled depreciation in accordance with the normal operational useful life.

Property, plant and equipment were carried at purchase cost; the carrying value of fixtures, fittings and equipment was reduced by the depreciation permitted under tax law. Depreciation was taken using the straight-line method; the useful life varied from 3 to 13 years. Low-value items up to EUR 150 are immediately deductible business expenses (§ 6 Para. 2 Sentence 1 Income Tax Act (EStG)). A compound item was established for items with acquisition or manufacturing costs of between EUR 150 and EUR 1,000; depreciation is taken over 5 years.

Shares in affiliated companies were valued at purchase cost.

The fair value of the holding companies was determined using a so-called „sum-of-parts" valuation, in which the assets and liabilities are recognized at the corresponding fair values. The fair values for participating interests in operating companies were established using the income-value method in the case of composite companies and financial services providers, while the fair value of life insurance companies was calculated largely on the basis of projected embedded values. Companies were carried at book value in specific justified instances, especially in the case of acquisitions just prior to valuation.

HDI-Gerling Leben Serviceholding AG was carried at a book value of EUR 973,965,000 and a fair value of EUR 857,676,000 as at 31 December 2009. The participating interest in the company is a strategic participation in fixed assets. A permanent impairment does not exist, since the current fair value of HDI-Gerling Leben Serviceholding AG was crucially impacted by the exceptionally low interest rate level and considerable volatility on capital markets that arose during the financial crisis. Initial interest rate measures, inter alia on the part of central banks, currently indicate that interest rates are set to rise again in the future, which would lead to increases in the embedded value. The existing indications suggest that the impairment is merely temporary and the fair value is not below book value.

Loans to affiliated companies were carried at acquisition cost or nominal value, reduced as appropriate by write-downs to fair value as at the balance sheet date. The loan to Talanx Finanz (Luxemburg) S.A. was stated with a book value of EUR 7,828,000 and a fair value of EUR 6,791,000 as at 31 December 2009. The impairment was not taken because the instruments were sold above book value in January of the following year.

Participating interests were shown at acquisition cost less capital repayments.

Other loans were shown at acquisition cost less amortization.

Receivables, other assets, bank deposits as well as cash in banks were recognized at nominal value.

Since the cost closing occurred prior to the balance sheet date, cost bookings made after the cut-off date were carried under other receivables. The accrual item is opposed by cost estimates for the period between the cost closing and balance sheet date, which are shown under other provisions.

Other marketable securities were shown at purchase cost or at lower fair value.

Valuation of liabilities

The provision for pensions was established according to the fractional value method as per § 6 a of the Income Tax Act (EStG). The 2005 G standard tables of Dr. Klaus Heubeck were used as a basis with an accounting interest rate of 6%.

The calculation of the provisions for partial retirement take into account all employees of the company who have made use of partial retirement or will probably avail themselves of partial retirement arrangements (expectancy). The 2005 G standard tables of Dr. Klaus Heubeck with an accounting interest rate of 5.5% were used in the calculations.

The anniversary bonuses are established according to length of service and the existing eligibility requirements, making allowance for accrual of the corresponding expectancies.

The provisions for taxation and other provisions take into account all identifiable risks and uncertain liabilities.

Liabilities were shown at the amounts repayable.

Currency conversion

Where there are items in foreign currencies, valuation as at the balance sheet date is made at the closing rate for items of the balance sheet and at the average rate for items of the profit and loss account. Holdings are valued at the mean rate of exchange, or in the case of monthly valuation at the month-end closing rate.

Miscellaneous

The profit and loss account was drawn up using the cost-summary method. The breakdown of individual items in the profit and loss account differs from the legally required method of itemization in order to ensure that the items shown in the profit and loss account reflect the special features of a holding company. For this purpose the income from participating interests was shown at the beginning in view of its considerable significance.

Information on the balance sheet – assets

Change in asset items	Acquisition cost 01.01.2009	Position as at 01.01.2009	Additions	Transfers	Disposals	Write-ups	Cumulative depreciation	Depreciation in financial year	Position as at 31.12.2009
Figures in EUR thousand									
A. I. Intangible assets									
1. Franchises, trademarks, patents, licenses and similar rights	1,722	547	1,129	—	—	—	1,175	325	1,351
2. Advances on intangible assets	—	—	—	—	—	—	—	—	—
3. Total A.I.	**1,722**	**547**	**1,129**	**—**	**—**	**—**	**1,175**	**325**	**1,351**
A. II. Property, plant and equipment									
1. Other equipment, fixtures, fittings and equipment	1,464	832	237	—	118	—	568	177	838
2. Advance payments and plant and machinery in process of construction	—	—	18	—	—	—	—	—	18
3. Total A.II.	**1,464**	**832**	**255**	**—**	**118**	**—**	**568**	**177**	**856**
A. III. Financial assets									
1. Shares in affiliated companies	4,780,929	4,780,929	300,582	—	12,726	—	—	—	5,068,785
2. Loans to affiliated companies	666,520	666,520	28,653	—	47,345	—	—	—	647,828
3. Participating interests	39,495	39,495	—	—	3,176	—	—	—	36,319
4. Long-term investments	250,000	250,000	—	—	250,000	—	—	—	—
5. Total A.III.	**5,736,944**	**5,736,944**	**329,235**	**—**	**313,247**	**—**	**—**	**—**	**5,752,932**
Sum total	**5,740,130**	**5,738,323**	**330,619**	**—**	**313,365**	**—**	**1,743**	**502**	**5,755,139**

Notes on the balance sheet – assets

A.I.1. Franchises, trademarks, patents, licenses and similar rights

An amount of EUR 1,351,000 was recognized for acquired software.

A.III.1. Shares in affiliated companies

The company's major shareholdings are shown below. The complete statement of shareholdings is shown in the separate list of shareholdings.

Name and registered office of the company	Partici-pation (current)	Capital and reserves 31.12.2008 [1]	Result for the 2008 financial year [1]	
	%	EUR thousand	EUR thousand	
Companies resident in Germany				
AmpegaGerling Asset Management GmbH, Cologne	100.00	83,600	30,344	[2]
AmpegaGerling Immobilien Management GmbH, Cologne	100.00	20,437	222	[2]
AmpegaGerling Investment GmbH, Cologne	100.00	16,936	7,333	[2]
ASPECTA Lebensversicherung AG, Cologne	100.00	42,243	—	
DTPVO Deutsche Privatvorsorge AG, Darmstadt	100.00	100	–192	[2]
E+S Rückversicherung AG, Hanover	32.23	587,281	80,000	
GERLING Beteiligungs-GmbH, Cologne	100.00	912	–302	
Hannover Life Re AG, Hanover	50.22	1,032,470	20,129	[2]
Hannover Re Euro RE Holdings GmbH, Cologne	41.23	28,462	–449	
Hannover Rück Beteiligung Verwaltungs-GmbH, Hanover	50.22	2,627,155	266,340	
Hannover Rückversicherung AG, Hanover	50.22	1,637,816	259,000	
HDI Direkt Versicherung AG, Hanover	100.00	162,000	73,465	[2]
HDI-Gerling Firmen und Privat Versicherung AG, Hanover	100.00	174,906	20,395	[2]
HDI-Gerling Friedrich Wilhelm Rückversicherung AG, Cologne	100.00	39,619	10,516	[2]
HDI-Gerling Gesellschaft für IT-Dienstleistungen mbH, Cologne	100.00	90	–60	
HDI-Gerling Industrie Versicherung AG, Hanover	100.00	287,493	153,882	[2]
HDI-Gerling International Holding AG, Hanover	100.00	654,381	13,593	[2]
HDI-Gerling Leben Betriebsservice GmbH, Cologne	100.00	102	107	[2]
HDI-Gerling Leben Serviceholding AG, Cologne	100.00	973,965	419	[2]
HDI-Gerling Leben Vertriebsservice AG, Cologne	100.00	4,003	51	[2]
HDI-Gerling Lebensversicherung AG, Cologne	100.00	212,210	35,000	
HDI-Gerling Pensionskasse AG, Cologne	100.00	28,237	500	
HDI-Gerling Pensionsmanagement AG, Cologne	100.00	6,407	–4,527	[2]
HDI-Gerling Rechtsschutz Schadenregulierungs-GmbH, Hanover	100.00	288	–6	[2]
HDI-Gerling Rechtsschutz Versicherung AG, Hanover	100.00	18,951	4,182	[2]
HDI-Gerling Sach Serviceholding AG, Hanover	100.00	1,066,000	215,934	[2]
HDI-Gerling Vertrieb Firmen und Privat AG, Hanover	100.00	55	–4,266	[2]
IVEC Institutional Venture and Equity Capital AG, Cologne	100.00	243,833	6,194	
neue leben Lebensversicherung AG, Hamburg	67.50	60,541	14,500	
neue leben Unfallversicherung AG, Hamburg	67.50	3,596	3,200	[2]
PB Lebensversicherung AG, Hilden	100.00	25,568	9,179	
PB Versicherung AG, Hilden	100.00	9,827	3,357	
PB Pensionskasse AG, Hilden	100.00	6,026	–765	
PBV Lebensversicherung AG, Hilden	100.00	51,163	14,949	
Proactiv Holding AG, Hilden	100.00	991,881	101,493	[2]
Protection Reinsurance Intermediaries AG, Hanover	100.00	387	11,465	[2]
TARGO Lebensversicherung AG (previously: CiV Lebensversicherung AG), Hilden	100.00	72,682	39,188	
TARGO Versicherung AG (previously: CiV Versicherung AG), Hilden	100.00	6,342	17,600	[2]

[1] Based on the companies' local individual financial statements
[2] Subject to a profit transfer agreement

Name and registered office of the company	Partici-pation (current)		Capital and reserves 31.12.2008 [1]		Result for the 2008 financial year [1]
	%		Currency unit in thousands		
Companies resident abroad					
ASPECTA Assurance International AG, Vaduz/Liechtenstein	100.00	CHF	7,619	CHF	–764
ASPECTA Assurance International Luxembourg S.A., Luxembourg/Luxembourg	100.00	EUR	9,205	EUR	–1,303
CiV Hayat Sigorta A.Ş., Istanbul/Turkey	100.00	TRY	17,100	TRY	–2,774
Euro International Reinsurance S.A., Luxembourg/Luxembourg	100.00	EUR	10,265	EUR	0
Hannover Finance (Luxembourg) S.A., Luxembourg/Luxembourg	50.22	EUR	33,575	EUR	–2,911
Hannover Finance (UK) Ltd., Virginia Water/United Kingdom	50.22	GBP	131,107	GBP	–12
Hannover Finance Inc., Wilmington/USA	50.22	USD	346,426	USD	–30,077
Hannover Life Re of Australasia Ltd, Sydney/Australia	50.22	AUD	225,297	AUD	34,386
Hannover Life Reassurance (Ireland), Dublin/Ireland	50.22	EUR	863,222	EUR	176,556
Hannover Life Reassurance (UK) Ltd., Virginia Water/United Kingdom	50.22	GBP	40,970	GBP	–2,988
Hannover Life Reassurance Bermuda Ltd., Hamilton/Bermuda	50.22	EUR	149,821	EUR	15,899
Hannover Life Reassurance Company of America, Orlando/USA	50.22	USD	139,932	USD	–6,586
Hannover Re (Bermuda) Ltd., Hamilton/Bermuda	50.22	EUR	1,089,623	EUR	199,630
Hannover Re Real Estate Holdings, Inc., Orlando/USA	47.79	USD	196,317	USD	–24,899
Hannover Reinsurance (Ireland) Ltd., Dublin/Ireland	50.22	EUR	468,038	EUR	30,777
Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg/South Africa	50.22	ZAR	156,852	ZAR	50,719
HDI Asekuracja Towarzystwo Ubezpieczen S.A., Warsaw/Poland	100.00	PLN	262,598	PLN	27,081
HDI Assicurazioni S.p.A., Rome/Italy	100.00	EUR	136,772	EUR	12,192
HDI-Gerling Verzekeringen N.V., Rotterdam/Netherlands	100.00	EUR	70,885	EUR	15,932
HDI-Gerling Zycie Towarzystwo Ubezpieczen S.A., Warsaw/Poland	100.00	PLN	25,065	PLN	–4,120
HDI HANNOVER International España, Cía de Seguros y Reaseguros S.A., Madrid/Spain	100.00	EUR	44,898	EUR	4,911
HDI Seguros S.A., São Paulo/Brazil	99.99	BRL	478,726	BRL	48,981
HDI Seguros, S.A. de C.V. (previously: Genworth Seguros México, S.A. de C.V.), León/Mexiko	99.45	MXN	384,191	MXN	40,973
HDI Seguros S.A., Santiago/Chile	99.92	CLP	6,442,040	CLP	184,465
HDI Sigorta A.Ş., Istanbul/Turkey	99.99	TRY	46,587	TRY	–10,631
HDI STRAKHUVANNYA (Ukraine), Kiev/Ukraine	98.83	UAH	53,252	UAH	–14,130
HDI Versicherung AG, Vienna/Austria	100.00	EUR	41,930	EUR	7,512
International Insurance Company of Hannover Ltd., Bracknell/United Kingdom	50.22	GBP	108,148	GBP	3,937
Inversiones HDI Limitada, Santiago/Chile	100.00	CLP	12,293,750	CLP	339,900
Magyar Posta Biztosító Részvénytársaság, Budapest/Hungary	66.93	HUF	2,007,165	HUF	110,040
Magyar Posta Életbiztosító Részvénytársaság, Budapest/Hungary	66.93	HUF	2,393,495	HUF	196,807
OOO Strakhovaya Kompaniya CiV Life, Moscow/Russia	100.00	RUB	175,317	RUB	–155,611
Talanx Finanz (Luxemburg) S.A., Luxembourg/Luxembourg	100.00	EUR	22,076	EUR	16,265

[1] *Based on the companies' local individual financial statements*

On 1 October 2009 HDI-Gerling International Holding AG acquired from Genworth Life Insurance Company 99.45% of the shares in the company Genworth Seguros México, S.A. de C.V., León/ Mexico, which has since been renamed HDI Seguros, S.A. de C.V. The company transacts property and casualty primary insurance as well as credit life business. With respect to the latter, the acquirer has undertaken and is entitled to conduct the credit life business solely on a fiduciary basis for the seller.

In February and October 2009 Inversiones HDI Limitada increased its stake in HDI Seguros S.A., Chile, by 0.16% through acquisitions from minority shareholders and thus holds 99.92% of the Chilean company.

In March and April 2009 HDI-Gerling International Holding AG increased its stake in HDI STRAKHUVANNYA (Ukraine), Kiev, from 97.70% to 98.83% through acquisitions from minority shareholders.

Effective 1 June 2009 Talanx AG acquired a share of Talanx Finanz (Luxembourg) S.A., Luxembourg, that had previously been held by a third party. Talanx AG thus holds all the shares of the aforementioned company.

A.III.2. Loans to affiliated companies

This item consists of two loans in an amount of altogether EUR 640,000,000 extended to HDI-Gerling Sach Serviceholding AG as well as subordinated debts of EUR 7,828,000 due from Talanx Finanz (Luxemburg) S.A.

A.III.3. Participating interests

This amount includes the participation held in IGEPA Industrie- und Gewerbepark GmbH & Co. KG of EUR 32,119,000 – allowing for scheduled capital repayments – and the participation in DFA Capital Management Inc. in an amount of EUR 4,200,000.

B.I.1. Receivables from affiliated companies

	31.12.2009	31.12.2008
Figures in EUR thousand		
	421,037	348,555

This item mainly comprises receivables from profit transfer agreements and receivables from regular business transactions.

B.I.2. Other assets

Figures in EUR thousand	31.12.2009	31.12.2008
Other receivables	74,202	208,014

The other receivables consist mainly of receivables due from the revenue office in connection with the 2008 tax returns.

C. Prepayments and accrued income

Figures in EUR thousand	31.12.2009	31.12.2008
	2,515	4,252

In addition to deferred administration costs, a debt discount arising from the taking up of loans at HDI-Gerling Industrie Versicherung AG and HDI-Gerling Lebensversicherung AG is carried here. The debt discount is reversed pro rata temporis.

D. Probable tax relief in subsequent financial years in accordance with § 274 Para. 2 Commercial Code (HGB)

Figures in EUR thousand	31.12.2009	31.12.2008
	83,769	63,738

This item is established on the basis of the realistic assessment of the loss reserves in the tax balance sheets of HDI-Gerling Industrie Versicherung AG (HG-I), HDI-Gerling Firmen und Privat Versicherung AG (HG-FP) and HDI Direkt Versicherung AG (H-D). The probable tax relief was calculated on the difference between the tax balance sheet and the commercial balance sheet using a tax rate of 31.6%. HG-I, HG-FP and H-D are in a group relationship with Talanx for the purposes of corporation and trade tax, and differences between the commercial and tax balance sheets therefore affect the parent company.

Notes on the balance sheet – liabilities

A.I. Subscribed capital

Figures in EUR thousand	31.12.2009	31.12.2008
Position at the beginning of the financial year	260,000	260,000
Capital increase	—	—
Position at the end of the financial year	**260,000**	**260,000**

The share capital consists of 260,000 no-par-value registered shares. HDI Haftpflichtverband der Deutschen Industrie Versicherungsverein auf Gegenseitigkeit, Hannover, holds 100% of the share capital of our company.

A.II. Capital reserve

Figures in EUR thousand	31.12.2009	31.12.2008
Position at the beginning of the financial year	629,529	629,529
Capital increase	—	—
Position at the end of the financial year	**629,529**	**629,529**

A.III. Retained earnings

Figures in EUR thousand	31.12.2009	31.12.2008
Position at the beginning of the financial year	2,695,601	2,452,577
Allocation to other retained earnings	290,927	243,024
Position at the end of the financial year	**2,986,528**	**2,695,601**

The allocation refers to 50% of the disposable profit for the 2008 financial year, which was transferred to retained earnings on the basis of the resolution adopted by the General Meeting on 17 June 2009. A further EUR 106,327,000 was allocated by the Board of Management from the current profit for the year.

The amount shown refers entirely to other retained earnings.

A.IV. Disposable profit

	31.12.2009	31.12.2008
Figures in EUR thousand		
	290,927	369,200

In an amount of EUR 184,600,000 this consists of 50% of the disposable profit for the 2008 financial year, which was carried forward on the basis of the resolution adopted by the General Meeting on 17 June 2009; an amount of EUR 106,327,000 derives from the result for the current year.

B.3. Other provisions

	31.12.2009	31.12.2008
Figures in EUR thousand		
Emoluments	1,726	1,311
Remuneration paid to the Supervisory Board	860	844
Bonuses	1,113	952
Consulting expenses	4,707	880
Cost of the annual accounts	829	908
Other items	83,024	10,636
	92,259	**15,531**

C.1. Debenture loans

The disclosure refers to a share in the bearer debenture issued in 2003 which is held by a company that no longer belongs to the consolidated group.

C.2. Liabilities to banks

	31.12.2009	31.12.2008
Figures in EUR thousand		
	606,651	879,011

Effective 1 August Talanx AG was granted a line of credit of EUR 1,500,000,000 by a group of banks under the lead management of Bank of America. As at the balance sheet date an amount of EUR 550,000,000 had been drawn. In addition, obligations associated with older mortgage loans are recognized here. The total amount does not include any liabilities with a remaining term of more than five years.

C.4. Accounts due to affiliated companies

Figures in EUR thousand	31.12.2009	31.12.2008
	1,148,570	1,217,085

Talanx AG issued bearer debentures carrying coupons consistent with market rates that were taken up by various Group companies. They were carried in an amount of EUR 696 million as at the balance sheet date.

On 10 February 2005 Talanx Finanz (Luxemburg) S.A. issued subordinated debt with a term of twenty years. Repayment is guaranteed by Talanx AG. The proceeds of the issue were made available to Talanx AG in the form of a loan. The outstanding principal balance of the loan was EUR 295 million as at the balance sheet date.

Hannover Re (Bermuda) Ltd. made a loan of EUR 50 million available to Talanx AG. The loan is due on 31 May 2013.

In addition, this item includes liabilities arising out of loss transfers from affiliated companies, short-term time money and accounts due under regular business transactions with subsidiaries.

Notes on the profit and loss account

1. Income from participating interests

	31.12.2009	31.12.2008
Figures in EUR thousand		
Dividend payments made by affiliated companies:		
Alstertor Erste Beteiligungs- und Investitionssteuerungs-GmbH & Co. KG, Hamburg	—	560
HBG Hannover Beteiligungsgesellschaft mbH & Co. KG, Hanover	3,184	2,430
HNG Hannover National Grundstücksverwaltung GmbH & Co. KG, Hanover	12,900	4,000
Hannover Rückversicherung AG, Hanover	—	139,297
Talanx BeteiligungsGmbH & Co. KG, Hanover	2,949	—
Talanx Finanz (Luxemburg) S.A., Luxembourg	16,267	250
TARGO Lebensversicherung AG (previously: CiV Lebensversicherung AG), Hilden	1,998	—
	37,298	**146,537**
IGEPA Industrie- und Gewerbepark GmbH & Co. KG	602	432
	37,900	**146,969**

2. Other operating income

	31.12.2009	31.12.2008
Figures in EUR thousand		
Gains from the disposal of investments	5,573	44
Profit from services	8,496	2,742
Reimbursement of expenses	3,138	0
Income from the release of provisions	214	3,309
Reimbursement of the purchase price for neue leben Holding AG	778	16,225
Other income	461	440
	18,660	**22,760**

3. Personnel expenses

	31.12.2009	31.12.2008
Figures in EUR thousand		
	20,690	14,150

This item shows remuneration paid to the Board of Management and salaries in the amount of EUR 10,198,000, pension payments to former members of the Board of Management, the allocation to the pension provision including indemnity claims as well as social security, pension and other retirement benefit costs.

5. Other operating expenses

Figures in EUR thousand	31.12.2009	31.12.2008
Remuneration paid to the Supervisory Board	973	888
Expenses based on internal cost allocation	4,955	5,125
Travel expenses	888	669
Auditing and consulting expenses	23,348	18,276
Other intra-group services	9,588	3,989
Settlement of a quota share reinsurance treaty	14,000	—
Other expenditure	5,578	6,315
	59,330	**35,262**

The advertising expenses derive mainly from the image campaign.

The bulk of the consulting expenses are connected with IT projects and the planned restructuring of the Group.

Under a contract dated 24 June 2009 our company and a domestic property/casualty insurer agreed as joint and several debtors with an entity of the Hannover Re Group to cancel a quota share reinsurance treaty existing between these companies in return for payment of EUR 14,000,000. In their internal relationship Talanx AG has given HG-FP an undertaking to bear sole responsibility for the compensation.

6. Income from other long-term securities and loans

Figures in EUR thousand	31.12.2009	31.12.2008
	40,915	36,919

This item refers largely to interest income on loans extended to affiliated companies.

7. Other interest and similar income

Figures in EUR thousand	31.12.2009	31.12.2008
	20,410	48,992

This item consists primarily of interest income on overnight and time money, from profit transfer agreements, cash in banks and swaps as well as interest on dividends.

9. Interest and similar expenses

Figures in EUR thousand	31.12.2009	31.12.2008
	127,354	145,718

The amount carried refers to interest paid on loans as well as interest expenditures incurred in connection with the debts placed with various Group companies in the 2003 and 2006 financial years, interest expenditures from the loan extended by Talanx Finanz (Luxemburg) S.A., interest expenses from swaps, interest expenses from partial drawing on the line of credit, interest costs for pensions and loan commitment interest.

10. Income from profit transfer agreements

Figures in EUR thousand	31.12.2009	31.12.2008
	359,665	328,852

The income reported here derives from the companies listed under “Major agreements” with which profit/loss transfer agreements have been concluded.

11. Expenses from loss transfers

Figures in EUR thousand	31.12.2009	31.12.2008
	1	4,208

The expenses reported here derive from the companies listed under “Major agreements” with which profit/loss transfer agreements have been concluded.

13. Taxes on profit and income

Figures in EUR thousand	31.12.2009	31.12.2008
Actual taxes for the year under review	77,051	25,616
Actual taxes for previous years	–3	–127,980
Deferred taxes for the year under review	–20,031	–23,161
Deferred taxes for previous years	—	83,622
	57,017	**–41,903**

In the previous year the actual tax income as well as the deferred tax expense derived principally from adjustment of the realistic assessment of the loss reserves at HDI-Gerling Industrie Versicherung AG (HG-I), HDI Direkt Versicherung AG (H-D) and HDI-Gerling Firmen und Privat Versicherung AG (HG-FP) (cf. Notes on assets, item D. Probable tax relief in subsequent financial years in accordance with § 274 Para. 2 Commercial Code (HGB)).

Further information

Shareholder

All shares of the company are held by HDI Haftpflichtverband der Deutschen Industrie Versicherungsverein auf Gegenseitigkeit, Hannover, as the sole shareholder.

Major agreements

Controlling and profit transfer agreements were concluded between Talanx and

- HDI-Gerling Leben Serviceholding AG on 14 June 2001
- Protection Reinsurance Intermediaries AG on 27 June 2003, amended on 2 December 2008
- HDI-Gerling Sach Serviceholding AG (previously: HDI Service AG) on 27 November 2003 (effective 1 January 2004)
- AmpegaGerling Asset Management GmbH on 26 February 2004
- PROACTIV Holding AG (previously: PROACTIV Vermögensverwaltungs-AG) on 12 December 2007
- HDI-Gerling Beschäftigungs- und Qualifizierungsgesellschaft mbH on 12 December 2007
- Bureau für Versicherungswesen Robert Gerling & Co. GmbH on 2 December 2008
- Hannover Beteiligungsgesellschaft mbH on 2 December 2008

A cooperation agreement has existed with Magyar Posta Rt. since 17 April 2002 in order to be able to offer life and property insurance products to its customers through Hungarian joint ventures (subsidiaries of PROACTIV Holding AG).

A framework agreement for cooperations on foreign markets in the bancassurance sector was concluded with Citibank on 22 December 2006 and agreement was reached on cooperation in Russia and Turkey.

On 18 July 2007 Talanx concluded a cooperation agreement with Deutsche Postbank AG regarding the distribution of products from the PB insurers. The cooperation agreement, which has a term of 15 years, follows on from the cooperation between HDI V.a.G. and Deutsche Postbank AG and puts it on a new footing.

Employees

	2009	2008
Full-time	85	79
Part-time	6	4
Total	**91**	**83**

Board and officers

The names of the members of the Supervisory Board and the Board of Management are listed on pages 5–7 of this report.

Remuneration paid to executive bodies of the company

The total remuneration paid to members of the Board of Management amounted to EUR 3,244,000. The remuneration paid to members of the Supervisory Board totaled EUR 918,000. The remuneration paid to former members of the Board of Management and their surviving dependants totaled EUR 290,000. A total provision of EUR 2,528,000 was set aside for pension commitments to members of the Board of Management.

Derivative financial instruments

In the 2007 financial year we took out interest rate swaps so as to hedge a floating-rate commitment against rising interest rates. This had been entered into in an amount of EUR 550 million with a value date of 28 September 2007 so as to finance the purchase price for the interests in what were then BHW Lebensversicherung and BHW Pensionskasse as well as the remaining 50% stakes in PB Lebensversicherung AG and PB Versicherung AG. The floating rate tracks the 3-month EURIBOR (plus 22.5 basis points). 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 interest rate swaps in absolutely 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 any significant additional credit risk. The term of the swaps corresponds to the term of the underlying.

The individual counterparties are: LB Baden Württemberg, DZ Bank and Calyon, each in an amount of EUR 150 million, as well as Morgan Stanley, in an amount of EUR 100 million. Since there is a consistent beneficial and functional correlation between the underlying and the hedge, a single valuation unit is involved here. The unrealized losses on derivatives in an amount of EUR 34 million are opposed by unrealized gains on the underlying. 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.

Contingent liabilities and other financial commitments

Talanx AG has given the holders of the subordinated debt issued by its subsidiary Talanx Finanz (Luxemburg) S.A. in February 2005 in the amount of originally EUR 350 million a subordinated guarantee covering payment of the amounts due in connection with the debt, such as interest and repayments. The debt has a term of 20 years. The funds totaling EUR 350 million raised through issuance of the debt were made available to Talanx AG by Talanx Finanz (Luxemburg) S.A. in the form of a loan. In September 2009 Talanx Finanz (Luxemburg) S.A. repurchased and cancelled part of the issued debt in a nominal amount of EUR 75 million, leaving a debt of EUR 275 million at the close of the year under review. Talanx AG repaid roughly EUR 53 million of the loan that it received from Talanx Finanz (Luxemburg) S.A. The residual amount of the loan is recognized in the balance sheet under the item “Accounts due to affiliated companies”.

Talanx AG has also put up guarantees for the uncalled portions of capital increases at the subsidiaries Targo Lebensversicherung AG (previously: CiV Lebensversicherung AG) (EUR 59.0 million) and Targo Versicherung AG (previously: CiV Versicherung AG) (EUR 8.9 million).

In addition, potential call commitments exist on shares that have not been fully paid of Protection Reinsurance Intermediaries AG (EUR 0.7 million).

In connection with a contribution in kind agreement regarding interests in HDI Reinsurance (Ireland) Ltd. concluded with its subsidiary Hannover Rückversicherung AG on 30 June 2003, Talanx AG committed itself to compensatory payments in the event that the business of HDI Reinsurance (Ireland) Ltd. existing on the contribution date does not correspond to the assumptions upon which valuation was based. For this purpose provisions were established, which account for the bulk of the other provisions.

Talanx AG has made an establishment fund of EUR 3.3 million available to HDI Pensionskasse AG through HDI-Gerling Leben Serviceholding AG (previously: ASPECTA Global Group AG). For the first seven years – commencing with the 2002 financial year in which the license to conduct business operations was granted – we have undertaken to reimburse amounts required to offset an incurred loss for the year that are not covered by withdrawals from the establishment fund.

Consolidated financial statements

Talanx AG is a wholly owned subsidiary of HDI Haftpflichtverband der Deutschen Industrie Versicherungsverein auf Gegenseitigkeit, Hannover (HDI V.a.G.). HDI V.a.G. is required by Section 341 et seq. Commercial Code (HGB) to compile a consolidated financial statement in which the financial statements of Talanx AG and its subsidiaries are included. The consolidated financial statement of the parent company HDI V.a.G. is published in the electronic Federal Register.

As the parent company of the Talanx Group, Talanx AG drew up a consolidated financial statement pursuant to Section 290 Commercial Code (HGB).

Hannover, 8 April 2010

Talanx Aktiengesellschaft

Board of Management

Haas	Dr. Hinsch	Kox	
Dr. Noth	Dr. Querner	Dr. Roß	Wallin

Auditors' report

To Talanx Aktiengesellschaft, Hannover:

We have audited the original German financial statements – consisting of the balance sheet, profit and loss account and notes –, including the accounting and the management report of Talanx Aktiengesellschaft, Hannover, for the financial year from 1 January to 31 December 2009. The accounting and the preparation of these annual financial statements and the management report in accordance with the provisions of German commercial law and the additional requirements of the Articles of Association are the responsibility of the company's Board of Management. Our responsibility is to express an opinion on these annual financial statements, including the accounting, and on the management report on the basis of our audit.

We conducted our audit of the annual financial statements in accordance with § 317 of the German Commercial Code (HGB) and in compliance with the generally accepted auditing standards set out by the Institut der Wirtschaftsprüfer (IDW = German Institute of Certified Public Accountants). These standards require that we plan and perform the audit in such a way as to identify with reasonable assurance inaccuracies and misstatements which significantly impact the view of the assets, financial position and net income given by the annual financial statements in compliance with generally accepted accounting principles and by the management report. The determination of auditing procedures makes allowance for knowledge of the business activity and of the economic and legal environment of the company as well as the expectations of possible errors. Within the scope of the audit, the efficiency of the accounting-related internal controlling system as well as the evidence supporting the figures in the accounting, annual financial statements and management report are evaluated largely on the basis of random tests. The audit also includes assessing the accounting principles used and the significant estimates made by the Board of Management, as well as evaluating the overall presentation of the annual financial statements and the management report. We believe that our audit provides a sound basis for our opinion.

Our audit gave rise to no objections.

In our assessment based on the insights gained from the audit, the annual financial statements comply with statutory requirements and the additional provisions of the Articles of Association and give a true and fair view of the assets, liabilities, financial position and net income of Talanx Aktiengesellschaft in accordance with generally accepted accounting principles. The management report is in keeping with the annual financial statements, correctly represents the company's overall state of affairs and accurately reflects the opportunities and risks associated with its future development.

Hannover, 19 April 2010

KPMG AG
Wirtschaftsprüfungsgesellschaft

Dr. Ellenbürger German Public Auditor	Husch German Public Auditor

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